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INTERCHINA HOLDINGS CO LTD

Stock Code: 202

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INTERCHINA HOLDING

Annual Report 2010

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On behalf of the Board of Directors (the "Board") of Interchina Holdings Limited ("Interchina" or the "Company"), I hereby present to our shareholders the annual results of the "Company and its subsidiaries (collectively, the "Group") for the year ended 31 March 2010.

There is a common Chinese proverb "A man has how many ten-years?". The Company will celebrate its first ten-years after its restructuring in the coming October 2010 and the financial year ended 31 March 2010 also signified a remarkable turnaround – a year of operating profit after restructuring. By the dynamic business growth, the Group achieved a profit from continuing operations for the year ended 31 March 2010 of HK$69,616,000, comparing to a net loss for the previous year of HK$351,378,000.

The Group has successfully completed the restructuring and acquisition of 70.2% equity interest in 黑龍江黑龍股份有限公司 ("Black Dragon"), stock code 600187, a company listed in the Shanghai Stock Exchange ("SSE"), in early 2009 and the trading of shares of Black Dragon was resumed on 17 April 2009. To reflect this major change in our environmental protection and water treatment operation, Black Dragon has changed its name to Heilongjiang Interchina Water Treatment Company Limited 黑龍江國中水務股份有限公司 ("Heilongjiang Interchina"). To strengthen the investment ability, Heilongjiang Interchina has submitted a proposal to SSE and its shareholders to increase its issued share capital by not more than 115,000,000 new A shares to 10 target investors at a price of not less than RMB6.51 per A share to raise not more than RMB750,000,000 (the "Share Issue"). The new proceeds from the Share Issue will be used to further expand the operation of the environmental protection and water treatment business of Heilongjiang Interchina. The acquisition of the new target projects and the Share Issue are expected to be completed by the third quarter of the year and the total daily operation capacity of Heilongjiang Interchina is expected to be 920,000 tonnes.

In September 2009, the Group completed the acquisition of Regent Victor Development Limited ("Regent Victor"). Taiyuan Haofeng Waste Water Treatment Company Limited, a subsidiary of Regent Victor, was granted an exclusive right to upgrade, manage and operate a sewage treatment plant in Taiyuan, Shanxi Province, the PRC with daily processing capacity of 160,000 tonnes. The Group was also granted the right by Shandong Municipal Government to invest, design, construct and operate a sewage and water supply plant in Dongying, Shandong Province, with daily processing capacity of 150,000 tonnes. It is expected that both projects will be completed by the end of this year. Regarding the sewage treatment project in Ordos, Inn Mongolia of daily processing capacity of 35,000 tonnes, the construction work is at final stage and it is expected that trail run can be commenced in July 2010.

On 18 September 2009 and on 1 April 2010, the shareholders and the High Court of the Hong Kong SAR have approved the capital reduction proposal submitted by the Company respectively. The capital reorganisation proposal of reducing the par value of the share of the Company from HK$0.1 to HK$0.01 and consolidating 10 shares of par value of HK$0.01 to 1 new share of HK$0.1 was completed by 9 April 2010. The completion of the capital reorganisation provides the Company with greater flexibility in pricing for the new issue of shares for new fund raising. On 19 May 2010, immediately after the completion of the capital reorganisation, the Company successfully placed 440,000,000 new shares to not less than 6 independent investors at the placing price of HK$0.65 per share, raising net proceed of approximately HK$278,000,000, which is intended to be invested in the new environmental protection and water treatment projects.

During the first ten-years, Interchina has successfully positioned itself within the environmental protection and water treatment sector in various territories. We have built up strong alliances with our strategic partners, a powerful professional working team and effective fund raising platforms. The successfully acquisition of Heilongjiang Interchina provides the Group with an easy access to the growing A-share capital market in China. In the coming years, we will still focus our major attention on the environmental protection and water treatment sector in China and we plan to increase our Group's daily processing capacity to five million tonnes within three years. We believe that the profit contributed from the operation will grow steadily and continuously. We will also keep on developing new businesses and to capture new opportunities with the potential in bringing strong returns to the shareholders of the Company in the long run.

In the years ahead, while recognising the importance of capital expenditure for robust expansion plans, the Group also hopes to share the fruits of our success with shareholders by distributing its dividend in line with profit growth.

Finally, on behalf of the Board, I would like to express my heartfelt appreciation to all staff for their dedication and hardwork throughout the year, and sincere thanks to fellow Directors for their support, which will continue to motivate us to further strive for long term success of the Group.

Lam Cheung Shing, Richard
Deputy Chairman

Hong Kong, 23 June 2010

BUSINESS REVIEW

Environmental Protection and Water Treatment Operation

For the year under review, the Group's revenue and profit from environmental protection and water treatment operation have grown steadily and continuously. The revenue from this segment amounted to HK$211,945,000, an increase of 160% over last year. This was mainly attributable to Heilongjiang Interchina Water Treatment Company Limited ("Heilongjiang Interchina") (Stock Code: 600187, it's A share listed on the Shanghai Stock Exchange) a 70.2% owned subsidiary of the Group contributed a revenue of HK$97,300,000 (2009: HK$20,483,000), representing 46% of the total revenue of this segment (2009: 25%). As the Group consolidated the results of Heilongjiang Interchina since January 2009, only three months results of Heilongjiang Interchina were reflected last year whereas full year contribution from Heilongjiang Interchina was recorded this year.

At the end of March 2010, the Group had ten environmental water projects in the PRC, a summary of which is as follow:

Project	Province	The Group's controlling interest	Daily processing capacity (tonnes)
Project under operation			
Qinhuangdao Sewage Treatment Plant ("Qinhuangdao Project")	Hebei	100%	120,000
Maanshan Sewage Treatment Plant ("Maanshan Project")	Anhui	100%	60,000
Changli Sewage Treatment Plant ("Changli Project")	Hebei	100%	40,000
Hanzhong Xingyuan Water Supply Plant ("Xingyuan Project")	Shannxi	100%	110,000
Yanliang Water Supply Plant ("Yanliang Project")	Shannxi	99%	120,000
Xiongyue Sewage Treatment Plant ("Qinghai Project")	Qinghai	95%	42,500
Sub-total			492,500
Project under construction			
Hanzhong Shimen Water Supply Plant ("Shimen Project") – *expected to be completed by mid of 2011*	Shannxi	80%	100,000
Ordos Sewage & Water Treatment Plant ("Ordos Project") – *expected to be completed by third quarter of 2010*	Inn Mongolia	100%	35,000
Dongying Sewage & Water Treatment Plant ("Dongying Project") – *expected to be completed by end of 2010*	Shandong	55.4%	150,000
Taiyuan Haofeng Waste Water Treatment Plant ("Taiyuan Project") – *expected to be completed by end of 2010*	Shanxi	80%	160,000
Sub-total			445,000
Total			937,500

Upon completion of the above projects under construction, it is expected that the Group's daily aggregate processing capacity reach 937,500 tonnes. The Group's profitability and income stream from environmental protection and water treatment operation can be further improved.

The Group has successfully completed the restructuring and acquisition of 70.2% equity interest in 黑龍江黑龍股份有限公司 ("Black Dragon"), stock code 600187, a company listed in the Shanghai Stock Exchange ("SSE"), in early 2009 and the trading of shares of Black Dragon was resumed in 17 April 2009. To reflect this major change in our environmental protection and water treatment operation, Black Dragon has changed its name to Heilongjiang Interchina Water Treatment Company Limited 黑龍江國中水務股份有限公司 ("Heilongjiang Interchina"). To strengthen the investment ability, Heilongjiang Interchina has submitted a proposal to SSE and its shareholders to increase its issued share capital by not more than 115,000,000 new A shares to 10 target investors at a price of not less than RMB6.51 per A share to raise not more than RMB750,000,000 (the "Share Issue"). The new proceeds from the Share Issue will be used to further expand the operation of the environmental protection and water treatment business of Heilongjiang Interchina. The Share Issue was approved by the shareholders of the Company at the extraordinary general meeting held on 22 April 2010. The relevant approval procedures by the regulatory authorities of the PRC are still in processing, details of which were set out in the Company's circular dated 29 March 2010. The acquisition of the new target projects and the Share Issue are expected to be completed by the third quarter of the year.

Pursuant to the Share Issue, the Group will acquire a sewage treatment plant located in Zhuozhou, Hebei Province, namely 涿州中科國益水務有限公司 (Zhuozhou Zhongke Guoyi Water Treatment Company Limited) with daily processing capacity of 80,000 tonnes; and 85% equity interest in 北京中科國益環保工程有限公司 with its business engaged in building and construction of water treatment plant. Besides, the Group successfully acquired the 71% equity interest in Regent Victor Development Limited ("Regent Victor"). Regent Victor held 80% equity interest in Taiyuan Haofeng Waste Water Treatment Limited ("Taiyuan Haofeng"). Taiyuan Haofeng was granted an exclusive right for a period of 25 years by the Taiyuan City Municipal Management Council to finance, design, enhance, re-model and operate the sewage treatment plant located in Taiyuan, Shanxi Province, with water processing capacity of 160,000 tonnes per day. In addition, in September 2009, the Group was granted the right for a period of 30 years by the Shandong Municipal Government to invest, finance, design, construct and operate a water supply plant in Dongying, Shandong Province, with water processing capacity of 150,000 tonnes per day. Both projects are currently undergoing construction and are expected to commence operation by end of this year.

The Group has decided to focus its investments in environmental protection and water treatment operation through Heilongjiang Interchina and expects that environmental protection and water treatment operation will generate a substantial and stable source of revenue of the Group and the profit contribution from its operations will grow steadily.

The Group will continue to seek opportunities of merger and acquisition of quality environmental protection and water treatment projects to further increase its investment in the operation, so as to contribute more profit to the Group.

Property Investment Operation

Rental income generated from the Group's portfolio of investment property for 2010 amounted to HK$18,404,000 (2009: HK$18,211,000), a slight increase of 1% over 2009. At end of March 2010, the Group's investment properties in Beijing being almost fully let and the Group's investment property in Shanghai is currently under renovation.

During the year, the Group's investment properties recorded increase in fair value and revaluation gain of approximately HK$106,667,000 (2009: loss of HK$136,955,000). Our investment properties located in the CBD of Shanghai and Beijing, the PRC will help to secure a stable rental income stream and future profit. The Group will carry out review from time to time on its investment properties for renovation potential in order to enhance rental income.

Securities and Financial Operation

During the year, the Group's revenue from securities and financial operation amounted to HK$13,421,000 which represents a decrease of 19% when compared with last year's revenue of HK$16,492,000. As a small to medium size broker firm, the Group was under tremendous pressure and competition from other major securities broker firms and banks in Hong Kong. In addition, the Group had adopted a prudent approach in conducting its financing business and had strengthened its customer credit control.

The Group will continue to strength internal control over the lendings to clients but also will continue to launch more customer-oriented value added service to its customers in future with a view to gaining customer confidence in the Group.

Discontinued Operation

During the year, the Group completed the disposal of its entire equity interest in the city development and investment operation business. This segment is presented as discontinued operation in the financial statements for the year ended 31 March 2010 and 2009.

Prospects

To cope with the global financial crisis, the Chinese government has launched the RMB4 trillion economy-stimulating plan. The PRC Government policies: urbanization of rural population; promotion for water protection scheme and loosen fiscal policies, help the development of second and third ties cities in the PRC. Huge spending by the government in the infrastructure development and the improvement of the city life style stimulated the development of the environment protection and water treatment sector.

Over the last ten years, the Group has successfully positioned itself within the environmental protection and water treatment sector in various territories. We have built up strong alliances with our strategic partners; an excellent professional working team and effective fund raising platforms. The successfully acquisition of Heilongjiang Interchina provides the Group with an easy access to the growing A-share capital market in China. Accommodated with the encouraging government policies and leveraging on our own efforts and our competitive advantages in the sector, we are sure that our Group will become the best total environmental protection and water treatment solution provider in the China. Heilongjiang Interchina was enlisted and ranked second in the "Most Potential Growth Water Industry Brand 2009 conducted by h2o-China.com". The management of the Group is devoted themselves to become an outstanding total solution provider in the China and expected the Group's daily processing capacity will reach five million tonnes within three years.

The Group's strategy is to focus on its business on environmental protection and water treatment operation. We believe that the profit contribution from the operation will grow steadily and continuously. We will keep on development more new businesses such as nature resources so as to capture new opportunities with potential in bringing strong returns to the shareholders of the Company in the long run.

FINANCIAL REVIEW

Driven by the growth of the Group businesses, the Group's revenue from its continuing operations for the year ended 31 March 2010 amounted to approximately HK$243,770,000, representing an increase of 110% from the last year. The Group's profit from the continuing operations for the year ended 31 March 2010 rose significantly to HK$69,616,000 from a net loss of HK$351,378,000 of the last year. The substantial increase in profit for the year under review was mainly due to (i) the stable growth of the Group's environmental protection and water treatment operation; (ii) a realised gain of approximately HK$114,415,000 arising from investment in listed securities; and (iii) a revaluation gain of approximately HK$106,667,000 arising on change in fair value of the Group's investment properties comparing to a revaluation loss of approximately HK$136,955,000 were recorded in last year. In addition, the loss on disposal of an associate amounted to HK$225,146,000 and the loss from discontinued operation amounted to HK$412,867,000 recorded in the last year were extraordinary items and non-recurrence in nature.

