THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Interchina Holdings Company Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

國中控股有限公司

INTERCHINA HOLDINGS COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

Joint Independent Financial Advisers to the Independent Board Committee and to the Independent Shareholders

South China Capital Limited

WALLBANCK BROTHERS Securities (Hong Kong) Limited

A letter from the board of directors of Interchina Holdings Company Limited is set out on pages 4 to 11 of this circular.

A notice convening an extraordinary general meeting of Interchina Holdings Company Limited to be held at Xinhua Room, Mezzanine Floor, Cosmopolitan Hotel Hong Kong, 387 – 397 Queen's Road East, Wanchai, Hong Kong at 9:00 a.m. on Wednesday, 21 January 2009 is set out on pages 181 to 182 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed with this circular.

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

2 January 2009

CONTENTS

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

"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"China Pipe"	China Pipe Group Limited, a company incorporated in Bermuda with limited liability and the issued 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 Disposal in accordance with the Sale and Purchase Agreement
"connected person"	has the meaning ascribed to it under Rule 1.01 of the Listing Rules and as extended by Rule 14A.11 of the Listing Rules
"Consideration"	the total consideration for the Disposal, being HK$74,000,000, which shall be satisfied in cash pursuant to the terms of the Sale and Purchase Agreement
"Deposit"	such sum as equivalent to the amount of the Consideration
"Director(s)"	the director(s) of the Company
"Disposal"	the disposal of the Sale Shares by the Company pursuant to the Sale and Purchase Agreement
"EGM"	the extraordinary general meeting of the Company to be held to consider and to approve, among others, the Sale and Purchase Agreement and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Independent Board Committee"	the independent committee of the Board established by the Company comprising all independent non-executive Directors
"Independent Shareholders"	Shareholder(s), other than Mr. Zhang and his associates (including Ms. Wing, the Purchaser and their respective associates), who are entitled to vote at the EGM pursuant to the Listing Rules and the Takeovers Code
"Joint Independent Financial Advisers"	South China Capital Limited and Wallbanck Brothers Securities (Hong Kong) Limited, being the joint independent financial advisers to the Independent Board Committee and the Independent Shareholders
"Latest Practicable Date"	29 December 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	the 58th day from the date of posting of the offer document in relation to the mandatory cash offer to be made by the Purchaser for all issued shares of China Pipe not already owned or agreed to be acquired by the Purchaser under Rule 26 of the Takeovers Code or such later date as may be agreed by the Company and the Purchaser in writing and consented to by the SFC (where required)
"Mr. Lai"	Mr. Lai Guanglin, the sole shareholder and director of the Purchaser
"Mr. Zhang"	Mr. Zhang Yang, an executive Director and the chairman of the Company
"Ms. Wing"	Ms. Wing Man Yi, the wife of the brother-in-law of Mr. Zhang
"PRC"	the People's Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC, and Taiwan for the purpose of this circular
"Purchaser"	Singapore Zhongxin Investment Company Limited, a company incorporated in the British Virgin Islands with limited liability and is beneficially and wholly-owned by Mr. Lai

"Remaining Group"	the Group as reduced by the Disposal
"Sale and Purchase Agreement"	the sale and purchase agreement dated 15 October 2008 (as amended by a letter dated 27 October 2008) entered into between the Company and the Purchaser in relation to the Disposal
"Sale Shares"	the 3,700,000,000 shares of HK$0.002 each in the capital of China Pipe held by the Company
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	share(s) of the Company
"Share Charge"	the legal charge over the Sale Shares executed by the Company (as chargor) in favour of the Purchaser (as chargee)
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"%"	per cent.
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC

国中控股有限公司

INTERCHINA HOLDINGS COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

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

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

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

2 January 2009

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

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

INTRODUCTION

On 15 October 2008, the Company and the Purchaser entered into the Sale and Purchase Agreement (as amended by a letter dated 27 October 2008), pursuant to which the Company has conditionally agreed to dispose of and the Purchaser has conditionally agreed to acquire the Sale Shares (being approximately 29.52% of the issued share capital of China Pipe as at the Latest Practicable Date) at the Consideration, being HK$74,000,000, which shall be satisfied in cash. On the same date, the Company has also executed the Share Charge in favour of the Purchaser to secure refund of the Deposit in the event Completion does not take place.

The Disposal constitutes a very substantial disposal and a connected transaction of the Company under Chapters 14 and 14A of the Listing Rules. The Disposal is therefore subject to the approval of the Independent Shareholders at the EGM. Mr. Zhang and his associates (including Ms. Wing, the Purchaser and their respective associates) shall abstain from voting at the EGM.

This circular is to provide you with further details of the Disposal and the notice of the EGM.

THE DISPOSAL

Sale and Purchase Agreement

Date : 15 October 2008 (as amended by a letter dated 27 October 2008)

Parties

(1) Vendor : the Company

(2) Purchaser : the Purchaser, which to the best knowledge of the Directors, is principally engaged in investment holding. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of the Group and its connected persons.

Assets to be disposed of

The Sale Shares, being 3,700,000,000 shares of HK$0.002 each in the capital of China Pipe, representing approximately 29.52% of the issued share capital of China Pipe as at the Latest Practicable Date. The acquisition costs of the Sale Shares amounted to HK$296,000,000.

Consideration

The Consideration is HK$74,000,000, which shall be satisfied in cash. The Purchaser was required to pay the Deposit (which is equivalent to the amount of the Consideration) and such was paid on 27 October 2008. The Deposit shall be applied towards satisfaction of the Consideration at Completion.

If Completion does not take place:

(i) due to the inability to obtain Shareholders' approval as set out in sub-paragraph (i) in the paragraph headed "Conditions precedent" below, the Deposit shall be refunded to the Purchaser and a default interest on the Deposit of 60% per annum shall be payable by the Company to the Purchaser from the date of payment of the Deposit to the date of its repayment;

(ii) due to the fault of the Company in complying with the terms of the Sale and Purchase Agreement, notwithstanding the Shareholders' approval as set out in sub-paragraph (i) in the paragraph headed "Conditions precedent" below having been obtained, the Deposit shall be refunded to the Purchaser and the Purchaser shall be at liberty to sue for damages; and

(iii) due to the fault of the Purchaser, the Deposit shall be refunded to the Purchaser and no interest shall be payable.

The Consideration was determined after arm's length negotiations between the Company and the Purchaser with reference to the closing price per share of China Pipe as quoted on the Stock Exchange. The Consideration per Sale Share amounts to HK$0.02 and represents:

(i) a discount of approximately 23.1% to the closing price of HK$0.026 per share of China Pipe as quoted on the Stock Exchange on 13 October 2008, being the last trading day of China Pipe's shares on the Stock Exchange prior to the date of the Sale and Purchase Agreement;

(ii) a discount of approximately 13% to the average closing price of HK$0.023 per share of China Pipe as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including 13 October 2008;

(iii) a discount of approximately 47.4% to the unaudited consolidated net asset value per share of China Pipe of HK$0.038 as at 30 June 2008, being the date on which the latest unaudited consolidated financial statements of China Pipe were made up; and

(iv) a discount of approximately 16.7% to the closing price of HK$0.024 per share of China Pipe as at the Latest Practicable Date.

Although the Consideration per Sale Share was (i) at a discount to the closing prices of China Pipe's shares prior to the date of the Sale and Purchase Agreement; (ii) below the unaudited consolidated net asset value of China Pipe as at 30 June 2008, and that loss is expected to be incurred as a result of the Disposal, given the recent market conditions, the Directors consider that the terms of the Disposal are fair and reasonable and are on normal commercial terms, which are in the interests of the Company and the Shareholders as a whole.

The entire amount of the Consideration was payable within a short period of time after the date of the Sale and Purchase Agreement, which has immediately increased the Group's cash inflow. The composite offer and response document of China Pipe was issued on 3 December 2008. In the event that the Independent Shareholders' approval could not be obtained and the Long Stop Date had not been extended, the amount of default interest payable is approximately HK$12,000,000, representing 16% of the Consideration. The Directors notice that in other similar share acquisitions, (i) the deposit payable might only amount to 10% of the aggregate consideration while the refund amount is 2 times of the deposit, which, if applied to the Disposal, would render the refund amount even greater; and (ii) it is not a common practice to make full payment of the Consideration as a deposit upfront. Thus, in return, the Purchaser requested for a higher refund interest rate in order to procure the Disposal. The intention of both parties was purely to effect the sale and purchase of the Sale Shares such that on the side of the Company, it could obtain immediate cashflow. The Directors consider that the rate of the default interest should be treated together with full payment of the deposit upfront as a package of the Disposal. Further taking into account of the difficulty to borrow such amount from any financial institutions without any security amid the current market conditions and that the default interest rate is legal under the laws of Hong Kong, the Directors also consider that the rate of the default interest is fair and reasonable.

Conditions precedent

The Disposal is subject to the following conditions:

(i) the passing of the necessary resolutions by Shareholders (other than those required to abstain from voting under the Listing Rules and the Takeovers Code) at the EGM to approve the transactions contemplated under the Sale and Purchase Agreement; and

(ii) other than was required to clear the announcement(s) in relation to the proposed sale and purchase of the Sale Shares or as a result of any mandatory cash offer to be made by the Purchaser for all issued shares of China Pipe other than those already owned or agreed to be acquired by the Purchaser under Rule 26 of the Takeovers Code, trading of China Pipe's shares on the Stock Exchange not being suspended for more than 5 consecutive business days and the Stock Exchange or the SFC not having notified China Pipe that the listing of its shares would be withdrawn or suspended or object to and any such notification not having been subsequently withdrawn.

The condition set out in sub-paragraph (i) above cannot be waived. The Purchaser may waive the condition set out in sub-paragraph (ii) above by serving a notice in writing to the Company. If the conditions set out above are not satisfied or waived (as the case may be) on or before the Long Stop Date, the Sale and Purchase Agreement shall lapse and shall be of no further effect. No party to the Sale and Purchase Agreement shall have any claim against or liability to the other party, save in respect of any antecedent breach thereof.

Completion

Completion shall take place on the second business day after all conditions have been satisfied or waived, as the case may be.

SHARE CHARGE

On 15 October 2008, the Company also executed the Share Charge (being a charge on the Sale Shares) in favour of the Purchaser to secure refund of the Deposit in the event Completion does not take place.

INFORMATION ON CHINA PIPE

The Sale Shares represented approximately 29.52% interest in the issued share capital of China Pipe as at the Latest Practicable Date. 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 (stock code: 380). The principal activities of the China Pipe Group are trading and distribution of construction materials, mainly water pipes and fittings.

Set out below is the unaudited consolidated financial information of China Pipe for the six months ended 30 June 2008 and the audited consolidated financial information of China Pipe for the two years ended 31 December 2007:

	For the six months ended 30 June 2008	For the year ended 31 December 2007	For the year ended 31 December 2006
	HK$	*HK$*	*HK$*
	(unaudited)	*(audited)*	*(audited)*
Net assets	474,881,000	447,609,000	339,864,000
Profit before taxation	37,885,000	84,583,000	71,616,000
Profit after taxation	25,581,000	67,104,000	59,302,000

The investment in China Pipe is treated as investment in associated company in the books of the Company and is consolidated by adopting the equity accounting method.

REASONS FOR AND BENEFITS OF THE DISPOSAL AND USE OF PROCEEDS

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

As at 30 September 2008, the indebtedness of the Group amounted to approximately HK$203,000,000 and was repayable before the end of December 2008. Approximately half of the indebtedness of the Group amounting to HK$100,616,000 was the loan from margin financing in the initial acquisition of the Sale Shares (the "**Loan**"). The Loan is secured by a share charge over the Sale Shares and should be repayable on or before 16 October 2008. The Group had been in the process of negotiating on extension for repayment of the Loan but failed.

On 5 August 2008, the Company announced that the Group had entered into a disposal agreement for the disposal of land at a consideration of RMB474,266,500. However, due to the non-cooperation of the purchaser of this disposal, the Group has sent a notice of termination to the purchaser of this disposal on 31 October 2008, details of which are set out in the announcement of the Company dated 4 November 2008.

The Directors have considered various financing proposals for the repayment of indebtedness as set out above. The Group had been approached by other parties who have shown an interest in the Sale Shares, but no agreements were reached. Besides, in view of the credit crunch and for prudent financial and cashflow management of the Company, in or around mid-September 2008, the Company also approached a bank for availability of bank loan and towards the end of September 2008, the Company also approached two securities houses for security refinancing of the Sale Shares. However, in light of the present tumultuous situation in the financial markets, at the beginning of October 2008, the Company was informed that no extension would be allowed for repayment of the Loan and the Company received negative feedback from the other financial institutions/securities houses mentioned above, refusing to grant any new loan or security refinancing to the Company. The Directors have also taken into account the fact that most of the Group's operations take place in the PRC and most of the Group's assets are located in the PRC. Disregarding the effect of the financial crisis worldwide, it has been difficult for the Group to obtain bank loan locally in Hong Kong on an unsecured basis. In respect of borrowings in the PRC, most of the Group's assets (being investment properties and water treatment plants) were either already under mortgage or only under development. Accordingly, no secured assets could be given or pledged to banks in the PRC nor would the banks in the PRC take the Sale Shares as security. As such, the Board has decided to dispose of its strategic investment in China Pipe for immediate cash inflow and intends to use the proceeds for repayment of indebtedness of the Group. According to a preliminary estimation made by the Company on the realisable price of the Sale Shares in the open market, it is expected that the gross proceeds to be received would be lower than the Consideration of HK$74,000,000 because the selling price per Sale Share will be inevitably below HK$0.021. Therefore, the Board approved the Disposal.

The Deposit had been used for the repayment of the Loan and the remaining portion of the Loan, being HK$26.6 million, was settled by the internal resources of the Group.

In view of the above, the Directors consider that the terms of the Disposal are fair and reasonable, which have been arrived at after arm's length negotiations and are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

The Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules. As at the date of the Sale and Purchase Agreement, Ms. Wing through her wholly-owned company was interested in approximately 42.3% of the issued share capital of China Pipe and Ms. Wing is the wife of the brother-in-law of Mr. Zhang, an executive Director and the chairman of the Company. Accordingly, the Disposal constitutes a connected transaction of the Company under Rule 14A.13(1)(b)(i) of the Listing Rules.

FINANCIAL IMPACT OF THE DISPOSAL

Upon Completion, the Company will cease to have any interest in China Pipe and China Pipe will cease to be an associated company of the Company. Set out in Appendix II to this circular is the unaudited pro forma financial information on the Remaining Group which illustrates the financial impact of the Disposal on the results and cash flows of the Group, assuming the Disposal had been completed on 1 April 2008 and the financial impact of the Disposal on the assets and liabilities of the Group, assuming the Disposal had been completed on 1 April 2008.

Based on the unaudited pro forma consolidated balance sheet of the Remaining Group as at 30 September 2008, the assets of the Remaining Group will decrease by approximately HK$1,000,000, which principally reflects the estimated transaction cost directly attributable to the Disposal and there will be no material financial impact on the liabilities of the Remaining Group as a result of the Disposal.

Without taking into account the expenses to be incurred in connection with the Disposal, based on the Consideration of HK$74,000,000 and the investment cost in China Pipe of HK$299,146,000 as at 30 September 2008, the Group is expected to incur a loss of approximately HK$225,146,000 as a result of the Disposal.

EGM

The EGM will be held at Xinhua Room, Mezzanine Floor, Cosmopolitan Hotel Hong Kong, 387 – 397 Queen's Road East, Wanchai, Hong Kong at 9:00 a.m. on Wednesday, 21 January 2009. The notice of the EGM is set out on pages 181 to 182 of this circular. The purpose of the EGM is to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. The Independent Board Committee has been established to consider the Disposal and to provide recommendations to the Independent Shareholders in this regard. South China Capital Limited and Wallbanck Brothers Securities (Hong Kong) Limited have been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Disposal. Mr. Zhang and his associates (including Ms. Wing, the Purchaser and their respective associates) shall abstain from voting at the EGM. As at the Latest Practicable Date, Mr. Zhang and his associates were interested in 3,739,865,000 Shares, representing approximately 18.44% of the issued share capital of the Company. To the best knowledge of the Directors, Ms. Wing, the Purchaser and their respective associates did not held any Shares as at the Latest Practicable Date.

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

PROCEDURES BY WHICH A POLL MAY BE DEMANDED

As mentioned above, the Disposal is subject to the approval by the Independent Shareholders at the EGM by way of poll.

Pursuant to the articles of association of the Company, a resolution put to the vote of a general meeting of the Company shall be decided on a show of hands unless voting by way of a poll is required by the rules of the Stock Exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of the meeting; or

(b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(c) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative 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) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right; or

(e) in accordance with the Listing Rules, by any Director who, individually or collectively, hold proxies in respect of Shares representing 5% or more of the total voting rights at such meeting.

RECOMMENDATION

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

GENERAL

Your attention is drawn to the letter from the Independent Board Committee, the letter from Joint Independent Financial Advisers and the additional information set out in the Appendices to this circular.

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

國中控股有限公司

INTERCHINA HOLDINGS COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

2 January 2009

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL
AND
CONNECTED TRANSACTION

INTRODUCTION

We refer to the circular dated 2 January 2009 (the "**Circular**") of Interchina Holdings Company Limited (the "**Company**") of which this letter forms part. Terms used in this letter shall have the meaning as defined in the Circular unless the context otherwise requires.

We, being the independent non-executive Directors, have been appointed to form the Independent Board Committee to advise you as to whether the terms of the Sale and Purchase Agreement are fair and reasonable so far as the Independent Shareholders are concerned and whether the Disposal is in the interests of the Company and the Shareholders as a whole.

South China Capital Limited and Wallbanck Brothers Securities (Hong Kong) Limited have been appointed as the joint independent financial advisers to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the Sale and Purchase Agreement.

We wish to draw your attention to the letter from the Board as set out on pages 4 to 11 of the Circular and the letter from Joint Independent Financial Advisers as set out on pages 14 to 40 of the Circular which contain, among other things, their advice, recommendations to us regarding the terms of the Disposal and the principal factors and reasons taken into consideration for their advice and recommendations.

RECOMMENDATION

Having taken into account the advice and recommendations of Joint Independent Financial Advisers and the principal factors and reasons taken into consideration by them in arriving at their opinion, we consider that the terms of the Sale and Purchase Agreement (including the default interest) are fair and reasonable as far as the Independent Shareholders are concerned and the Disposal is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Disposal.

Yours faithfully,
Wong Hon Sum Ha Ping Tang Tin Sek
Independent Board Committee

The following is the full text of a letter of advice from South China Capital Limited and Wallbanck Brothers Securities (Hong Kong) Limited, the Joint Independent Financial Advisers to the Independent Board Committee and the Independent Shareholders regarding the Disposal, for the purpose of incorporation into this circular.

South China Capital Limited
28/F., Bank of China Tower,
1 Garden Road,
Central,
Hong Kong

WALLBANCK BROTHERS
Securities (Hong Kong) Limited
2310, Tower 2, Lippo Centre,
89 Queensway, Central,
Hong Kong

2 January 2009

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

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL
AND
CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Joint Independent Financial Advisers to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal, 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 2 January 2009 (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 disclosed in the announcement of the Company dated 17 October 2008 (the "Announcement") that on 15 October 2008, the Company and the Purchaser entered into the Sale and Purchase Agreement (as amended by a letter dated 27 October 2008), pursuant to which the Company has conditionally agreed to dispose of and the Purchaser has conditionally agreed to acquire the Sale Shares (being approximately 29.52% of the issued share capital of China Pipe as at the Latest Practicable Date) at the Consideration, being HK$74,000,000, which shall be satisfied in cash.

On the same date, the Company has also executed the Share Charge (being a charge on the Sale Shares) in favour of the Purchaser to secure refund of the Deposit in the event Completion does not take place.

The issued shares of China Pipe are listed on the Stock Exchange. Ms. Wing is the wife of the brother-in-law of Mr. Zhang, an executive Director and the chairman of the Company. At the same time, Ms. Wing through her wholly-owned company is also interested in approximately 42.3% of the issued share capital of China Pipe as at the date of the Sale and Purchase Agreement. Thus, the Disposal is regarded as a connected transaction of the Company under Chapter 14A of the Listing Rules. The Disposal also constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules. Accordingly, the Disposal has to be approved by the Independent Shareholders at the EGM.

An Independent Board Committee comprising Mr. Wong Hon Sum, Ms. Ha Ping and Dr. Tang Tin Sek (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Disposal is in usual and ordinary course of business of the Company and is in the interests of the Company and the Shareholders as a whole. We, South China Capital Limited and Wallbanck Brothers Securities (Hong Kong) Limited, have been appointed as the Joint Independent Financial Advisers 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 Disposal 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 Disposal. 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 Disposal and shall not be used for any other purpose in any circumstance nor for any comparable purpose with any other opinions.

Our opinions are based on the Directors' representation and confirmation that there are no undisclosed private agreements/ arrangements or implied understanding with anyone concerning the Disposal.

Our opinions are based on the Directors' confirmation of receipt of our advice that the Directors and the management of the Company are responsible to take all reasonable steps to ensure that the information and representations provided in any press announcement, circular and prospectus concerning the Disposal are true, accurate, complete and not misleading, and that no material information or facts have been omitted or withheld.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. The Sale and Purchase Agreement

a) Date

15 October 2008 (as amended by a letter dated 27 October 2008)

b) Parties

Vendor: the Company

Purchaser: the Purchaser

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of the Group and its connected persons, and the principal activity of the Purchaser is investment holding.

c) Assets to be disposed of

As stated in the Letter from the Board, the Sale Shares, being 3,700,000,000 shares of HK$0.002 each in the capital of China Pipe, representing approximately 29.52% of the issued share capital of China Pipe as at the Latest Practicable Date. Such Sales Share was acquired by the Company in July 2008, and the original acquisition cost of the Sale Shares amounted to approximately HK$296,000,000.

d) Consideration

As stated in the Letter from the Board, the Consideration of the Sales Shares is HK$74,000,000, which shall be satisfied in cash. The Purchaser shall pay the Deposit (which is equivalent to the amount of the Consideration) and such was paid on 27 October 2008. The Deposit shall be applied towards satisfaction of the Consideration at Completion.

If Completion does not take place:

(i) due to the inability to obtain Shareholders' approval as set out in sub-paragraph (i) in the paragraph headed "Conditions precedent" below, the Deposit shall be refunded to the Purchaser and a default interest on the Deposit of 60% per annum shall be payable by the Company to the Purchaser which to be calculated from the date of payment of the Deposit to the date of repayment of the Deposit;

(ii) due to the fault of the Company in complying with the terms of the Sale and Purchase Agreement, notwithstanding the Shareholders' approval as set out in sub-paragraph (i) in the paragraph headed "Conditions precedent" below having been obtained, the Deposit shall be refunded to the Purchaser and the Purchaser shall be at liberty to sue for damages; and

(iii) due to the fault of the Purchaser, the Deposit shall be refunded to the Purchaser and no interest shall be payable.

The Consideration was determined after arm's length negotiations between the Company and the Purchaser with reference to the recent closing price per share of China Pipe as quoted on the Stock Exchange. The Consideration per Sale Share amounts to HK$0.02 and represents:

(i) a discount of approximately 23.1% to the closing price of HK$0.026 per share of China Pipe as quoted on the Stock Exchange on 13 October 2008, being the last trading day of China Pipe's shares on the Stock Exchange prior to the date of the Sale and Purchase Agreement;

(ii) a discount of approximately 13.0% to the average closing price of HK$0.023 per share of China Pipe as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including 13 October 2008;

(iii) a discount of approximately 47.4% to the unaudited consolidated net asset value per share of China Pipe of HK$0.038 as at 30 June 2008, being the date on which the latest unaudited consolidated financial statements of China Pipe were made up; and

(iv) a discount of approximately 16.7% to the closing price of HK$0.024 per share of China Pipe as quoted on the Stock Exchange on the Latest Practicable Date.

Although the Consideration per Sale Share was (i) at a discount to the closing prices of China Pipe's shares prior to the date of the Sale and Purchase Agreement; (ii) below the unaudited consolidated net asset value of China Pipe as at 30 June 2008, and that loss is expected to be incurred as a result of the Disposal, given the recent market conditions, the Directors consider that the terms of the Disposal are fair and reasonable and are on normal commercial terms, which are in the interests of the Company and the Shareholders as a whole.

The entire amount of the Consideration was payable within a short period of time after the date of the Sale and Purchase Agreement, which has immediately increased the Group's cash inflow. In the event that the Independent Shareholders' approval could not be obtained and the Long Stop Date had not been extended, the amount of default interest payable to the Purchaser is approximately HK$12,000,000, representing approximately 16% of the Consideration. The

Directors consider that such 16% basis is reasonable and is in line with market practice. The Directors notice that in other similar share acquisitions, (i) the deposit payable might only amount to 10% of the aggregate consideration while the refund amount is 2 times of the deposit, which, if applied to the Disposal, would render the refund amount even greater; and (ii) it is not a common practice to make full payment of the Consideration as a deposit upfront. Thus, in return, the Purchaser requested for a higher refund interest rate in order to procure the transaction. The intention of both parties was purely to effect the sale and purchase of the Sale Shares such that on the side of the Company, it could obtain immediate cashflow. The Directors consider that the rate of the default interest should be treated together with full payment of the deposit upfront as a package of the Disposal. Further taking into account of the difficulty to source alternative short term finance from any financial institutions under similar terms amid the current market conditions and that the default interest rate is legal under the laws of Hong Kong, the Directors (including the independent non-executive Directors) also consider that the rate of the default interest is fair and reasonable.

e) Conditions precedent

The Disposal is subject to the following conditions:

(i) the passing of the necessary resolutions by the Shareholders (other than those required to abstain from voting under the Listing Rules and the Takeovers Code) at the EGM to approve the transactions contemplated under the Sale and Purchase Agreement; and

(ii) other than was required (i) to clear the announcement(s) in relation to the proposed sale and purchase of the Sale Shares or (ii) as a result of any mandatory cash offer to be made by the Purchaser for all issued shares of China Pipe other than those already owned or agreed to be acquired by the Purchaser under Rule 26 of the Takeovers Code, trading of China Pipe's shares on the Stock Exchange shall not being suspended for more than 5 consecutive business days and the Stock Exchange or the SFC not having notified China Pipe that the listing of its shares would be withdrawn or suspended or objected to and any such notification not having subsequently been withdrawn.

The condition set out in sub-paragraph (i) above cannot be waived. The Purchaser may waive the condition set out in sub-paragraph (ii) above by serving a notice in writing to the Company. If the conditions set out above are not satisfied or waived (as the case may be) on or before the Long Stop Date, the Sale and Purchase Agreement shall lapse and shall be of no further effect. No party to the Sale and Purchase Agreement shall have any claim against or liability to the other party, save in respect of any antecedent breach thereof.

f) Completion

Completion shall take place on the second business day after all conditions have been satisfied or waived, as the case may be.

2. Share Charge

On 15 October 2008, the Company has also executed the Share Charge (being a charge on the Sale Shares) in favour of the Purchaser to secure refund of the Deposit in the event Completion does not take place. The security created by the Share Charge does not only restrict the disposal of the Sales Shares, but also expand its restriction towards the dividends in relation to the Sales Shares. If the Company is unable to complete the Disposal and unable to refund the Deposit, the Purchaser may without further notice, sell or dispose of all or any part of the Sales Shares under this Share Charge.

3. Reasons for and Benefits of the Disposal

As stated in the Letter from the Board, 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.

As at 30 September 2008, the indebtedness of the Group amounted to approximately HK$203,000,000 and was repayable before the end of December 2008. Approximately half of the indebtedness of the Group amounting to HK$100,616,000 was the loan from margin financing in the initial acquisition of the Sale Shares (the "**Loan**"). The Loan is secured by a share charge over the Sales Shares and was repayable on or before 16 October 2008. According to the Directors, the Group had negotiated for extension of repayment of the Loan but failed.

Separately, on 5 August 2008, the Company announced that the Group had entered into a disposal agreement for the disposal of three plots of land situated in Changsha at a consideration of RMB474,266,500. However, due to the non-cooperation of the purchaser of this disposal, the Group has sent a notice of termination to the purchaser of this disposal on 31 October 2008, details of which are set out in the announcement of the Company dated 4 November 2008.

According to the Directors, they have considered various financing alternatives for the repayment of indebtedness as set out above. The Group had been approached by other parties who have shown an interest in the Sale Shares, but no agreements were reached. Besides, in view of the credit crunch and for prudent financial and cashflow management of the Company, in or around mid-September 2008, the Company also approached a bank for availability of bank loan and towards the end of September 2008, the Company also approached two securities houses for security refinancing of the Sale Shares. However, in light of the present tumultuous situation in the financial market, at the beginning of October 2008 the Company was informed that no extension would be allowed for repayment of the Loan and the Company received negative feedback from the other financial institutions/securities houses mentioned above, refusing to grant any new loan or security refinancing to the Company. The Directors have also taken into account the fact that most of the Group's operations take place in the PRC and most of the Group's assets are located in the PRC. Disregarding the effect of the financial crisis worldwide, it was difficult for the Group to obtain bank loan locally in Hong Kong on an unsecured basis. In respect of borrowings in the PRC, most of the Group's assets (being investment properties and water treatment plants) were either already under mortgage or only under development. Accordingly, no secured assets could be given or pledged to banks in the PRC nor would the banks in the PRC take the Sale Shares as security. As such, the Board has decided to dispose of its strategic investment in China Pipe for immediate cash inflow and intends to use the proceeds for repayment of indebtedness of the Group. According to a preliminary estimation made by the Company on the realisable price of the Sale Shares in the open market, it is expected that the gross proceeds to be received would be lower than the Consideration of HK$74,000,000 because the selling price per Sale Share will be inevitably below HK$0.021. Therefore, the Board approved the Disposal.

The entire sum of the Consideration had been used for the repayment of the Loan and the remaining portion of the Loan, being HK$26.6 million, was settled by the internal resources of the Group.

In view of the above, the Directors are of the view that the terms of the Disposal are fair and reasonable, which have been arrived at after arm's length negotiations and are in the interests of the Company and the Shareholders as a whole.

4. Use of Proceeds

As confirmed by the Directors, all of the proceeds from the Disposal amounting to HK$74 million, which received as the Deposit of the Disposal have already been used to relief the Company's indebtedness by the end of October 2008. Meanwhile the Company repaid major portion of the margin finance loan which was created during the acquisition of the Sale Shares with a total principal amount up to HK$100 million (the "Loan"). Apart from the cash provided by the Deposit, the remaining portion of the Loan amounted HK$26 million was settled by using the Company's internal resources. After the repayment of the Loan, the Company still has current liabilities amounting to approximately HK$103 million due before the end of December 2008. As advised by the directors, negotiation is undergoing with the borrowers on seeking the refinance of the outstanding indebtedness.

5. Business review and financial analysis 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 summarized the financial performance of the Group for the three years ended 31 March 2008 and for the six months ended 30 September 2007 and 30 September 2008.

Table 1: Financial performance of the Group

	For the six months ended 30 September		**For the year ended 31 March**		
	2008	**2007**	**2008**	**2007**	**2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
	(Audited)	*(Unaudited)*	*(Audited)*	*(Audited)*	*(Audited)*
		(Restated)	*(Restated)*	*(Restated)*	*(Restated)*
Turnover	27,476	18,927	67,868	131,995	146,594
Gross profit	19,053	11,421	33,200	23,722	48,830
Gross profit margin (%)	69.34	60.34	48.92	17.97	33.31
Loss from operations	(480,187)	(46,495)	(2,369)	(13,565)	(48,327)
Loss before taxation	(490,717)	(50,302)	(19,601)	(7,734)	(83,698)
Loss after taxation	(477,382)	(53,921)	(40,721)	(16,807)	(92,848)

	As at 30 September	**As at 31 March**		
	2008	**2008**	**2007**	**2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
	(Audited)	*(Audited)*	*(Audited)*	*(Audited)*
		(Restated)	*(Restated)*	*(Restated)*
Cash and cash equivalents	24,643	30,193	159,430	16,894
Bank balances – trust and segregated accounts	4,649	4,346	86,410	5,277
Net assets	2,005,265	2,122,988	857,774	744,779
Gearing ratio (total borrowings/ total assets)	16.20%	13.36%	20.87%	27.53%

	For the six months ended 30 September		For the year ended 31 March		
	2008	**2007**	**2008**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	*(Unaudited)*	*(Audited)*	*(Audited)*	*(Audited)*
		(Restated)	*(Restated)*	*(Restated)*	*(Restated)*
Cash flow from operating activities	(148,932)	94,021	(940,228)	(90,097)	(159,193)
Cash flow from investing activities	(301,499)	(295,591)	(142,910)	230,591	111,212
Cash flow from financing activities	420,403	151,901	913,578	5,578	7,697
Net change in cash and cash equivalents	(30,028)	(49,669)	(169,560)	146,072	(40,284)

Source: Appendix I to the Circular.

a) Business review

From the above table, the Group recorded consolidated turnover of approximately HK$131.995 million for the financial year ended 31 March 2007, representing a decrease of approximately 9.96% from HK$146.594 million for the financial year ended 31 March 2006. Loss after taxation decreased from approximately HK$92.848 million for the financial year ended 31 March 2006 to approximately HK$16.807 million for the financial year ended 31 March 2007.

According to the section headed "Discussion and Analysis of Performance of the Group" as set out in appendix I to the Circular, 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 for the year ended 31 December 2007, no revenue had been recorded from them yet. At the same time, the Group had no income from the sales of land for the year ended 31 December 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 for the year ended 31 December 2007 increased 65.38% as compared with the corresponding period last year.

For the year ended 31 March 2007, the restated net assets of the Group valued at HK$857.774 million (31 March 2006: restated as HK$744.779 million), representing an increase of 15.17% 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) totalled approximately HK$245.840 million (31 March 2006: HK$22.171 million), representing an increase of 10.09 times against the balance as at 31 March 2006. The gearing ratio was 20.87% (total borrowings/ total assets) as at 31 March 2007 (31 March 2006: 27.53%).

For the financial year ended 31 March 2008, the Group recorded consolidated turnover of approximately HK$67.868 million, representing a decrease of approximately 48.58% from HK$131.995 million for the financial year ended 31 March 2007. Loss after taxation increased from approximately HK$16.807 million for the financial year ended 31 March 2007 to approximately HK$40.721 million for the financial year ended 31 March 2008.

According to the section headed "Discussion and Analysis of Performance of the Group" as set out in appendix I to the Circular, the Group's loss attributable to shareholders for the year was HK$39,762,000 (2007: HK$18,252,000), representing an increase of 117.9% as compared with last year. The main reason was the recognition by the Company of a share-based payment expense of HK$32,986,000 (2007: Nil) based on the fair value of the share options granted in respect of the share option scheme during the year in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") 2 "Share-based Payment", for which loss attributable to the shareholders increased significantly as compared with last year. Also, loss attributable to the shareholders last year included recognised gain of HK$48,448,000 on disposal of subsidiaries. By excluding the effects of the share-based payment expense and the gain on disposal of subsidiaries, the loss for the year would be decreased by 77.3% as compared with last year.

For the financial year ended 31 March 2008, the restated net assets of the Group as at 31 March 2008 valued at HK$2,122.988 million (31 March 2007: restated as HK$857.774 million), representing an increase of 147.50% as compared with those as at 31 March 2007. As at 31 March 2008, the Group's cash on hand and deposits in bank (including segregated and trust account) totaled approximately HK$34.539 million (31 March 2007: HK$245.840 million), representing a decrease of 85.95% against the balance as at 31 March 2007. The gearing ratio was 13.36% (total borrowings/ total assets) as at 31 March 2008 (31 March 2007: 20.87%).

For the six months ended 30 September 2008, the Group recorded consolidated turnover of approximately HK$27.476 million, representing an increase of approximately 45.17% from HK$18.927 million of the corresponding period in 2007. Loss after taxation increased from approximately HK$53.921 million for the six months ended 30 September 2007 to approximately HK$477.382 million for the six months ended 30 September 2008. The increase in loss was mainly due to an unrealised fair value loss of HK$270.702 million on the Group's property investment and an impairment loss of HK$225.146 million on the investment in China Pipe. By excluding the effects of the above losses, the Group recorded operating profit of HK$18.546 million.

According to the section headed "Discussion and Analysis of Performance of the Group" as set out in appendix I to the Circular, approximately HK$9.485 million of the Group's turnover for the six months ended 30 September 2008 was attributable to the environmental protection and water treatment operations, approximately HK$9.942 million of the Group's turnover for the six months ended 30 September 2008 was attributable to the securities and financial operations. There were certain city development and investment projects in the PRC remaining under construction during the period. No revenue had been recorded from such projects yet.

The Group's net change cash and cash equivalents decreased from a cash inflow of approximately HK$146.072 million for the year ended 31 March 2007 to a cash outflow of approximately HK$169.560 million for the year ended 31 March 2008. The said increase in cash outflow in 2008 was due to adjustment in the substantial increase in trade and other receivables and prepayments, increase in amount due from an associate and decrease in trade and other payables and deposits received for the cash flow from operating activities. The acquisition of subsidiaries also resulted in a cash outflow from investing activities of HK$118.396 million in 2008.

The Group's cash outflow decreased to approximately HK$30.028 million for the six months ended 30 September 2008 compared with a cash outflow of approximately HK$49.669 million for the corresponding period in 2007. The said decreased in cash outflow in 2008 was due to the substantial increase in new bank loan raised, new other loan raised and trade and the decrease in the repayment of bank loans. However, the cashflow from operating activities had decreased from a cash inflow of approximately HK$94.021 million for the six months ended 30 September 2007 to a cash outflow of approximately HK$148.932 million for the six months ended 30 September 2008.

b) Financial review

As stated in the Letter from the Board, as at 30 September 2008, the indebtedness of the Group amounted to approximately HK$203 million and is repayable before the end of December 2008. According to the audited interim results for the six months ended 30 September 2008 as set out in appendix I to the Circular, the cash and cash equivalents of the Group was HK$24.643 million as at 30 September 2008 and there would be insufficient cash inflow for the three months ended 31 December 2008 to repay the indebtedness. In addition, based on the loan agreement that the Group entered into with a lender on 15 July 2008 (the "Lender") for the principal amount of HK$100 million, the principal amount and interest were due and should be repayable on or before 16 October 2008. Given the immediate need to repay the indebtedness till the end of December 2008, it is reasonable to infer that the Disposal is not unfair and unreasonable.

According to the interim results of the Group for the six months ended 30 September 2008, as set out in Appendix I to the Circular, the Group had the following assets available for sale as at 30 September 2008:

Table 2: Assets of the Group available for sale

	HK$'000
Non-current assets	
– investment properties	489,500
– interest in leasehold land and land use rights	43,093
– property, plant and equipment	252,068
– interest in associates (the Sale Shares)	74,000
– Intangible assets	125,779
– Other financial assets	352,943
– other non-current assets	2,394
	1,339,777
Current assets	
– properties under development for sale	532,184
– inventories	891
– trade and other receivables and prepayments	712,914
– loan receivables	121,711
– financial assets at fair value through profit or loss	64
– bank balances – trust and segregated accounts	4,649
– cash and cash equivalents	24,643
	1,397,056
Total assets available for sale	2,736,833

We are given to understand that in considering the repayment of indebtedness due in December 2008, the Company has evaluated each of the above assets available for sale as alternatives before entering into the Sale and Purchase Agreement. Notwithstanding that the Group had total assets available for sale amounting to approximately HK$2,736.8 million (including the Sale Shares) as at 30 September 2008, most of the Group's assets are related to the core business of the Company and approximately half of which is in non-current nature. As advised by the Directors, the Company currently has no intention to change its principal activities by disposing assets relating to its core business. Further, the Company held the view that the disposal of the Sale Shares in the open market is a relatively faster way than procuring for sale of the Group's other assets available for sale.

5. Business review of China Pipe Group

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 2007 and the unaudited consolidated financial information for the six months periods ended 30 June, 2007 and 2008:

Table 3: Financial performance of China Pipe Group

	For the six months ended 30 June		**For the year ended 31 December**		
	2008	**2007**	**2007**	**2006**	**2005**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
	(Unaudited)	*(Unaudited)*	*(Audited)*	*(Audited)*	*(Audited)*
Turnover	424,100	274,792	633,668	617,556	522,921
Gross profit	90,345	73,576	155,762	167,382	131,069
Gross profit margin (%)	21.30	26.78	24.58	27.10	25.06
Profit from operations	43,832	28,364	88,303	73,837	53,414
Profit/ (loss) before taxation	37,885	27,776	84,583	71,616	51,113
Profit/ (loss) after taxation	25,581	22,508	67,104	59,302	42,524

	As at 30 June	**As at 31 December**		
	2008	**2007**	**2006**	**2005**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
	(Unaudited)	*(Audited)*	*(Audited)*	*(Audited)*
Bank balances and cash	89,775	33,272	101,219	63,824
Net assets	474,881	447,609	339,864	292,655
Gearing ratio (total debts/ total assets)	37%	34%	24%	17%

Source: China Pipe's annual reports for the two years ended 31 December 2007 and the interim report for the six months ended 30 June 2008

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 totaled 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).

For the financial year ended 31 December 2007 ("2007"), China Pipe Group recorded consolidated turnover of approximately HK$633.668 million in 2007, representing an increase of approximately 2.61% from HK$617.556 million in 2006. Profit after taxation increased by approximately 13.16% from approximately HK$59.302 million in 2006 to approximately HK$67.104 million in 2007.

The net assets of China Pipe Group as at 31 December 2007 valued at HK$447,609,000 (2006: HK$339,864,000), representing an increase of 31.70% as compared with those as at 31 December 2006. As at 31 December 2007, China Pipe Group's bank balances and cash totaled approximately HK$33,272,000 (2006: HK$101,219,000), representing a decrease of 67.13% against the balance as at 31 December 2006. The gearing ratio was 34% (total debts/ total assets).

According to the unaudited interim report for the six months ended 30 June 2008, during the six months ended 30 June 2008, the Group's sales increased to HK$424,100,000 from HK$274,792,000 for the same period of 2007. The increase of sales in the first half of 2008 was primarily attributable to the continuously increasing of the metal price. The gross profit of the Group for the first six months of 2008 was HK$90,345,000, with a gross margin of 21.30%, compared to gross profit for the same period of 2007 of HK$73,576,000 with a gross margin of 26.78%. The decrease in gross margin was mainly resulted from the fierce price competition.

During the six months ended 30 June 2008, selling and distribution cost had increased when compared with the same period of 2007, which is in line with the increase in turnover and gross profit. The administrative expenses for the first six months of 2008 increased to HK$47,986,000 (2007: HK$36,164,000). For the period ended 30 June 2008, the Group had recorded a fair value gains on the investment properties amounted to HK$26,687,000. Furthermore, the Group had also recorded a net fair value losses on the trading securities amounted to HK$16,727,000. Profit attributable to shareholders of the Company increased by 13.65% to HK$25,581,000 (2007: HK$22,508,000), which resulted in a basic earnings per share of HK0.20 cents (2007: HK0.19 cents).

6. Review on share price performance of China Pipe

As stated in the Letter from the Board, the Consideration per Sale Share amounts to HK$0.02 and represents:

(i) a discount of approximately 23.1% to the closing price of HK$0.026 per share of China Pipe as quoted on the Stock Exchange on 13 October 2008, being the last trading day of China Pipe's shares on the Stock Exchange prior to the date of the Sale and Purchase Agreement;

(ii) a discount of approximately 13.0% to the average closing price of HK$0.023 per share of China Pipe as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including 13 October 2008;

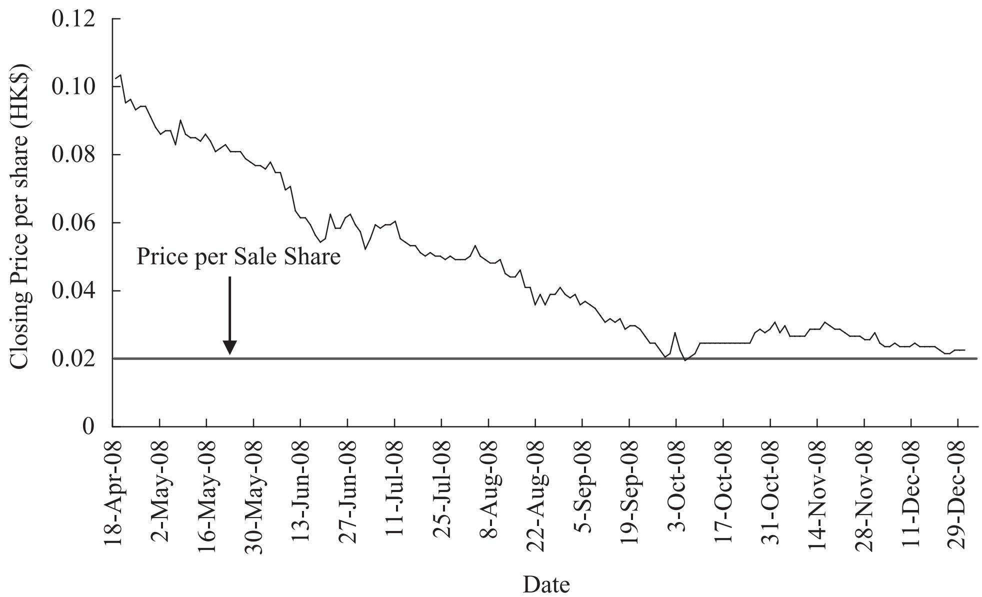
(iii) a discount of approximately 47.4% to the unaudited consolidated net asset value per share of China Pipe of HK$0.038 as at 30 June 2008, being the date on which the latest unaudited consolidated financial statements of China Pipe were made up; and

(iv) a discount of approximately 16.7% to the closing price of HK$0.024 per share of China Pipe as quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration was determined after arm's length negotiations between the Company and the Purchaser with reference to the recent closing price per share of China Pipe as quoted on the Stock Exchange.

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 18 April 2008 (six months before the 17 October 2008, being the date of 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 in the shares of China Pipe was suspended from 14 October 2008 to 24 October 2008, pending the release of the 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.

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 has been rapidly fluctuating in the recent periods.

The closing price of China Pipe was rapidly declining for the whole Review Period. The share price was fluctuated in the range of HK$0.021 on 8 October 2008 to HK$0.103 on 21 April 2008.

Shares of China Pipe were traded above the price per Sale Share of HK$0.02 for the whole Review Period. The price of the China Pipe's shares rose to HK$0.029 on 28 October 2008 and HK$0.032 on 3 November 2008 subsequent to the release of the Announcement, which was likely to be attributable to the positive reaction of the market to the offer made by the Purchaser. However, in view of the recent poor sentiment of the financial market, we are unable to comment at this stage on whether the current share price of China Pipe could be sustained in the foreseeable future. As such, we consider that the Disposal at HK$0.02 per Sale Share is beneficial to the Company as it provides liquidity for the Group to repay its indebtedness due in December 2008.

7. Review on trading liquidity of shares of China Pipe

Table 4 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 4: 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)* *(%)*
2008			
April *(from 18 to 30 April)*	92,368,889	0.74	2.86
May	95,538,000	0.76	2.96
June	52,667,000	0.42	1.63
July	15,650,909	0.12	0.48
August	8,947,368	0.07	0.28
September	10,188,571	0.08	0.32
October	568,205,000	4.53	17.60
November	5,460,000	0.04	0.17
December *(up to and including the Latest Practicable Date)*	11,364,211	0.09	0.35

Notes:

1. Based on 12,532,700,000 total issued shares of China Pipe as at the Latest Practicable Date

2. Based on the total number of shares held by the independent shareholders of 3,228,520,000 shares of China Pipe as at the Latest Practicable Date

3. Trading in the shares of China Pipe was suspended from 14 October 2008 to 24 October 2008, pending the release of the Announcement.

Source: Stock Exchange website

Save and except for suspension of trading between 14 October 2008 and 24 October 2008, only the trading day on 28 November 2008 and 24 December 2008 during the Review Period recorded nil trading volume.

The trading volume of China Pipe's shares was in general thin. Save and except for the month of October 2008 (up to and including the Latest Practicable Date), the daily average trading volume of 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 April, May, June, October 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 27 October 2008, with a trading volume of 6,040,840,000 shares and accounted for approximately 48.20% and 187.11% of the total issued shares and shares held by the independent shareholders respectively.

The aggregate amount of Sale Shares represents approximately 51.37 times of the average daily trading volume for the Review Period. The average daily trading volume in December 2008 only accounted for 0.09% and 0.35% of the total issued shares and shares held by the independent shareholders respectively. 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. Other alternatives of financing

The Directors represented that they have considered various financing proposals (including asking Mr. Zhang to exercise the outstanding balance of convertible notes option and negotiate extension of repayment) for the repayment of indebtedness. However, in light of the present tumultuous situation in the financial markets, it is relatively difficult for the Group to obtain funding through bank borrowings or borrowings from other financial institutions. It is also relatively difficult for the Group to negotiate extension of repayment. Besides, most of the Group's investment is long-term investment involving larger capital commitment and longer return period.

The Group has been approached by other parties who have shown an interest in the China Pipe's shares, but no agreements were reached between them. Given the limited amount of cash and bank balance on 30 September 2008 and the disposal of three plots of land situated in Changsha cannot be completed as at the Latest Practicable Date, the Board has decided to dispose of its strategic investment in China Pipe for immediate cash inflow and intends to use the proceeds for repayment of indebtedness of the Group.

9. Financial effects of the Disposal on the Group

a) Earnings

After Completion, China Pipe will cease to be an associate of the Company and the share of profit and loss of China Pipe will not be accounted for in the Group's consolidated accounts.

As stated in the Letter from the Board, without taking into account the expenses to be incurred in connection with the Disposal, based on the Consideration of HK$74,000,000 and the investment cost in China Pipe as at 30 September 2008 of HK$299,146,000, the Group is expected to incur a loss of approximately HK$225,146,000 as a result of the Disposal.

An unaudited pro forma income statement of the Remaining Group after the Completion is shown in Appendix II to the Circular. Assuming the Disposal has been completed on 1 April 2008, the Disposal would increase the unaudited pro forma net loss of the Group by approximately HK$1 million to approximately HK$478.382 million from an audited consolidated net loss of approximately HK$477.382 million of the Group for the six months ended 30 September 2008.

b) Net asset values

An unaudited pro forma financial information of the Remaining Group as set out in Appendix II to the Circular was prepared based on the audited consolidated balance sheet of the Group as at 30 September 2008 and adjusted by the Disposal. Based on the aforesaid, upon Completion, the unaudited pro forma net assets of the Remaining Group would be reduced by HK$1.00 million from HK$2,005.265 million to HK$2,004.265 million after Completion.

c) Working capital

According to Appendix I to the Circular, the Group had net current assets of approximately HK$925.197 million as at 30 September 2008. On a pro forma basis, due to the net proceeds of HK$73 million received from the Disposal which would be consolidated as current asset of the Group upon Completion, the Group will increase to a net current assets of approximately HK$998.197 million from a net current assets of approximately HK$925.197 million as at 30 September 2008.

10. Listing Rules implications

According to the Letter from the Board, Ms. Wing is the wife of the brother-in-law of Mr. Zhang, an executive Director and the chairman of the Company. At the same time, Ms. Wing through her wholly-owned company is also held an equity interest in approximately 42.3% of the issued share capital of China Pipe as at the date of the Announcement. Thus, the Disposal is regarded as a connected transaction of the Company under Chapter 14A of the Listing Rules. The Disposal also constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules. Accordingly, the Disposal has to be approved by the Independent Shareholders at the EGM.