During the year, the Group completed the disposal of its entire equity interest in the city development and investment operation business. The operating loss from discontinued operation amounted to HK$9,247,000, is a final adjustment for the discontinued operation last year, representing an decrease of 98% from the last year.

Liquidity, Financial Resources and Capital Structure

As at 31 March 2010, the Group's total assets were HK$3,673,173,000 (2009: HK$3,065,296,000) and the total liabilities were HK$1,315,054,000 (2009: HK$1,190,145,000), and the equity reached HK$2,358,119,000 (2009: HK$1,875,151,000).

As at 31 March 2010, the Group's cash on hand and deposits in bank was approximately HK$156,874,000 (2009: HK$41,582,000).

As at 31 March 2010, the Group had outstanding bank and other borrowings of HK$908,115,000 (2009: HK$523,838,000) comprising bank borrowings of HK$493,404,000 (2009: HK$384,872,000), other borrowings of HK$394,830,000 (2009: HK$138,966,000) and convertible notes of HK$19,881,000 (2009: Nil) whereas 56% of the Group's outstanding bank and other borrowings carried interest on floating rate basis and the remaining 44% were at fixed interest rate. The gearing ratio was 25% (total outstanding borrowings/ total assets). The maturity profile of the outstanding bank and other borrowings was spread over a period of more than five years with HK$628,968,000 repayable within one year, HK$203,011,000 repayable after one year but within five years and HK$76,136,000 repayable after five years.

The Group's principal assets, liabilities, revenue and payments are denominated in Hong Kong dollars and Renminbi. As at 31 March 2010, 28% of the Group's cash on hand and deposits in bank was held in Hong Kong dollars and 72% in Renminbi; whereas 13% of the Group's outstanding borrowings was denominated in Hong Kong dollars and the rest in Renminbi.

In June 2009, the Group completed the issuance of 2-year convertible notes bearing interest at 5% p.a. convertible into a total of 350,000,000 shares of HK$0.10 each. The detail of which were set out in the Company's announcement dated 9 June 2009. The relevant convertible notes had been fully converted into share capital on or before 31 December 2009.

Pursuant to the Subscription Agreement dated 27 July 2009, the Company completed in August 2009 the issuance of 1-year convertible notes bearing interest at 5% p.a. convertible into a total of 1,200,000,000 shares of HK$0.10 each (the "First Tranche Convertible Notes") and granted option to subscribe for 1-year convertible notes bearing interest at 5% p.a. convertible into a total of 2,500,000,000 shares of HK$0.10 each (the "Second Tranche Convertible Notes Option") for a total consideration of HK$252,500,000. The detail of which were set out in the Company's announcement dated 27 July 2009. During the year, all the First Tranche Convertible Notes had been converted into share capital and the Company also issued 1-year convertible notes bearing interest at 5% p.a. convertible into a total of 900,000,000 shares of HK$0.10 each in respect of the Second Tranche Convertible Notes Option (the "Second Tranche Convertible Notes"). As at 31 March 2010, the Second Tranche Convertible Notes with principal amount of HK$20,000,000 had been outstanding. The net proceed from the issue of the First Tranche Convertible Notes of approximately HK$120,000,000 had been used to repay the existing indebtedness of the Company and the net proceed from the issue of the Second Tranche Convertible Notes of approximately HK$90,000,000 had been applied as general working capital of the Group.

During the year, a total of 1,568,000,000 employee share options were granted by the Company at an exercise price of HK$0.103 per share. A total of 706,000,000 share options granted were exercised, for which a total of 706,000,000 new shares were issued. The proceeds in the sum of HK$72,700,000 generated from the exercise of share options were used as general working capital of the Group.

Event after reporting period

On 9 April 2010, the Company effected a capital reorganisation which involved: (a) a reduction in the nominal value of each issued ordinary share of the Company from HK$0.10 to HK$0.01 by the cancellation of HK$0.09 of the paid up capital for each issued ordinary share; (b) the application of the credit arising from such reduction of approximately HK$2,091,797,427 to cancel towards the accumulated losses; (c) the consolidation of every ten reduced shares of HK$0.01 each in the capital of the Company into one adjusted share of HK$0.10 each; and (d) to increase the authorised share capital of the Company from HK$400,000,000 divided into 4,000,000,000 consolidated shares to HK$1,000,000,000 divided into 10,000,000,000 consolidated shares by the creation of an additional 6,000,000,000 new consolidated shares.

On 19 May 2010, the Company successfully placed 440,000,000 ordinary shares at the price of HK$0.65 per share raising net proceeds of approximately HK$278,000,000. Details of the placing were set out in the Company's announcement dated 28 April 2010 and 19 May 2010

Significant acquisition and disposal

On 9 June 2009, the Company entered into an agreement (the "Disposal Agreement") with the buyer to disposal of 100% interest in and shareholders' loan due from Success Flow International Limited and its subsidiaries (the "Success Flow Group"), resulting in indirect disposal of the interest of the investment property (retail units) located in Beijing, at a total consideration of HK$55,000,000 (the "Proposed Disposal"). Details of the Proposed Disposal were disclosed in the Company's announcement dated 9 June 2009. However, since the buyer has failed to complete the due diligence reviews on the Success Flow Group within the period set out in the Disposal Agreement (being two months from the date of the Disposal Agreement). The Company and the buyer therefore entered into the termination agreement on 14 September 2009 to terminate the Proposed Disposal under the Disposal Agreement. The Success Flow Group remains as subsidiaries of the Company.

On 17 September 2009, the Group entered into a sale and purchase agreement with Mr. Zhao Libo with respect to the acquisition of 47.57% equity interest in Regent Victor Development Limited ("Regent Victor"), for a consideration of HK$5,200,004. On the same date, the Group entered into a share subscription agreement with Regent Victor to subscribe for 8,999,996 new shares of Regent Victor at HK$1.00 each. Upon the completion of the above transactions, the Group ultimately held 71% equity interest in Regent Victor. Regent Victor is mainly engaged in investment holding, which directly holds 80% equity interests in Taiyuan Haofeng Waste Water Treatment Company Limited. Taiyuan Haofeng Waste Water Treatment Limited was granted an exclusive right to upgrade, manage and operate a sewage treatment plant in Taiyuan, Shanxi Province, the PRC for 25 years. Details of the acquisition were set out in the Company's announcement dated 18 September 2009.

On 4 November 2009, Heilongjiang Interchina had submitted a proposal to the Shanghai Stock Exchange to increase its issued shares by not more than 130,000,000 new A shares to 10 target investors at a price not less than RMB6.55 to raise not more than RMB900,000,000 (the "Share Increase Proposal"). Upon completion of the Share Increase Proposal, the Group's interest in Heilongjiang Interchina will be diluted to 50.2%, which constituted a major disposal of the Company. On the even date, Interchina Water Treatment Limited, a wholly-owned subsidiary of the Company entered into internal disposal agreements with Heilongjiang Interchina for to dispose of and Heilongjiang Interchina to acquire the entire equity interests of Changli, Maanshan and Ordos and 75% equity interest of Qinhuangdao (the "Internal Disposal and Internal Acquisition"). Details of the Share Increase Proposal and Internal Disposal and Internal Acquisition were set out in the Company's announcement dated 13 November 2009 and circular dated 29 December 2009. Although the Share Increase Proposal was approved by the shareholders of the Company at the extraordinary general meeting held on 22 January 2010, it had subsequently discontinued and was superceded by the Revised Share Increase Proposal as detailed below.

On 4 March 2010, Heilongjiang Interchina had submitted the Revised Share Increase Proposal to the Shanghai Stock Exchange to increase its issued shares by not more than 115,000,000 new A shares to 10 target investors at a price not less than RMB6.51 to raise not more than RMB750,000,000 (the "Revised Share Increase Proposal"). Upon completion of the Revised Share Increase Proposal, the Group's interest in Heilongjiang Interchina will be diluted to 51.9%, which constituted a major disposal of the Company. On the even date, Interchina Water Treatment Limited entered termination agreement with Heilongjiang Interchina to terminate the Internal Disposal and Internal Acquisition and entered into new disposal agreements with Heilongjiang Interchina for to dispose of and Heilongjiang Interchina to acquire the entire equity interests of Changli, Maanshan and Ordos and 75% equity interest of Qinhuangdao and 80% equity interest of Taiyuan by Regent Victor (the "New Internal Disposal and Internal Acquisition"). Details of the Revised Share Increase Proposal and the New Internal Disposal and Internal Acquisition were set out in the Company's announcement dated 4 March 2010 and circular dated 29 March 2010. The Revised Share Increase Proposal was approved by the shareholders of the Company at the extraordinary general meeting held on 22 April 2010. The relevant approval procedures by the regulatory authorities of the PRC are still in process.

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

Pledge of Group's Assets

As at 31 March 2010, the Group's assets were pledged as security for its liabilities, comprising investment properties with carrying amounts of HK$213,628,000, intangible assets with carrying amounts of HK$275,079,000 and other financial assets with carrying amounts of HK$340,109,000. In addition, certain shares of subsidiary held by the Group were also pledged to lender(s) to secure loan facilities granted to the Group.

Foreign Exchange Exposure

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

Employment and Remuneration Policy

As at 31 March 2010, the Group had a total of 715 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.

EXECUTIVE DIRECTORS

Mr. LAM Cheung Shing, Richard, aged 51, is the deputy chairman and chief executive officer of the Company since June 2009. In August 2001, Mr. Lam was appointed as an executive Director and deputy chief executive officer of the Company and was designated as the chairman of the Company during the period from May 2009 to June 2009. He was also the company secretary of the Company from the period from March 2004 to June 2009. Mr. Lam was appointed as an executive director of Kai Yuan Holdings Limited ("**Kai Yuan**"), the issued shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), during the period from December 2001 to July 2008 and re-designated as a non-executive director of Kai Yuan during the period from July 2008 to November 2008. Mr. Lam was appointed as an executive director of China Pipe Group Limited ("**China Pipe**"), the issued shares of which are listed on the Stock Exchange, during the period from June 2007 to February 2009. Mr. Lam is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Mr. Lam was admitted to the Master Degree of Business Administration in the Chinese University of Hong Kong in 2006. Mr. Lam spent over ten years in PriceWaterhouseCoopers, an international accounting firm and promoted to a senior audit manager, and is equipped with extensive experience in accountancy, taxation and corporate finance. Prior to joining the Group, Mr. Lam held senior positions in a number of listed companies in Hong Kong, including Sun Hung Kai & Co., Limited, Kingsway SW Asset Management Limited and U-Cyber Technology Holdings Limited.

Mr. ZHU Yongjun, aged 42, has been appointed as an executive Director and deputy chairman in May 2008. He is the chairman and a director of Heilongjiang Interchina Water Treatment Company Limited ("黑龍江國中水務股份有限公司"), a 70.2% subsidiary of the Company and a company listed on the Shanghai Stock Exchange of the People's Republic of China, since January 2009. Mr. Zhu was also appointed as an executive director of China Pipe, the issued shares of which are listed on the Stock Exchange, during the period from June 2007 to February 2009. Mr. Zhu obtained his master of business administration in Peking University after graduated from Hunan University in 1989. He has over 15 years of experience in business planning, management and fund raising.

Mr. ZHANG Chen, aged 49, has been appointed as an executive Director in June 2010. He studied finance management in Shanghai Finance Institute. He worked in Shanghai Finance Bureau from 1985 to 1988, and had more than 20 years of experience in business planning and development of foreign enterprises in the People's Republic of China. He was appointed as a director and chairman of 上海商聚投資管理有限公司 (Shanghai Shangju Investment Management Company Limited) since 2004. Mr. Zhang is brother of Mr. Zhang Yang who is a substantial shareholder of the Company

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. HA Ping, aged 45, was appointed as an independent non-executive Director in May 2000. Ms. Ha received her Honorary Doctorate from Queen's University of Brighton. Ms. Ha is the chairman of All Leaders Publication Group Limited and was an independent non-executive director of a Smart Energy Finance (Holdings) Limited during the period from June 2000 to May 2007, the issued shares of which are listed on the Stock Exchange.

Mr. HO Yiu Yue Louis, aged 62 was appointed as an independent non-executive Director in April 2009. He obtained a Master Degree of Business Administration in Finance & Operations Research from Concordia University in Canada and is an Associate Member of both Hong Kong Institute of Certified Public Accountants and Australia Society of Certificate Practising Accountants. Mr. Ho had over 30 years working experience with international accounting professional firms and had been admitted as partner in Ernst & Young, PricewaterhouseCoopers and Arthur Andersen, focusing on technology risk, system and process assurance and risk consulting practices. During that period, Mr. Ho provided services and advices to numerous blue chip corporations in both Hong Kong and China. Mr. Ho was an independent non-executive director of China Pipe, the issued shares of which are listed on the main board of the Stock Exchange.

Mr. KO Ming Tung, Edward, aged 49, was appointed as an independent non-executive Director of the Company in April 2009. Mr. Ko obtained an external Bachelor of Laws Degree from the University of London in the United Kingdom in August 1986 and is a member of The Law Society of Hong Kong. Mr. Ko is the principal of Messrs. Edward Ko & Company and has been practising as a solicitor in Hong Kong for more than 18 years. He was appointed as Deputy Presiding Officer of the Labour Tribunal and is presently a member of the Panel of Adjudicators of the Obscene Articles Tribunal, the Solicitors Disciplinary Tribunal Panel, the Disciplinary Panel A of the Hong Kong Institute of Certified Public Accountants and the Employment Law Committee of The Law Society of Hong Kong. Mr. Ko has been appointed as Tribunal Chairman of the Appeal Tribunal Panel under the Buildings Ordinance. He is also a manager of Chiu Chow Association Secondary School.