11. The default interest arrangement

It was disclosed in the Announcement that if the Completion does not take place due to inability to obtain Shareholders' approval, the Deposit shall be refunded to the Purchaser and a default interest on the Deposit (which is equivalent to the amount of the Consideration) of 60% per annum shall be payable by the Company to the Purchaser from the date of payment of the Deposit to the date of repayment of the Deposit (the "Default Interest")

a) Basis for determination of Default Interest

As set out in the Announcement, the entire amount of the Consideration was payable upfront within 2 business days after the date of the Sale and Purchase Agreement, which would immediately increase the Group's cash inflow. The Directors represented that in the event Independent Shareholders' approval could not be obtained and the Long Stop Date had not been extended, the amount of default interest payable is approximately HK$12,000,000, representing approximately 16% of the Consideration. The Directors represented that in other similar share acquisitions, the deposit payable might amount to 10% – 20% of the aggregate consideration while the refund amount is 2 times of the deposit, which, if applied to the Disposal, would render the refund amount even greater. In addition, the Directors represented that it is most likely that in other shares transactions, the entire consideration would only become available upon completion.

b) The past loan agreement with the Lender

Pursuant to a loan agreement dated 15 July 2008 entered into between the Company and the Lender, the Lender provided a loan of HK$100 million to the Company with a share charge over the Sale Shares. The Loan shall become due on 16 October 2008.

c) Impact of global financial crisis

The Directors represented that with the onset of the global financial crisis in early of September 20008 after the collapse of Lehman Brothers, the global financial market has faced an unexpected crisis of deleveraging leading to the two following impacts on the Hong Kong market:

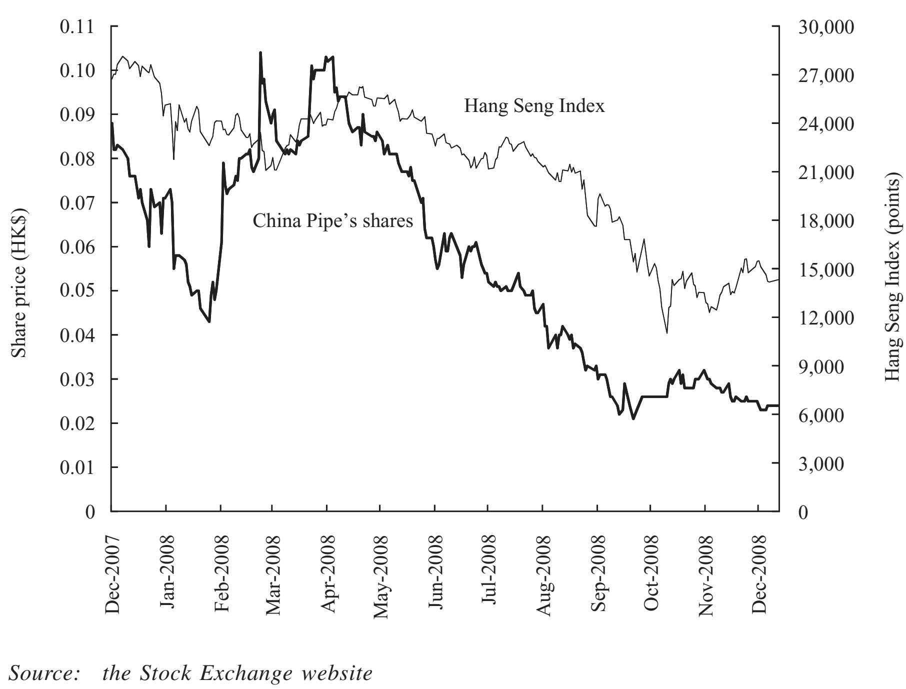
i) Credit crunch

The Directors represented that under the current global financial crisis, credit tightening by banks in Hong Kong is prevalent and inevitable. Potential borrowers are facing unexpected difficulties in obtaining finance and refinancing.

The Directors represented that in view of the crisis of credit crunch and for prudent financial and cashflow management of the Company, in or around mid-September 2008, the Company approached the Lender again for extension of certain then existing loan facilities provided to the Company. At around the same time, the Company also approached a medium size bank for availability of bank loan. Towards the end of September 2008, the Company also approached a couple of local securities houses for security refinancing of the Sale Shares. In the beginning of October 2008, the Company was informed by the Lender that no extension would be allowed under the loan facilities provided by the Lender. Also, the Company received negative feedback from the other financial institutions above, refusing to grant any new loan or security refinancing to the Company.

ii) Sharp fall of the Hong Kong stock market

The Directors represented that after the collapse of Lehman Brothers occurred at the end of September 2008 and the financial market was in a dire situation due to deleveraging. The Hang Seng Index fell by approximately 23.81% from about 21,000 points in the beginning of September 2008 to 16,000 points in mid-October 2008. The performance of China Pipe's shares and Hang Seng Index are compared in the chart below.



Source: the Stock Exchange website

As depicted in the above chart, the price of China Pipe's shares has fallen more or less in tandem with the sliding momentum of the Hang Seng Index since the beginning of September 2008, dropping from about HK$0.1 in mid-April 2008 to HK$0.026 in mid-October 2008. As a matter of fact, the price of China Pipe's shares fell more significantly than the Hang Seng Index. Due to the recent sharp fall in the Hong Kong stock market, it is unlikely that the price of China Pipe's shares would be revived in the foreseeable future.

Further, we note that the total trading volume of China Pipe's shares from 12 September 2008 to 13 October 2008 (i.e.: the preceding 1 month prior to the suspension of the Shares pending the release of the Announcement) was 796,560,000, representing only 6.36% of the issued shares of China Pipe. Given such thin trading volume, the Directors expected that it would not be feasible to dispose the entire block of the Sale Shares in the market. The Directors represented that even if the Sale Shares can be disposed by several tranches, the aggregate selling price of the Sale Shares will be much less than HK$0.02 as a result of very severe selling pressure for disposal of China Pipe's shares within a short period of time.

d) Analysis of different disposal scenarios by the Directors

The Directors represented that they have assessed the possible outcome and impacts to the Company arising from the following scenarios below:

i) The Company is unable to obtain refinancing for the repayment of the Loan; and the Company considers disposing the China Pipe's shares in the market or by private placing

The Directors represented that basing on that information as indicated in the section headed "Sharp Fall of the Hong Kong Stock Market" in this letter above, given the recent sharp fall in the Hong Kong stock market, it would not be feasible to dispose the entire block of the Sale Shares in the market.

The Company represented that even if the Sale Shares could be disposed in several tranches, the aggregate selling price of the Sale Shares will be much less than HK$0.02 as a result of very severe selling pressure within a short period of time.

Based on the total trading volume of 796,560,000 China Pipe's shares, representing only 6.36% of the issued shares, from 12 September 2008 to 13 October 2008, the Directors expected that the residual value of China Pipe's share would then be far lower than the Consideration of HK$74 million from the Disposal.

According to a preliminary estimation made by the Company on the realizable price of China Pipe's shares, it is expected that the gross proceeds to be received from such possible disposal by the Company would be lower than the consideration of HK$74 million because the selling price per China Pipe's share will be inevitably below HK$0.021. As a result, the Company will suffer a larger loss than the Disposal.

Concerning private placing, the company is unable to find investors at the extremely volatile and gloomy period from the end September to early October 2008.

ii) *The Company is unable to obtain refinancing for the repayment of the Loan; and the Lender exercises its right to sell off China Pipe's shares at its discretion*

The Directors represented that pursuant to Clause 7 of a share charge agreement entered into between the Company and the Lender on 15 July 2008, the Lender shall have the legal right to sell off China Pipe's shares to other party at its discretion. The Directors represented that it may not be a surprise if the consideration for the sale of the whole block of China Pipe' shares by the Lender may have a possibility of less than a few millions in such period of global financial crisis.

In such circumstance, the proceeds from the disposal by the Lender would not be sufficient to repay the remaining amount of the Loan. The Lender may sue the Company for such repayment or apply to the court for winding up the Company.

The Directors also confirmed that the Company does not have sufficient cash to repay all outstanding loan owed to the banks. As a result, the Company may be liquidated.

iii) *The entering into the Sale and Purchase Agreement with the clause for default interest of 60% per annum*

The Directors represented that despite of the global financial crisis situation and the Company's current situation, Independent Shareholders have the authority to approve / disapprove the Disposal at the EGM, which consequences could be quantified as:

The Disposal is not approved at the EGM

The Directors represented that the Company has to pay the default interest of approximately HK$12.0 million and to refund the deposit of HK$74 million.

As stated in the Letter from the Board, the amount of default interest payable to the Purchaser is HK$12.0 million representing approximately 16% of the Consideration. The Directors consider that such 16% basis is reasonable and is in line with market practice. The Directors noticed that in other similar share acquisitions, the deposit payable might amount to 10% of the aggregate consideration while the refund amount is 2 times of the deposit, which, if applied to the Disposal, would render the refund amount even greater. Further taking into account the difficulty to source alternative short term finance from any financial institutions under similar terms amid the current market conditions and that the default interest rate is legal under the laws of Hong Kong, the Directors (including the independent non-executive Directors) also consider that the rate of the default interest is fair and reasonable.

The Disposal is approved at the EGM

The Directors represented that the Company is not required to pay the default interest and achieve a highest selling price (i.e. HK$74 million) of China Pipe's shares among all the abovementioned scenarios. As a result, the Company will only suffer an ascertainable loss of HK$222 million from the investment.

e) Analysis of advantages and disadvantages of default interest arrangement by the Directors

(i) Advantage(s)

- The Company could have HK$74,000,000 to repay majority of the Loan immediately;
- The Company is able to lock in the loss to avoid further downfall of the share price of China Pipe; and
- The default interest does not deprive the Company from seeking an alternative financing arrangement and the Independent Shareholders the option to vote down the Disposal if given more time, till the time of EGM:

  (I) the share price of China Pipe could rise to a high level, justifying a substantial gain in comparing with the Disposal;

  (II) the Company might be able to negotiate a better deal for refinancing through another lender;

  (III) the Company could search for another purchaser for a better terms of disposal of China Pipe's shares than the Disposal at issue; and

(IV) a recovery of China Pipe's shares in the stock market to a higher level might allow a capital market transaction become possible.

(ii) Disadvantage(s)

If the Disposal is not approved by the Independent Shareholders at the EGM, the damage to the Company will be approximately HK$12.0 million for the default interest payment.

From the in-depth evaluation of the above, the Directors are of the view that it appears that the adoption of the said default interest arrangement is one of the best alternatives available to be selected by the Directors in view of the present unfavorable financial market condition.

The Directors represent that they will provide information concerning the progress for re-negotiation for refinancing and for the finding of a new purchaser for the Sale Shares at the EGM before voting takes place.

Having considered the above factors and representation from the directors, on an extremely delicate balance, we hold the view that it appears that the Disposal is fair and reasonable and to the interest of the Company and Shareholders as a whole in such unexpected, unforeseeable, unique and oblique global financial market crisis.

RECOMMENDATION

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

(i) the insufficient cash position of the Group;

(ii) the impact of global credit crunch and deleveraging leading to sharp fall of Hong Kong stock market and China Pipe's shares;

(iii) the relatively thin trading volume of China Pipe in the Review Period;

(iv) in view of the recent poor market sentiment of the financial market, it is reasonable to infer that the Consideration of the Sale Share of HK$0.02 is not unfair and unreasonable at time of entering the Sales and Purchase Agreement;

(v) the immediate need for the Company to repay the indebtedness;

(vi) the immediate accessibility to the Consideration of HK$74 million and the entire proceeds have been applied the reduction of indebtedness;

(vii) the said analysis of different disposal scenarios by the Directors concerning the default interest arrangement;

(viii) the default interest of 60% per annum, on an extremely delicate balance, is fair and reasonable and to the interest of the Company and Shareholders as a whole in such unexpected, unforeseeable, unique and oblique global financial market crisis; and

(ix) the Disposal would increase the unaudited pro forma net current assets of the Group by approximately HK$73 million to approximately HK$998.197 million from consolidated net current assets of HK$925.197 million of the Group as at 30 September 2008 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 Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Disposal, 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 Sale and Purchase 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
South China Capital Limited

William Ip
Director

Manfred Shiu
Director

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

1. ACCOUNTANTS' REPORT ON THE GROUP

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

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

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

2 January 2009

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

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Interchina Holdings Company Limited (the "Company") and its subsidiaries (herein collectively referred to as the "Group") set out in Section I and II below, for inclusion in the circular of the Company dated 2 January 2009 (the "Circular") in connection with the proposed disposal of 3,700,000,000 shares of HK$0.002 each in the capital of China Pipe Group Limited, a direct owned associate of the Company. The Financial Information comprises the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 March 2006, 2007, 2008 and 30 September 2008 and the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements for the years ended 31 March 2006, 2007 and 2008 and for the six months ended 30 September 2007 and 2008 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory notes.

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

As at the date of this report, the Company had direct and indirect interests in the principal subsidiaries and associates as set out in note 50 of section I below. The Company and its subsidiaries have adopted 31 March as their financial year end date, except for the subsidiaries incorporated in the People's Republic of China and the associate which adopted 31 December as their financial year end date. We have acted as auditors of the Company and have audited the consolidated financial statements of the Group for the Relevant Periods.

Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the audited consolidated financial statements of the Group for the years ended 31 March 2006, 2007, 2008 and for the six months ended 30 September 2008 on the basis set out in note 2 below. The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public of Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong.

Directors' responsibility for the Financial Information

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with the HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Reporting Accountants' responsibility

Our responsibility is to express an opinion on the Financial Information based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

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

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

Opinion

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006, 2007, 2008 and 30 September 2008 and of the results and cash flows of the Group for the periods then ended.

Comparative Financial Information

Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation of the unaudited financial information of the Group including the consolidated income statement, the consolidated statement of change in equity and the consolidated cash flow statement for the six months ended 30 September 2007 (the "Comparative Unaudited Financial Information"), together with the notes thereto.

For the Comparative Unaudited Financial Information, our responsibility is to express a conclusion on the Comparative Unaudited Financial Information based on our review and to report our conclusion to you. We concluded our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the Comparative Unaudited Financial Information is free from material misstatement. A review is limited primarily to inquire of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Conclusion

On the basis of the Comparative Unaudited Financial Information which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the consolidated results and cash flows of the Group for the six months ended 30 September 2007.

I. FINANCIAL INFORMATION OF THE GROUP

CONSOLIDATED INCOME STATEMENT

		For the year ended 31 March			For the six months ended 30 September	
		2006	2007	2008	2007	2008
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*	*(Restated)*	*(Restated)*	
					(Unaudited)	
Turnover	*8*	146,594	131,995	67,868	18,927	27,476
Cost of sales		(97,764)	(108,273)	(34,668)	(7,506)	(8,423)
Other revenue	*9*	623	1,868	5,148	1,547	964
Other operating income	*9*	–	1,448	443	–	–
Reversal of impairment of trade receivables		–	15,561	–	–	–
Interest income	*9*	14,984	22,864	38,015	19,927	19,935
Staff costs	*10*	(32,279)	(25,989)	(60,450)	(44,979)	(13,611)
Amortisation and depreciation		(5,029)	(5,200)	(3,306)	(1,513)	(1,760)
Selling costs		(16,690)	(13,952)	(9,961)	(8,774)	–
Administrative costs		(42,036)	(38,326)	(40,793)	(24,124)	(14,543)
Other operating expenses		(17,738)	–	–	–	–
Impairment loss recognised in respect of goodwill		–	–	–	–	(11,006)
Impairment loss recognised in respect of an associate		–	–	–	–	(225,146)
Impairment loss recognised in respect of properties under development for sale		–	–	–	–	(120,508)
Fair value change in derivative financial instruments		–	–	(1,500)	–	16,629
Fair value change in investment properties		1,008	4,439	36,835	–	(150,194)
Loss from operations	*11*	(48,327)	(13,565)	(2,369)	(46,495)	(480,187)
Finance costs	*12*	(26,135)	(36,453)	(28,200)	(14,775)	(13,676)
Share of results of associates		(9,473)	(6,164)	2,608	2,608	3,146
Gain on disposal of subsidiaries	*42*	237	48,448	8,360	8,360	–
Loss before taxation		(83,698)	(7,734)	(19,601)	(50,302)	(490,717)
Taxation	*13*	(9,150)	(9,073)	(21,120)	(3,619)	13,335
Loss for the year/period		(92,848)	(16,807)	(40,721)	(53,921)	(477,382)

		For the year ended 31 March			For the six months ended 30 September	
		2006	2007	2008	2007	2008
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*	*(Restated)*	*(Restated)*	
					(Unaudited)	
Attributable to:						
Ordinary equity holders of the Company		(92,803)	(18,252)	(39,762)	(53,546)	(477,302)
Minority interests		(45)	1,445	(959)	(375)	(80)
		(92,848)	(16,807)	(40,721)	(53,921)	(477,382)
Dividend		–	–	–	–	–
Loss per share for loss attributable to the equity holders of the Company (Hong Kong cents)						
Basic and diluted	*14*	1.856	0.323	0.402	0.766	2.381

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 March 2006 HK$'000 (Restated)	As at 31 March 2007 HK$'000 (Restated)	As at 31 March 2008 HK$'000 (Restated)	As at 30 September 2008 HK$'000
Non-current assets					
Investment properties	15	60,694	65,852	630,820	489,500
Interest in leasehold land and land use rights	16	75,722	38,638	41,938	43,093
Property, plant and equipment	17	511,970	307,487	239,849	252,068
Intangible assets	18	125,912	102,814	116,873	125,779
Other financial assets	19	172,062	295,411	350,098	352,943
Interests in associates	21	83,448	77,419	–	74,000
Goodwill	22	2,846	2,846	11,006	–
Other non-current assets	23	2,466	2,412	2,401	2,394
		1,035,120	892,879	1,392,985	1,339,777
Current assets					
Properties under development for sale	24	277,974	348,527	607,714	532,184
Inventories	25	–	–	844	891
Trade and other receivables and prepayments	26	140,835	206,668	735,907	712,914
Loan receivables	27	–	–	61,899	121,711
Financial assets at fair value through profit or loss	28	172	169	98	64
Tax recoverable		654	–	–	–
Bank balances – trust and segregated accounts	29	5,277	86,410	4,346	4,649
Cash and cash equivalents	30	16,894	159,430	30,193	24,643
		441,806	801,204	1,441,001	1,397,056
Current liabilities					
Trade and other payables and deposits received	31	292,192	433,592	257,349	247,028
Amount due to a related company	32	450	444	78,564	–
Tax payable		5	382	2,297	3,130
Derivative financial instruments	33	–	–	22,736	1,079
Bank borrowings – due within one year	34	155,402	143,495	100,357	120,005
Other borrowings – due within one year	34	65,203	–	–	100,617
Obligations under finance leases – due within one year	35	67	69	–	–
		513,319	577,982	461,303	471,859
Net current (liabilities)/assets		(71,513)	223,222	979,698	925,197
Total assets less current liabilities		963,607	1,116,101	2,372,683	2,264,974

		As at 31 March			As at 30 September
		2006	2007	2008	2008
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*	*(Restated)*	
Equity					
Share capital	*38*	558,492	665,190	1,728,619	2,028,619
Share premium and reserves		186,287	192,584	394,369	(23,354)
Equity attributable to ordinary equity holders of the Company		744,779	857,774	2,122,988	2,005,265
Minority interests		22,872	25,488	9,312	9,232
		767,651	883,262	2,132,300	2,014,497
Non-current liabilities					
Bank borrowings – due after one year	*34*	145,926	209,674	199,631	222,829
Other borrowings – due after one year	*34*	40,000	–	–	–
Obligations under finance leases – due after one year	*35*	210	141	–	–
Convertible notes	*36*	–	4,587	–	–
Deferred tax liabilities	*37*	9,820	18,437	40,752	27,648
		195,956	232,839	240,383	250,477
		963,607	1,116,101	2,372,683	2,264,974

BALANCE SHEET

	Notes	As at 31 March 2006 HK$'000	As at 31 March 2007 HK$'000	As at 31 March 2008 HK$'000	As at 30 September 2008 HK$'000
Non-current assets					
Property, plant and equipment	17	1,585	581	–	–
Interest in subsidiaries	20	412,184	412,184	873,249	849,836
Interests in associates	21	68,705	45,008	–	74,000
Other non-current assets	23	380	380	380	380
		482,854	458,153	873,629	924,216
Current assets					
Trade and other receivables and prepayments	26	76,849	60,301	181,309	18,773
Amount due from subsidiaries	20	780,152	704,219	1,130,627	1,253,037
Cash and cash equivalents	30	38	88,570	110	17
		857,039	853,090	1,312,046	1,271,827
Current liabilities					
Trade and other payables and deposits received	31	14,254	3,355	6,845	7,701
Amount due to subsidiaries	20	644,548	568,979	349,540	309,255
Amount due to a related company	32	450	444	78,564	–
Derivative financial instruments	33	–	–	22,736	1,079
Other borrowings – due within one year	34	–	–	–	100,617
		659,252	572,778	457,685	418,652
Net current assets		197,787	280,312	854,361	853,175
Total assets less current liabilities		680,641	738,465	1,727,990	1,777,391
Equity					
Share capital	38	558,492	665,190	1,728,619	2,028,619
Share premium and reserves	39	82,149	68,615	(629)	(251,228)
		640,641	733,805	1,727,990	1,777,391
Non-current liabilities					
Convertible notes	36	–	4,587	–	–
Other borrowings – due after one year	34	40,000	–	–	–
Deferred tax liabilities	37	–	73	–	–
		40,000	4,660	–	–
		680,641	738,465	1,727,990	1,777,391

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The Group	Equity attributable to ordinary equity holders of the Company								Minority interests	Total equity
	Share capital	Share premium	Special reserve	Share options reserve	Exchange reserve	Convertible notes reserve	Accumulated losses	Sub-total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 March 2006, 2007, 2008										
At 1 April 2005, as previously reported	468,492	282,459	571,996	–	1,040	–	(630,577)	693,410	22,483	715,893
Effect on adoption of new accounting policy – HK(IFRIC) – Int 12	–	–	–	–	–	–	41,259	41,259	–	41,259
At 1 April 2005, as restated	468,492	282,459	571,996	–	1,040	–	(589,318)	734,669	22,483	757,152
Exchange differences on translation of overseas subsidiaries	–	–	–	–	12,631	–	–	12,631	434	13,065
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	–	–	–	–	–	–	(92,803)	(92,803)	(45)	(92,848)
At 31 March 2006 and 1 April 2006	558,492	282,741	571,996	–	13,671	–	(682,121)	744,779	22,872	767,651
Exchange differences on translation of overseas subsidiaries	–	–	–	–	23,959	–	–	23,959	1,171	25,130
Net loss for the year	–	–	–	–	–	–	(18,252)	(18,252)	1,445	(16,807)
Issue of convertible notes	–	–	–	–	–	10,303	–	10,303	–	10,303
Recognition of deferred tax for convertibles notes	–	–	–	–	–	(124)	–	(124)	–	(124)
Conversion of convertible notes	106,698	–	–	–	–	(9,589)	–	97,109	–	97,109
At 31 March 2007 and 1 April 2007	665,190	282,741	571,996	–	37,630	590	(700,373)	857,774	25,488	883,262
Exchange differences on translation of overseas subsidiaries	–	–	–	–	151,954	–	–	151,954	–	151,954
Net loss for the year	–	–	–	–	–	–	(39,762)	(39,762)	(959)	(40,721)
Issue of new shares	270,000	–	–	–	–	–	–	270,000	–	270,000
Issue of share options	–	–	–	32,986	–	–	–	32,986	–	32,986
Exercise of share options	37,149	43,605	–	(26,516)	–	–	–	54,238	–	54,238
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(13,497)	(13,497)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	(1,720)	(1,720)
Issue of convertible notes	–	–	–	–	–	288,269	–	288,269	–	288,269
Recognition of deferred tax for convertibles notes	–	–	–	–	–	(90)	–	(90)	–	(90)
Conversion of convertible notes	756,280	40,108	–	–	–	(288,769)	–	507,619	–	507,619
At 31 March 2008	1,728,619	366,454	571,996	6,470	189,584	–	(740,135)	2,122,988	9,312	2,132,300

The Group	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Share options reserve HK$'000	Exchange reserve HK$'000	Convertible notes reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total equity HK$'000
	Equity attributable to ordinary equity holders of the Company									
For the six months ended 30 September 2008										
At 1 April 2008	1,728,619	366,454	571,996	6,470	189,584	–	(740,135)	2,122,988	9,312	2,132,300
Exchange differences on translation of overseas subsidiaries	–	–	–	–	54,551	–	–	54,551	–	54,551
Net loss for the period	–	–	–	–	–	–	(477,302)	(477,302)	(80)	(477,382)
Issue of convertible notes	–	–	–	–	–	32,027	–	32,027	–	32,027
Recognition of deferred tax for convertibles notes	–	–	–	–	–	(5,284)	–	(5,284)	–	(5,284)
Conversion of convertible notes	300,000	5,028	–	–	–	(26,743)	–	278,285	–	278,285
At 30 September 2008	2,028,619	371,482	571,996	6,470	244,135	–	(1,217,437)	2,005,265	9,232	2,014,497
For the six months ended 30 September 2007 (Unaudited)										
At 1 April 2007	665,190	282,741	571,996	–	37,630	590	(700,373)	857,774	25,488	883,262
Exchange differences on translation of overseas subsidiaries	–	–	–	–	29,192	–	–	29,192	–	29,192
Net loss for the period	–	–	–	–	–	–	(53,546)	(53,546)	(375)	(53,921)
Issue of share options	–	–	–	32,986	–	–	–	32,986	–	32,986
Exercise of share options	29,449	34,603	–	(21,057)	–	–	–	42,995	–	42,995
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(13,896)	(13,896)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	(1,720)	(1,720)
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
At 30 September 2007	800,919	356,372	571,996	11,929	66,822	–	(753,669)	1,054,369	9,497	1,063,866

CONSOLIDATED CASH FLOW STATEMENT

	For the year ended 31 March			For the six months ended 30 September	
	2006	2007	2008	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	*(Restated)*	*(Restated)*	*(Restated)* *(Unaudited)*	
OPERATING ACTIVITIES					
Loss before taxation	(83,698)	(7,734)	(19,601)	(50,302)	(490,717)
Adjustment for:					
Depreciation of property, plant and equipment	3,434	3,525	2,198	1,183	1,427
Amortisation of interests in leasehold land and land use rights	1,595	1,675	607	302	333
Fair value change in investment properties	(1,008)	(4,439)	(36,835)	–	150,194
Impairment of trade receivables	17,738	–	–	–	–
Impairment of interest in associates	–	–	–	–	225,146
Impairment of goodwill	–	–	–	–	11,006
Impairment of property under development held for sale	–	–	–	–	120,508
Loss/(gain) on disposal of property, plant and equipment	40	(118)	5	–	–
Loss on derivative financial instruments	–	–	1,301	–	–
Fair value change in derivate financial instruments	–	–	1,500	–	(16,629)
Written-off of property, plant and equipment	–	–	640	–	–
Gain on disposal of subsidiaries	(237)	(48,448)	(8,360)	(8,360)	–
Share of results of associates	9,473	6,164	(2,608)	(2,608)	(3,146)
Share-based payment expenses	–	–	32,986	32,986	–
Discount on acquisition of a subsidiary	–	–	(443)	–	–
Interest income	(14,984)	(22,864)	(38,015)	(19,927)	(19,935)
Interest expenses	26,135	36,153	28,200	14,474	13,676
Operating cash flows before movements in working capital	(41,512)	(36,086)	(38,425)	(32,252)	(8,137)
Increase in properties under development held for sale	(2,143)	(56,514)	(107,407)	(32,059)	(24,022)
Increase in other financial assets	(26,889)	(140,322)	(30,155)	(19,246)	(2,845)
(Increase)/decrease in intangible assets	(4,674)	23,098	(14,059)	(3,911)	(8,906)
Decrease/(increase) in inventories	–	–	80	(821)	(47)
Decrease/(increase) in loan receivables	8,200	–	(61,899)	80,479	(59,812)
(Increase)/decrease in trade and other receivables and prepayment	(77,024)	(89,462)	(476,843)	(36,930)	22,993
Decrease/(increase) in amount due from an associates	4,822	(873)	(249,016)	–	–
(Increase)/decrease in financial assets at fair value through profit and loss	(18)	3	71	(17)	34
Decrease/(increase) in bank trust and segregated accounts	3,347	(81,134)	82,064	–	(303)
Decrease in construction contract under progress	3,266	–	–	–	–
(Decrease)/increase in trade and other payables and deposits received	(9,384)	259,671	(175,445)	(161,496)	(10,321)
(Decrease)/increase in amount due to a related company	(40,105)	(6)	78,120	280,480	(78,564)
Cash (used in)/generated from operations	(182,114)	(121,625)	(992,914)	74,227	(169,930)
Profits tax refund/(paid)	7,937	8,664	14,671	(133)	1,063
Interest received	14,984	22,864	38,015	19,927	19,935

	For the year ended 31 March			For the six months ended 30 September	
	2006	2007	2008	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	*(Restated)*	*(Restated)*	*(Restated)* *(Unaudited)*	
Net cash (used in)/generated from operating activities	(159,193)	(90,097)	(940,228)	94,021	(148,932)
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(20,406)	(23,739)	(64,008)	(47,684)	(5,553)
Proceeds on disposal of property, plant and equipment	23	203	8,062	388	47
Acquisition of a subsidiary	–	–	(118,396)	(256,831)	–
Acquisition of an associate	–	–	–	–	(296,000)
Proceeds on disposal of subsidiaries	131,233	254,073	31,421	8,536	–
Net refund in non-current assets	362	54	11	–	7
Net cash generated from/(used in) investing activities	111,212	230,591	(142,910)	(295,591)	(301,499)
FINANCING ACTIVITIES					
Interest paid	(20,094)	(19,359)	(27,269)	(14,474)	(13,676)
New bank loan raised	28,846	78,788	–	6,842	37,447
New other loan raised	–	–	–	30,000	103,164
Repayment of obligations under finance leases	(64)	(66)	(210)	(34)	–
Repayment of bank loans	(25,991)	(125,483)	(53,181)	(53,809)	(2,548)
Repayment of other loans	(65,000)	(40,000)	–	–	(3,984)
Issue of new shares	–	–	270,000	–	–
Issue of new shares under the share options	–	–	54,238	42,995	–
Proceeds from issue of convertible note options	–	–	20,000	–	–
Proceeds from issue of convertible notes	90,000	111,698	650,000	140,381	300,000
Net cash generated from financing activities	7,697	5,578	913,578	151,901	420,403
Net (decrease)/increase in cash and cash equivalents	(40,284)	146,072	(169,560)	(49,669)	(30,028)
Cash and cash equivalents at the beginning of the year/period	55,737	16,894	159,430	159,430	30,193
Effect of foreign exchange rate changes	1,441	(3,536)	40,323	9,662	24,478
Cash and cash equivalent at the end of the year/period	16,894	159,430	30,193	119,423	24,643
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	22,171	245,840	34,539	125,354	29,292
Less: Bank balances – trust and segregated accounts	(5,277)	(86,410)	(4,346)	(5,931)	(4,649)
	16,894	159,430	30,193	119,423	24,643

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries are principally engaged in environmental protection and water treatment operation, city development and investment operation, property investment operation and securities and financial operation. Details of the principal activities of its subsidiaries are set out in note 50 to the Financial Information.

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

2. BASIS OF PREPARATION

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

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

The preparation of the Financial Information in conformity with HKFRSs requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant are set out in note 6 to the Financial Information.

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

The HKICPA has issued a number of new and revised HKFRSs which are effective during the Relevant Periods. For the purpose of preparing and presenting the Financial Information, the Group has consistently applied all these new HKFRSs throughout the Relevant Periods.

The following set out information on the significant changes in accounting policies for the Relevant Periods reflected in the Financial Information.

As a result of the adoption of HKFRS 7, the Financial Information include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout the Financial Information, in particular in note 49.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 49.

The following sets out further information on the adoption of HK(IFRIC) – Int 12 for the Relevant Periods reflected in the Financial Information.

(a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of HK(IFRIC) – Int 12 to each of the line items in the consolidated income statements and the consolidated balance sheets as previously reported for the year ended 31 March 2006, 2007 and 2008.

Effects on the consolidated income statement for the year ended 31 March 2006

	2006 (as previously reported)	Effects of HK(IFRIC) – Int 12 increase/ (decrease)	2006 (as restated)
	HK$'000	*HK$'000*	*HK$'000*
Turnover	134,740	11,854	146,594
Cost of sales	(88,445)	(9,319)	(97,764)
Interest income	421	14,563	14,984
Amortisation and depreciation	(12,821)	7,792	(5,029)
Taxation	(937)	(8,213)	(9,150)
Minority interests	(1,213)	1,168	(45)
	31,745	17,845	49,590

Effects on the consolidated balance sheet as at 31 March 2006

	2006 (as previously reported)	Effects of HK(IFRIC) – Int 12 increase/ (decrease)	2006 (as restated)
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Property, plant and equipment	750,413	(238,443)	511,970
Intangible assets	–	125,912	125,912
Other financial assets	–	172,062	172,062
	750,413	59,531	809,944
Equity and liabilities			
Reserves	128,799	57,488	186,287
Minority interests	21,704	1,168	22,872
Deferred tax liabilities	1,607	8,213	9,820
Trade and other payables and deposits received	299,530	(7,338)	292,192
	451,640	59,531	511,171

Effects on the consolidated income statement for the year ended 31 March 2007

	2007 (as previously reported)	**Effects of HK(IFRIC) – Int 12 increase/ (decrease)**	**2007 (as restated)**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	33,213	98,782	131,995
Cost of sales	(4,934)	(103,339)	(108,273)
Interest income	4,881	17,983	22,864
Amortisation and depreciation	(13,178)	7,978	(5,200)
Taxation	(2,010)	(7,063)	(9,073)
Minority interests	442	1,003	1,445
	18,414	15,344	33,758

Effects on the consolidated balance sheet as at 31 March 2007

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

Effects on the consolidated income statement for the six months ended 30 September 2007 (Unaudited)

	Six months ended 30 September 2007 (as previously reported)	Effects of HK(IFRIC) – Int 12 increase/ (decrease)	Six months ended 30 September 2007 (as restated)
	HK$'000	*HK$'000*	*HK$'000*
Turnover	25,644	(6,717)	18,927
Cost of sales	(2,728)	(4,778)	(7,506)
Interest income	3,196	16,731	19,927
Amortisation and depreciation	(5,629)	4,116	(1,513)
Taxation	(535)	(3,084)	(3,619)
Minority interests	(668)	293	(375)
	19,280	6,561	25,841

Effect on the consolidated income statement for the year ended 31 March 2008

	2008 (as previously reported)	Effects of HK(IFRIC) – Int 12 increase/ (decrease)	2008 (as restated)
	HK$'000	*HK$'000*	*HK$'000*
Turnover	68,739	(871)	67,868
Cost of sales	(11,532)	(23,136)	(34,668)
Interest income	2,876	35,139	38,015
Amortisation and depreciation	(11,593)	8,287	(3,306)
Taxation	(14,712)	(6,408)	(21,120)
Minority interests	(1,251)	292	(959)
	32,527	13,303	45,830

Effects on the consolidated balance sheet as at 31 March 2008

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

(b) Effects of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and the consolidated balance sheet for the six months ended 30 September 2008 is higher or lower than it would have been had the previous policies still been applied in the current period, where it is practicable make such estimates.

Effects on the consolidated income statement for the six months ended 30 September 2008

	Effects of HK(IFRIC) – Int 12 increase/ (decrease)
	HK$'000
Turnover	(14,570)
Cost of sales	(2,252)
Interest income	19,759
Amortisation and depreciation	12,250
Taxation	(3,797)
	11,390

Effects on the consolidated balance sheet at 30 September 2008

	Effect of HK(IFRIC) – Int 12 increase/ (decrease)
	HK$'000
Assets	
Property, plant and equipment	(376,828)
Intangible assets	125,779
Other financial assets	352,943
	101,894
Equity and liabilities	
Reserves	89,267
Minority interests	2,463
Deferred tax liabilities	(24,854)
Trade and other payables and deposits received	35,018
	101,894

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

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

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

As a result, the Group accounts for revenue and costs in accordance with HKAS 11 "Construction Contracts" for the construction and upgrade services of the plant and to account for the fair value of consideration received and receivable for the construction and upgrade services as an intangible asset in accordance with HKAS 38 "Intangible Assets", to the extent that the operator receives a right (a licence) to charge users of the public service, which amounts are contingent on the extent that the public uses the service or a financial asset in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement". In addition, the operator accounts for the services in relation to the operation of the plant in accordance with HKAS 18 "Revenue".

Considerations received or receivable by the Group for the water treatment operation are recognised at their fair values as financial assets. For financial assets recognised, they are reduced when payments, being a portion of the sewage water processing revenue. Finance income on the financial assets is recognised using an estimate of the service concession grantors' incremental borrowing rate of interest. For intangible asset recognised, it is amortised on a straight-line basis over its estimated useful life.

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

The new accounting policy has been applied retrospectively with comparatives restated. The adjustments for each line of the Financial Information affected for accounting periods beginning on 1 April 2005, 2006, 2007 and 2008 are set out in notes 3(a) and 3(b).

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

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

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

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
[5] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual period beginning on or after 1 July 2009

The directors of the Company are currently assessing the impact of the adoption of the above new or amended HKFRSs in future period but are not yet in a position to state whether they would have a significant impact on the Group's results and financial position.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

(i) Subsidiaries

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

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

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

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.

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

(ii) Associates

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

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

The most recent available financial statements of the associate are used by the Group in applying the equity method. When financial statements with a different reporting date are used, adjustments are made for the effects of any significant events or transactions between the Group and the associates that occur between the date of the associate's financial statements and the date of the Group's financial statements. The difference between the reporting date of the associate and that of the Group shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.

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

Revenue recognition

(i) Rental income

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

(ii) Commission and brokerage income

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

(iii) Revenue from construction services

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

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

(iv) Sewage treatment income

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

(v) Finance income

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

(vi) Interest income

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

(vii) Dividend income

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

Property, plant and equipment

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

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

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

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

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

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

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

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

Investment properties

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

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

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

Intangible asset

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

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

Interests in leasehold land and land use rights

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

Impairment of assets

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment losses

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

Impairment of financial assets

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

(i) Assets carried at amortised cost

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

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

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

(ii) Assets carried at cost

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

Taxation

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the 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 as a separate intangible asset.

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

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

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

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

Trade and other receivables

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

Cash and cash equivalents

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

Provision

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

Other non-current assets

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

Financial Instruments

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

Financial assets

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

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables (including advance to associates, advance to an investee company, loan receivables, pledged deposits, securities trading receivables and deposits, time deposits, bank balances and cash) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

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

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

Financial liabilities and equity

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

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

Other financial liabilities including creditors and accruals, securities trading and margin payables, deposits and receipts in advance, bank and other borrowings, 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 the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (convertible notes reserve – equity reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes reserve – equity reserve until the conversion option is exercised (in which case the balance stated in convertible notes – equity reserve will be transferred to share capital and share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible notes reserve – equity reserve will be released to the retained profits. No gain or loss is recognised in the income statement upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to convertible notes reserve – equity reserve. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Equity instruments

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

Financial guarantee contracts

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

Derivative financial instruments that do not qualify for hedge accounting

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

Derecognition

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

Properties under development for sale

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

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 capitalized at their fair value at the date of acquisition. The corresponding liability, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease or contract so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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

Borrowings

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

Borrowing costs

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

Operating leases

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

Retirement benefits costs

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

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

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.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Estimated impairment of goodwill

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy stated in note 5. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

Estimate of fair value of investment properties

As described in note 5, the investment properties were revalued at the balance sheet date on market value existing use basis by independent professional valuers. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgment, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions at each balance sheet date.

Impairment of properties under development

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

Useful lives of property, plant and equipment

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

Trade debtors

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

Fair values of other financial assets and liabilities

The fair values of loans and receivables financial assets and financial liabilities are accounted for or disclosed in the consolidated 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 consolidated financial statements.

Construction contracts

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

Service concession arrangements

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

7. SEGMENT INFORMATION

Business segments

For management purposes, the Group is organised into four operating divisions, namely environmental protection and water treatment operation, 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 tables provide an analysis of the Group's sales by its business segments:

For the year ended 31 March 2006	Environmental protection and water treatment operation HK$'000 (Restated)	City development and investment operation HK$'000	Property investment operation HK$'000	Securities and financial operation HK$'000	Elimination HK$'000	Consolidated total HK$'000 (Restated)
TURNOVER						
External sales	70,122	66,779	3,724	5,969	–	146,594
Inter-segment sales	–	–	1,023	–	(1,023)	–
Finance income	14,563	–	–	–	–	14,563
	84,685	66,779	4,747	5,969	(1,023)	161,157
SEGMENT RESULTS	21,853	(36,129)	2,571	(2,694)	–	(14,399)
Unallocated interest income						421
Unallocated corporate expenses						(34,349)
Loss from operations						(48,327)
Finance costs						(26,135)
Gain on disposal of subsidiaries						237
Share of results of associates						(9,473)
Loss before taxation						(83,698)
Taxation						(9,150)
Loss for the year						(92,848)
Assets/liabilities						
Segment assets	323,298	907,177	107,866	27,940	–	1,366,281
Interests in associates	840	–	82,608	–	–	83,448
Unallocated corporate assets						27,197
Total assets						1,476,926
Segment liabilities	65,419	222,219	4,748	18,031	–	310,417
Unallocated corporate liabilities						398,858
Total liabilities						709,275
Other segment information						
Depreciation and amortization	1,054	2,725	298	243	–	4,320
Unallocated amounts						709
						5,029
Capital expenditure	145	16,858	1,162	40	–	18,205
Unallocated amounts						1,846
						20,051
Fair value gain/(loss) in investment properties	–	–	1,008	–	–	1,008
Impairment loss recognised in the consolidated income statement	–	17,738	–	–	–	17,738

For the year ended 31 March 2007	Environmental protection and water treatment operation *HK$'000* *(Restated)*	City development and investment operation *HK$'000*	Property investment operation *HK$'000*	Securities and financial operation *HK$'000*	Elimination *HK$'000*	Consolidated total *HK$'000* *(Restated)*
TURNOVER						
External sales	124,000	–	2,968	5,027	–	131,995
Inter-segment sales	–	–	426	–	(426)	–
Finance income	17,983	–	–	–	–	17,983
	141,983	–	3,394	5,027	(426)	149,978
SEGMENT RESULTS	21,250	(19,504)	6,299	(1,301)	–	6,744
Unallocated interest income						4,881
Unallocated corporate expenses						(25,190)
Loss from operations						(13,565)
Finance costs						(36,453)
Gain on disposal of subsidiaries						48,448
Share of results of associates						(6,164)
Loss before taxation						(7,734)
Taxation						(9,073)
Loss for the year						(16,807)
Assets/liabilities						
Segment assets	450,152	739,907	50,871	240,508	–	1,481,438
Interests in associates	888	–	76,531	–	–	77,419
Unallocated corporate assets						135,226
Total assets						1,694,083
Segment liabilities	100,518	246,260	3,731	183,803	–	534,312
Tax liability						382
Unallocated corporate liabilities						276,127
Total liabilities						810,821
Other segment information						
Depreciation and amortisation	1,150	2,493	206	55	–	3,904
Unallocated amounts						1,296
						5,200
Capital expenditure	33	22,580	–	60	–	22,673
Unallocated amounts						1,086
						23,759
Fair value gain/(loss) in investment properties	–	–	4,439	–	–	4,439

For the year ended 31 March 2008	Environmental protection and water treatment operation *HK$'000* *(Restated)*	City development and investment operation *HK$'000*	Property investment operation *HK$'000*	Securities and financial operation *HK$'000*	Elimination *HK$'000*	Consolidated total *HK$'000* *(Restated)*
TURNOVER						
External sales	36,099	–	18,107	13,662	–	67,868
Finance income	35,139	–	–	–	–	35,139
	71,238	–	18,107	13,662	–	103,007
SEGMENT RESULTS	34,584	(20,640)	48,348	2,587	–	64,879
Unallocated interest income						2,876
Unallocated corporate expenses						(70,124)
Loss from operations						(2,369)
Finance costs						(28,200)
Gain on disposal of subsidiaries						8,360
Share of results of associates						2,608
Loss before taxation						(19,601)
Taxation						(21,120)
Loss for the year						(40,721)
Assets/liabilities						
Segment assets	959,380	900,112	662,756	122,701	–	2,644,949
Unallocated corporate assets						189,037
Total assets						2,833,986
Segment liabilities	92,590	155,779	9,690	12,271	–	270,330
Tax liabilities						19,900
Unallocated corporate liabilities						411,456
Total liabilities						701,686
Other segment information						
Depreciation and amortisation	514	1,972	700	120	–	3,306
Capital expenditure	3,782	131,065	631	231	–	135,709
Unallocated amounts						2,193
						137,902
Fair value gain/(loss) in investment properties	–	–	36,835	–	–	36,835

For the six months ended 30 September 2008	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	9,485	–	8,049	9,942	–	27,476
Finance income	19,759	–	–	–	–	19,759
	29,244	–	8,049	9,942	–	47,235
SEGMENT RESULTS	16,764	(125,651)	(143,788)	7,597	–	(245,078)
Unallocated interest income						176
Unallocated corporate expenses						(235,285)
Loss from operations						(480,187)
Finance costs						(13,676)
Share of results of associates						3,146
Loss before taxation						(490,717)
Taxation						13,335
Loss for the period						(477,382)
Assets/liabilities						
Segment assets	1,050,667	924,304	523,687	144,728	–	2,643,386
Interests in associates						74,000
Unallocated corporate assets						19,447
Total assets						2,736,833
Segment liabilities	19,830	163,337	20,280	10,908	–	214,355
Unallocated corporate liabilities						480,333
Tax liabilities						27,648
Total liabilities						722,336
Other segment information						
Depreciation and amortisation	646	632	103	66	–	1,447
Unallocated amounts						313
						1,760
Capital expenditure	8,559	662	17	–	–	9,238
Unallocated amounts						28
						9,266
Fair value gain/(loss) in investment properties	–	–	(150,194)	–	–	(150,194)
Impairment loss recognised in respect of properties under development held for sale	–	120,508	–	–	–	120,508
Unallocated impairment loss recognised in respect of an associate						225,146
						345,654

For the six months ended 30 September 2007 (unaudited)	Environmental protection and water treatment operation *HK$'000* *(Restated)*	City development and investment operation *HK$'000*	Property investment operation *HK$'000*	Securities and financial operation *HK$'000*	Elimination *HK$'000*	Consolidated total *HK$'000* *(Restated)*
TURNOVER						
External sales	9,250	–	4,956	4,721	–	18,927
Finance income	16,731	–	–	–	–	16,731
	25,981	–	4,956	4,721	–	35,658
SEGMENT RESULTS	10,453	(16,728)	1,993	1,671	–	(2,611)
Unallocated interest income						3,196
Unallocated corporate expenses						(47,080)
Loss from operations						(46,495)
Finance costs						(14,775)
Gain on disposal of subsidiaries						8,360
Share of results of associates						2,608
Loss before taxation						(50,302)
Taxation						(3,619)
Loss for the period						(53,921)
Assets/liabilities						
Segment assets	641,331	800,410	401,798	55,751	–	1,899,290
Unallocated corporate assets						70,659
Total assets						1,969,949
Segment liabilities	69,559	177,413	14,618	24,496	–	286,086
Unallocated corporate liabilities						619,527
Tax liabilities						474
Total liabilities						906,087
Other segment information						
Depreciation and amortisation	300	693	103	51	–	1,147
Unallocated amounts						366
						1,513
Capital expenditure	604	39,713	–	214	–	40,531
Unallocated amounts						2,137
						42,668

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 *HK$'000*	**The PRC** *HK$'000* *(Restated)*	**Consolidated total** *HK$'000* *(Restated)*
For the year ended 31 March 2006			
Turnover			
External sales	6,419	140,175	146,594
Finance income	–	14,563	14,563
	6,419	154,738	161,157
Segment results	(3,666)	(10,733)	(14,399)
Unallocated interest income			421
Unallocated corporate expenses			(34,349)
Loss from operations			(48,327)
For the year ended 31 March 2007			
Turnover			
External sales	5,567	126,428	131,995
Finance income	–	17,983	17,983
	5,567	144,411	149,978
Segment results	(263)	7,007	6,744
Unallocated interest income			4,881
Unallocated corporate expenses			(25,190)
Loss from operations			(13,565)
For the year ended 31 March 2008			
Turnover			
External sales	14,203	53,665	67,868
Finance income	–	35,139	35,139
	14,203	88,804	103,007
Segment results	236	64,643	64,879
Unallocated interest income			2,876
Unallocated corporate expenses			(70,124)
Loss from operations			(2,369)

	Hong Kong *HK$'000*	The PRC *HK$'000* *(Restated)*	Consolidated total *HK$'000* *(Restated)*
For the six months ended 30 September 2008			
Turnover			
External sales	10,212	17,264	27,476
Finance income	–	19,759	19,759
	10,212	37,023	47,235
Segment results	5,861	(250,939)	(245,078)
Unallocated interest income			176
Unallocated corporate expenses			(235,285)
Loss from operations			(480,187)
For the six months ended 30 September 2007 (unaudited)			
Turnover			
External sales	4,991	13,936	18,927
Finance income	–	16,731	16,731
	4,991	30,667	35,658
Segment results	1,478	(4,089)	(2,611)
Unallocated interest income			3,196
Unallocated corporate expenses			(47,080)
Loss from operations			(46,495)

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 *HK$'000*	The PRC *HK$'000*	Consolidated total *HK$'000*
As at 31 March 2006			
Carrying amounts of segment assets	194,741	1,282,185	1,476,926
Additions to property, plant and equipment, investment properties and intangible assets	1,431	18,620	20,051
As at 31 March 2007			
Carrying amounts of segment assets	448,578	1,245,505	1,694,083
Additions to property, plant and equipment, investment properties and intangible assets	1,146	22,613	23,759
As at 31 March 2008			
Carrying amounts of segment assets	364,769	2,469,217	2,833,986
Additions to property, plant and equipment, investment properties and intangible assets	2,424	135,478	137,902
As at 30 September 2008			
Carrying amounts of segment assets	485,519	2,251,314	2,736,833
Additions to property, plant and equipment, investment properties and intangible assets	141	9,125	9,266

8. TURNOVER

Turnover represents the amount received and receivable for interest income on financial assets, property rental and management fee, commission income generated from securities and commodities broking, interest income from clients, sewage treatment income and revenue from construction service, for the Relevant Periods, and are analysed as follows:

	For the year ended 31 March			**For the six months ended 30 September**	
	2006	**2007**	**2008**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	*(Restated)*	*(Restated)*	*(Restated)*	
				(Unaudited)	
Sale of properties	35,836	–	–	–	–
Sale of land	66,779	–	–	–	–
Property rental and management fee	3,724	2,968	18,107	4,956	8,049
Brokerage commission income	5,263	4,024	9,562	3,954	2,309
Interest income from client	706	1,003	4,100	767	7,634
Sewage treatment income	10,550	10,403	13,811	4,038	7,561
Revenue from construction service	23,736	113,597	22,288	5,212	1,923
	146,594	131,995	67,868	18,927	27,476

9. OTHER REVENUE, OTHER OPERATING INCOME AND INTEREST INCOME

	For the year ended 31 March			For the six months ended 30 September	
	2006	**2007**	**2008**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	*(Restated)*	*(Restated)*	*(Restated)* *(Unaudited)*	
Other revenue:					
Dividend income	5	5	5	4	3
Technical consultancy service income	66	–	2,934	–	–
Sundry income	552	1,863	2,209	1,543	961
	623	1,868	5,148	1,547	964
Other operating income:					
Discount on acquisition	–	–	443	–	–
Compensation from termination of disposal contract	–	1,448	–	–	–
	–	1,448	443	–	–
Interest income:					
Interest income	421	4,881	2,876	3,196	176
Finance income	14,563	17,983	35,139	16,731	19,759
	14,984	22,864	38,015	19,927	19,935

10. STAFF COSTS

	For the year ended 31 March			For the six months ended 30 September	
	2006	**2007**	**2008**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries and allowance (including directors' remuneration)	30,455	24,516	25,843	10,912	12,481
Retirement benefit scheme contributions	1,824	1,473	1,621	1,081	1,130
Share-based payment expenses (note 40)	–	–	32,986	32,986	–
	32,279	25,989	60,450	44,979	13,611

(a) Directors' emoluments

The aggregate amount of emoluments payable to the directors of the Company for the year ended 31 March 2006, 2007, 2008 and the six months ended 30 September 2007 and 2008 were HK$11,066,000 HK$10,327,000 HK$29,454,000, HK$5,190,000 and HK$5,504,000 respectively.