Other than the directorship in the Company, currently, Mr. Ko is also an independent non-executive director of Sinofert Holdings Limited, Wai Chun Group Holdings Limited and Kai Yuan Holdings Limited, all of which are companies whose shares are listed on the Main Board of the Stock Exchange. Mr. Ko was previously an independent non-executive director of China Pipe and a non-executive director of New Smart Energy Group Limited, whose shares are listed on the Main Board of the Stock Exchange.

Dr. FU Tao, aged 42, was appointed as an independent non-executive Director in June 2009. He graduated from the Peking University in 1990 with a bachelor degree of science in applied chemistry. He obtained a master degree in environmental engineering from Tsinghua University in 1993 and also obtained a doctorate in civil engineering from Harbin Institute of Technology Heilongjiang in 1999. He is a senior engineer and has been appointed as director of the Water Policy Research Center at Tsinghua University since 2003. He has been appointed as chairman of Beijing Golden City Science & Technology Development Company Limited (chinawater.com)（北京金城智業科技發展有限公司(中國水網)）since 2008 and vice chairman of China Environment Service Association（全國環境服務業商會）since 2007. Between 2001 and 2002, he was the chief secretary of the China Housing Industry Association（全國住宅商會）. From 1999 to 2001, he was the director of the information division of the Center of Promoting Housing Industrialisation（住宅產業化促進中心）, Ministry of Construction ("MOC"). Between 1994 and 1999, he was working in the department of science and technology of the MOC as project officer in charge of urban construction projects and study programs relating to the water industry in the PRC. These include, amongst others, the pilot study on benchmarking system for urban water supply conducted by the MOC and the north china water quality study program conducted jointly by the World Bank and the MOC. He is also an independent director of Beijing Capital Company Limited, the issued shares of which are listed on the Shanghai Stock Exchange and Sound Global Limited (previously known as Epure International Limited), the issued shares of which are listed on the Singapore Stock Exchange.

CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of maintaining a high standard of corporate governance to protect and enhance the benefits of shareholders and has applied the principles code provisions of the Code on Corporate Governance Practices contained in Appendix 14 (the "CG Code") of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and includes the implementation details for the CG Code and, where appropriate, the Recommended Best Practices.

The Company had complied with the code provisions of the CG Code throughout the year ended 31 March 2010, with one deviation from the code provision A.4.1 of the CG Code regarding the appointment of non-executive directors should have specific term and subject to re-election, the details of which have been disclosed in the relevant paragraph below in this report. The Company has also exceeded the requirements under the CG Code in various areas of its corporate governance practices.

THE BOARD

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as when necessary, directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

As at the date of this report, the Board comprises three executive directors and four independent non-executive directors. The brief biographical details of the directors are set out in the "Directors' Profile" section on pages 12 to 13 of this annual report. To the best knowledge of the Company, there is no family relationship between any of the Directors, nor is there any financial, business or other material or relevant relationships among the members of the Board.

The Company has four independent non-executive directors representing more than one-third of the Board. At least one of the independent non-executive directors has appropriate professional qualification or accounting or related financial management expertise pursuant to Rule 3.10 of the Listing Rules. The Board has received from each independent non-executive director an annual confirmation of his/her independence and considers that all the independent non-executive directors are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Ms. Wing Man Yi, ex-chairman of the Company attended and was the chairman of the annual general meeting of the Company held on 18 September 2009. In addition to the chairman, the chief executive officer and either the chairman or at least one member of audit committee and remuneration committee attended the annual general meeting to ensure sufficient communication with the shareholders of the Company.

THE BOARD *(Continued)*

Board Meetings

Sufficient fourteen-day notice for regular Board meetings and notice in reasonable days for non-regular Board meetings were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agenda and accompanying Board papers were given to all Directors in a timely manner before the date of the Board meetings and at least 3 days before the regular Board meetings. Sufficient information was also supplied by the management to the Board to enable it to make informed decisions, which are made in the best interests of the Company.

It is intended that the Board should conduct regular meeting at least four times a year, i.e. at approximately quarterly intervals. Non-regular Board meetings will be convened as and when required by business needs. There were fifteen meetings (including meetings by way of circulation of written resolutions) held during the year, details of attendance are set out below:

	Number of meeting held while being a director	Number of meeting attended
Executive Directors		
Mr. Zhang Jack Jiyei (appointed on 1 January 2010 and resigned on 22 June 2010)	1	1
Mr. Lam Cheung Shing, Richard	15	15
Mr. Zhu Yongjun	15	14
Mr. Zhang Yang (resigned on 11 May 2009)	4	0
Mr. Chan Wing Yuen, Hubert (resigned on 11 June 2009)	6	6
Ms. Wing Man Yi (appointed on 11 June 2009 and resigned on 1 January 2010)	8	8
Dr. Mu Simon Xinming (appointed on 11 June 2009 and retired on 18 August 2009)	4	2
Independent Non-executive Directors		
Ms. Ha Ping	15	11
Mr. Ho Yiu Yue, Louis (appointed on 2 April 2009)	14	14
Mr. Ko Ming Tung, Edward (appointed on 2 April 2009)	14	14
Dr. Fu Tao (appointed on 16 June 2009)	9	5

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company (the "Directors"). All directors have confirmed, following specific enquiry by the Company that they have complied with the required standard as set out in the Model Code throughout the year ended 31 March 2010.

THE BOARD *(Continued)*

Roles of Chairman and Chief Executive Officer

The role of Chairman was held by Mr. Zhang Yang up to 10 May 2009 with Mr. Lam Cheung Shing, Richard served as Chairman from 11 May 2009 to 15 June 2009. Ms. Wing Man Yi was appointed as Chairman from 16 June 2009 to 31 December 2009 with Mr. Zhang Jack Jiyei served as Chairman since 1 January 2010. Mr. Chan Wing Yuen, Hubert was the Chief Executive Officer up to 10 June 2009, and Mr. Lam Cheung Shing, Richard has been appointed as the Chief Executive Officer since 16 June 2009.

During the year, the Company has complied with code provision A.2.1 of the CG Code which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Appointment and Re-election of Directors

The Board does not establish a nomination committee at present. The appointment of new Director(s) is therefore considered and approved by the full Board by taking into account criteria such as expertise, experience, integrity and commitments.

The code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Currently, all directors of the Company (including executive and non-executive directors) are not appointed for any specific term. The Board does not believe in any arbitrary term of office and would like to retain sufficient flexibility to organise the composition of the Board to serve the needs of the Group. All directors are subject to re-election by shareholders of the Company at the annual general meeting following their appointment and at least every three years on a rotation basis. The Articles of Association of the Company require that one-third of the directors (including executive and non-executive directors) shall retire each year. The directors who are required to retire each year shall be those appointed by the Board during the year and those who have been longest in office since their election or re-election. A retiring Director is eligible for re-election.

During the year and up to the date of this report, there were the following changes to the membership of the Board:

(1) Mr. Wong Hon Sum and Dr. Tang Tin Sek resigned as Independent Non-executive Director on 1 April 2009.

(2) Mr. Ho Yiu Yue, Louis and Mr. Ko Ming Tung, Edward were appointed as Independent Non-executive Director on 2 April 2009.

(3) Mr. Zhang Yang resigned as Executive Director and Chairman on 11 May 2009.

THE BOARD *(Continued)*

Appointment and Re-election of Directors *(Continued)*

(4) Mr. Lam Cheung Shing, Richard was appointed as Chairman on 11 May 2009 and re-designated as Deputy Chairman and Chief Executive Officer on 16 June 2009.

(5) Mr. Chan Wing Yuen, Hubert resigned as Executive Director and Chief Executive Officer on 11 June 2009.

(6) Ms. Wing Man Yi was appointed as Executive Director and Chairman on 11 June 2009 and 16 June 2009 respectively and resigned as Executive Director and Chairman on 1 January 2010.

(7) Dr. Mu Simon Xinming was appointed as Executive Director on 11 June 2009 and retired as Executive Director on 18 August 2009.

(8) Dr. Fu Tao was appointed as Independent Non-executive Director on 16 June 2009.

(9) Mr. Zhang Jack Jiyei was appointed as Executive Director and Chairman on 1 January 2010 and resigned as Executive Director and Chairman on 22 June 2010.

(10) Mr. Zhang Chen was appointed as Executive Director on 23 June 2010.

Committees of the Board

The Board has established the Remuneration Committee and the Audit Committee for overseeing particular aspects of the Company's affairs. Each committee may decide upon all matters within its terms of reference and authority. To further enhance independence, each Board Committee includes a majority of independent non-executive directors.

Remuneration Committee

The Remuneration Committee of the Company consists of two independent non-executive directors and an executive director.

The Remuneration Committee is mainly responsible for reviewing the remuneration policy and structure of Directors and senior management of the Company. The Remuneration Committee considers several factors such as the performance, qualification and experience of the individual and the prevailing market condition before determining the remuneration packages of executive directors and senior management. A written terms of reference, which describes the authority and duties of the Remuneration Committee was adopted with reference to the CG Code.

THE BOARD *(Continued)*

Committees of the Board *(Continued)*

Remuneration Committee (Continued)

Three Remuneration Committee meetings were held during the year ended 31 March 2010. At the meetings, the members of the Audit Committee have executed the major duties and responsibilities described above. They also proposed to determine the number of underlying share and terms of share option to be granted to executive directors and non-executive directors. Attendance of the committee members is recorded below:

Members	Attendance/Number of Meetings
Mr. Ho Yiu Yue, Louis (Chairman)	3/3
Ms. Ha Ping	2/3
Mr. Lam Cheung Shing, Richard	3/3

Audit Committee

The Audit Committee of the Company consists of all independent non-executive directors which has exceeded the Listing Rules requirement that the majority of its members must be independent. All Members have sufficient experience in reviewing audited financial statements as aided by the auditors of the Company whenever required. In addition, Mr. Ho Yiu Yue, Louis has the appropriate professional qualifications and experience in financial matters. No member of this Committee is a member of the former or existing auditors of the Company.

The Audit Committee oversees the overall financial reporting process as well as the adequacy and effectiveness of the Company's internal control procedures including the adequate of resources, qualifications and experience of the Company's staff of accounting and financial reporting function and their training programmes and budget. A written terms of reference, which describes the authority and duties of the Audit Committee was adopted with reference to the CG Code.

Two Audit Committee meetings were held during the year ended 31 March 2010. Matters considered at the meetings included review of the Group's results, audit plans of external auditor and fees, audit work and fees and review of the Company's financial control, internal control, risk management and financial reporting matters. During the year, one meeting was held in the absence of executive directors for the Audit Committee to meet with the auditor. Attendance of the committee members is set out below:

Members	Attendance/Number of Meetings
Mr. Ho Yiu Yue, Louis (Chairman)	3/3
Mr. Ko Ming Tung, Edward	3/3
Ms. Ha Ping	1/3
Dr. Fu Tao	1/3

THE BOARD *(Continued)*

Auditors' Remuneration

For the year ended 31 March 2010, the auditors' remuneration (excluding out of pocket and miscellaneous expenses) payable/paid to HLB Hodgson Impey Cheng ("HLB") for audit services is HK$1,220,000 (2009: HK$950,000) and HK$576,000 (2009: HK$750,000) for non-audit services.

The re-appointment of HLB as auditors of the Company has been recommended by the Audit Committee and endorsed by the Board and is subject to approval by the shareholders at the forthcoming annual general meeting.

Respective Responsibilities of Directors and External Auditors

The Directors are responsible for the preparation of the financial statement, which give a true and fair view of the state of affairs of the Group and of the Group's results and cash flows. The external auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the members of the Company as a body and for no other purpose. A statement by the external auditors about their reporting responsibilities is contained in the independent auditors' report.

Internal Control

The Board is responsible for the effectiveness of the internal control system and risk management procedures of the Group to ensure the financial and operational function, compliance control, material control, asset management and risk management functions are in place and functioning effectively. The Group had perform a review of the Group's internal control evaluations in respect of the financial year ended 31 March 2010 through an independent professional, which mainly covered certain of the Group's operations and followed up the Group's major control weaknesses in respect of the previous year. No major issues but areas of improvement have been identified. All recommendations from the independent professional will be properly followed up to ensure that they are implemented within a reasonable time. The Board will continue to engage independent professionals to review its internal control systems and will continue to review the need for setting up an internal audit function.

Shareholders' rights

The Company committed to ensure better protection of shareholders' interests. The Company maintains contact with its shareholders through AGM or extraordinary general meeting ("EGM"), and encourages shareholders to attend those meetings.

All shareholders have statutory rights to call for EGM and put forward agenda items for consideration by shareholders by sending to the Company Secretary at the registered office a written request for such general meetings together with the proposed agenda items.

THE BOARD *(Continued)*

Shareholders' rights *(Continued)*

Notice of the general meeting and related papers are sent to shareholders in accordance with the requirements of the articles of association of the Company and the Listing Rules and such notice is also made available on the Company's website and Stock Exchange's website.

Investor Relations

There are no changes to the Memorandum and Articles of Association during the year ended 31 March 2010.