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

	Directors' fees	Salaries and benefits-in -kind	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 March 2006				
Executive directors				
Zhang Yang	200	3,900	120	4,220
Chan Wing Yuen, Hubert	200	2,455	66	2,721
Lam Cheung Shing, Richard	200	1,635	90	1,925
	600	7,990	276	8,866
Non-executive director				
Hui Ho Ming, Herbert (Retired on 26 August 2006)	600	–	–	600
	1,200	7,990	276	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)	600	–	–	600
Wong Hon Sum	200	–	–	200
Ha Ping	200	–	–	200
	1,600	–	–	1,600
	2,800	7,990	276	11,066

	Directors' fees *HK$'000*	Salaries and benefits-in-kind *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
For the year ended 31 March 2007				
Executive directors				
Zhang Yang	200	3,900	120	4,220
Chan Wing Yuen, Hubert	200	2,746	120	3,066
Lam Cheung Shing, Richard	200	1,831	90	2,121
	600	8,477	330	9,407
Non-executive director				
Hui Ho Ming, Herbert (Retired on 26 August 2006)	250	–	–	250
	850	8,477	330	9,657
Independent non-executive directors				
Wu Wai Chung, Michael (Retired on 26 August 2006)	150	–	–	150
Wong Hon Sum	200	–	–	200
Ha Ping	200	–	–	200
Tang Tin Sek (Appointed on 26 August 2006)	120	–	–	120
	670	–	–	670
	1,520	8,477	330	10,327

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

	Directors' fees HK$'000	Salaries and benefits-in-kind HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
For the six months ended 30 September 2007 (unaudited)				
Executive directors				
Zhang Yang	100	1,800	60	1,960
Chan Wing Yuen, Hubert	100	1,575	60	1,735
Lam Cheung Shing, Richard	100	1,050	45	1,195
	300	4,425	165	4,890
Independent non-executive directors				
Wong Hon Sum	100	–	–	100
Ha Ping	100	–	–	100
Tang Tin Sek	100	–	–	100
	300	–	–	300
	600	4,425	165	5,190

	Directors' fees	Salaries and benefits-in -kind	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the six months ended 30 September 2008				
Executive directors				
Zhang Yang	100	1,950	60	2,110
Chan Wing Yuen, Hubert	100	1,463	60	1,623
Lam Cheung Shing, Richard	100	975	45	1,120
Zhu Yongjun (Appointed on 19 May 2008)	77	269	5	351
	377	4,657	170	5,204
Independent non-executive directors				
Wong Hon Sum	100	–	–	100
Ha Ping	100	–	–	100
Tang Tin Sek	100	–	–	100
	300	–	–	300
	677	4,657	170	5,504

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 March 2006, 2007, 2008 and the six months ended 30 September 2007 and 2008 included three, three, three, three and four directors respectively whose emoluments are reflected in note (a) above and amounted to HK$8,866,000, HK$9,407,000, HK$27,792,000, HK$4,890,000 and HK$5,204,000 respectively. The emoluments payable to the remaining two, two, two, two and one individuals during the Relevant Periods were as follows:–

	For the year ended 31 March			For the six months ended 30 September	
	2006	**2007**	**2008**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries and other benefits	1,122	1,159	1,749	875	1,014
Share-based payment expenses	–	–	2,729	2,729	–
Retirement benefit scheme contributions	42	38	28	14	6
	1,164	1,197	4,506	3,618	1,020

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

	For the year ended 31 March			For the six months ended 30 September	
	2006	**2007**	**2008**	**2007**	**2008**
				(Unaudited)	
Nil to HK$1,000,000	2	2	1	1	–
HK$1,000,001 to HK$1,500,000	–	–	1	1	1
	2	2	2	2	1

11. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	For the year ended 31 March			For the six months ended 30 September	
	2006	**2007**	**2008**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	*(Restated)*	*(Restated)*	*(Restated)*	
				(Unaudited)	
Depreciation					
– Owned assets	3,382	3,473	2,673	1,185	1,427
– Assets held under finance leases	52	52	26	26	–
Amortisation of leasehold land and land use rights	1,595	1,675	607	302	333
Auditors' remuneration	750	700	800	588	487
Loss on disposal of property, plant and equipment	40	153	5	–	–
Write-off of property, plant and equipment	–	–	640	–	–
Operating lease rentals in respect of premises	5,528	4,120	2,463	1,619	955
Net foreign exchange loss	3,508	139	716	160	9

12. FINANCE COSTS

	For the year ended 31 March			For the six months ended 30 September	
	2006	**2007**	**2008**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interests on:					
Bank loans and overdrafts wholly repayable:					
within five years	9,037	12,032	10,012	953	3,466
over five years	9,636	10,267	12,700	10,175	8,915
Other borrowings	8,359	17,054	6,953	4,541	3,396
Interest on obligations under finance leases	12	10	6	6	–
Interest on convertible notes	282	301	931	301	–
	27,326	39,664	30,602	15,976	15,777
Less: Amounts capitalised	(1,191)	(3,211)	(2,402)	(1,201)	(2,101)
	26,135	36,453	28,200	14,775	13,676

13. TAXATION

	For the year ended 31 March			For the six months ended 30 September	
	2006	**2007**	**2008**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	*(Restated)*	*(Restated)*	*(Restated)*	
				(Unaudited)	
Current tax	520	786	3,986	535	475
Deferred tax (note 37)	8,630	8,287	17,134	3,084	(13,810)
	9,150	9,073	21,120	3,619	(13,335)

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits of certain subsidiaries in Hong Kong for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profits tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. Accordingly, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the six months ended 30 September 2008.

A reconciliation of the tax expense applicable to profit/(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 – For the year ended 31 March 2006 (Restated)

	Hong Kong		**The PRC**		**Total**	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Loss before taxation	(63,893)		(19,805)		(83,698)	
Tax at the statutory tax rate	(11,181)	(17.5)	(6,536)	(33.0)	(17,717)	(21.2)
Tax effect of expenses not deductible for tax purpose	1,765	2.8	5,661	28.6	7,426	8.9
Tax effect of income not taxable for tax purpose	(111)	(0.2)	(5,642)	(28.5)	(5,753)	(6.9)
Tax effect of tax losses/ deferred tax assets not recognised	10,464	16.4	14,730	74.4	25,194	30.1
Tax charge for the year	937	1.5	8,213	41.5	9,150	10.9

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

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

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

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

The Group – For the six months ended 30 September 2007 (Restated, unaudited)

	Hong Kong		The PRC		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Loss before taxation	(35,360)		(14,942)		(50,302)	
Tax at the statutory tax rate	(6,188)	(17.5)	(4,931)	(33.0)	(11,119)	(22.1)
Tax effect of expenses not deductible for tax purpose	4,648	13.2	836	5.6	5,484	10.9
Tax effect of income not taxable for tax purpose	(2,806)	(7.9)	(1,728)	(11.6)	(4,534)	(9.0)
Tax effect of tax losses/ deferred tax assets not recognised	4,881	13.7	8,907	59.6	13,788	27.4
Tax charge for the period	535	1.5	3,084	20.6	3,619	7.2

The Group – For the six months ended 30 September 2008

	Hong Kong		The PRC		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Loss before taxation	(223,308)		(267,409)		(490,717)	
Tax at the statutory tax rate	(36,846)	(16.5)	(66,852)	(25.0)	(103,698)	(21.1)
Tax effect of expenses not deductible for tax purpose	38,910	17.4	67,348	25.2	106,258	21.7
Tax effect of income not taxable for tax purpose	(4,376)	(2)	(974)	(0.4)	(5,350)	(1.1)
Tax effect of tax losses/ deferred tax assets not recognised	2,787	1.2	4,274	1.6	7,061	1.4
Tax effect of unrecognised temporary differences	–	–	(17,606)	(6.6)	(17,606)	(3.6)
Tax charge/(credit) for the period	475	0.1	(13,810)	(5.2)	(13,335)	(2.7)

14. LOSS PER SHARE

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

	For the year ended 31 March			For the six months ended 30 September	
	2006	**2007**	**2008**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	*(Restated)*	*(Restated)*	*(Restated)*	
				(Unaudited)	
Loss attributable to ordinary equity holders of the Company for the calculation of basic and diluted loss per share	92,803	18,252	39,762	53,546	477,302
Number of shares					
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	5,000,348,290	5,655,988,454	9,893,806,897	6,987,914,452	20,048,488,714

Diluted loss per share for the years ended 31 March 2007, 2008, the six months ended 30 September 2007 and 2008 were the same as the basic loss per share. The Company's outstanding convertible notes, share options and convertible note options were not included in the calculation of diluted loss per share because the effect of the Company's outstanding convertible notes, share options and convertible note options were anti-dilutive.

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.

15. INVESTMENT PROPERTIES

	The Group			
	As at 31 March			As at 30 September
	2006	2007	2008	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of the year/period	394,325	60,694	65,852	630,820
Exchange alignment	267	719	47,294	6,850
Acquisition of subsidiaries	–	–	480,839	–
Addition	–	–	–	2,024
Fair value change	1,008	4,439	36,835	(150,194)
Elimination upon disposal of a subsidiary	(334,906)	–	–	–
At end of the year/period	60,694	65,852	630,820	489,500

The fair value of the Group's investment properties at 31 March 2006, 2007, 2008 and 30 September 2008 have been arrived at on the basis of a valuation carried out on that date by Savills Valuation, Professional Services Limited, an independent qualified professional valuer and Beijing Baoxin Estate Appraisals and Consulting Limited, Beijing Guotai Hongye Estate Appraisals Limited, Shanghai Real Estate Appraisals Limited, independent PRC professional valuers, in which all of them did not connect with the Group.

The fair value of investment properties shown above comprise:

	The Group			
	As at 31 March			As at 30 September
	2006	2007	2008	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Investment properties in Hong Kong, held on:				
Long term leases	12,300	13,800	15,000	13,500
Investment properties outside Hong Kong, held on:				
Medium-term lease	48,394	52,052	615,820	476,000
	60,694	65,852	630,820	489,500

As at 31 March 2006, 2007, 2008 and 30 September 2008, investment properties with carrying amount of approximately HK$60,694,000, HK$65,852,000, HK$62,611,000 and HK$166,868,000 respectively have been pledged to secure banking facilities granted to the Group.

As at 31 March 2006, 2007, 2008 and 30 September 2008, the Group's investment properties amounting to HK$54,900,000, HK$59,451,000, HK$611,290,000 and HK$474,835,000 are rented out under operating leases.

16. INTEREST IN LEASEHOLD LAND AND LAND USE RIGHTS

	The Group
	HK$'000
Cost	
At 1 April 2005	89,165
Exchange alignment	1,715
At 31 March 2006 and 1 April 2006	90,880
Exchange alignment	4,590
Disposal of subsidiaries	(54,490)
At 31 March 2007 and 1 April 2007	40,980
Exchange alignment	4,098
At 31 March 2008 and 1 April 2008	45,078
Exchange alignment	1,593
At 30 September 2008	46,671
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
Disposal of subsidiaries	(14,628)
At 31 March 2007 and 1 April 2007	2,342
Exchange alignment	191
Charge for the year	607
At 31 March 2008 and 1 April 2008	3,140
Exchange alignment	105
Charge for the period	333
At 30 September 2008	3,578
Carrying amount	
At 30 September 2008	43,093
At 31 March 2008	41,938
At 31 March 2007	38,638
At 31 March 2006	75,722

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

	The Group			
	As at 31 March			As at 30 September
	2006	2007	2008	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Land outside Hong Kong, held on:				
Long term leases	37,338	38,638	41,938	43,093
Medium-term leases	38,384	–	–	–
	75,722	38,638	41,938	43,093

As at 31 March 2006, 2007, 2008 and 30 September 2008, all of the Group's interests in leasehold land and land use rights with an aggregate carrying amount of approximately HK$75,722,000, HK$38,638,000, HK$41,938,000 and HK$43,093,000 respectively were pledged to secure banking facilities granted to the Group.

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

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Properties under development	Buildings	Leasehold improvements	Furniture and fixtures	Equipment, motor vehicle and others	Plant and machinery	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$000*
							(Restated)
Cost							
At 1 April 2005	345,731	4,233	4,054	11,550	20,659	–	386,227
Additions	18,495	–	–	1,287	624	–	20,406
Exchange alignment	6,650	81	78	139	480	–	7,428
Reclassification from properties under development for sale	128,868	–	–	–	–	–	128,868
Disposal of subsidiaries	–	(4,314)	–	(5,065)	(1,087)	–	(10,466)
Disposals	–	–	–	(1)	(93)	–	(94)
At 31 March 2006 and at 1 April 2006	499,744	–	4,132	7,910	20,583	–	532,369
Additions	22,577	–	–	1,032	130	–	23,739
Exchange alignment	25,240	–	209	121	751	–	26,321
Disposal of subsidiaries	(249,480)	–	–	–	(295)	–	(249,775)
Disposals	–	–	–	–	(2,482)	–	(2,482)
At 31 March 2007 and at 1 April 2007	298,081	–	4,341	9,063	18,687	–	330,172
Additions	60,648	–	–	1,166	2,194	–	64,008
Acquisition of subsidiaries	–	–	–	1,803	76	–	1,879
Exchange alignment	29,810	–	318	773	802	–	31,703
Disposal of a subsidiary	–	–	–	(36)	(850)	–	(886)
Reclassification to properties under development for sale	(151,780)	–	–	–	–	–	(151,780)
Disposals	(7,042)	–	(2,064)	(480)	(4,844)	–	(14,430)
At 31 March 2008 and at 1 April 2008	229,717	–	2,595	12,289	16,065	–	260,666
Additions	510	–	–	115	1,138	3,790	5,553
Exchange alignment	7,922	–	89	338	256	–	8,605
Disposals	–	–	–	–	(483)	–	(483)
At 30 September 2008	238,149	–	2,684	12,742	16,976	3,790	274,341

The Group

	Properties under development	Buildings	Leasehold improvements	Furniture and fixtures	Equipment, motor vehicle and others	Plant and machinery	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$000*
							(Restated)
Accumulated depreciation							
At 1 April 2005	–	508	3,118	6,959	10,543	–	21,128
Exchange alignment	–	10	60	75	121	–	266
Charge for the year	–	12	315	711	2,396	–	3,434
Disposal of subsidiaries	–	(530)	–	(3,226)	(643)	–	(4,399)
Elimination upon disposals	–	–	–	–	(30)	–	(30)
At 31 March 2006 and at 1 April 2006	–	–	3,493	4,519	12,387	–	20,399
Exchange alignment	–	–	176	57	368	–	601
Charge for the year	–	–	258	870	2,397	–	3,525
Disposal of subsidiaries	–	–	–	–	(38)	–	(38)
Elimination upon disposals	–	–	–	–	(1,802)	–	(1,802)
At 31 March 2007 and at 1 April 2007	–	–	3,927	5,446	13,312	–	22,685
Exchange alignment	–	–	277	479	400	–	1,156
Charge for the year	–	–	–	1,212	1,487	–	2,699
Elimination upon disposals	–	–	(1,609)	(389)	(3,725)	–	(5,723)
At 31 March 2008 and at 1 April 2008	–	–	2,595	6,748	11,474	–	20,817
Exchange alignment	–	–	89	236	140	–	465
Charge for the period	–	–	–	574	663	190	1,427
Elimination upon disposals	–	–	–	–	(436)	–	(436)
At 30 September 2008	–	–	2,684	7,558	11,841	190	22,273
Carrying amount							
At 30 September 2008	238,149	–	–	5,184	5,135	3,600	252,068
At 31 March 2008	229,717	–	–	5,541	4,591	–	239,849
At 31 March 2007	298,081	–	414	3,617	5,375	–	307,487
At 31 March 2006	499,744	–	639	3,391	8,196	–	511,970

	Leasehold improvements	Furniture and Fixtures	Equipment, motor vehicle and others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Company				
Cost				
At 1 April 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 and 1 April 2007	1,982	447	2,900	5,329
Exchange alignment	82	32	37	151
Disposals	(2,064)	(479)	(2,937)	(5,480)
At 31 March 2008, 1 April 2008 and 30 September 2008	–	–	–	–
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 and 1 April 2007	1,570	363	2,815	4,748
Exchange alignment	41	24	28	93
Charge for the year	–	–	–	–
Disposals	(1,611)	(387)	(2,843)	(4,841)
At 31 March 2008, 1April 2008 and 30 September 2008	–	–	–	–
Carrying amount				
At 30 September 2008	–	–	–	–
At 31 March 2008	–	–	–	–
At 31 March 2007	412	84	85	581
At 31 March 2006	639	173	773	1,585

The carrying amount of the properties under development comprises:

	The Group			
	As at 31 March			As at 30 September
	2006	2007	2008	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Group				
Outside Hong Kong, held on:				
Long term leases	276,474	298,081	229,717	238,149
Medium-term leases	223,270	–	–	–
	499,744	298,081	229,717	238,149

Properties under development of the Group are situated in the PRC. As at 31 March 2006, 2007, 2008 and 30 September 2008, properties under development of the Group included interest capitalised of HK$42,071,000, HK$42,846,000, HK$40,400,000, and HK$Nil respectively.

As at 31 March 2006, 2007, 2008 and 30 September 2008, property, plant and equipment with the net book value of approximately HK$Nil, HK$151,090,000, HK$Nil and HK$Nil respectively have been pledged to secure banking facilities granted to the Group.

As at 31 March 2006, 2007, 2008 and 30 September 2008, the carrying amount of equipment, motor vehicle and others included an amount of HK$295,000, HK$243,000, HK$Nil and HK$Nil respectively in respect of assets held under finance leases.

18. INTANGIBLE ASSETS

The Group

	Concession intangible assets *HK$'000* *(Restated)*
Cost	
At 1 April 2005, as previously reported	–
Effect on adoption of HK(IFRIC) – Int 12	125,183
At 1 April 2005, as restated	125,183
Exchange alignment	729
At 31 March 2006 and 1 April 2006	125,912
Exchange alignment	4,306
Adjustment upon finalisation of construction contract	(27,404)
At 31 March 2007 and 1 April 2007	102,814
Exchange alignment	9,253
Additions	4,806
At 31 March 2008 and 1 April 2008	116,873
Exchange alignment	3,506
Additions	5,400
At 30 September 2008	125,779
Accumulated amortisation	
At 1 April 2005, as previously reported	–
Effect on adoption of HK(IFRIC) – Int 12	–
At 1 April 2005, as restated, at 31 March 2006, 31 March 2007, 31 March 2008 and 30 September 2008	–
Carrying amount	
At 30 September 2008	125,779
At 31 March 2008	116,873
At 31 March 2007	102,814
At 31 March 2006	125,912

During the Relevant Period, the concession intangible assets were still under construction and no amortisation has been made.

As at 31 March 2006, 2007, 2008 and 30 September 2008, intangible assets with the carrying amounts of approximately HK$125,912,000, HK$102,814,000, HK$116,873,000 and HK$125,779,000 respectively have been pledged to secure banking facilities granted to the Group.

19. OTHER FINANCIAL ASSETS

	The Group			
	As at 31 March			As at 30 September
	2006	2007	2008	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	*(Restated)*	*(Restated)*	
Other financial assets	172,062	295,411	350,098	352,943

Other financial assets, bear interest at rates ranging from 9.38% to 13.88%, represented the considerations paid for the construction of sewage water treatment plants under BOT arrangements. Under HK(IFRIC) – Int 12, the considerations paid are accounted for as financial assets. The amounts are not yet due for payment and will be settled by revenue to be generated during the operating periods of the BOT arrangements.

As at 31 March 2006, 2007, 2008 and 30 September 2008, other financial assets with the carrying amounts of approximately HK$99,436,000, HK$145,765,000, HK$164,288,000 and HK$161,897,000 respectively have been pledged to secure banking facilities granted to the Group.

20. INTERESTS IN SUBSIDIARIES

	The Company			
	As at 31 March			As at 30 September
	2006	2007	2008	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost	453,906	453,906	908,136	910,376
Impairment loss recognised	(41,722)	(41,722)	(34,887)	(60,540)
	412,184	412,184	873,249	849,836

The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and are repayable on demand.

Details of the Company's principal subsidiaries at 30 September 2008 are set out in note 50.

21. INTERESTS IN ASSOCIATES

	The Group				The Company			
	31 March 2006	31 March 2007	31 March 2008	30 September 2008	31 March 2006	31 March 2007	31 March 2008	30 September 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost of investments, unlisted	962	1,010	–	296,000	1	1	–	296,000
Share of post-acquisition profits and reserves	81,335	74,045	–	3,146	–	–	–	3,146
Impairment loss recognised	–	–	–	(225,146)	–	–	–	(225,146)
	82,297	75,055	–	74,000	1	1	–	74,000
Amount due from an associate	1,151	2,364	–	–	68,704	45,007	–	–
	83,448	77,419	–	74,000	68,705	45,008	–	74,000

On 23 April 2005, the Group disposed 60% interest in Money Capture Investments Limited ("Money Capture"). Details of the disposal were set out in note 42. Following the disposal of Money Capture, it became an associate of the Group.

On 11 June 2007, the Group re-acquired 60% interest in Money Capture. Money Capture became a wholly-owned subsidiary following the acquisition and details of assets and liabilities acquired are set out in note 41. Following the acquisition of Money Capture, the Group has no associate as at 31 March 2008.

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

On 15 October 2008, the Group entered into a sale and purchase agreement with Singapore Zhongxin Investment Company Limited ("Singapore Zhongxin") in relation to disposal of the newly acquired 29.52% interest in China Pipe at consideration of approximately HK$74,000,000. Details of which were set out in note 51(c). The directors of the Company had reviewed the recoverable amount of the associate by reference to the proceeds received from disposal less cost to sell and considered an impairment loss of HK$225,146,000 was recognised in the consolidated income statement for the six months ended 30 September 2008.

The amount due from an associate is unsecured, non-interest bearing and is repayable on demand.

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

	For the year ended 31 March			For the six months ended 30 September
	2006	**2007**	**2008**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	5,005	8,559	6,520	273,934
Profit/(loss) for the year/period	417	(39,158)	6,520	7,243
(Loss)/profit attributable to the Group	(9,473)	(6,164)	2,608	3,146

	As at 31 March		As at 30 September	
	2006	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	272,342	343,574	–	976,387
Total liabilities	(40,750)	(153,716)	–	(495,344)
Net assets	231,592	189,858	–	481,043
Net assets attributable to the Group	82,297	75,055	–	74,000

For the six months ended 30 September 2008, the unaudited consolidated balance sheet and the unaudited consolidated income statement of China Pipe and its subsidiaries (collectively referred to as the "China Pipe Group") extracted as above are based on the published unaudited interim consolidated financial statements of the China Pipe Group for the six months ended 30 June 2008 which is not conterminous with the Group.

22. 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, 31 March 2007 and 1 April 2007	2,846
Additions *(note 41)*	8,160
At 31 March 2008 and 30 September 2008	11,006
Accumulated amortisation and impairment	
At 1 April 2005	19,296
Elimination of accumulated amortisation and impairment upon adoption of HKFRS 3	(19,296)
At 31 March 2006, 31 March 2007 and 31 March 2008	–
Impairment loss recognised	11,006
At 30 September 2008	11,006
Carrying amount	
At 30 September 2008	–
At 31 March 2008	11,006
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 business as follow:–

		As at 31 March		As at 30 September
	2006	**2007**	**2008**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
City development and investment operation	2,846	2,846	2,846	–
Environmental protection and water treatment operation	–	–	1,043	–
Property investment operation	–	–	7,117	–
	2,846	2,846	11,006	–

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

The recoverable amount of goodwill under city development and investment operation by reference to the valuation performed by Shanghai Real Estate Appraisals Limited and Hunan Licheng Certified Public Accountants Limited respectively, both independent professional PRC valuers. The recoverable amount of the CGU determined by the valuer, at a discount rate of 7% and growth rate ranging from 0% to 3%, which is based on the present value of the expected future revenue arising from sales of properties and the market value of the properties.

The recoverable amount of goodwill under city development and investment operation, environmental protection and water treatment operation and property investment operation were assessed by reference to value-in-use calculation based on a five-year projection of the relevant cash-generating unit. A discount rate of 5% per annum was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "CGU Forecast") covering a five-year period. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the CGU Forecast. Key assumptions included budgeted gross margin and discount rate which are determined by the management of the Group based on past experience and its expectation for market development.

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

During the six months ended 30 September 2008, the management expected that the property market and environmental protection operation would be less prosperous in the following periods, and the profitability would be significantly reduced. In view of the deteriorating profitability, impairment loss of HK$11,006,000 was made in accordance with the result of the discounted cash flow analysis.

23. OTHER NON-CURRENT ASSETS

	The Group				**The Company**			
	31 March 2006	**31 March 2007**	**31 March 2008**	**30 September 2008**	**31 March 2006**	**31 March 2007**	**31 March 2008**	**30 September 2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Contribution to the Compensation fund and fidelity fund with the Stock Exchange	197	197	197	197	–	–	–	–
Admission fee paid to Hong Kong Securities Clearing Company Limited ("HKSCCL")	100	100	100	100	–	–	–	–
Guarantee fund contributions To HKSCCL	100	100	100	100	–	–	–	–
Statutory deposits with HKFE Clearing Corporation Limited	1,500	1,500	1,500	1,500	–	–	–	–
Reserve fund with Hong Kong Clearing Corporation Limited	43	–	–	–	–	–	–	–
Club membership	526	515	504	497	380	380	380	380
	2,466	2,412	2,401	2,394	380	380	380	380

24. PROPERTIES UNDER DEVELOPMENT FOR SALE

	The Group			
	As at 31 March			As at 30 September
	2006	2007	2008	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of the year/period	397,066	277,974	348,527	607,714
Additions	44,176	56,514	70,417	24,022
Disposal	(42,033)	–	–	–
Transferred to properties under development	(128,871)	–	–	–
Transferred from property, plant and equipment	–	–	151,780	–
Impairment loss recognised	–	–	–	(120,508)
Exchange alignment	7,636	14,039	36,990	20,956
At end of the year/period	277,974	348,527	607,714	532,184

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

As at 31 March 2006, 2007, 2008 and 30 September 2008, included in the properties under development for sale is net interest capitalised of approximately HK$1,344,000, HK$2,187,000, HK$2,406,000 and HK$Nil respectively.

At 31 March 2006, 2007, 2008 and 30 September 2008, certain of the Group's properties under development for sale with carrying amount of approximately HK$148,302,000, HK$ Nil, HK$ Nil and HK$ Nil were pledged to secure bank loans respectively.

The directors reassessed the carrying amount of properties under development for sale by reference to a valuation performed by RHL Appraisal Ltd., an independent professional valuer, and considered an impairment loss of HK$120,508,000 was recognised in the consolidated income statement for the six months ended 30 September 2008.

25. INVENTORIES

	The Group			
	As at 31 March			As at 30 September
	2006	2007	2008	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Finished goods	–	–	844	891

All consumables were carried at cost during the Relevant Periods.

26. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group allows an average credit period of 60 days to its trade customers. As at 31 March 2006, 2007, 2008 and 30 September 2008, the aged analysis of trade receivables of HK$26,893,000, HK$43,378,000, HK$34,520,000 and HK$8,347,000 included in trade and other receivables and prepayments are as follows:

	The Group				The Company			
	31 March 2006	31 March 2007	31 March 2008	30 September 2008	31 March 2006	31 March 2007	31 March 2008	30 September 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
0-30 days	9,155	43,378	34,520	8,347	–	–	–	–
31-60 days	–	–	–	–	–	–	–	–
61-90 days	–	–	–	–	–	–	–	–
Over 90 days	17,738	–	–	–	–	–	–	–
	26,893	43,378	34,520	8,347	–	–	–	–
Margin clients account receivables	1,504	1,338	1,227	1,227	–	–	–	–
Clearing houses, brokers and dealers	961	66,238	1,502	3,952	–	–	–	–
Prepayments and deposits	49,826	20,369	661,716	666,106	10,079	431	175,273	18,629
Other receivables	79,389	75,345	36,942	33,282	66,770	59,870	6,036	144
	158,573	206,668	735,907	712,914	76,849	60,301	181,309	18,773
Less: Impairment of trade receivables	(17,738)	–	–	–	–	–	–	–
	140,835	206,668	735,907	712,914	76,849	60,301	181,309	18,773

The carrying amounts of the trade receivables are denominated in Hong Kong dollars. The maximum exposure to credit risk at the reporting date is the fair value.

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.

Included in the prepayments and deposits as at 31 March 2008 and 30 September 2008 amounted to approximately HK$347,063,000 and HK$381,703,000 are deposits paid for acquisition of Heilongjiang Black Dragon Company Limited ("Black Dragon").

Movement in the impairment loss of trade receivables is as follow:–

	The Group			
	As at 31 March			As at 30 September
	2006	2007	2008	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Impairment loss recognised for the year/period	17,738	17,738	–	–
Reversal of impairment loss for the year/period	–	(15,561)	–	–
Trade receivables written off	–	(2,177)	–	–
	17,738	–	–	–

At 31 March 2007, 2008 and 30 September 2008, all trade receivables of the Group are neither past due nor impaired. These receivables relate to a wide range of customers for whom there is no recent history of default.

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

27. LOAN RECEIVABLES

	The Group			
	As at 31 March			As at 30 September
	2006	**2007**	**2008**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Loan receivables	–	–	61,899	121,711

The loan were unsecured, carrying at the prevailing interest rate ranging from 7.50% to 15% per annum with fixed repayment terms.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group			
	As at 31 March			As at 30 September
	2006	**2007**	**2008**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Held for trading:				
Listed equity securities – Hong Kong, at market value	172	169	98	64

29. BANK BALANCES – TRUST AND SEGREGATED ACCOUNTS

	The Group			
	As at 31 March			As at 30 September
	2006	**2007**	**2008**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segregated accounts	517	3	3	1,039
Trust accounts	4,760	86,407	4,343	3,610
	5,277	86,410	4,346	4,649

Segregated and trust accounts earns interest at floating rates based on daily bank deposit rates. At 31 March 2006, 2007, 2008 and 30 September 2008, all trust and segregated accounts are denominated in Hong Kong dollar.

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

30. CASH AND CASH EQUIVALENTS

	The Group				The Company			
	31 March 2006	31 March 2007	31 March 2008	30 September 2008	31 March 2006	31 March 2007	31 March 2008	30 September 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balance	16,894	159,430	30,193	24,643	38	88,570	110	17

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

At 31 March 2006, 2007 and 2008 and 30 September 2008, cash and cash equivalents of approximately HK$7,012,000, HK$26,861,000, HK$7,505,000 and HK$16,444,000 are denominated in Renminbi. Renminbi is not freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

31. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

The aged analysis of trade payables are as follows:

	The Group				The Company			
	31 March 2006	31 March 2007	31 March 2008	30 September 2008	31 March 2006	31 March 2007	31 March 2008	30 September 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	*(Restated)*	*(Restated)*					
Trade payables:								
0-30 days	4,704	179,139	8,851	6,920	–	–	–	–
Accounts payable arising from the business of dealing in securities and equity options:								
Margin clients	8,043	606	95	1,395	–	–	–	–
Accounts payable to client arising from the business of dealing in futures and options	1,432	–	–	–	–	–	–	–
Other payables and deposits received	278,013	253,847	248,403	238,713	14,254	3,355	6,845	7,701
	292,192	433,592	257,349	247,028	14,254	3,355	6,845	7,701

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

Accounts payables to clients arising from the business 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, 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 as at 31 March 2007 are payable to a director of the Company and a related company of the Company amounting to HK$33,559,000 and HK$58,349,000 respectively.

Included in the other payables and deposits received are payables for construction works of approximately HK$56,300,000, HK$84,611,000, HK$124,562,000 and HK$126,933,000 and deposits received for the pre-sale of properties of approximately HK$95,818,000, HK$68,776,000, HK$25,890,000 and HK$20,770,000 as at 31 March 2006, 2007, 2008 and 30 September 2008 respectively.

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

32. 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.

33. DERIVATIVE FINANCIAL INSTRUMENTS

The Group and the Company

	As at 31 March			As at 30 September
	2006	**2007**	**2008**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities related to convertible note options	–	–	22,736	1,079

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

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

The value of each of the convertible note option was valued by BMI Appraisals Limited, an independent valuer, at the issue date, at 31 March 2008 and at 30 September 2008, by using the Black-Scholes Option Pricing Model. The inputs into the model were as follows:

	At the date of issue	As at 31 March 2008	As at 30 September 2008
The First Tranche Option			
Spot price	HK$0.144	–	–
Conversion price	HK$0.1	–	–
Risk free rate	3.884%	–	–
Expected exercise period	0.25 years	–	–
Nature of the option	Call	–	–
Volatility	22.51%	–	–
The Second Tranche Option			
Spot price	HK$0.071	HK$0.073	HK$0.023
Conversion price	HK$0.1	HK$0.1	HK$0.1
Risk free rate	4.074%	1.287%	0.041%
Expected exercise period	0.75 years	1.875 years	0.125 years
Nature of the option	Call	Call	Call
Volatility	34.12%	80.66%	66.15%

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

As at 31 March 2008, the First Tranche Option has been fully exercised. The changes in fair value of the First Tranche Option and the Second Tranche Options during the year ended 31 March 2008 and the six months ended 30 September 2008 were as follows:

	As at 31 March 2008		As at 30 September 2008
	The First Tranche Option	The Second Tranche Option	The Second Tranche Option
	HK$'000	*HK$'000*	*HK$'000*
Derivative financial instruments			
At beginning of the year/period	–	–	22,736
At initial recognition	125	21,175	–
Fair value (decrease)/increase	(61)	1,561	(16,629)
Exercise upon issue of convertible notes	(64)	–	(5,028)
At end of the year/period	–	22,736	1,079

34. BANK AND OTHER BORROWINGS

	The Group				The Company			
	31 March 2006	31 March 2007	31 March 2008	30 September 2008	31 March 2006	31 March 2007	31 March 2008	30 September 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings, secured	301,328	309,735	252,210	293,409	–	–	–	–
Bank borrowings, unsecured	–	43,434	47,778	49,425	–	–	–	–
Total bank borrowings	301,328	353,169	299,988	342,834	–	–	–	–
Other borrowings:								
secured	65,203	–	–	100,617	–	–	–	100,617
unsecured	40,000	–	–	–	40,000	–	–	–
Total other borrowings	105,203	–	–	100,617	40,000	–	–	100,617
Total borrowings	406,531	353,169	299,988	443,451	40,000	–	–	100,617
The maturity profile are as follows:								
On demand or repayable within one year:								
bank borrowings	155,402	143,495	100,357	120,005	–	–	–	–
other borrowings	65,203	–	–	100,617	–	–	–	100,617
Portion classified as current liabilities	220,605	143,495	100,357	220,622	–	–	–	100,617
On demand or repayable in the second year:								
bank borrowings	18,102	25,664	41,239	44,872	–	–	–	–
other borrowings	40,000	–	–	–	40,000	–	–	–
	58,102	25,664	41,239	44,872	40,000	–	–	–
Bank borrowings repayable								
in the third to fifth years, inclusive	59,531	103,535	99,842	99,778	–	–	–	–
after the fifth year	68,293	80,475	58,550	78,179	–	–	–	–
Portion classified as non-current liabilities	185,926	209,674	199,631	222,829	40,000	–	–	–
Total borrowings	406,531	353,169	299,988	443,451	40,000	–	–	100,617

The other borrowings bear interest at rates ranging from 5.5% to 7.2% and 15% as at 31 March 2006 and 30 September 2008 respectively.

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 Hong Kong Inter Bank Offered Rate plus a specified margin. The effective interest rates on bank borrowings denominated in Renminbi range from 4.5% to 6.6%, 5.5% to 6.9%, 5.8% to 7.8% and 5.5% to 12.3% as at 31 March 2006, 2007, 2008 and 30 September 2008 respectively.

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

- the property, plant and machinery amounted to HK$Nil, HK$151,090,000, HK$Nil and HK$Nil as at 31 March 2006, 2007, 2008 and 30 September 2008 respectively;
- the interests in leasehold land and land use rights amounted to HK$75,722,000, HK$38,638,000, HK$41,938,000 and HK$43,093,000 as at 31 March 2006, 2007, 2008 and 30 September 2008 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$60,694,000, HK$65,852,000, HK$62,611,000 and HK$166,868,000 as at 31 March 2006, 2007, 2008 and 30 September 2008 respectively. The term loans are repayable on agreed repayment schedule and the mortgage loans are repayable in instalments over a period of 1 to 20 years.

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

	The Group				The Company			
	31 March 2006	31 March 2007	31 March 2008	30 September 2008	31 March 2006	31 March 2007	31 March 2008	30 September 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollar	73,074	30,575	27,887	127,088	40,000	–	–	100,617
Renminbi	333,457	322,594	272,101	316,363	–	–	–	–
	406,531	353,169	299,988	443,451	40,000	–	–	100,617

35. OBLIGATIONS UNDER FINANCE LEASES

The Group

	Minimum lease payments				Present value of minimum lease payments			
	31 March 2006	31 March 2007	31 March 2008	30 September 2008	31 March 2006	31 March 2007	31 March 2008	30 September 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:								
within one year	77	77	–	–	67	69	–	–
in the second to fifth years, inclusive	223	147	–	–	210	141	–	–
	300	224	–	–	277	210	–	–
Less: Future finance charges	(23)	(14)	–	–	–	–	–	–
Present value of finance leases	277	210	–	–	277	210	–	–
Less: Amount due for settlement within one year					(67)	(69)	–	–
Amount due for settlement after one year					210	141	–	–

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

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

36. CONVERTIBLE NOTES

For the year ended 31 March 2006

a. 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 "2005 CN"). The 2005 CN are convertible into shares at the conversion price, which is equal to HK$0.10 per share. The effective interest rate of the liability component is 8.57% per annum.

   On 7 November 2005, the Group completed the issue of the 2005 CN. On 9 November 2005, 1 December 2005 and 16 December 2005, the holders of the 2005 CN 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 2005 CN.

For the year ended 31 March 2007

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

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

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

For the year ended 31 March 2008

c. On 6 August 2007, the Company issued convertible notes with principal amount of approximately HK$132,677,000 (the "Money Capture CN") for the acquisition of Money Capture. The Money Capture CN carries interest at 3.5% and will be matured on 5 August 2009. The Money Capture CN is denominated in Hong Kong dollars. The initial conversion price is HK$0.131 per share. The effective interest rate of the liability component is 8.57% per annum.

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

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

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

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

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

For the six months ended 30 September 2008

f. During the six months ended 30 September 2008, the Company issued part of the Second Tranche Convertible Notes with principal amount of HK$300,000,000. The Second Tranche Convertible Notes carries interest at 3.0% and will be matured on 4 July 2012. The Second Tranche Convertible Notes are denominated in Hong Kong dollars. The initial conversion price is HK$0.10 per share. The effective interest rate of the liability component is 5.5% per annum.

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

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

	As at 31 March			As at 30 September
	2006	**2007**	**2008**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Liability component at beginning of the year/period	–	–	4,587	–
Proceeds of issue	90,000	111,698	782,677	305,028
Equity component	(6,354)	(10,303)	(288,269)	(32,027)
Liability component at date of issue	83,646	101,395	498,995	273,001
Imputed interest expense for the year/ period	–	301	931	–
Conversion into ordinary shares	(83,646)	(97,109)	(499,926)	(273,001)
Liability component at end of the year/ period	–	4,587	–	–

37. DEFERRED TAX LIABILITIES

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

The Group	**Revalution of properties**	**Convertible notes**	**Temporary difference on assets recognised under HK (IFRIC) – Int 12**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005	1,190	–	–	1,190
Charge to consolidated income statement	417	–	8,213	8,630
At 31 March 2006 and 1 April 2006	1,607	–	8,213	9,820
Exchange alignments	–	–	257	257
Charge to consolidated income statement	1,224	–	7,063	8,287
Issue of convertible notes	–	73	–	73
At 31 March 2007 and 1 April 2007	2,831	73	15,533	18,437
Exchange alignments	9	–	1,208	1,217
Acquisition of subsidiaries	3,874	–	–	3,874
Charge/(credit) to consolidated income statement	10,889	(163)	6,408	17,134
Issue of convertible notes	–	50,447	–	50,447
Conversion of convertible notes	–	(50,357)	–	(50,357)
At 31 March 2008 and 1 April 2008	17,603	–	23,149	40,752
Exchange alignments	3	–	703	706
(Credit)/charge to consolidated income statement	(17,606)	–	3,796	(13,810)
Issue of convertible notes	–	5,284	–	5,284
Conversion of convertible notes	–	(5,284)	–	(5,284)
At 30 September 2008	–	–	27,648	27,648

The Group

At 31 March 2006, 2007, 2008 and 30 September 2008, the Group had unused estimated tax losses of approximately HK$462,340,000, HK$502,621,000, HK$591,915,000 and HK$1,076,930,000 respectively 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$311,341,000, HK$315,692,000, HK$388,247,000 and HK$381,480,000 as at 31 March 2006, 2007, 2008 and 30 September 2008 respectively due to the unpredictability of future profit streams.

38. SHARE CAPITAL

	Number of shares				Nominal value			
	31 March 2006	31 March 2007	31 March 2008	30 September 2008	31 March 2006	31 March 2007	31 March 2008	30 September 2008
					HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Authorised:								
Ordinary shares of HK$0.10 each	10,000,000,000	10,000,000,000	40,000,000,000	40,000,000,000	1,000,000	1,000,000	4,000,000	4,000,000
Issued and fully paid:								
At the beginning of the year/period	4,684,923,632	5,584,923,632	6,651,903,632	17,286,193,632	468,492	558,492	665,190	1,728,619
Issue of new shares	–	–	2,700,000,000	–	–	–	270,000	–
Exercise of share options	–	–	371,490,000	–	–	–	37,149	–
Conversion of convertible notes	900,000,000	1,066,980,000	7,562,800,000	3,000,000,000	90,000	106,698	756,280	300,000
At the end of the year/period	5,584,923,632	6,651,903,632	17,286,193,632	20,286,193,632	558,492	665,190	1,728,619	2,028,619

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

Notes:

For the year ended 31 March 2006

(a) The holders of the 2005 CN with principal amounts of HK$90,000,000 were converted into shares at conversion price of HK$0.10 per share. 900,000,000 ordinary shares were issued upon the conversion of the 2005 CN.

For the year ended 31 March 2007

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

For the year ended 31 March 2008

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

(d) 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.

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

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

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

For the six months ended 30 September 2008

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

39. SHARE PREMIUM AND RESERVES

	Share premium	Exchange reserve	Convertible notes reserve	Share options reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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
Recognition of deferred tax for convertible notes	–	–	(124)	–	–	(124)
Conversion of convertible notes	–	–	(9,589)	–	–	(9,589)
Loss for the year	–	–	–	–	(12,670)	(12,670)
At 31 March 2007 and 1 April 2007	282,741	(1,454)	590	–	(213,262)	68,615
Exchange difference	–	(3,336)	–	–	–	(3,336)
Issue of convertible notes	–	–	288,269	–	–	288,269
Recognition of deferred tax for convertible notes	–	–	(90)	–	–	(90)
Conversion of convertible notes	40,108	–	(288,769)	–	–	(248,661)
Issue of share options	–	–	–	32,986	–	32,986
Exercise of share options	43,605	–	–	(26,516)	–	17,089
Loss for the year	–	–	–	–	(155,501)	(155,501)
At 31 March 2008 and 1 April 2008	366,454	(4,790)	–	6,470	(368,763)	(629)
Exchange difference	–	(347)	–	–	–	(347)
Issue of convertible notes	–	–	32,027	–	–	32,027
Recognition of deferred tax for convertible notes	–	–	(5,284)	–	–	(5,284)
Conversion of convertible notes	5,028	–	(26,743)	–	–	(21,715)
Loss for the period	–	–	–	–	(255,280)	(255,280)
At 30 September 2008	371,482	(5,137)	–	6,470	(624,043)	(251,228)

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

40. 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 2006, 2007, 2008 and 30 September 2008.

(b) New Share Option Scheme

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

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

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

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

No share option was granted for the year ended 31 March 2006, 2007 and for the six months ended 30 September 2008. For the year ended 31 March 2008, it was a first time, option has been granted under the New Share Option Scheme since its inception.

The following share options were outstanding under the New Share Option Scheme as at 31 March 2008 and 30 September 2008:

Name of category of participant	Number of share options: Outstanding as at 31 March 2007	Granted during the year	Exercised during the year	Outstanding as at 31 March 2008 and 30 September 2008	Date of grant	Exercise period	Exercise price HK$
Director							
Mr. Zhang Yang	–	77,000,000	(77,000,000)	–	28-08-2007	29-08-2007to 02-09-2012	0.146
Mr. Chan Wing Yuen, Hubert	–	77,000,000	(77,000,000)	–	28-08-2007	29-08-2007to 02-09-2012	0.146
Mr. Lam Cheung Shing, Richard	–	77,000,000	(77,000,000)	–	28-08-2007	29-08-2007to 02-09-2012	0.146
Mr. Wong Hon Sum	–	5,000,000	–	5,000,000	28-08-2007	29-08-2007to 02-09-2012	0.146
Ms. Ha Ping	–	5,000,000	–	5,000,000	28-08-2007	29-08-2007to 02-09-2012	0.146
Dr. Tang Tin Sek	–	5,000,000	–	5,000,000	28-08-2007	29-08-2007to 02-09-2012	0.146
Consultants							
In aggregate	–	58,000,000	(25,000,000)	33,000,000	28-08-2007	29-08-2007to 02-09-2012	0.146
Employees							
In aggregate	–	155,490,000	(115,490,000)	40,000,000	28-08-2007	29-08-2007to 02-09-2012	0.146
	–	459,490,000	(371,490,000)	88,000,000			

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

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

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

Date of grant:	28 August 2007
Total number of share options:	459,490,000
Option value:	HK$0.070891 (employees)
	HK$0.078000 (consultants)
Valuables	
– Maturity date	2 September 2012
– Annual risk free rate*	4.4%
– Stock price at the date of grant	HK$0.146
– Exercise price	HK$0.146
– Option life (expressed as weighted under binomial option pricing model)	5.02 years
– Expected volatility	66%
– Expected ordinary dividend	Nil

* Risk free rate was interpolated from the yields to maturity of respective Hong Kong Exchange Fund

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

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

The Company had 88,000,000 share options outstanding under the New Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 88,000,000 additional ordinary shares of HK$0.10 each of the Company and additional share capital of HK$8,800,000 and cash proceeds to the Company of approximately HK$12,848,000.

41. ACQUISITION OF SUBSIDIARIES

(a) On 30 April 2007, the Company further acquired 4.67% equity interest in Interchina (Tianjin) and its subsidiaries (the "Interchina (Tianjin) Group") at an aggregate consideration of HK$14,540,000, which was satisfied by cash. The fair value of the identifiable assets and liabilities of the Interchina (Tianjin) Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

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

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

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

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

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

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

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

(c) On 5 October 2007, the Group acquired 100% equity interest in Success Flow and its subsidiaries (the "Success Flow Group") at an aggregate consideration of HK$167,000,000, which was satisfied by cash. The fair value of the identifiable assets and liabilities of the Success Flow Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

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

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

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

(d) On 12 March 2008, the Group acquired 100% equity interest in Wee On Development Limited ("Wee On") at an aggregate consideration of HK$848,000, which was satisfied by cash. The fair value of the identifiable assets and liabilities of Wee On as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

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

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

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

42. DISPOSAL OF SUBSIDIARIES

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

	As at 31 March			As at 30 September
	2006	**2007**	**2008**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Investment properties	334,906	–	–	–
Investment in associates	–	–	1,010	–
Interest in leasehold land and land use rights	–	39,862	–	–
Property, plant and equipment	6,016	249,737	886	–
Inventories	604	–	–	–
Trade receivables	9,742	–	–	–
Deposit, prepayment and other debtors	1,180	22,941	18,971	–
Cash and bank balances	5,767	27	3,427	–
Other creditors and accruals	(18,783)	(106,575)	(84)	–
Amount due from ultimate holding company	(5,973)	442	3,998	–
Amount due to associates	–	(782)	–	–
Minority interests	–	–	(1,720)	–
Bank loans	(105,521)	–	–	–
Net assets disposed of	227,938	205,652	26,488	–
Less: Remaining share of net assets held by the Group as associated companies	(91,175)	–	–	–
	136,763	205,652	26,488	–
Gain on disposal	237	48,448	8,360	–
Total consideration	137,000	254,100	34,848	–
Less: Cash and bank balances disposed	(5,767)	(27)	(3,427)	–
Net cash inflow arising from the disposals	131,233	254,073	31,421	–
Satisfied by:				
Cash	137,000	254,100	34,848	–

(a) For the year ended 31 March 2006

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

(b) For the year ended 31 March 2007

On 26 May 2006, China Field Investments Limited, a wholly-owned subsidiary of the Company entered into a disposal agreement in relation to disposal of the entire issued share capital of New Experience Investments Limited ("New Experience") and the shareholder's loan amounted to HK$20,750,000 due and owing by New Experience to China Field Investments Limited at an aggregate consideration of HK$48,100,000, which was satisfied by the third party in cash. During the year ended 31 March 2006, New Experience incurred a loss of approximately HK$4,184,000 to the Group.

(b) For the year ended 31 March 2007 (continued)

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

(c) For the year ended 31 March 2008

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

43. BANKING FACILITIES

During the Relevant Periods, the bank overdrafts facilities are secured by marketable securities held by the Group on behalf of clients with their consent.

44. CAPITAL COMMITMENTS

	The Group			
		As at 31 March		As at 30 September
	2006	2007	2008	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure contracted for but not provided in the Financial Information in respect of:				
– acquisition of property, plant and equipment and properties under development for sale	512,054	282,181	110,375	113,926

45. COMMITMENTS

(a) During the Relevant Periods, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of the Group's guarantee lease arrangement for the pre-sale properties. The lease commitment of the Group was as follow:

	The Group			
		As at 31 March		As at 30 September
	2006	2007	2008	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	13,097	6,341	5,073	10,470
In the second to fifth year, inclusive	44,124	41,488	29,042	14,568
After five years	31,008	26,611	18,628	14,369
	88,229	74,440	52,743	39,407

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

(b) At 31 March 2006, 2007, 2008 and 30 September 2008, the Group had commitments to the property buyers of certain pre-sales properties that the Group would buy back the properties at 100% of the original property sales price on the request from the property buyers. The commitments are six years after the completion date of the sale and purchase agreements of the properties with the total contract sum of approximately HK$127,460,000, HK$120,889,000, HK$61,175,000 and HK$63,284,000 respectively.

46. OPERATING LEASE COMMITMENTS

The Group as lessee

At 31 March 2006, 2007, 2008 and 30 September 2008, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	The Group			
				As at
		As at 31 March		30 September
	2006	2007	2008	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	3,479	2,802	2,906	2,656
In the second to fifth year inclusive	5,565	6,818	5,086	4,437
After five years	8,043	11,855	12,581	12,472
	17,087	21,475	20,573	19,565

Operating lease payments represent rentals payable by the Group for certain of its office properties and land use rights in the PRC and Hong Kong. Leases for the office properties are negotiated for an average term of three years. Lease for land use rights in the PRC and Hong Kong are negotiated for 3 to 20 years.

The Group as lessor

Property rental income earned during the year ended 31 March 2006, 2007, 2008 and six months ended 30 September 2008 were HK$3,724,000, HK$2,968,000, HK$18,107,000 and HK$8,049,000 respectively. Some of the properties held have committed tenants for one to two years.

At 31 March 2006, 2007, 2008 and six months ended 30 September 2008, the Group had contracted with tenants for the following future minimum lease payments:

	The Group			
				As at
		As at 31 March		30 September
	2006	2007	2008	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,921	1,732	9,341	9,544
In the second to fifth year inclusive	315	62	20,627	26,636
	2,236	1,794	29,968	36,180

47. RETIREMENT BENEFITS SCHEMES

(a) The Group operates Mandatory Provident Fund Scheme ("MPF Scheme") under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. The MPF Scheme comprises statutory and voluntary contribution. The Company contributes 5% of eligible employees' relevant aggregate income. No forfeited contributions for the year ended 31 March 2006, 2007, 2008 and six months ended 30 September 2008 respectively which are used to reduce the contributions during the Relevant Periods. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administrative fund. The Group's employer contributions vest ranging from 30% to 100% with the employees according to the years of employment except those employer contributions which are under the statutory requirement.

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

48. MATERIAL RELATED PARTY TRANSACTIONS

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

(i) Transaction with related parties

For the year ended 31 March 2006

(a) The Group paid interest amounting to HK$167,000 to a director of the Company's subsidiary.

(b) The Group paid interest amounting to HK$2,928,000 to a related company of the Company.

(c) The Group received rental income approximately HK$450,000 from a director of the Company.

For the year ended 31 March 2007

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

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

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

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

For the year ended 31 March 2008

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

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

(c) The Group entered into an acquisition agreement with Maxable International Enterprises Limited, which is a company wholly-owned by Ms. Wing, the wife of the brother-in-law of Mr. Zhang Yang ("Mr. Zhang"), a director of the Company, for the acquisition of 29.52% of the issued share capital of China Pipe at a consideration of HK$296,000,000. Details of the transactions are set out in the Company's announcement and circular dated 18 December 2007 and 15 April 2008 respectively.

(d) The Company entered into a subscription agreement with Mr. Zhang, a director of the Company, in relation to share subscription and grant of convertible note options.

Pursuant to the subscription agreement, the Company had conditionally agreed to (i) allot and issue the subscription shares (being a total 2,700,000,000 new shares) at the share subscription price (equivalent to HK$0.10 per subscription share) to Mr. Zhang and (ii) grant of the convertible note options at the premium of HK$20,000,000 after the completion of share subscription, being options to subscribe for the First Tranche Convertible Notes and the Second Tranche Convertible Notes at an initial conversion price.

For the six months ended 30 September 2008

(a) The Group paid interest amounting to HK$90,000 to a director of the Company's subsidiary.

(b) The Group paid interest amounting to HK$56,000 to a related company of the Company.

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

For the six months ended 30 September 2007 (unaudited)

(a) The Group paid interest amounting to HK$106,000 to a director of the Company's subsidiary.

(b) The Group paid interest amounting to HK$3,305,000 to a related company of the Company.

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

(d) The Company entered into a subscription agreement with Mr. Zhang, a director of the Company, in relation to share subscription and grant of convertible note options.

Pursuant to the subscription agreement, the Company had conditionally agreed to (i) allot and issue the subscription shares (being a total 2,700,000,000 new shares) at the share subscription price (equivalent to HK$0.10 per subscription share) to Mr. Zhang and (ii) grant of the convertible note options at the premium of HK$20,000,000 after the completion of share subscription, being options to subscribe for the First Tranche Convertible Notes and the Second Tranche Convertible Notes at an initial conversion price.