There were four general meeting held during the year. Notices for general meetings were set out in the related circulars to shareholders, which were dispatched to shareholders at least 20 clear business days or 10 clear business days before the date of the annual general meeting or extraordinary general meetings respectively in accordance with requirements. The chairman and executive directors attended the above meetings to answer questions raised by the attending shareholders. Pursuant to the provisions of the Listing Rules, all voting at general meetings were conducted by way of poll, and the chairman had provided the detail procedures for conducting a poll and answered all questions raised regarding voting at the commencement of the general meetings. Separate resolutions were proposed at the meetings on each separate issue. Tricor Tengis Limited, the share registrar of the Company, was appointed as the scrutineer for the meetings and was responsible for the arrangement of the voting procedures. The Company announced the poll results in the evening of the same day and uploaded the same on the website of the Company and the HKExnews website of the Stock Exchange for perusal by the shareholders.

Financial Calendar for 2010/11

Events	**Dates**
Announcement of 2009/10 annual results	June 2010
Annual General Meeting	July 2010
Announcement of 2010/11 interim results	November 2010

The Directors present their annual report together with the audited financial statements of the Group for the year ended 31 March 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 49 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2010 are set out in the consolidated income statement on page 29.

The directors of the Company did not recommend the payment of a dividend for the year ended 31 March 2010. (2009: Nil).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 120.

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Details of movements in investment properties and property, plant and equipment of the Group and the Company during the year are set out in notes 15 and 17 to the financial statements respectively.

MAJOR PROPERTIES

Details of the major properties of the Group at 31 March 2010 are set out on page 121 of the annual report.

BORROWINGS

Details of the bank and other borrowings as at 31 March 2010 are set out in note 32 to the financial statements.

CONVERTIBLE NOTES

Details of the convertible notes are set out in note 33 to the financial statements.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes of the Group are set out in note 45 to the financial statements.

RESERVES AND DISTRIBUTABLE RESERVES

Movements in reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity on page 34 and note 36 to the financial statements respectively.

At 31 March 2010, the Company had no distributable reserve as calculated under Section 79B of the Hong Kong Companies Ordinance.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 35 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Lam Cheung Shing, Richard *(Deputy Chairman)*
Mr. Zhu Yongjun *(Deputy Chairman)*
Mr. Zhang Chen (appointed on 23 June 2010)
Mr. Zhang Jack Jiyei (appointed on 1 January 2010 and resigned on 22 June 2010)
Mr. Zhang Yang (resigned on 11 May 2009)
Mr. Chan Wing Yuen, Hubert (resigned on 11 June 2009)
Dr. Mu Simon Xinming (appointed on 11 June 2009 and retired on 18 August 2009)
Ms. Wing Man Yi (appointed on 11 June 2009 and resigned on 1 January 2010)

Independent non-executive directors:

Ms. Ha Ping
Mr. Ho Yiu Yue, Louis (appointed on 2 April 2009)
Mr. Ko Ming Tung, Edward (appointed on 2 April 2009)
Dr. Fu Tao (appointed on 16 June 2009)
Mr. Wong Hon Sum (resigned on 1 April 2009)
Dr. Tang Tin Sek (resigned on 1 April 2009)

In accordance with the Company's Articles of Association, three directors retire and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' REMUNERATION

The directors' emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2010, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

		Number of ordinary shares held	
Director	**Capacity/ nature of interest**	**Long position**	**Approximate percentage of interest**
Lam Cheung Shing, Richard	Beneficial owner *(Note 1)*	279,000,000	1.20%
Zhu Yongjun	Beneficial owner *(Note 2)*	202,000,000	0.87%
Zhang Jack Jiyei	Beneficial owner *(Note 3)*	50,005,000	0.22%
Ha Ping	Beneficial owner *(Note 4)*	25,000,000	0.11%
Ho Yiu Yue, Louis	Beneficial owner *(Note 5)*	10,000,000	0.04%
Ko Ming Tung, Edward	Beneficial owner *(Note 6)*	10,000,000	0.04%
Fu Tao	Beneficial owner *(Note 7)*	10,000,000	0.04%

Notes:

1. Theses shares represent 77,000,000 shares owned by Mr. Lam Cheung Shing, Richard and 202,000,000 shares that may be allotted and issued to Mr. Lam Cheung Shing, Richard upon the exercise in full of the subscription rights attaching to the options granted by the Company.

2. These shares represent 202,000,000 shares that may be allotted and issued to Mr. Zhu Yongjun upon the exercise in full of the subscription rights attaching to the options granted by the Company.

3. These shares represent 5,000 shares beneficially owned by Mr. Zhang Jack Jiyei and 50,000,000 shares that may be allotted and issued to Mr. Zhang Jack Jiyei upon the exercise in full of the subscription rights attaching to the options granted by the Company.

4. These shares represent the shares which may be allotted and issued to Ms. Ha Ping upon the exercise in full of the subscription rights attaching to the options granted by the Company.

5. These shares represent the shares which may be allotted and issued to Mr. Ho Yiu Yue, Louis upon the exercise in full of the subscription rights attaching to the options granted by the Company.

6. These shares represent the shares which may be allotted and issued to Mr. Ko Ming Tung, Edward upon the exercise in full of the subscription rights attaching to the options granted by the Company.

7. These shares represent the shares which may be allotted and issued to Dr. Fu Tao upon the exercise in full of the subscription rights attaching to the options granted by the Company.

DIRECTORS' INTERESTS IN SECURITIES

Save as disclosed above, as at 31 March 2010, none of the Directors, or their associates had any personal, family, corporate or other beneficial interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTION SCHEME

The share option scheme (the "Old Share Option Scheme") which was adopted on 25 July 2000 was terminated in 2002 and a new share option scheme (the "New Share Option Scheme") was adopted and approved by the shareholders of the Company at the annual general meeting held on 2 September 2002.

During the year, the Company granted options under the New Share Option Scheme to Directors, certain consultants and employees to subscribe for an aggregate of 1,568,000,000 shares in the Company at a price of HK$0.103 per share, exercisable during the period from 31 July 2009 to 2 September 2012. The closing price of the Company's shares immediately before the date on which the options were granted was HK$0.103. Details of movements in the share option to subscribe for shares of HK$0.1 each in the Company granted under the New Share Option Schemes, the fair value of the share options and the share option scheme are set out in note 37 to the financial statement.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of Shares	Approximate percentage of issued share capital of the Company
Zhang Yang	Interests of controlled corporation *(Note 1)*	103,495,000	0.45%
	Beneficial owner	5,114,470,000	22.01%
Yao Kangda	Beneficial owner *(Note 2)*	3,140,080,000	13.51%

Notes:

1. These shares are held by Wealth Land Development Corp., which is wholly and beneficially owned by Mr. Zhang Yang.

2. These shares represent 1,540,080,000 shares beneficially owned by Mr. Yao Kangda and 1,600,000,000 Shares that may be allotted and issued to Mr. Yao Kangda upon the exercise in full of the conversion rights attached to the convertible notes to be issued by the Company.

Save as disclosed above, as at 31 March 2010, the Company has not been notified by any other person or corporation having interests or short positions in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

CONNECTED TRANSACTIONS

Details of connected transactions are set out in note 46 to the financial statements.

The independent non-executive directors confirm that the transaction has been entered into by the Group in the ordinary course of its business, on terms no less favourable than terms available from independent third parties, and in accordance with the terms of the agreement governing such transaction that is fair and reasonable and in the interests of the shareholders of the Group as a whole.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of its directors, the directors confirmed that the Company has maintained a sufficient public float as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the year.

SUBSEQUENT EVENTS

Details of significant subsequent events of the Group are set out in note 50 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of turnover attributable to the Group's five largest customers to the total turnover during the year was 55.10%. The percentage of turnover attributable to the Group's largest customer to the total turnover during the year was 20.21%.

The percentage of purchases attributable to the Group's five largest suppliers to the total purchases during the year was 23.66%. The percentage of purchase attributable to the Group's largest supplier to the total purchase during the year was 8.80%.

None of the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in any of the Group's five largest customers and suppliers.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 14 to 20.

AUDITORS

HLB Hodgson Impey Cheng will retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting. A resolution for the re-appointment of HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Lam Cheung Shing, Richard
Deputy Chairman

Hong Kong, 23 June 2010

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

TO THE SHAREHOLDERS OF
INTERCHINA HOLDINGS COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the financial statements of Interchina Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 119, which comprise the consolidated and the company statement of financial position as at 31 March 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards, or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

AUDITORS' RESPONSIBILITY *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 statements.

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 23 June 2010

	Notes	2010 HK$'000	2009 HK$'000
Continuing operations			
Turnover	7	**243,770**	116,182
Cost of sales		**(117,946)**	(30,681)
Other revenue and operating income	8	**154,280**	7,313
Staff costs	9	**(43,922)**	(26,369)
Amortisation and depreciation		**(27,981)**	(8,429)
Administrative costs		**(75,904)**	(34,229)
Share-based payment expenses		**(76,408)**	–
Impairment loss recognised in respect of goodwill	21	**–**	(11,006)
Fair value change in derivative financial instruments		**1,884**	16,629
Fair value change in investment properties	15	**106,667**	(136,955)
Profit/(loss) from operations	10	**164,440**	(107,545)
Finance costs	11	**(62,194)**	(36,324)
Share of results of an associate		**–**	3,146
Gain on disposal of subsidiaries	39	**24,031**	–
Loss on disposal of an associate		**–**	(225,146)
Profit/(loss) before taxation		**126,277**	(365,869)
Taxation	12	**(56,661)**	14,491
Profit/(loss) for the year from continuing operations		**69,616**	(351,378)
Discontinued operation	40		
Loss for the year from discontinued operation		**(9,247)**	(412,867)
Profit/(loss) for the year		**60,369**	(764,245)
Attributable to:			
Owners of the Company		**63,293**	(764,496)
Non-controlling interests		**(2,924)**	251
		60,369	(764,245)
Earnings/(loss) per share for profit/(loss) attributable to the owners of the Company	13		
From continuing and discontinued operations			
– Basic (2009: Restated)		**HK2.901 cents**	HK(37.908 cents)
– Diluted (2009: Restated)		**HK2.841 cents**	HK(37.908 cents)
From continuing operations			
– Basic (2009: Restated)		**HK3.325 cents**	HK(17.436 cents)
– Diluted (2009: Restated)		**HK3.255 cents**	HK(17.436 cents)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2010

	2010 HK$'000	2009 HK$'000
Profit/(loss) for the year	**60,369**	(764,245)
Other comprehensive (expenses)/income		
Exchange differences on translation of financial statements of overseas subsidiaries	**(12,710)**	55,945
Reclassification adjustments upon disposal of subsidiaries	**(22,666)**	–
Total comprehensive income/(expenses) for the year	**24,993**	(708,300)
Total comprehensive income attributable to:		
Owners of the Company	**28,926**	(708,551)
Non-controlling interests	**(3,933)**	251
	24,993	(708,300)

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Investment properties	15	**609,722**	503,228
Interests in leasehold land and land use rights	16	**–**	–
Property, plant and equipment	17	**19,075**	20,092
Intangible assets	19(a)	**702,801**	685,811
Other financial assets	19(b)	**452,158**	444,805
Interests in an associate	20	**–**	–
Goodwill	21	**387,588**	387,557
Other non-current assets	22	**2,283**	2,277
		2,173,627	2,043,770
Current assets			
Properties under development for sale	23	**–**	–
Inventories	24	**3,078**	4,198
Trade and other receivables and prepayments	25	**1,154,387**	282,577
Loan receivables	26	**–**	102,898
Financial assets at fair value through profit or loss	27	**143,546**	80
Tax recoverable		**47**	511
Bank balances – trust and segregated accounts	28	**27,734**	7,323
Cash and cash equivalents	29	**129,140**	34,259
		1,457,932	431,846
Assets classified as held for sale	38	**41,614**	589,680
		1,499,546	1,021,526
Total assets		**3,673,173**	3,065,296
Equity			
Share capital	35	**2,324,219**	2,028,619
Share premium and reserves		**(200,268)**	(309,154)
Equity attributable to the owners of the Company		**2,123,951**	1,719,465
Non-controlling interests		**234,168**	155,686
		2,358,119	1,875,151
Non-current liabilities			
Bank borrowings – due after one year	32	**279,147**	291,936
Other borrowings – due after one year	32	**–**	12,425
Deferred tax liabilities	34	**136,938**	106,590
		416,085	410,951

	Notes	2010 HK$'000	2009 HK$'000
Current liabilities			
Trade and other payables and deposits received	*30*	**230,018**	339,687
Tax payable		**39,917**	9,660
Derivative financial instruments	*31*	**66**	–
Bank borrowings – due within one year	*32*	**214,257**	92,936
Other borrowings – due within one year	*32*	**394,830**	126,541
Convertible notes	*33*	**19,881**	–
		898,969	568,824
Liabilities classified as held for sale	*38*	**–**	210,370
		898,969	779,194
Total liabilities		**1,315,054**	1,190,145
Total equity and liabilities		**3,673,173**	3,065,296
Net current assets		**600,577**	242,332
Total assets less current liabilities		**2,774,204**	2,286,102

Approved by the Board of Directors on 23 June 2010 and signed on its behalf by:

Lam Cheung Shing, Richard	**Zhu Yongjun**
Director	*Director*

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

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Interests in subsidiaries	18(a)	**746,700**	885,161
Interests in an associate	20	**–**	–
Other non-current assets	22	**380**	380
		747,080	885,541
Current assets			
Financial assets at fair value through profit or loss	27	**143,500**	–
Trade and other receivables and prepayments	25	**184,708**	2,836
Amounts due from subsidiaries	18(b)	**976,084**	1,378,188
Cash and cash equivalents	29	**9,246**	19
		1,313,538	1,381,043
Total assets		**2,060,618**	2,266,584
Equity			
Share capital	35	**2,324,219**	2,028,619
Share premium and reserves	36	**(653,263)**	(282,542)
		1,670,956	1,746,077
Non-current liabilities			
Deferred tax liabilities	34	**21**	–
Current liabilities			
Trade and other payables and deposits received	30	**21,313**	11,644
Tax liabilities		**13,372**	–
Amounts due to subsidiaries	18(b)	**245,009**	385,863
Derivative financial instruments	31	**66**	–
Other borrowings	32	**90,000**	123,000
Convertible notes	33	**19,881**	–
		389,641	520,507
Total liabilities		**389,662**	520,507
Total equity and liabilities		**2,060,618**	2,266,584
Net current assets		**923,897**	860,536
Total assets less current liabilities		**1,670,977**	1,746,077

Approved by the Board of Directors on 23 June 2010 and signed on its behalf by:

Lam Cheung Shing, Richard
Director

Zhu Yongjun
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2010

The Group	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 *(Note 1)*	Share options reserve HK$'000 *(Note 2)*	Exchange reserve HK$'000 *(Note 3)*	Convertible notes reserve HK$'000 *(Note 4)*	PRC statutory reserve HK$'000 *(Note 5)*	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
	Equity attributable to owners of the Company										
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 financial statements of overseas subsidiaries	–	–	–	–	55,945	–	–	–	55,945	–	55,945
Net loss for the year	–	–	–	–	–	–	–	(764,496)	(764,496)	251	(764,245)
Total comprehensive income/(expenses) for the year	–	–	–	–	55,945	–	–	(764,496)	(708,551)	251	(708,300)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	146,123	146,123
Issue of convertible notes	–	–	–	–	–	32,027	–	–	32,027	–	32,027
Recognition of deferred tax for convertible notes	–	–	–	–	–	(5,284)	–	–	(5,284)	–	(5,284)
Conversion of convertible notes	300,000	5,028	–	–	–	(26,743)	–	–	278,285	–	278,285
At 31 March 2009 and 1 April 2009	2,028,619	371,482	571,996	6,470	245,529	–	–	(1,504,631)	1,719,465	155,686	1,875,151
Exchange differences on translation of financial statement of overseas subsidiaries	–	–	–	–	(11,701)	–	–	–	(11,701)	(1,009)	(12,710)
Reclassification adjustments upon disposal of subsidiaries	–	–	–	–	(22,666)	–	–	–	(22,666)	–	(22,666)
Net profit for the year	–	–	–	–	–	–	–	63,293	63,293	(2,924)	60,369
Total comprehensive (expenses)/income for the year	–	–	–	–	(34,367)	–	–	63,293	28,926	(3,933)	24,993
Transfer to PRC statutory reserve	–	–	–	–	–	–	1,762	(1,187)	575	(575)	–
Capital contribution from a non-controlling interests shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	77,225	77,225
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	5,765	5,765
Issue of share options	–	–	–	76,408	–	–	–	–	76,408	–	76,408
Lapse of share options	–	–	–	(1,222)	–	–	–	1,222	–	–	–
Exercise of share options	70,600	33,331	–	(31,213)	–	–	–	–	72,718	–	72,718
Issue of convertible notes	–	–	–	–	–	4,644	–	–	4,644	–	4,644
Recognition of deferred tax for convertible notes	–	–	–	–	–	(766)	–	–	(766)	–	(766)
Conversion of convertible notes	225,000	744	–	–	–	(3,763)	–	–	221,981	–	221,981
At 31 March 2010	2,324,219	405,557	571,996	50,443	211,162	115	1,762	(1,441,303)	2,123,951	234,168	2,358,119

Notes:

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

2) Share options reserve represents the fair value of services estimated to be received in exchange for the grant of the relevant share options over the relevant vesting periods, the total of which is based on the fair value of the share options at grant date. The amount for each period is determined by spreading the fair value of the options over the relevant vesting period (if any) and is recognised as staff costs and related expenses with a corresponding increase in the share options reserve.

3) Exchange reserve represents exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the exchange reserve. Such exchange differences accumulated in the exchange reserve are reclassified to profit or loss on the disposal of the foreign operations.

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

5) In accordance with the laws and regulations of the People's Republic of China (the "PRC"), the Company and its subsidiaries in the PRC are required to transfer appropriate amounts equal to 10% of their profit after taxation as determined in accordance with the PRC accounting standards to statutory surplus reserve.

   Statutory surplus reserve is part of shareholders' equity and when its balance reaches an amount equal to 50% of the registered capital, further appropriation needs not be made. The statutory surplus reserve may only be used, upon approval of the relevant authority, to offset accumulated losses or to increase capital.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES			
Profit/(loss) before taxation from continuing operations		**126,277**	(365,869)
Loss before taxation from discontinued operation		**(9,247)**	(412,867)
Profit/(loss) before taxation		**117,030**	(778,736)
Adjustments for:			
Depreciation of property, plant and equipment	*10*	**6,914**	2,658
Amortisation of interests in leasehold land, land use rights and intangible assets	*10*	**24,975**	6,850
Fair value change in investment properties	*15*	**(106,667)**	136,955
Impairment loss recognised in respect of goodwill	*21*	**–**	11,006
Loss on remeasurement of asset held for sale to fair value less costs to sell	*38*	**1,241**	216,300
Impairment loss recognised in respect of properties under development	*23*	**–**	182,770
Impairment loss recognised in respect of other receivables and prepayments		**1,863**	–
Gain on derivative financial instruments	*31*	**–**	(1,079)
Fair value change in derivative financial instruments	*31*	**(1,884)**	(16,629)
Gain on disposal of property, plant and equipment		**(288)**	(565)
Share-based payment expenses	*37*	**76,408**	–
Share of results of an associate	*20*	**–**	(3,146)
Loss on disposal of an associate		**–**	225,146
Fair value change in financial assets at fair value through profit or loss		**–**	18
Interest income		**(350)**	(243)
Dividend income		**(26)**	–
Interest expenses	*11*	**67,067**	40,913
Operating cash flows before movements in working capital		**186,283**	22,218
Increase in properties under development for sale	*23*	**–**	(44,905)
Increase in other financial assets		**(7,353)**	(5,991)
Increase in intangible assets	*19(a)*	**(49,276)**	(10,439)
Decrease/(increase) in inventories		**1,120**	(480)
Decrease/(increase) in loan receivables		**102,898**	(40,999)
(Increase)/decrease in trade and other receivables and prepayments		**(1,011,445)**	613,883
Increase in financial assets at fair value through profit or loss		**(143,466)**	–
Increase in bank trust and segregated accounts		**(20,411)**	(2,977)
Increase in trade and other payables and deposits received		**102,361**	157,702
Decrease in amount due to a related company		**–**	(78,564)
Cash (used in)/generated from operations		**(839,289)**	609,448
Profits tax refund/(paid)		**4,270**	(26,567)
Interest received		**350**	243
Net cash (used in)/generated from operating activities		**(834,669)**	583,124

	Notes	2010 HK$'000	2009 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	*17*	**(17,912)**	(15,770)
Purchase of investment properties	*15*	**(1,274)**	(2,024)
Proceeds on disposal of property, plant and equipment		**469**	630
Increase in assets of a disposal group classified as held for sale		**(97,042)**	–
Acquisition of subsidiaries	*41*	**(5,195)**	(706,146)
Acquisition of an associate	*20*	**–**	(296,000)
Proceeds on disposal of an associate		**–**	74,000
Proceeds on disposal of subsidiaries	*39*	**328,149**	–
Net refund in non-current assets		**6**	18
Net cash generated from/(used in) investing activities		**207,201**	(945,292)
FINANCING ACTIVITIES			
Interest paid		**(67,067)**	(40,913)
New bank borrowings raised		**258,939**	33,317
New other borrowings raised		**394,830**	123,000
Repayment of bank borrowings		**(92,936)**	(69,108)
Repayment of other borrowings		**(138,966)**	–
Proceeds from issue of convertible notes		**245,000**	300,000
Issue of new shares under the share options		**72,718**	–
Proceeds from issue of convertible note options		**2,500**	–
Dividend income		**26**	–
Capital contribution from non-controlling interests		**77,225**	–
Net cash generated from financing activities		**752,269**	346,296
Net increase/(decrease) in cash and cash equivalents		**124,801**	(15,872)
Cash and cash equivalents at beginning of the year		**34,259**	30,193
Effect of change in foreign exchange rate		**(29,912)**	20,214
Cash and cash equivalents included in assets of disposal group classified as held for sale		**(8)**	(276)
Cash and cash equivalents at end of the year		**129,140**	34,259
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**156,874**	41,582
Less: Bank balances – trust and segregated accounts		**(27,734)**	(7,323)
	29	**129,140**	34,259

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

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is 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 (i) environmental protection and water treatment operation, (ii) property investment operation and (iii) securities and financial operation. Details of the principal activities of its subsidiaries are set out in note 49 to the financial statements.

During the year, the Group discontinued its city development and investment operation. Details were set out in note 40 to the financial statements.

The financial statements 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

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong, 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 statements 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 4.

The preparation of the financial statements 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 5 to the financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group and the Company have applied the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA which are effective for the current accounting periods.

HKFRS (Amendments)	Improvement to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for the annual periods beginning on or after 1 July 2009
HKFRS (Amendments)	Improvement to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKFRS 1 & HKAS 27 (Amendments)	Amendment to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations arising on liquidation
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from customers

Except as described below, the adoption of the new and revised HKFRSs had no material impact on the financial statements of the Group for the current and prior accounting period.

HKFRS 7 (Amendments) "Improvement Disclosures about Financial Instruments"

HKFRS 7 Amendments require additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. The Group has take advantage of the transition provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

HKFRS 8 "Operating Segments"

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Details of application of HKFRS 8 are set out in note 6.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKAS 1 (Revised) "Presentation of Financial Statements"

HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduced the statement of comprehensive income, it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

The Group has not early applied the following new and revised standards, amendments or interpretations (the "new HKFRSs") that have been issued but are not yet effective.

HKFRS (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs in 2008[1]
HKFRS (Amendments)	Improvement to HKFRSs issued in 2009[2]
HKFRS 1 (Amendments)	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopter[3]
HKFRS 2 (Amendments)	Amendments to HKFRS 2 Share-based Payments – Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HKAS 24	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendments)	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues[4]
HKAS 39 (Amendments)	Eligible Hedged Items[1]
HK(IFRIC)-Int 14 (Amendments)	Prepayment of a Minimum Funding Requirement[6]
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[1]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendment that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKAS 1 (Revised) "Presentation of Financial Statements" *(Continued)*

HKFRS 9 "Financial instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The Group is in the process of making an assessment of the impact of these new HKFRSs and anticipates that the application of these new HKFRSs will have no material impact on the results and the financial position of the Group and the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

(i) Subsidiaries

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

(i) Subsidiaries *(Continued)*

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 non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

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

In the Company's statement of financial position 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.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling 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 statement of financial position, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid on acquisition in so far as it has not already been amortised to the income statement, less any identified impairment loss. When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

(ii) Associates *(Continued)*

The results of associates are accounted for by the Company on the basis of dividends received or receivable during the year. In the Company's statement of financial position, 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 is recognised on a trade date basis when the service is provided.

(iii) Revenue from construction service

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 year.

(v) Finance income

Finance income is recognised as it accrues using 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

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

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

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

Leasehold improvements	Over the terms of the leases
Furniture and fixtures	15%
Equipment, motor vehicle and others	5%-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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Service concession arrangements

Consideration given by the grantor

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

Construction or upgrade services

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

Operating services

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

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

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

Intangible assets

Intangible asset represents tap water processing operating rights under Build, Operation, Transfer ("BOT") arrangements. The intangible asset is stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses.

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

Interests in leasehold land and land use rights

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

Internal and external sources of information are reviewed at the end of each reporting period 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 year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment losses

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

Impairment of financial assets

The Group assesses at the end of each reporting period 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

(i) Assets carried at amortised cost *(Continued)*

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 recognsied 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 year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities (loans and borrowings)" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 consolidated income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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.

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 end of reporting period of the expenditures expected to be required to settle the obligation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other non-current assets

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

Financial Instruments

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

Financial assets

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial Instruments *(Continued)*

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 the end of each reporting period 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 consolidated income statement. Any impairment losses on available-for-sale financial assets are recognised in the consolidated income statement. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

Financial liabilities and equity

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

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each financial reporting 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 trade and other payables and deposits received and bank and other borrowings are subsequently measured at amortised cost, using the effective interest rate method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial Instruments *(Continued)*

Convertible notes

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

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

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

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

Equity instruments

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

Financial guarantee contracts

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

Derivative financial instruments that do not qualify for hedge accounting

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial Instruments *(Continued)*

Derecognition

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

Properties under development for sale

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

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

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

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

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

Foreign currencies

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

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

For the purposes of presenting the 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 end of reporting period, 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefits costs

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

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

Share-based compensation

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based compensation *(Continued)*

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

Related parties

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

Assets classified as held for sale

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

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

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

Discontinued operation

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Discontinued operation *(Continued)*

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

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Estimated impairment of goodwill

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy stated in note 4. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

Estimate of fair value of investment properties

As described in note 15, the investment properties were revalued at the end of reporting period on market value existing use basis by independent professional valuers. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions at the end of each reporting period.

Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group's management 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.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Trade and other receivables

The aged debt profile of receivables are reviewed on a regular basis to ensure that the receivables 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 receivables 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 receivables and past collection history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of receivables for which provisions are not made could affect the results of operations.

Fair value of other financial assets and liabilities

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

Construction contracts

Revenue and profit recognition on a 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 of revenue may be higher or lower than estimated at the end of reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amount 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 services 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 rights agreement, the infrastructure will be transferred to the local government at nil consideration.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Service concession arrangements *(Continued)*

Classification for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, expected future sewage treatment volume of the relevant sewage treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

6. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating segments" with effect from 1 April 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM"), which is a group of executive directors of the Company, for the purpose of allocating resources to segments and to assessing their performance. In contrast, the predecessor standard (HKAS 14 "Segment reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segment.

In a manner consistent with the way in which information is reported internally to CODM for the purpose of resources allocation and performance assessment, the Group is currently organised into the following operating segments.

Continuing operations

Environmental protection and water treatment operation	–	Operation of water plants and sewage treatment plants in the PRC
Property investment operation	–	leasing of rental property in the PRC and Hong Kong
Securities and financial operation	–	Securities investment provision of financial service

Discontinued operation

City development and investment operation	–	Infrastructure construction for urbanisation operation and property development for sale in the PRC

Accordingly, the application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

6. SEGMENT INFORMATION *(Continued)*

Segment information about these businesses is presented below:

For the year ended 31 March 2010	Continuing operations: Environmental protection and water treatment operation HK$'000	Continuing operations: Property investment operation HK$'000	Continuing operations: Securities and financial operation HK$'000	Continuing operations: Total HK$'000	Discontinued operation: City development and investment operation HK$'000	Consolidated total HK$'000
Segment revenue	211,945	18,404	13,421	243,770	–	243,770
Segment results	41,127	120,057	122,559	283,743	(4,384)	279,359
Interest income and unallocated gains				924	10	934
Administrative costs				(45,703)	–	(45,703)
Share-based payment expense				(76,408)	–	(76,408)
Fair value change in derivative financial instruments				1,884	–	1,884
Profit/(loss) from operations				164,440	(4,374)	160,066
Finance costs				(62,194)	(4,873)	(67,067)
Gain on disposal of subsidiaries				24,031	–	24,031
Profit before taxation				126,277	(9,247)	117,030
Taxation				(56,661)	–	(56,661)
Profit/(loss) for the year				69,616	(9,247)	60,369
Assets/liabilities						
Segment assets	2,383,820	717,853	331,778	3,433,451	41,614	3,475,065
Unallocated corporate assets				198,061	–	198,061
Tax recoverable				47	–	47
Total assets				3,631,559	41,614	3,673,173
Segment liabilities	1,025,576	75,293	30,452	1,131,321	–	1,131,321
Unallocated corporate liabilities				143,816	–	143,816
Tax liabilities				39,917	–	39,917
Total liabilities				1,315,054	–	1,315,054
Other segment information						
Amortisation and depreciation	26,299	91	45	26,435	572	27,007
Unallocated amounts				974	–	974
				27,409	572	27,981
Capital expenditure	67,188	1,274	–	68,462	–	68,462
Unallocated amounts				–	–	–
				68,462	–	68,462
Fair value gain on investment properties	–	106,667	–	106,667	–	106,667
Gain on financial assets at fair value through profit or loss	–	–	114,415	114,415	–	114,415

6. SEGMENT INFORMATION *(Continued)*

	Continuing operations				Discontinued operation	
For the year ended 31 March 2009	Environmental protection and water treatment operation HK$'000	Property investment operation HK$'000	Securities and financial operation HK$'000	Total HK$'000	City development and investment operation HK$'000	Consolidated total HK$'000
Segment revenue	81,479	18,211	16,492	116,182	–	116,182
Segment results	34,974	(119,567)	11,564	(73,029)	(408,283)	(481,312)
Interest income and unallocated gains				238	5	243
Administrative costs				(40,377)	–	(40,377)
Fair value change in derivative financial instruments				16,629	–	16,629
Loss from operations				(96,539)	(408,278)	(504,817)
Finance costs				(36,324)	(4,589)	(40,913)
Impairment loss on goodwill				(11,006)	–	(11,006)
Share of results of associates				3,146	–	3,146
Loss on disposal of an associate				(225,146)	–	(225,146)
Loss before taxation				(365,869)	(412,867)	(778,736)
Taxation				14,491	–	14,491
Loss for the year				(351,378)	(412,867)	(764,245)
Assets/liabilities						
Segment assets	1,799,741	541,553	127,937	2,469,231	589,680	3,058,911
Unallocated corporate assets				5,874	–	5,874
Tax recoverable				511	–	511
Total assets				2,475,616	589,680	3,065,296
Segment liabilities	299,792	9,922	14,024	323,738	210,370	534,108
Unallocated corporate liabilities				539,787	–	539,787
Tax liabilities				116,250	–	116,250
Total liabilities				979,775	210,370	1,190,145
Other segment information						
Amortisation and depreciation	7,517	205	128	7,850	1,079	8,929
Unallocated amounts				579	–	579
				8,429	1,079	9,508
Capital expenditure	20,480	3,443	10	23,933	49,065	72,998
Unallocated amounts				140	–	140
				24,073	49,065	73,138
Fair value loss on investment properties	–	136,955	–	136,955	–	136,955

6. SEGMENT INFORMATION *(Continued)*

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2009: Nil).

Segment result represents the result generated from each segment without allocation of central administration costs including directors' salaries, finance costs and income tax expenses. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resource between segments, all assets and liabilities are allocated to reportable segments other than corporate assets and liabilities.

Geographical information

The following table sets out information about the geographical location of the Group's revenue from continuing operations from external customers and the Group's investment properties, property, plant and equipment, intangible assets and other financial assets ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of investment properties, interest in leasehold lands and land use rights and property, plant and equipment; the location of the operation to which they are allocated, in the case of service concession assets.

	Revenue from external customers		Specified non-current assets	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Hong Kong	**13,511**	16,492	**4,643**	18,492
The PRC	**230,259**	99,690	**2,168,984**	2,025,278
	243,770	116,182	**2,173,627**	2,043,770

Information from major customers

Included in revenues arising from environmental protection and water treatment operation of HK$211,945,000 (2009: HK$81,479,000) are revenues of approximately HK$49,276,000 (2009: HK$27,741,000) which arose from sales to the Group's largest customer.

7. TURNOVER

Turnover represents (i) sewage treatment and tap water supply services income; (ii) finance income on other financial assets under service concession arrangement; (iii) property rental and management fee; (iv) commission income generated from securities and commodities brokering and (v) interest income from margin clients, and is analysed as follow:

	Continuing operations		Discontinued operation		Consolidated total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Sewage and water treatment operation*	**139,929**	81,479	**–**	–	**139,929**	81,479
Sewage and water treatment construction service income	**72,016**	–	**–**	–	**72,016**	–
Property rental and management fee	**18,404**	18,211	**–**	–	**18,404**	18,211
Brokerage commission income	**5,122**	3,014	**–**	–	**5,122**	3,014
Interest income from clients	**8,299**	13,478	**–**	–	**8,299**	13,478
	243,770	116,182	**–**	–	**243,770**	116,182

* Finance income on other financial assets under service concession arrangement of HK$55,137,000 (2009: HK$ 40,390,000) is included in the revenue derived from "Sewage and water treatment operation" disclosed above.

8. OTHER REVENUE AND OPERATING INCOME

	Continuing operations		Discontinued operation		Consolidated total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Bank interest income	**350**	238	**10**	5	**360**	243
Dividend income	**26**	4	**–**	–	**26**	4
Consultancy service income	**4,643**	–	**–**	–	**4,643**	–
Government subsidies (note 47)	**32,520**	5,172	**–**	–	**32,520**	5,172
Gain on disposal of financial assets at fair value through profit or loss	**114,415**	–	**–**	–	**114,415**	–
Sundry income	**2,326**	1,899	**–**	–	**2,326**	1,899
	154,280	7,313	**10**	5	**154,290**	7,318

9. STAFF COSTS

	Continuing operations		Discontinued operation		Consolidated total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Salaries and allowances (including directors' remuneration)	**42,327**	25,116	**934**	2,408	**43,261**	27,524
Retirement benefit scheme contributions	**1,595**	1,253	**94**	242	**1,689**	1,495
	43,922	26,369	**1,028**	2,650	**44,950**	29,019
Share-based payment expense (note 37)	**76,408**	–	**–**	–	**76,408**	–
	120,330	26,369	**1,028**	2,650	**121,358**	29,019

9. STAFF COSTS *(Continued)*

(a) Directors' emoluments

The emoluments paid or payable to each of the eleven (2009: seven) directors were as follows:

Name of directors	Directors' Fees 2010 HK$'000	Directors' Fees 2009 HK$'000	Salaries and benefits-in-kind 2010 HK$'000	Salaries and benefits-in-kind 2009 HK$'000	Retirement benefit scheme contributions 2010 HK$'000	Retirement benefit scheme contributions 2009 HK$'000	Share option granted 2010 HK$'000	Share option granted 2009 HK$'000	Total 2010 HK$'000	Total 2009 HK$'000
Executive directors										
Lam Cheung Shing, Richard	360	200	3,367	1,950	286	124	8,930	–	12,943	2,274
Zhu Youngjun	360	176	2,058	562	12	11	8,930	–	11,360	749
Zhang Jack Jiyei [1]	90	–	1,068	–	3	–	–	–	1,161	–
Zhang Yang[2]	40	200	58	3,600	2	164	–	–	100	3,964
Chan Wing Yuen, Hubert[3]	72	200	1,429	2,925	117	164	–	–	1,618	3,289
Mu Simon Xinming[4]	–	–	–	–	–	–	442	–	442	–
Wing Man Yi[5]	200	–	3,014	–	7	–	8,930	–	12,151	–
	1,122	776	10,994	9,037	427	463	27,232	–	39,775	10,276
Independent non-executive directors										
Ha Ping	360	200	–	–	–	–	884	–	1,244	200
Ho Yiu Yue, Louis[6]	360	–	–	–	–	–	442	–	802	–
Ko Ming Tung, Edward[6]	360	–	–	–	–	–	442	–	802	–
Fu Tao[7]	285	–	–	–	–	–	442	–	727	–
Wong Hon Sum[8]	–	200	–	–	–	–	–	–	–	200
Tang Tin Sek[8]	–	200	–	–	–	–	–	–	–	200
	1,365	600	–	–	–	–	2,210	–	3,575	600
	2,487	1,376	10,994	9,037	427	463	29,442	–	43,350	10,876

9. STAFF COSTS *(Continued)*

(a) Directors' emoluments *(Continued)*

During the year, 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 year.

[1] Appointed on 1 January 2010 and resigned on 22 June 2010
[2] Resigned on 11 May 2009
[3] Resigned on 11 June 2009
[4] Appointed on 11 June 2009 and retired on 18 August 2009
[5] Appointed on 11 June 2009 and resigned on 1 January 2010
[6] Appointed on 2 April 2009
[7] Appointed on 16 June 2009
[8] Resigned on 1 April 2009

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year were all directors (2009: three) whose emoluments are reflected in note (a) above. The emoluments payable to the remaining two individual for the year ended 31 March 2009 were as follows:

	2010 HK$'000	2009 HK$'000
Salaries and other benefits	**–**	2,645
Retirement benefit scheme contributions	**–**	40
	–	2,685

The remaining two individual for the year ended 31 March 2009 with highest emoluments were not director of the Company and their remuneration were fell within the following bands:

	2010	2009
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$2,500,000	**–**	1
	–	2

10. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations has been arrived at after charging/(crediting):

	Continuing operations		Discontinued operation		Consolidated total	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Depreciation	**6,675**	2,245	**239**	413	**6,914**	2,658
Amortisation of leasehold land, land use rights and intangible assets	**24,642**	6,184	**333**	666	**24,975**	6,850
Auditors' remuneration	**1,220**	1,071	**37**	106	**1,257**	1,177
Write-off of property, plant and equipment	**–**	111	**–**	–	**–**	111
Fair value changes in financial instruments						
– Financial assets at fair value through profit or loss	**–**	18	**–**	–	**–**	18
– Derivative financial instruments	**(1,884)**	(16,629)	**–**	–	**(1,884)**	(16,629)
Impairment loss recognised in respect of other receivables and prepayments	**1,863**	260	**–**	–	**1,863**	260
Impairment loss recognised in respect of asset classified as held for sale	**1,241**	–	**–**	–	**1,241**	–
Operating lease rentals in respect of premises	**5,520**	2,211	**–**	–	**5,520**	2,211
Net foreign exchange loss	**3,915**	288	**–**	–	**3,915**	288
Gross rental income from investment properties	**(17,008)**	(18,211)	**–**	–	**(17,008)**	(18,211)
Less: direct operating expenses from investment properties that generated rental income during the year	**2,874**	2,716	**–**	–	**2,874**	2,716
direct operating expenses from investment properties that did not generate rental income during the year	**–**	180	**–**	–	**–**	180

11. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated total	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Interests on:						
Bank borrowings and overdrafts wholly repayable:						
– within five years	**35,259**	15,861	**4,873**	4,589	**40,132**	20,450
– over five years	**6,116**	4,225	**–**	–	**6,116**	4,225
Other borrowings	**18,467**	16,238	**–**	–	**18,467**	16,238
Interest on convertible notes	**2,352**	–	**–**	–	**2,352**	–
	62,194	36,324	**4,873**	4,589	**67,067**	40,913

12. TAXATION

	Continuing operations		Discontinued operation		Consolidated total	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Current tax						
Hong Kong Profits Tax	**14,468**	303	**–**	–	**14,468**	303
The PRC Enterprise Income Tax	**11,081**	1,816	**–**	–	**11,081**	1,816
	25,549	2,119	**–**	–	**25,549**	2,119
Deferred tax	**31,112**	(16,610)	**–**	–	**31,112**	(16,610)
	56,661	(14,491)	**–**	–	**56,661**	(14,491)

Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profit for the year.