(ii) Compensation of key management personnel

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

	For the year ended 31 March			For the six months ended 30 September	
	2006	**2007**	**2008**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000 (Unaudited)*	*HK$'000*
Salaries and other short-term benefits	11,912	9,077	10,755	4,763	5,034
Share-based payment expenses	–	–	16,377	5,459	–
Pension scheme contributions	318	330	660	165	170
	12,230	9,407	27,792	10,387	5,204

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

49. FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash and cash equivalents, loan receivables, financial assets at fair value through profit or loss, trade and other payables, amount due to a related company, bank and other borrowings and derivative financial instruments. Details of these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Categories of financial instruments

	The Group			
	As at 31 March			As at 30 September
	2006	**2007**	**2008**	**2008**
	HK$'000 *(Restated)*	*HK$'000* *(Restated)*	*HK$'000*	*HK$'000*
Financial assets				
Loans and receivables (including bank balances and cash)	124,825	433,166	384,604	342,220
Financial assets at fair value through profit or loss	172	169	98	64
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	–	22,736	1,079
Amortised cost	709,275	797,019	667,583	741,585

Financial risk factors

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

(i) Market risk

(1) Foreign exchange risk

The Group operates mainly in both the PRC and Hong Kong and majority of transactions are dominated in Renminbi and Hong Kong dollars. Therefore, the Group is exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars.

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in RMB. At 31 March 2006, 2007, 2008 and 30 September 2008, if there is a 5% increase or decrease in the Hong Kong dollars against the RMB with all other variables held constant, the Group's translation reserve would be increased or decreased by approximately HK$25,707,000, HK$36,841,000, HK$53,820,000 and HK$60,807,000 respectively.

(2) Price risk

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

Sensitivity analysis

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

At 31 March 2006, 2007, 2008 and 30 September 2008, if the prices of the respective equity instruments have been 5% higher or lower, loss before taxation for the Group would be decreased or increased by approximately HK$9,000, HK$8,000, HK$5,000 and HK$3,000 respectively as a result of the changes on fair value of financial assets at fair value through profit or loss.

(ii) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise credit risk the Group has policies in place 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 the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk is significantly reduced.

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

(iii) Liquidity risk management

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

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

	Weighted average effective interest rate	Less than 1 year	Between 2 and 5 years	Over 5 years	Total contractual undiscounted cash flow	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2006						
Trade and other payables	–	189,504	100,042	2,646	292,192	292,192
Derivative financial instruments	–	–	–	–	–	–
Amount due to a related company	6.0%	477	–	–	477	450
Obligations under finance leases	7.7%	77	223	–	300	277
Bank and other borrowings	5.8%	227,289	121,197	70,362	418,848	406,531
		417,347	221,462	73,008	711,817	699,450
At 31 March 2007						
Trade and other payables	–	291,025	148,454	3,927	443,406	443,406
Convertible notes	–	4,587	–	–	4,587	4,587
Amount due to a related company	6.0%	472	–	–	472	444
Obligations under finance leases	10%	76	148	–	224	210
Bank and other borrowings	6.2%	145,635	135,433	83,551	364,619	353,169
		441,795	284,035	87,478	813,308	801,816
At 31 March 2008						
Trade and other payables	–	179,496	93,843	3,927	277,266	277,266
Derivative financial instruments	–	22,736	–	–	22,736	22,736
Amount due to a related company	6.0%	83,271	–	–	83,271	78,564
Bank and other borrowings	6.6%	107,166	140,446	63,874	311,486	299,988
		392,669	234,289	67,801	694,759	678,554

	Weighted average effective interest rate	Less than 1 year *HK$'000*	Between 2 and 5 years *HK$'000*	Over 5 years *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Total carrying amount *HK$'000*
At 30 September 2008						
Trade and other payables	–	153,157	90,091	3,780	247,028	247,028
Derivative financial instruments	–	1,079	–	–	1,079	1,079
Bank and other borrowings	8.9%	232,138	152,201	82,260	466,599	443,451
		386,374	242,292	86,040	714,706	691,558

(iv) Cash flow and fair value interest rate risk

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

Sensitivity analysis

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

If interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's loss for the year ended 31 March 2006, 2007, 2008 and for the six months ended 30 September 2008 would increase or decrease by approximately HK$7,770,000, HK$7,175,000, HK$5,018,000 and HK$6,000,000 respectively. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Fair value estimation

The fair value of financial 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 (for example, over-the counter derivatives) 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.

The fair values of the Group's financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. The directors of the Company consider that the carrying amounts of these financial assets and financial liabilities recorded at cost in the consolidated financial statements approximate their fair values.

Capital risk management

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

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

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

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

	The Group			
	As at 31 March			As at 30 September
	2006	2007	2008	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	*(Restated)*		
Total borrowings (note 34)	406,531	353,169	299,988	443,451
Less: Cash and bank balances	(16,894)	(159,430)	(30,193)	(24,643)
	389,637	193,739	269,795	418,808
Total equity	744,779	857,774	2,122,988	2,005,265
Gearing ratio	52%	23%	13%	21%

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATE

Details of the principal subsidiaries and associates as at the date of this report are as follows in which to give the details of other subsidiaries would, in the opinion of the directors, results in particular of excessive length:–

Particulars of principal subsidiaries

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 (Tianjin) Water Treatment Company Limited	PRC	–	*RMB530,753,285	100	–	Environmental proctection

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 %	
Interchina (Changsha) Investment & Management Company Limited@	PRC	–	*US$18,080,000	100	–	Property development
Changsha Interchina Star City Company Limited#	PRC	–	*RMB90,000,000	38.89	61.11	Property development
Hanzhong Shimen Water Supply Company Limited#	PRC	–	*RMB50,000,000	–	80	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 Water Treatment Limited	BVI	Ordinary	US$10,000	–	100	Investment holding
Interchina Property Agency Limited	Hong Kong	Ordinary	1	–	100	Real estate agency
General Water (Changli) Sewage Treatment Company Limited@	PRC	–	*RMB26,000,000	–	100	Sewage treatment
General Water (Maanshan) Sewage Treatment Company Limited@	PRC	–	*50,660,000	–	100	Sewage treatment
Hunan Fanxing International Enterprise Management Company Ltd@	PRC	–	*RMB20,000,000	–	100	Property management
Interchina Environmental Protection Company Limited	BVI	Ordinary	US$1	–	100	Investment holding
Interchina (Qinhuangdao) Sewage Treatment Company Limited@	PRC	–	*US$4,091,003	–	100	Sewage treatment
Success Flow International Limited	BVI	Ordinary	US$1	100	–	Investment holding
Guo Xin (China) Limited	Hong Kong	Ordinary	100	–	100	Investment holding
Beijing Long Bao Property Management Company Limited@	PRC	–	*RMB45,000,000	–	100	Property management
Money Capture Investments Limited	BVI	Ordinary	US$100	100	–	Investment holding
Shanghai Interchina Club Company Limited#	PRC	–	*US$769,210	–	100	Provision of entertainment services
Equal Smart Profits Limited	BVI	Ordinary	US$1	–	100	Property letting

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

Sino foreign equity joint venture
@ Wholly-owned foreign enterprise

Particulars of principal associate

Name of associate	Place of incorporation/ registration and operation	Class of share held	Paid-up issued ordinary shares *HK$*	Percentage of issued ordinary shares capital held by the Company *Directly*	Principal activities
China Pipe Group Limited	Bermuda	Ordinary	25,065,000	29.52%	Trading of construction material and provision of warehousing services

51. SUBSEQUENT EVENTS

(a) On 17 May 2007, the Group entered into a sale and purchase agreement (as supplemented by the supplemental agreement dated 29 June 2007, the second supplemental agreement dated 15 November 2007 and the third supplemental agreement dated 17 December 2007) with Heilong Group Limited in relation to the sale and purchase of approximately 70.21% of the issued share capital of Black Dragon at the aggregate consideration of RMB420,000,000. Details of such acquisition are set out in the Company's circular dated 31 January 2008. As at the date of report, the acquisition of 70.21% of the issued share capital of Black Dragon has not been completed.

On 10 December 2008, the China Securities Regulatory Commission has granted several approvals for the restructuring proposal of Black Dragon and acquisition of Black Dragon by the Group. Details of which were set out in the Company's announcement dated 12 December 2008.

(b) On 3 August 2008, the Group entered into a sale and purchase agreement with Guangzhou Guang Yu Enterprise Limited in relation to disposal of three parcels of land located in the PRC at consideration of approximately RMB474,267,000, which shall be satisfied in cash. Such disposal was approved by the shareholders of the Company at an extraordinary general meeting held on 19 September 2008.

Pursuant to the agreement, (i) the purchaser was entitled to conduct a due diligence review on the lands within 5 business days after the date of the agreement; and (ii) a deposit of approximately RMB60,000,000 is payable within 3 business days after completion of the due diligence review. However, the Group has not received any reply from the purchaser. Accordingly, the board of directors considers it in the best interests of the Company and the shareholders of the Company as a whole to terminate such disposal transaction. A notice of termination was sent to the purchaser on 31 October 2008. Details of which were set out in the Company's announcement dated 4 November 2008.

(c) On 15 October 2008, the Group entered into a sale and purchase agreement with Singapore Zhongxin in relation to disposal of 3,700,000,000 shares of HK$0.002 each in the capital of China Pipe held by the Company at consideration of HK$74,000,000, which shall be satisfied by cash. Details of which were set out in the Company's announcement dated 17 October 2008.

The disposal has not yet been completed at the date of this report and is subject to the shareholders' approval after the balance sheet date.

Included in the consolidated income statements of the Group are the following results attributable to Chna Pipe during the period from 15 July 2008 (the date of acquisition of China Pipe) to 30 September 2008 since its acquisition:

	For the six months ended 30 September 2008 *HK$'000*
Share of results of an associate	3,146
Impairment loss recognised in respect of an associate	(225,146)
	(222,000)

Included in the consolidated balance sheets of the Group are the following assets and liabilities attributable to China Pipe as at 30 September 2008 since its acquisition:

	As at 30 September 2008
	HK$'000
Non-current assets	
Interest in an associate	74,000

Included in the consolidated cash flow statements of the Group are the following cash flow statement items attributable to China Pipe during the period from 15 July 2008 (the date of acquisition of China Pipe) to 30 September 2008 since its acquisition:

	For the six months ended 30 September 2008
	HK$'000
Cash flows from operating activities	
Adjustments for:	
Share of result of an associate	(3,146)
Impairment loss recognised in respect of an associate	225,146
Net cash generated from operating activities	222,000
Cash flows from investing activities	
Acquisition of an associate	(296,000)
Net decrease in cash and cash equivalents	(74,000)

(d) On 10 December 2008, the Company entered into a sale and purchase agreement with Shanghai Fanghua Shiye Development Limited in relation to a disposal 100% equity interest of Interchina (Changsha) Investments and Management Company Limited (the "ICIM"), 38.9% equity interest of Changsha Interchina Star City Company Limited and the non-interest bearing loan from ICIM to the Company at a total consideration of approximately RMB330,000,000, which will be settled in cash. Details of which were set out in the Company's announcement dated 12 December 2008.

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiary companies in respect of any period subsequent to 30 September 2008 up to the date of this report. In addition, no dividend or distribution has been declared, made or paid by the Company or any of its subsidiary companies in respect of any period subsequent to 30 September 2008.

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

2. INDEBTEDNESS

Borrowings

As at the close of business on 30 November 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 subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2008, being the date to which the latest audited consolidated financial statement of the Company have been made up) had outstanding borrowings of approximately HK$1,004,966,000 comprised of bank and other borrowings of approximately HK$711,610,000 which are guaranteed and secured, bank borrowing of approximately HK$49,425,000 which were guaranteed but not secured and approximately HK$243,872,000 which were secured but not guaranteed, other borrowings of approximately HK$59,000 which was due to a related company and was unsecured and not guaranteed.

The secured guaranteed bank and other borrowings of approximately HK$711,610,000 at the close of business on 30 November 2008 were guaranteed by (Heilong Group Limited), the ultimate holding company of Black Dragon, (Qiqihaer Paper Manufacturing Company Limited), 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 guaranteed bank and other borrowings of approximately HK$711,610,000 upon completion of acquisition of 70.21% of the issued share capital of Black Dragon by the Group.

Save as referred to above and apart from intra-group liabilities, the Group (including any company which will become subsidiary of the company by reason of an acquisition which has been agreed or proposed since 31 March 2008, being the date to which the latest audited consolidated financial statements of the Company have been made up) did not have any debt securities issued and outstanding or authorised or otherwise created but unissued, term loan, bank overdrafts, loan or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees, convertible bonds or other material contingent liabilities as at the close of business of 30 November 2008.

The Directors confirmed that there had been no material change in the indebtedness and contingent liabilities of the Group (including any company which will become subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2008, being the date to which the latest audited consolidated financial statements of the Company have been made up) since 30 November 2008.

3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP (INCLUDING ANY COMPANY WHICH WILL BECOME SUBSIDIARY OF THE COMPANY BY REASON OF AN ACQUISITION WHICH HAS BEEN AGREED OR PROPOSED SINCE 31 MARCH 2008, BEING THE DATE TO WHICH THE LATEST AUDITED CONSOLIDATED FINANCIAL STATEMENT OF THE COMPANY HAVE BEEN MADE UP)

As mentioned in the 2008 annual report of the Company, for the year ended 31 March 2008, the Group had continued to focus on environmental protection and water treatment operations as well as property development and investment and securities and financial operations. The investment in China Pipe as an associate of the Company is only a strategic investment of the Group. Therefore, the Disposal would not have any material effect to the principal businesses of the Group. Following Completion, the Group will concentrate its investment in environmental protection and water treatment operations as core business of the Group. With the completion of the acquisition of 70.21% interests in Black Dragon, the treatment capacity of the Group's environmental protection and water treatment operation will increase to 600,000 tonnes per day, and the revenue will substantially increase. The Group will continue to seek opportunities of merger and acquisition of quality water treatment projects and to further increase its investment in environmental protection and water treatment operation, so as to keep on expanding the development scale of environmental protection and water treatment operations of the Group.

4. DISCUSSION AND ANALYSIS OF PERFORMANCE OF THE GROUP

(1) 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$146,594,000 (2005: HK$225,003,000), representing a decrease of 34.85% compared with the corresponding period of last year. Loss attributable to shareholders was HK$92,803,000 (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.

Capital structure, liquidity, financial resources and gearing ratio

As at 31 March 2006, total assets of the Group valued at HK$1,476,926,000 (2005: restated HK$1,660,291,000), representing a decrease of 11.04% 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) 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 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 27.53% (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 and interests in leasehold land and land use rights.

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% per annum 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 operation brought a total income of HK$84,685,000 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 that 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 that 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 improvement in the standard of living for the people, city development and investment has become an integral part of the development of the PRC. After years of investment and development, the Group's city development and investment operation has already been set on the 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") has 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) is 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 are nearly completed.

The development project located 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 of Shanghai with a central business area, municipal urban area and industrial development area. The Real estate sector of the 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 potential developers for the 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 which is 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 property investments 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 provided 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.

On 31 March 2006, the Company had given an unconditional guarantee to a bank to secure banking facilities 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 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).

Detail of future plans for material investment or capital

As at 31 March 2006, the Group did not have any detail of future plans for material investment or capital.

Employment and remuneration policy

As at 31 March 2006, the Group had a total of 248 employees in the PRC and Hong Kong. To maintain the Group's competitiveness, salary adjustments and award of bonus for staff are subject to the performance of individual staff members. Apart from offering a retirement benefit scheme for its staff, the Group also provides staff with various training and development programs.

(2) 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$131,995,000 (2006: HK$146,594,000), representing a decrease of 9.96% compared with the corresponding period of last year. Loss attributable to shareholders was HK$18,252,000 (2006: HK$92,803,000). 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 increased 65.38% as compared with the corresponding period last year.

Capital structure, liquidity, financial resources and gearing ratio

As at 31 March 2007, total assets of the Group valued at HK$1,694,083,000 (2006: HK$1,476,926,000), representing an increase of 14.70% as compared with those as at 31 March 2006.

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 shareholders' loan due from its wholly-owned subsidiary, which held a property development project located in Xian, at a consideration of HK$48,100,000 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 outstanding bank and other borrowings were HK$353,169,000 (2006: HK$406,531,000) which mainly comprised of 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 20.87% (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 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 potential development of water supply and sewage treatment projects. 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 total income of HK$141,983,000 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 had 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 for the merger and acquisition of quality water treatment projects, to further increase the strength of investing in environmental protection and water treatment operation, so as to expand the development scale of environmental protection and water treatment operation of the 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 the 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 developers 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, the PRC in 2006 (details as set out in 2006 annual report). The People's Court at Changsha made judgement in favour of the Group, and the Group 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 liabilities.

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 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).

Detail of future plans for material investment or capital

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

Employment and remuneration policy

As at 31 March 2007, the Group had a total of 168 employees in the PRC and Hong Kong. To maintain the Group's competitiveness, salary adjustments and award of bonus for staff are subject to the performance of individual staff members. Apart from offering a retirement benefit scheme for its staff, the Group also provides staff with various training and development programs.

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

Financial review

The Group's turnover for the year ended 31 March 2008 amounted to HK$67,868,000 (2007: HK$131,995,000), representing a decrease of 48.6% as compared with last year. The Group's loss attributable to shareholders for the year was HK$39,762,000 (2007: HK$18,252,000), representing an increase of 117.9% as compared with last year. The main reason was the recognition by the Company of a share-based payment expense of HK$32,986,000 (2007: Nil) based on the fair value of the share options granted in respect of the share option scheme during the year in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") 2 "Share-based Payment", for which loss attributable to the shareholders increased significantly as compared with last year. Also, loss attributable to the shareholders last year included recognised gain of HK$48,448,000 on disposal of subsidiaries. By excluding the effects of the share-based payment expense and the gain on disposal of subsidiaries, the loss for the year would be decreased by 77.3% as compared with last year.

Capital structure, liquidity, financial resources and gearing ratio

As at 31 March 2008, total assets of the Group valued at HK$2,833,986,000 (2007: HK$1,694,083,000), representing an increase of 67.2% as compared with those as at 31 March 2007.

As at 31 March 2008, the Group's cash on hand and deposits in bank (including segregated and trust accounts) totaled approximately HK$34,539,000 (2007: HK$245,840,000), representing a decrease of 86.0% against the balance as at 31 March 2007. Approximately 78.3% of the deposits were denominated in Hong Kong dollars while the remaining balance in Renminbi. The Group's outstanding bank borrowings were HK$299,988,000 (2007: HK$353,169,000) which mainly comprised bank borrowings of approximately HK$100,357,000 repayable within one year, and HK$199,631,000 of bank borrowings repayable after one year. In addition, the Group's 2-year convertible notes amounted to nil (2007: HK$4,587,000). The gearing ratio was 13.36% (total borrowings/total assets). As at 31 March 2008, approximately 9.3% of the Group's bank borrowings were denominated in Hong Kong dollars while the rest in Renminbi. The Group's bank borrowings were arranged on fixed or floating rate basis of which approximately 84.1% were secured by the Group's investment properties, property, plant and equipment and interests in leasehold land.

During the year, the Group's financial resources mainly comprised of cash inflow generated by its business operations, 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 interest of the shareholders of the Group and at minimum financing cost.

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

In September 2007, the authorised share capital of the Company was increased from HK$1,000,000,000 divided into 10,000,000,000 shares to HK$4,000,000,000 divided into 40,000,000,000 shares. Pursuant to the share subscription agreement dated 5 July 2007, the Company completed the issue of 2,700,000,000 new shares of HK$0.1 each and granted options to subscribe for two tranches of convertible notes for a total of HK$1,850,000,000. Since October 2007 to 31 December 2007, the Company issued 5-year convertible notes bearing interest at 3% p.a. convertible into a total of 6,500,000,000 shares of HK$0.1 each in respect of the first tranche convertible note options, and all of the convertible notes had been converted into share capital during the year. The net proceeds in the sum of approximately HK$930,000,000 (after deducting expenses of issuing new shares and convertible notes) were mainly used as working capital for environmental protection and water treatment, city development operation and property investment. In addition, subsequent to the end of the year, and as of 30 June 2008, the Company issued 5-year convertible notes bearing interest at 3% p.a. convertible into a total of 3,000,000,000 shares of HK$0.1 each in respect of the second tranche convertible note options, and all of the convertible notes had been converted into share capital. The outstanding convertible note options amounted to HK$900,000,000. Details of which were set out in the convertible bonds monthly announcement published on 2 July 2008. The proceeds from the above issue were mainly applied as usual working capital.

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

Exchange rate exposure

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

Business review, prospects, and material acquisition and disposals

Environmental Protection and Water Treatment Operation

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

In order to accelerate the pace of business development, the Group acquired 70.21% equity interest of Heilongjiang Black Dragon Company Limited ("Black Dragon") (stock code: 600187, its shares are listed on the Shanghai Stock Exchange but are currently suspended for trading) during the year and engaged in a series of activities for the resumption of trading in the shares of Black Dragon. These activities included the grant of loans to Black Dragon for the acquisition of water treatment projects so as to complete the business restructuring, and conducted the share reform scheme for Black Dragon in the capacity as the potential substantial shareholder of Black Dragon. Upon the completion of the acquisition, Black Dragon will own two water treatment projects in Shaanxi Province, and one in Qinghai Province, with a daily aggregate sewage treatment capacity of 280,000 tonnes. The Group planned to provide an additional financing platform through the water treatment operations offered to the Group by Black Dragon, so as to further expand the scale of development in the environmental protection and water treatment operations of the Group. The relevant procedures for approving the acquisition of Black Dragon are in final stage. On the other hand, the Group continued to accelerate the pace in the development of existing projects according to the plans as set for the water operations project, the progresses for which had been satisfactory. The sewage treatment project located at Changli, Hebei Province, with a sewage treatment capacity of 40,000 tonnes on average per day, will be completed in October 2008, and commence trial operation in water treatment. It is expected to bring revenue to the Group in due course. 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 Qinhuangdao and Ma'anshan sewage treatment plants as well as the water treatment projects owned by Black Dragon, it is expected that upon the commencement of operations of both Changli sewage treatment plant as well as the water supply plant in Hanzhong City, the treatment capacity of the Group's environmental protection and water treatment operation will increase to 600,000 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. The Group will continue to seek opportunities for the merger and acquisition of quality water treatment projects, to further increase its investment in environmental protection and water treatment operation, so as to keep on expanding the development scale of environmental protection and water treatment operation of the 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 of three phases. The total land use area is about 290,000 square meters, of which 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. Completion and inspection procedures are now being conducted for Wang Guo Commercial Plaza. The structural works for the four hotel equities were completed. It is expected to complete construction and conduct completion and inspection procedures by mid-2009.

Currently, the PRC government has imposed a series of macro-economic control measures on real estate industries. As the control had been imposed for a certain period of time, there had been certain effect on the real estate industries, and further placed risks to investing in that industry. Therefore, the Group is negotiating with competent developers and strategic partners for different possible means of cooperation, in order to reduce the risk of investment to the minimum. Where there are suitable opportunities, the Group does not eliminate the possibility of selling the development project in Changsha.

Property Investment Operation

During the year, the Group's property investment operation is mainly comprised of the leasing of retail properties and offices in Beijing and Shanghai, the PRC. The turnover for this operation in 2008 was HK$18,107,000, representing an increase of 510.0% compared with last year.

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

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

Securities and Financial Operation

The Group's securities and futures operation generated commission and interest income from clients amounting to HK$13,662,000 (2007: HK$5,027,000), representing an increase of 171.8% as compared with the corresponding period last year, which is mainly attributable to the development of securities operation driven by the continuous economic growth in Hong Kong. However, the 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.

Strategic Investment

In July 2008, the Group successfully completed the acquisition of 29.52% equity interest of China Pipe. China Pipe is principally engaged in trading and distribution of construction materials (mainly pipes and pipe components) with an annual turnover exceeding HK$600,000,000. It will provide stable return for the Group.

Contingent liabilities

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

Pledge of Group's Assets

As at 31 March 2008, the Group's assets were pledged as security for its liabilities, comprising investment properties with a net book value of HK$62,611,000 (2007: HK$65,852,000) and interests in leasehold land with a net book value of HK$41,938,000 (2007: HK$38,638,000).

Detail of future plans for material investment or capital

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

Employment and Remuneration Policy

As at 31 March 2008, the Group had a total of 240 employees in the PRC and Hong Kong. To maintain the Group's competitiveness, salary adjustments and award of bonus for staff are subject to the performance of individual staff members. Apart from offering retirement benefit scheme, share option scheme and medical insurance for its staff, the 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 amounted to HK$18,927,000 (2006: HK$14,817,000), representing an increase of 27.73% as compared with the corresponding period last year. Loss attributable to shareholders was HK$53,546,000 (2006: HK$8,985,000), representing an increase of 495.95% 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.

Capital structure, liquidity, financial resources and gearing ratio

As at 30 September 2007, total assets of the Group valued at HK$1,969,949,000 (31 March 2007: HK$1,694,083,000), representing an increase of 10.8% as compared with those as at 31 March 2007.

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.

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 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 16.7% (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 and interests in leasehold land.

Foreign exchange exposure

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

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 total income of HK$25,981,000 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 "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 interests in leasehold land with a net book value of HK$39,543,000 (31 March 2007: HK$38,638,000).

Detail of future plans for material investment or capital

On 17 May 2007, the Group entered into a sale and purchase agreement (as supplemented by the supplemental agreement dated 29 June 2007, the second supplemental agreement dated 15 November 2007 and the third supplemental agreement dated 17 December 2007) with (Heilong Group Limited) in relation to the sale and purchase of approximately 70.21% of the issued share capital of Black Dragon at the aggregate consideration of RMB420,000,000. Black Dragon was established in the PRC on 3 November 1998 with limited liability and its A shares are listed on the Shanghai Stock Exchange. Its principal activities are manufacturing and marketing of paper products. The acquisition constitutes a major transaction of the Company under the Listing Rules and therefore is subject to approval by the Shareholders. As at 30 September 2007, the acquisition of 70.21% of Black Dragon has not been completed. As at 30 September 2007, part of consideration of RMB35,000,000 has been paid and the remaining balance of RMB385,000,000 million will be paid upon completion of the acquisition by its internal resources.

Save as disclosed above, the Directors do not have any future plans for material investment or capital assets.

Employment and Remuneration Policy

As at 30 September 2007, the Group had a total of 150 employees in the PRC and Hong Kong. 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.

(5) Business review for the six months ended 30 September 2008

Financial review

The Group's turnover for the six months ended 30 September 2008 amounted to HK$27,476,000, of which, HK$9,485,000 was attributable to the environmental protection and water treatment operations, HK$8,049,000 was attributable to the property investment operations and HK$9,942,000 was attributable to the securities and financial operations. There were certain city development and investment projects in the PRC remaining under construction during the period. No revenue had been recorded from such projects yet.