12. TAXATION *(Continued)*

The PRC Enterprise Income Tax

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "New Tax Law") which took effect on 1 January 2008. According to the New Tax Law, the applicable tax rates of the Group's subsidiaries in the PRC are unified at 25% with effect from 1 January 2008.

Reconciliation between tax expenses and accounting profit at applicable tax rates

The Group – for the year ended 31 March 2010

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before taxation						
Continuing operations	80,544		45,733		126,277	
Discontinued operation	–		(9,247)		(9,247)	
	80,544		36,486		117,030	
Tax at the statutory tax rate	13,290	16.5	9,122	25.0	22,412	19.2
Tax effect of expenses not deductible for tax purpose	13,234	16.4	12,432	34.1	25,666	21.9
Tax effect of income not taxable for tax purpose	(17,709)	(22.0)	(19,080)	(52.3)	(36,789)	(31.4)
Tax effect of tax losses not recognised	5,457	6.8	8,854	24.3	14,311	12.2
Tax effect of unrecognised temporary differences	15,464	19.2	15,597	42.7	31,061	26.5
Tax charge for the year	29,736	36.9	26,925	73.8	56,661	48.4

12. TAXATION *(Continued)*

Reconciliation between tax expenses and accounting profit at applicable tax rates *(Continued)*

The Group – for the year ended 31 March 2009

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Loss before taxation						
Continuing operations	(321,460)		(44,409)		(365,869)	
Discontinued operation	–		(412,867)		(412,867)	
	(321,460)		(457,276)		(778,736)	
Tax at the statutory tax rate	(53,041)	(16.5)	(114,319)	(25.0)	(167,360)	(21.5)
Tax effect of expenses not deductible for tax purpose	11,004	3.4	31,395	6.9	42,399	5.4
Tax effect of income not taxable for tax purpose	(5,546)	(1.7)	(5,172)	(1.1)	(10,718)	(1.4)
Tax effect of tax losses not recognised	47,847	14.8	92,043	20.1	139,890	18.0
Effect of change in tax rate	–	–	(5,612)	(1.2)	(5,612)	(0.7)
Tax effect of unrecognised temporary differences	(7,862)	(2.4)	(5,228)	(1.2)	(13,090)	(1.7)
Tax credit for the year	(7,598)	(2.4)	(6,893)	(1.5)	(14,491)	(1.9)

13. EARNINGS/(LOSS) PER SHARE

(a) From continuing and discontinued operations

The calculation of the basic and diluted earnings/(loss) per share from continuing and discontinued operations is based on the following data:

	2010 HK$'000	2009 HK$'000
Earnings/(loss) attributable to owners of the Company for the purpose of basic earnings/(loss) per share	63,293	(764,496)
Effect of dilutive potential ordinary shares:		
– After tax effect of interest on convertible notes	224	–
Earnings/(loss) attributable to owners of the Company for the purpose of diluted earnings/(loss) per share	63,517	(764,496)

Number of shares	2010	2009
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	2,181,875,802	2,016,701,555
Effect of dilutive potential ordinary shares:		
– Convertible notes	53,698,630	–
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	2,235,574,432	2,016,701,555

(b) From continuing operations

	2010 HK$'000	2009 HK$'000
Earnings/(loss) attributable to owners of the Company for the purpose of basic earnings/(loss) per share	63,293	(764,496)
Add: Loss for the year from discontinued operation	9,247	412,867
	72,540	(351,629)
Effect of dilutive potential ordinary shares:		
– After tax effect of interest on convertible notes	224	–
Earnings/(loss) attributable to owners of the Company for the purpose of diluted earnings/(loss) per share from continuing operations	72,764	(351,629)

The denominators used are the same as those detailed above for both basic and diluted earnings/(loss) per share.

13. EARNINGS/(LOSS) PER SHARE *(Continued)*

(c) From discontinued operation

Basic loss per share for the discontinued operation is HK0.424 cents per share (2009: loss of HK20.472 cents per share) and diluted loss per share for the discontinued operations is HK0.414 cents per share (2009: loss of HK20.472 cents per share), based on the loss for the year from the discontinued operations of HK$9,247,000 (2009: loss of HK$412,867,000) and the denominators detailed above for both basic and diluted loss per share.

(d) Diluted earnings/(loss) per share

The calculation of diluted earnings per share for the year ended 31 March 2010 has not assumed the exercise of the share options and the convertible note options as these potential ordinary shares would have anti-dilutive effect.

Diluted loss per share for the year ended 31 March 2009 was the same as the basic loss per share. The Company's outstanding share options were not included in the calculation of diluted loss per share because the effect of the Company's outstanding share options were anti-dilutive.

The weighted average number of ordinary shares for the basic and diluted earnings/(loss) per share for the years ended 31 March 2010 and 2009 have been adjusted for the share consolidation which became effective in April 2010.

14. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 March 2010 includes a loss of approximately HK$450,220,000 (2009: HK$286,596,000) which has been dealt with in the financial statements of the Company (Note 36).

15. INVESTMENT PROPERTIES

	The Group	
	2010	2009
	HK$'000	HK$'000
At beginning of the year	**503,228**	630,820
Exchange alignment	**(1,447)**	6,850
Acquisition of subsidiaries	**–**	489
Additions	**1,274**	2,024
Fair value change	**106,667**	(136,955)
At end of the year	**609,722**	503,228

15. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties at 31 March 2010 and 2009 have been arrived at on the basis of a valuation carried out on that date by Messrs. Jointgoal Surveyors Limited, Savills Valuation and Professional Services Limited and 上海房地產估價師事務所有限公司, both are the independent professional valuers. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in similar location.

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

	The Group	
	2010	2009
	HK$'000	HK$'000
Investment properties in Hong Kong, held on:		
Long-term leases	**15,000**	13,500
Investment properties outside Hong Kong, held on:		
Medium-term leases	**594,722**	489,728
	609,722	503,228

Investment properties with the carrying amount of approximately HK$213,628,000 (2009: HK$179,976,000) have been pledged to secure banking facilities granted to the Group.

The Group's investment properties, amounting to approximately HK$589,827,000 (2009: HK$474,835,000) are rented out under operating leases.

16. INTERESTS IN LEASEHOLD LAND AND LAND USE RIGHTS

The Group

	HK$'000
Cost	
At 1 April 2008	45,078
Exchange alignment	1,593
Transfer to assets classified as held for sales	(46,671)
At 31 March 2009 and 1 April 2009	–
Additions	32,159
Transfer to assets classified as held for sales	(32,159)
At 31 March 2010	–
Accumulated amortisation	
At 1 April 2008	3,140
Exchange alignment	105
Charge for the year	666
Transfer to assets classified as held for sale	(3,911)
At 31 March 2009 and 1 April 2009	–
Charge for the year	184
Transfer to assets classified as held for sale	(184)
At 31 March 2010	–
Carrying amount	
At 31 March 2010	**–**
At 31 March 2009	–

At 31 March 2010, the Group's interest in leasehold land and land use rights situated in Hanzhong, the PRC were reclassified as assets held for sale following the Group entered into an agreement in relation to disposal of a subsidiary in Hanzhong, the PRC. Details were set out in note 38(a) to the financial statements.

Interests in leasehold land and land use rights comprise of cost of acquiring rights to use certain land which 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 HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Equipment, motor vehicle and others HK$'000	Total HK$'000
Cost					
At 1 April 2008	229,717	2,595	12,289	16,065	260,666
Exchange alignment	7,921	89	324	454	8,788
Additions	8,207	–	1,560	6,003	15,770
Acquisition of subsidiaries	–	55	5	2,246	2,306
Transfer to assets classified as held for sale	(241,648)	(2,599)	(1,513)	(3,661)	(249,421)
Disposals	–	–	–	(803)	(803)
At 31 March 2009 and 1 April 2009	4,197	140	12,665	20,304	37,306
Exchange alignment	(48)	–	(765)	(508)	(1,321)
Additions	3,393	8,643	1,548	4,328	17,912
Transfer to assets classified as held for sale	(7,542)	–	–	(3,770)	(11,312)
Disposals	–	–	(14)	(573)	(587)
At 31 March 2010	–	8,783	13,434	19,781	41,998
Accumulated depreciation					
At 1 April 2008	–	2,595	6,748	11,474	20,817
Exchange alignment	–	89	219	342	650
Charge for the year	–	1	1,220	1,437	2,658
Transfer to assets classified as held for sale	–	(2,599)	(1,282)	(2,291)	(6,172)
Elimination upon disposals	–	–	–	(739)	(739)
At 31 March 2009 and 1 April 2009	–	86	6,905	10,223	17,214
Exchange alignment	–	–	(223)	(136)	(359)
Charge for the year	–	1,508	1,779	3,627	6,914
Transfer to assets classified as held for sale	–	–	–	(440)	(440)
Elimination upon disposals	–	–	(4)	(402)	(406)
At 31 March 2010	–	1,594	8,457	12,872	22,923
Net book value					
At 31 March 2010	**–**	**7,189**	**4,977**	**6,909**	**19,075**
At 31 March 2009	4,197	54	5,760	10,081	20,092

The carrying amounts of the properties under development comprised:

	2010 HK$'000	2009 HK$'000
The Group		
Outside Hong Kong, held on long-term leases	**–**	4,197

For the year ended 31 March 2009, properties under development of the Group are situated in the PRC and no interests was capitalised.

18. INTERESTS IN SUBSIDIARIES

(a)

	The Company	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost	**792,128**	945,777
Impairment loss recognised	**(45,428)**	(60,616)
	746,700	885,161

Details of the Company's principal subsidiaries at 31 March 2010 are set out in note 49.

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

19. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in the PRC on a Build-Operate-Transfer ("BOT") or a Transfer-Operate-Transfer ("TOT") basis in respect of its sewage treatment and water supply operations. These service concession arrangements generally involve the Group as an operator (i) constructing the infrastructures for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; (iii) operating and maintaining the infrastructures at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 20 to 30 years (the "Service Concession Periods"), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is entitled to, where appropriate, use all the property, plant and equipment of the infrastructures, however, the relevant governmental authorities as grantors will control and regulate the scope of services the Group must provide with the infrastructures, and retain the beneficial entitlement to any residual interest in the infrastructures at the end of the term of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the infrastructures to a specified level of serviceability at the end of the Service Concession Periods, and arrangements for arbitrating disputes. The accounting policies in respect of the classification of the service concession arrangements between other financial assets (receivables under service concession arrangements) and intangible assets (operating concessions) are set out under the heading of "Service concession arrangements" in note 4 to the financial statements.

19. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

The following is the summarised information of the Group's service concession arrangements under sewage treatment and water supply operations:

(a) Intangible assets

The Group

	Concession intangible assets HK$'000
Cost	
At 1 April 2008	116,873
Exchange alignment	4,030
Acquisition of subsidiaries	560,653
Additions	10,439
At 31 March 2009 and 1 April 2009	691,995
Exchange alignment	(7,898)
Additions	49,276
At 31 March 2010	733,373
Accumulated amortisation	
At 1 April 2008	–
Charge for the year	6,184
At 31 March 2009 and 1 April 2009	6,184
Exchange alignment	(70)
Charge for the year	24,458
At 31 March 2010	30,572
Carrying amount	
At 31 March 2010	**702,801**
At 31 March 2009	685,811

(b) Other financial assets

	The Group	
	2010 HK$'000	2009 HK$'000
Receivables under service concession arrangements	**452,158**	444,805

19. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

(c) Notes to the service concession arrangements

At 31 March 2010, the Group, including Heilongjiang Interchina Water Treatment Company Limited ("Heilongjiang Interchina"), a subsidiary acquired by the Group during the year ended 31 March 2009 as further detailed in note 41 to the financial statements, and its subsidiaries (collectively referred to as the "Heilongjiang Interchina Group") have entered into a number of service concession arrangements with certain governmental authorities in the PRC on TOT bases in respect of sewage treatment and water distribution businesses.

A summary of the major terms of the major service concession arrangements of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group is set out as follows:

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

19. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

(c) Notes to the service concession arrangements *(Continued)*

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

The carrying amounts of the Group's assets under service concession arrangement used to secured the Group's banking facilities are as follows:–

	2010 HK$'000	2009 HK$'000
Intangible assets	**275,079**	293,916
Other financial assets	**340,109**	334,334
	615,188	628,250

The receivables under service concession arrangements were mainly due from governmental authorities in the PRC as grantors in respect of the Group's sewage and water treatment businesses. The directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

20. INTERESTS IN AN ASSOCIATE

	The Group and the Company	
	2010 HK$'000	2009 HK$'000
Cost of investments, listed share	**–**	296,000
Share of post-acquisition reserves	**–**	3,146
Disposal	**–**	(299,146)
	–	–

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

20. INTERESTS IN AN ASSOCIATE *(Continued)*

On 15 October 2008, the Group entered into a sale and purchase agreement with Singapore Zhongxin Investment Company Limited to dispose the 29.52% equity interest in China Pipe at consideration of approximately HK$74,000,000 and details were set out in the Company's circular dated 2 January 2009. Disposal of China Pipe was completed on 23 January 2009 and a loss on disposal of an associate of approximately HK$225,146,000 was recognised in the consolidated income statement for the year ended 31 March 2009.