Loss attributable to shareholders was HK$477,302,000, which was mainly due to an unrealised fair value loss of HK$270,702,000 on the Group's property investment and an impairment loss of HK$225,146,000 on the investment in China Pipe. By excluding the effects of the above losses, the Group recorded operating profit of HK$18,546,000.

Capital structure, liquidity, financial resources and gearing ratio

As at 30 September 2008, the total assets of the Group amounted to HK$2,736,833,000.

As at 30 September 2008, the Group had outstanding borrowings of HK$443,451,000 comprising secured bank and other borrowings of HK$394,026,000 and unsecured bank borrowings of HK$49,425,000, whereby 77.3% of the Group's outstanding borrowings carried interest on a floating rate basis while the remaining 22.7% were at fixed interest rate. The gearing ratio was 16.2% (total outstanding borrowings/total assets). The maturity profile of the outstanding borrowings was spread over a period of more than five years with HK$220,622,000 repayable within one year, HK$144,650,000 repayable after one year but within five years and HK$78,179,000 repayable after five years. The Group's secured bank borrowings were secured by the Group's investment properties, property, plant and equipment, interest in leasehold land and equity interest in an associate.

The Group's principal assets, liabilities, revenue and payments are denominated in Hong Kong dollars and Renminbi. As at 30 September 2008, 43.9% of the Group's cash on hand and deposits in bank was held in Hong Kong dollars and 56.1% in Renminbi; whereas 28.7% of the Group's outstanding borrowings was denominated in Hong Kong dollars and the rest in Renminbi.

As at 30 September 2008, the issued capital of the Company was 20,286,193,632 Shares and Shareholders' equity amounted to HK$2,005,265,000. There will not be any change in the capital structure of the Company upon Completion.

Foreign exchange exposure

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

Business review, prospect, and material acquisition and disposals

Environmental Protection and Water Treatment Operation

During the period under review, the sewage treatment capacity for the environmental protection and sewage treatment projects of the Group that had commenced operation amounted to 180,000 tonnes on average per day. The total income increased by 12.6% to HK$29,244,000.

In order to accelerate the pace of business development, the Group acquired 70.21% equity interest of Black Dragon (stock code: 600187, its shares are listed on the Shanghai Stock Exchange and have been suspended from trading) at the beginning of 2007 and engaged in a series of activities for the resumption of trading in the shares of Black Dragon (the "Acquisition"). These activities included the grant of loans to Black Dragon for the acquisition of water treatment projects so as to complete the business restructuring, and conducted the share reform scheme for Black Dragon in the capacity as the potential substantial shareholder of Black Dragon. The approval of the Acquisition has been obtained from Ministry of Commerce of the PRC on 1 September 2008 and the final approval regarding the assets restructuring of Black Dragon and the waiver of the obligations to make the general offer by the Group (if any) has been obtained from the China Securities Regulatory Commission on 10 December 2008. Black Dragon owns two water treatment projects in Shaanxi Province, and one in Qinghai Province, with a daily aggregate sewage treatment capacity of 280,000 tonnes. Upon completion of the Acquisition, the treatment capacity of the Group's environmental protection and water treatment operation will increase to 600,000 tonnes per day, and the revenue will substantially increase. On the other hand, the sewage treatment project located at Changli, Hebei Province, with a sewage treatment capacity of 40,000 tonnes on average per day, will be completed in the first quarter of 2009, and commence trial operation in water treatment, which will bring revenue to the Group.

The Group planned to provide through Black Dragon an additional financing platform for the environmental protection and water treatment operations of the Group, so as to further expand the scale of development in the environmental protection and water treatment operations of the Group. 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 for the merger and acquisition of quality water treatment projects, to further increase its investment in environmental protection and water treatment operation, so as to keep on expanding the development scale of environmental protection and water treatment operation of the Group.

City Development and Investment Operation

With the impacts of the global economic downturn and a series of macro-economic control measures, the Interchina Mall – the Group's mega-scale luxurious residential and commercial complex in Changsha has recorded impairment loss of HK$120,508,000 in properties under development for sale.

In light of the introduction of macroeconomic control measures on property developers in the PRC and the recent stagnation in the economy, uncertainty of investment in property development in the PRC have increased. The huge capital needed to continue the development of the project also increased the risks of investment and reduced the financial resources available to other core business operation of the Group. As a result, in December this year, the Group disposed its entire interests in and shareholders' loan due from two wholly-owned subsidiaries, which held property development projects located in Changsha at a total consideration of RMB330,000,000 (the "Disposal"), to enhance the working capital of the Group. Details of the transactions were set out in the Company's announcement dated 12 December 2008.

After completion of the Disposal, the Group will cease to be engaged in the city development and investment operation and will concentrate its resources on developing its core environmental protection and water treatment operation.

Property Investment Operation

During the period under review, the turnover for the Group's property investment operation increased 62.4% to HK$8,049,000. The Group's investment properties are mainly comprised of a shopping mall of about 18,000 square meters in the CBD of Shanghai, the PRC and a commercial unit of about 9,000 square meters in the CBD of Beijing, the PRC.

During the Period, the Group's investment properties recorded decrease in fair value and revaluation loss of approximately HK$150,194,000. The revaluation loss was non-cash and had no material impact on the Group's finance and business.

Securities and Financial Operation

During the period under review, the turnover of the Group's securities and financial operation increased 110.6% to HK$9,942,000, which is mainly attributable to the increase in interest income. 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 arising from the fluctuation of the stock market.

Strategic Investment

On 15 October 2008, the Group entered into a sale and purchase agreement with Singapore Zhongxin in relation to disposal of 3,700,000,000 shares of HK$0.002 each in the capital of China Pipe held by the Company at consideration of HK$74,000,000, which shall be satisfied by cash. Details of which were set out in the Company's announcement dated 17 October 2008.

The disposal has not yet been completed at the date of this report and is subject to the shareholders' approval after the balance sheet date.

Contingent liabilities

As at 30 September 2008, the Group has no material contingent liabilities.

Pledge of Group's assets

As at 30 September 2008, the Group's assets were pledged as security for its bank borrowings, comprising of investment properties of approximately HK$166,868,000 and interest in leasehold land of approximately HK$43,093,000. In addition, shares of an associate held by the Group were also pledged to secure loan facilities granted to the Group.

Detail of future plans for material investment or capital

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

Save as disclosed above, the Directors do not have any future plans for material investment or capital assets.

Employment and remuneration policy

As at 30 September 2008, the Group had a total of 240 employees in the PRC and Hong Kong. To maintain the Remaining Group's competitiveness, salary adjustments and award of bonus for staff are subject to the performance of individual staff members. Apart from offering retirement benefit scheme, share option scheme and medical insurance for its staff, the Remaining Group also provides staff with various training and development programmes.

5. WORKING CAPITAL

The Directors, after due and careful enquiry, were of the opinion that taking into account of the Group's (including any company which will become subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2008, being the date to which the latest audited consolidated financial statements of the Company have been made up) present available internal resources, the Group (including any company which will become subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2008, 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.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2008, the date to which the latest published audited consolidated financial statements of the Group had been made up.

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

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

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

2 January 2009

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

Dear Sirs,

We report on the unaudited pro forma financial information of Interchina Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), set out on pages 164 to 171 under the headings of "Unaudited Pro Forma Financial Information of the Remaining Group" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's circular dated 2 January 2009 (the "Circular") in connection with the proposed disposal of approximately 29.52% of the issued share capital of China Pipe Group Limited ("China Pipe") by the Company (the "Disposal"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Disposal might have affected the relevant financial information presented, for inclusion in Appendix II of the Circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 164 of this Circular.

Respective responsibilities of directors of the Company and Reporting Accountants

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

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

Basis of opinion

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

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

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

– the financial position of the Remaining Group (the Group excluding interests in an associate) as at 30 September 2008 or any future date, or

– the results and cash flows of the Remaining Group for the six months ended 30 September 2008 or any future periods.

Opinion

In our opinion:

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

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

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

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

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

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

The following is the unaudited pro forma financial information of the Remaining Group as if the Disposal had taken place on 30 September 2008 for the unaudited pro forma consolidated balance sheet and on 1 April 2008 for the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement.

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

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

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

The following is the unaudited pro forma consolidated balance sheet of the Remaining Group, assuming that the Disposal had been completed on 30 September 2008. The unaudited pro forma consolidated balance sheet is based on the audited consolidated balance sheet of the Group as at 30 September 2008 as set out in Appendix I to this Circular. Such information is adjusted to reflect the effect of the Disposal.

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

	The Group as at 30 September 2008	**Pro forma adjustment**	*Notes*	**The Remaining Group as at 30 September 2008**
	HK$'000	*HK$'000*		*HK$'000*
Non-current assets				
Investment properties	489,500			489,500
Interests in leasehold land and land use rights	43,093			43,093
Property, plant and equipment	252,068			252,068
Intangible assets	125,779			125,779
Other financial assets	352,943			352,943
Interests in associates	74,000	(74,000)	*1(a)*	–
Goodwill	–			–
Other non-current assets	2,394			2,394
	1,339,777			1,265,777
Current assets				
Properties under development for sale	532,184			532,184
Inventories	891			891
Trade and other receivables and prepayments	712,914			712,914
Loan receivables – due within one year	121,711			121,711
Financial assets at fair value through profit or loss	64			64
Bank balance – trust and segregated accounts	4,649			4,649
Cash and cash equivalents	24,643	73,000	*1(b)*	97,643
	1,397,056			1,470,056

	The Group as at 30 September 2008	Pro forma adjustment	Notes	The Remaining Group as at 30 September 2008
	HK$'000	*HK$'000*		*HK$'000*
Current liabilities				
Trade and other payables and deposits received	247,028			247,028
Tax payable	3,130			3,130
Derivative financial instruments	1,079			1,079
Bank borrowings – due within one year	120,005			120,005
Other borrowings – due within one year	100,617			100,617
	471,859			471,859
Net current assets	925,197			998,197
Total assets less current liabilities	2,264,974			2,263,974
Equity				
Share capital	2,028,619			2,028,619
Share premium and reserves	(23,354)	(1,000)	*1(c)*	(24,354)
Equity attributable to ordinary equity holders of the Company	2,005,265			2,004,265
Minority interests	9,232			9,232
	2,014,497			2,013,497
Non-current liabilities				
Bank borrowings – due after one year	222,829			222,829
Deferred tax liabilities	27,648			27,648
	250,477			250,477
	2,264,974			2,263,974

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

The following is the unaudited pro forma consolidated income statement of the Remaining Group, assuming that the Disposal had been completed on 1 April 2008. The unaudited pro forma consolidated income statement is based on the audited consolidated income statement of the Group for the six months ended 30 September 2008 as set out in Appendix I to this Circular. Such information is adjusted to reflect the effect of the Disposal.

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

	The Group for the six months ended 30 September 2008	**Pro forma adjustment**	*Notes*	**The Remaining Group for the six months ended 30 September 2008**
	HK$'000	*HK$'000*		*HK$'000*
Turnover	27,476			27,476
Cost of sales	(8,423)			(8,423)
Other revenue	964			964
Interest income	19,935			19,935
Staff costs	(13,611)			(13,611)
Amortisation and depreciation	(1,760)			(1,760)
Administrative costs	(14,543)			(14,543)
Impairment loss recognised in respect of goodwill	(11,006)			(11,006)
Impairment loss recognised in respect of an associate	(225,146)	3,146	*2*	(222,000)
Impairment loss recognised in respect of properties under development for sale	(120,508)			(120,508)
Fair value change in derivative financial instruments	16,629			16,629
Fair value change in investment properties	(150,194)			(150,194)
Loss from operations	(480,187)			(477,041)
Finance costs	(13,676)			(13,676)
Loss on disposal of an associate	–	(1,000)	*1(c)*	(1,000)
Share of results of an associate	3,146	(3,146)	*2*	–
Loss before taxation	(490,717)			(491,717)
Taxation	13,335			13,335
Loss for the period	(477,382)			(478,382)

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

The following is the unaudited pro forma consolidated cash flow statement of the Remaining Group, assuming that the Disposal had been completed on 1 April 2008. The unaudited pro forma consolidated cash flow statement is based on the audited consolidated cash flow statement of the Group for the six months ended 30 September 2008 as set out in Appendix I to this Circular. Such information is adjusted to reflect the effect of the Disposal.

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

	The Group for the six months ended 30 September 2008	**Pro forma adjustment**	*Notes*	**The Remaining Group for the six months ended 30 September 2008**
	HK$'000	*HK$'000*		*HK$'000*
OPERATING ACTIVITIES				
Loss before taxation	(490,717)	(1,000)	*1(c)*	(491,717)
Adjustments for:				
Depreciation of property, plant and equipment	1,427			1,427
Amortisation of interests in leasehold land and land use rights	333			333
Impairment loss recognised in respect of goodwill	11,006			11,006
Impairment loss recognised in respect of an associate	225,146	(3,146)	*2*	222,000
Impairment loss recognised in respect of properties under development for sale	120,508			120,508
Fair value change in derivative financial instruments	(16,629)			(16,629)
Fair value change in investment properties	150,194			150,194
Interest income	(19,935)			(19,935)
Loss on disposal of an associate	–	1,000	*1(c)*	1,000
Share of results of an associate	(3,146)	3,146	*2*	–
Interest expenses	13,676			13,676

	The Group for the six months ended 30 September 2008	Pro forma adjustment	Notes	The Remaining Group for the six months ended 30 September 2008
	HK$'000	*HK$'000*		*HK$'000*
Operating cash flows before movements in working capital	(8,137)			(8,137)
Increase in properties under development for sale	(24,022)			(24,022)
Increase in other financial assets	(2,845)			(2,845)
Increase in inventories	(47)			(47)
Increase in loan receivables	(59,812)			(59,812)
Decrease in trade and other receivables and prepayments	22,993			22,993
Increase in intangible assets	(8,906)			(8,906)
Decrease in financial assets at fair value through profit or loss	34			34
Increase in bank trust and segregated accounts	(303)			(303)
Decrease in trade and other payables and deposits received	(10,321)			(10,321)
Decrease in amount due to a related company	(78,564)			(78,564)
Cash used in operations	(169,930)			(169,930)
Profits tax refund	1,063			1,063
Interest received	19,935			19,935
Net cash used in operating activities	(148,932)			(148,932)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(5,553)			(5,553)
Proceeds on disposal of property, plant and equipment	47			47
Acquisition of an associate	(296,000)			(296,000)
Proceeds on disposal of an associate	–	73,000	*3*	73,000
Net refund in other non-current assets	7			7
Net cash used in investing activities	(301,499)			(228,499)

	The Group for the six months ended 30 September 2008	Pro forma adjustment	*Notes*	The Remaining Group for the six months ended 30 September 2008
	HK$'000	*HK$'000*		*HK$'000*
FINANCING ACTIVITIES				
Interest paid	(13,676)			(13,676)
New bank loan raised	37,447			37,447
New other loan raised	103,164			103,164
Repayment of other loans	(3,984)			(3,984)
Repayment of bank loans	(2,548)			(2,548)
Proceeds from issue of convertible notes	300,000			300,000
Net cash generated from financing activities	420,403			420,403
Net decrease in cash and cash equivalents	(30,028)			42,972
Cash and cash equivalents at the beginning of the period	30,193			30,193
Effect of foreign exchange rate changes	24,478			24,478
Cash and cash equivalents at the end of the period	24,643			97,643
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	29,292	73,000	*3*	102,292
Less: Bank balances – trust and segregated accounts	(4,649)			(4,649)
	24,643			97,643

Notes to the Unaudited Pro Forma Financial Information

1. (a) The pro forma adjustment represented the disposal of 29.52% issued share capital of China Pipe held by the Group as at 30 September 2008, assuming the Disposal took place on 30 September 2008. This pro forma adjustment is not expected to have a continuing effect on the Remaining Group.

   (b) The pro forma adjustment on cash and cash equivalents represented the net cash inflow from the Disposal, which was calculated based on gross cash proceeds from the Disposal of approximately HK$74,000,000 less an estimated transaction cost directly attributable to the Disposal of approximately HK$1,000,000. This pro forma adjustment is not expected to have a continuing effect on the Remaining Group.

   (c) The pro forma adjustment represented the loss on the Disposal, which was calculated as the difference between the net proceeds of approximately HK$73,000,000 and the carrying amount of the associate of approximately HK$74,000,000. This pro forma adjustment is not expected to have a continuing effect on the Remaining Group.

2. The pro forma adjustment represented exclusion of share of results of an associate for the six months ended 30 September 2008, assuming the Disposal took place on 1 April 2008. This pro forma adjustment is not expected to have a continuing effect on the Remaining Group.

3. The pro forma adjustment represented the net cash inflow from the Disposal of approximately HK$73,000,000, assuming the Disposal took place on 1 April 2008. The net cash inflow from the Disposal was calculated based on gross cash proceeds of approximately HK$74,000,000 less an estimated transaction costs directly attributable to the Disposal of approximately HK$1,000,000. This pro forma adjustment is not expected to have a continuing effect on the Remaining Group.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange were as follows:

Name	Name of company in which interests or short positions were held	Nature of interests	Number of shares	Approximate % of shareholding
Mr. Zhang	The Company	Interests of controlled corporation *(Note 1)*	103,495,000 Shares (L)	0.51%
	The Company	Beneficial owner *(Note 2)*	12,636,370,000 Shares (L)	62.29%
Lam Cheung Shing, Richard	The Company	Beneficial owner	77,000,000 Shares (L)	0.38%
Chan Wing Yuen, Hubert	The Company	Beneficial owner	77,000,000 Shares (L)	0.38%
Ha Ping	The Company	Beneficial owner *(Note 3)*	5,000,000 Shares (L)	0.02%
Wong Hon Sum	The Company	Beneficial owner *(Note 4)*	5,000,000 Shares (L)	0.02%
Tang Tin Sek	The Company	Beneficial owner *(Note 5)*	5,000,000 Shares (L)	0.02%

(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) 3,636,370,000 Shares held by Mr. Zhang; (ii) 9,000,000,000 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) Shareholders having 5% interests or more

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the persons (other than a Director or chief executive of the Company) who had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group (including any company which will become subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2008, being the date to which the latest audited accounts of the Company have been made up), and the amount of each of such person's interest in such securities or in any options in respect of such capital were as follows:

Name of Shareholder	Name of company in which interests or short positions were held	Nature of interests	Number of shares	Approximate % of shareholding
Chan Tim Shing	The Company	Beneficial owner	1,565,000,000 Shares (L)	7.71%

Name of Shareholder	Name of company in which interests or short positions were held	Nature of interests	Number of shares	Approximate % of shareholding
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 (L) *(Note)*	70.21%

(L) denotes the long position held in the Shares

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.

* *for identification purpose only*

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, no person (other than a Director or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group (including any company which will become subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2008, being the date to which the latest audited accounts of the Company have been made up), or had any option in respect of such capital.

3. MATERIAL INTERESTS

As at the Latest Practicable Date, none of the Directors or proposed Directors had any direct or indirect interests in any assets which have since 31 March 2008 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2008, being the date to which the latest audited accounts of the Company have been made up), or were proposed to be acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2008, being the date to which the latest audited accounts 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 2008, being the date to which the latest audited accounts of the Company have been made up).

4. SERVICE CONTRACT

As at the Latest Practicable Date, there was no existing or proposed service contract between any of the Directors or proposed Directors and the Company or any member of the Group (including any company which will become subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2008, being the date to which the latest audited accounts 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 had any interests in any business which competed or might compete with the business of the Group as at the Latest Practicable Date.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered 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 2008, being the date to which the latest audited accounts of the Company have been made up) within two years immediately preceding the Latest Practicable Date:

(a) 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;

(b) the termination agreement dated 28 March 2007 entered into between the Company, Shanghai Lam Hong (Group) Company Limited ("**Lam Hong**"), Burlingame International Company Limited ("**BIC**"), Chinese Asial Investments Limited ("**CAI**"), Mr. Zhang and Tangible Wealth Investments Limited ("**TWI**") for the termination of the framework agreement dated 19 October 2006 entered into between the Company and Lam Hong for the sale and purchase of the entire equity interest in Burlingame (Shanghai) Investment Limited ("**BSI**"), the entire equity interest in 國中(長沙)體育新城投資項目管理公司 (Interchina (Changsha) Investments And Management Company Limited) ("**ICIM**"), 38.9% equity interest in 長沙國中星城置業有限公司 (Changsha Interchina Star City Company Limited) ("**CIC**"), the shareholder's loan ("**BIC Shareholder Loan**") owing by BSI to BIC, the shareholder's loan ("**CAI Shareholder Loan**") owing by BSI to CAI and the shareholder's loan ("**ICIM Shareholder Loan**") owing by ICIM to the Company at the total consideration of HK$617,870,000, the sale and purchase 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 and the two sale and purchase agreements dated 19 October 2006 entered into between the Company and 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;

(c) 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;

(d) 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;

(e) 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;

(f) 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;

(g) 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;

(h) 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;

(i) the conditional agreement entered into between Interchina (Tianjin) Water Treatment Company Limited ("**Interchina (Tianjin)**") (a wholly-owned subsidiary of the Company) and 黑龍集團公司 (Heilong Group Limited*) ("**Heilong Group**") on 17 May 2007 in relation to the acquisition of approximately 70.21% of the issued share capital of 黑龍江黑龍股份有限公司 (Heilongjiang Black Dragon Company Limited*) ("**Black Dragon**") at a total consideration of RMB420,000,000 ("**Black Dragon Share Transfer Agreement**");

(j) 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;

(k) 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 Limited at a consideration of US$10,000 ("**Interchina Water Treatment Share Transfer Agreement**");

(l) 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;

(m) 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);

(n) 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;

(o) the termination agreement dated 15 November 2007 entered into between Interchina (Tianjin) and Black Dragon to terminate the Interchina Water Treatment Share Transfer Agreement;

(p) 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);

(q) the acquisition agreement dated 18 December 2007 entered into between Maxable International Enterprises Limited and the Company in relation to the acquisition of the Sale Shares at the consideration of HK$296,000,000;

(r) the disposal agreement dated 3 August 2008 entered into between CIC (a wholly-owned subsidiary of the Company) and 廣州市廣域實業有限公司 (Guangzhou Guang Yu Enterprises Limited*) in relation to the disposal of three parcels of land located in Changsha, the PRC with an aggregate area of approximately 214,254.87 sq.m. at the consideration of RMB474,266,500;

(s) the sale and purchase agreement dated 10 December 2008 entered into between the Company and 上海方華實業發展有限公司 (Shanghai Fanghua Shiye Development Limited*) in relation to the disposal the entire equity interest in the capital of ICIM, the 38.9% equity interest of CIC and the ICIM Shareholder Loan at a total consideration of RMB330,000,000; and

(t) the Sale and Purchase Agreement.

* *for identification purpose only*

7. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, neither the Company nor any member of the Group (including any company which will become subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2008, being the date to which the latest audited accounts of the Company have been made up) was engaged in any litigation or claims of material importance which were known to the Directors to be pending or threatened against any member of the Group (including any company which will become subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2008, being the date to which the latest audited accounts of the Company have been made up).

8. QUALIFICATION AND CONSENT OF EXPERTS

The following are the qualifications of the experts who have given opinion or advice which is contained in this circular:

Name	Qualification
South China Capital Limited	a deemed licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO
Wallbanck Brothers Securities (Hong Kong) Limited	a licensed corporation to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
HLB Hodgson Impey Cheng	Chartered Accountants and Certified Public Accountants

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the opinion included in the form and context in which it is included and the references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the above experts had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did they have any direct or indirect interest in any assets which had been, since 31 March 2008, being the date of the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2008, being the date to which the latest audited accounts of the Company have been made up), or were proposed to be acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2008, being the date to which the latest audited accounts of the Company have been made up).

9. MISCELLANEOUS

(a) The registered office and head office of the Company is at Room 701, 7/F, Aon China Building, 29 Queen's Road, Central, Hong Kong.

(b) The share registrar and transfer office of the Company is Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong.

(c) The secretary of the Company is Mr. 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 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.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at Room 701, 7/F, Aon China Building, 29 Queen's Road, Central, Hong Kong during 9:00 a.m. to 6:00 p.m. on any business day, from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;

(c) the Share Charge;

(d) the accountants' report prepared by HLB Hodgson Impey Cheng, the text of which is set out in Appendix I to this circular;

(e) the report on unaudited pro forma financial information of the Remaining Group prepared by HLB Hodgson Impey Cheng, the text of which is set out in Appendix II to this circular;

(f) the consent letters from South China Capital Limited, Wallbanck Brothers Securities (Hong Kong) Limited and HLB Hodgson Impey Cheng referred to in the paragraph headed "Qualification and consent of experts" in this Appendix;

(g) the audited consolidated accounts of the Group for the two years ended 31 March 2008;

(h) the circular of the Company dated 15 April 2008; and

(i) the circular of the Company dated 26 August 2008.

國中控股有限公司

INTERCHINA HOLDINGS COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Interchina Holdings Company Limited (the "**Company**") will be held at Xinhua Room, Mezzanine Floor, Cosmopolitan Hotel Hong Kong, 387 – 397 Queen's Road East, Wanchai, Hong Kong at 9:00 a.m. on Wednesday, 21 January 2009 (or an adjournment thereof) for considering, and if thought fit, passing the following resolution as ordinary resolution of the Company:

"**THAT**:

(a) the sale and purchase agreement dated 15 October 2008 (the "**Agreement**") entered into between Interchina Holdings Company Limited (the "**Company**") and Singapore Zhongxin Investment Company Limited in relation to the sale and purchase of 3,700,000,000 shares of HK$0.002 each in the capital of China Pipe Group Limited ("**China Pipe**") at the total consideration of HK$74,000,000, copy of which have been produced to this meeting marked "A" and signed by the chairman of this meeting for the purpose of identification, be and is hereby approved, confirmed and ratified; and

(b) the directors of the Company be and are hereby authorised to do all things and acts and sign all documents which they may consider necessary, desirable or expedient to implement and/or give effect to any matters relating to or in connection with the Agreement and any of the transactions contemplated thereunder."

By order of the Board of
Interchina Holdings Company Limited
Lam Cheung Shing, Richard
Director and Company Secretary

Hong Kong, 2 January 2009

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

Notes:

1. A shareholder entitled to attend and vote at the above meeting may appoint one or more than one proxy to attend and to vote in his stead. A proxy need not be a shareholder of the Company.

2. Where there are joint registered holders of any share of the Company (the "**Share**"), any one such persons may vote at the meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.

3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company's share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting.

4. As at the date of this notice, the executive directors of the Company are Mr. Zhang Yang, Mr. Zhu Yongjun, 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.