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

	2010 HK$'000	2009 HK$'000
Turnover	**–**	273,934
Profit for the year	**–**	7,243
Profit attributable to the Group	**–**	3,146
Total assets	**–**	–
Total liabilities	**–**	–
Net assets	**–**	–
Net assets attributable to the Group	**–**	–

21. GOODWILL

	The Group HK$'000
Cost	
At 1 April 2008	11,006
Additions (note 41)	387,557
At 31 March 2009 and 1 April 2009	398,563
Additions (note 41)	31
At 31 March 2010	398,594
Impairment	
At 1 April 2008	–
Impairment loss recognised	11,006
At 31 March 2009, 1 April 2009 and 31 March 2010	11,006
Carrying amount	
At 31 March 2010	**387,588**
At 31 March 2009	387,557

21. GOODWILL *(Continued)*

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

	2010 HK$'000	2009 HK$'000
Environmental protection and water treatment operation	**387,588**	387,557

Addition of goodwill comprised of the following:

For the year ended 31 March 2010, the Group acquired an aggregate of 71% equity interest in Regent Victor Development Limited ("Regent Victor") and resulted an increase in goodwill of approximately HK$31,000.

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

Impairment tests for CGU containing goodwill

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate, growth rate and expected changes to sewage and water treatment volume, selling prices and related costs during the period. The directors of the Company estimate discount rate using pre-tax rate that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. Changes in sewage and water treatment volume, selling prices and related costs are based on past practices and expectations of future changes in the market.

During the year, the Group performed impairment tests for CGU containing goodwill based on cash flow forecasts derived from the most recent financial budgets approved by the directors of the Company covering a five-year period and cash flows beyond the five-year period are extrapolated using a growth rate of 2.88% per annum. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. Discount rate of 8.84% was used in preparation of the cash flow forecasts to reflect current market assessments of the time value of money and the risks specific to the CGU.

Based on the results of impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 March 2010 (2009: HK$11,006,000).

22. OTHER NON-CURRENT ASSETS

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Contribution to the compensation fund and fidelity fund with the Stock Exchange	**197**	197	**–**	–
Admission fee paid to Hong Kong Securities Clearing Company Limited ("HKSCCL")	**100**	100	**–**	–
Guarantee fund contributions to HKSCCL	**100**	100	**–**	–
Statutory deposits with HKFE Clearing Corporation Limited	**1,506**	1,500	**–**	–
Club membership	**380**	380	**380**	380
	2,283	2,277	**380**	380

The club membership is stated at cost less impairment at the end of each reporting period and the directors of the Company reassessed the recoverable amount of the club membership and considered no impairment was made for the years ended 31 March 2010 and 2009.

23. PROPERTIES UNDER DEVELOPMENT FOR SALE

	The Group	
	2010	2009
	HK$'000	HK$'000
At beginning of the year	**–**	607,714
Exchange alignment	**–**	20,956
Additions	**–**	44,905
Impairment loss recognised	**–**	(182,770)
Transfer to assets classified as held for sale	**–**	(490,805)
At end of the year	**–**	–

At 31 March 2009, the Group's properties under development for sale situated in Changsha, the PRC were reclassified as assets held for sale following the Group entered into an agreement in relation to disposal of subsidiaries in Changsha, the PRC and details were set out in note 39(a) to the financial statements.

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

24. INVENTORIES

	The Group	
	2010	2009
	HK$'000	HK$'000
Finished goods	**3,078**	4,198

At 31 March 2010, all inventories are carried at cost.

25. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group allows an average credit period of 60 days (2009: 60 days) to its trade customers. The aged analysis of trade receivables is as follow:

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
0 – 30 days	**148,178**	17,263	**–**	–
31 – 60 days	**–**	588	**–**	–
61 – 90 days	**–**	588	**–**	–
Over 90 days	**24,450**	12,978	**–**	–
	172,628	31,417	**–**	–
Margin clients accounts receivables	**2,570**	1,227	**–**	–
Clearing houses, brokers and dealers	**6,943**	3,346	**–**	–
Prepayments and deposits	**905,302**	164,370	**183,492**	2,692
Other receivables	**69,067**	82,477	**1,216**	144
	1,156,510	282,837	**184,708**	2,836
Less: Impairment of other receivables and prepayments	**(2,123)**	(260)	**–**	–
	1,154,387	282,577	**184,708**	2,836

Movement on impairment of other receivables and prepayments was as follow:

	The Group	
	2010	2009
	HK$'000	HK$'000
At beginning of the year	**260**	–
Impairment loss recognised	**1,863**	260
At end of the year	**2,123**	260

25. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

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

	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**148,178**	17,851
Two to three months past due	**–**	588
Over three months past due	**24,450**	12,978
	172,628	31,417

Trade receivables that were past due but not impaired relate to a number of independent customers that either have a good track record with the Group or are in negotiation with the Group over the amounts or terms of repayment. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there had not been a significant change in credit quality and the amounts were still considered recoverable. The Group does not hold any collateral over these balances.

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

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

26. LOAN RECEIVABLES

	The Group	
	2010	2009
	HK$'000	HK$'000
Loan receivables	**–**	102,898

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

27. FINANICAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Held for trading:				
Listed equity securities –				
Hong Kong, at fair value	**143,546**	80	**143,500**	–

28. BANK BALANCES – TRUST AND SEGREGATED ACCOUNTS

	The Group	
	2010	2009
	HK$'000	HK$'000
Trust accounts	**27,070**	6,366
Segregated accounts	**664**	957
	27,734	7,323

Trust and segregated accounts earn interest at floating rates based on daily bank deposit rates. At 31 March 2010 and 2009, all trust and segregated accounts are denominated in Hong Kong dollar.

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

29. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**129,140**	34,259	**9,246**	19

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

At 31 March 2010, cash and cash equivalents of approximately HK$112,337,000 (2009: HK$26,415,000) are denominated in Renminbi. Renminbi is not freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

30. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

The aged analysis of trade payables is as follow:

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables				
0 – 30 days	**39,257**	22,588	**–**	–
Accounts payable arising from the business of dealing in securities and equity options:				
Margin clients	**106**	100	**–**	–
Other payables and deposits received	**190,655**	316,999	**21,313**	11,644
	230,018	339,687	**21,313**	11,644

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

31. DERIVATIVE FINANCIAL INSTRUMENTS

	The Group and the Company	
	2010	2009
	HK$'000	HK$'000
Financial liabilities related to the convertible note options	**66**	–

For the year ended 31 March 2010

In July 2009, the Company entered into a subscription agreement with Mr. Yao Kangda ("Mr. Yao") in relation to (i) issue convertible notes with principal amount of HK$120,000,000 (the "First Tranche Convertible Notes") to Mr. Yao; and (ii) grant of the convertible note option (the "Convertible Note Option") to Mr. Yao at a premium of HK$2,500,000, being option for Mr. Yao to subscribe for the convertible notes in the principal amount of HK$250,000,000 (the "Second Tranche Convertible Notes") at conversion price of HK$0.10 per share. Details of which were set out in the Company's announcement dated 27 July 2009.

The Convertible Note Option shall be exercisable from the date of grant to 30 April 2010. It is exercisable in whole or in part and can be exercised on multiple occasions during the exercise period, provided that the principal amount of the Second Tranche Convertible Notes subject to the relevant exercise shall be an integral multiple of HK$10,000,000.

31. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The value of the Convertible Note Option was valued by Ascent Partners Transaction Service Limited, an independent valuer, by using the Hull-White Trinominal interest rate model. The inputs into the model were as follows:

	At the date of issue	At 31 March 2010
Spot price	HK$0.109	HK$0.093
Conversion price	HK$0.10	HK$0.10
Expected exercise period	0.71 year	0.08 year
Nature of the option	Call	Call
Volatility	0.64%	1.5576%

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 behavioural consideration.

The movement of the Convertible Note Option during the year ended 31 March 2010 are as follows:

	2010 HK$'000
The Convertible Note Option	
At beginning of the year	**–**
At initial recognition	**2,498**
Fair value change in derivative financial instruments	**(1,884)**
Exercise upon issue of convertible notes	**(548)**
At end of the year	**66**

31. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

For the year ended 31 March 2009

In 2008, the Group entered into subscription agreements with Mr. Zhang Yang ("Mr. Zhang"), in return for Mr. Zhang's payment of a premium of HK$20,000,000 to grant (i) an option (the "Option I") to subscribe for convertible notes of the Company up to an aggregate principal amount of HK$650,000,000 (the "Convertible Notes I") and the other option (the "Option II") to subscribe for convertible notes of the Company up to an aggregate principal amount of HK$1,200,000,000 (the "Convertible Notes II").

The Option I has been fully exercised in 2008 and the Option II has been partially exercised and expired during the year ended 31 March 2009.

The movement of the Option II during the year ended 31 March 2009 are as follows:

	2009 HK$'000
The Option II	
At beginning of the year	22,736
Fair value change in derivative financial instruments	(16,629)
Exercise upon issue of convertible notes	(5,028)
Derecognition upon expiry of the convertible note options	(1,079)
At end of the year	–

32. BANK AND OTHER BORROWINGS

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank borrowings, secured	**397,496**	277,031	**–**	–
Bank borrowings, unsecured	**95,908**	107,841	**–**	–
Total bank borrowings	**493,404**	384,872	**–**	–
Other borrowings, secured	**394,830**	120,000	**90,000**	120,000
Other borrowings, unsecured	**–**	18,966	**–**	3,000
Total other borrowings	**394,830**	138,966	**90,000**	123,000
Total borrowings	**888,234**	523,838	**90,000**	123,000
The maturity profiles are as follows:				
On demand or repayable within one year:				
bank borrowings	**214,257**	92,936	**–**	–
other borrowings	**394,830**	126,541	**90,000**	123,000
Portion classified as current liabilities	**609,087**	219,477	**90,000**	123,000
Repayable in the second year:				
bank borrowings	**65,321**	55,759	**–**	–
other borrowings	**–**	1,816	**–**	–
	65,321	57,575	**–**	–
Repayable in the third to fifth years, inclusives				
bank borrowings	**137,690**	170,718	**–**	–
other borrowings	**–**	5,448	**–**	–
	137,690	176,166	**–**	–
Repayable after the fifth year				
bank borrowings	**76,136**	65,459	**–**	–
other borrowings	**–**	5,161	**–**	–
	76,136	70,620	**–**	–
Portion classified as non-current liabilities	**279,147**	304,361	**–**	–
Total borrowings	**888,234**	523,838	**90,000**	123,000

32. BANK AND OTHER BORROWINGS *(Continued)*

The other borrowings bear interest at rates of 8% to 36% per annum for the year ended 31 March 2010 (2009: 7.75% to 36% per annum).

The other borrowings are secured by certain shares of a subsidiary of the Company, Heilongjiang Interchina, which its shares are listed in Shanghai Stock Exchange.

The bank borrowings are variable-rate borrowings, thus exposing the Group to cash flow interest rate risk. The effective interest rate on bank borrowings denominated in Hong Kong dollars is based on Hong Kong Inter Bank Offered Rate plus a specified margin. The effective interest rates on bank borrowings denominated in Renminbi ranging from 2.45% to 8.1% (2009: 2.55% to 8.25%) per annum.

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

	2010 **HK$'000**	2009 HK$'000
Intangible assets	**275,079**	293,916
Other financial assets	**340,109**	334,334
	615,188	628,250

The mortgage loans are secured by the Group's investment properties in both the PRC and Hong Kong with carrying values of approximately HK$213,628,000 (2009: HK$179,976,000). The term loans are repayable on agreed repayment schedule and the mortgage loans are repayable in instalments over a period of 1 to 20 years.

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

	The Group		**The Company**	
	2010 **HK$'000**	2009 HK$'000	**2010** **HK$'000**	2009 HK$'000
Hong Kong dollars	**96,560**	150,015	**90,000**	123,000
Renminbi	**791,674**	373,823	**–**	–
	888,234	523,838	**90,000**	123,000

33. CONVERTIBLE NOTES

For the year ended 31 March 2010

(a) In June 2009, the Company issued convertible notes (the "Favour City CN") with principal amount of HK$35,000,000 to Favour City Limited. The Favour City CN carried interest at 5.0% per annum and will be matured in 2011 The Favour City CN 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 7.91% per annum. Details of which were set out in the Company's announcement dated 9 June 2009 and 10 June 2009.

On 11 December 2009, the Favour City CN of HK$35,000,000 was converted into 350,000,000 ordinary shares of HK$0.10 each of the Company.

(b) In July 2009, the Company issued the First Tranche Convertible Notes to Mr. Yao. The First Tranche Convertible Notes carry interest at 5% per annum and carries at initial conversion price of HK$0.10 per share and will be matured on the date falling on the first anniversary from the date of issue. The effective interest rate of the liability component of the First Tranche Convertible Notes is 7.05% per annum. Details of which were set out in the Company's announcement dated 27 July 2009.

In August 2009, the First Tranche Convertible Notes of HK$120,000,000 were fully converted into 1,200,000,000 ordinary shares of the Company at HK$0.10 each of the Company.

In December 2009, the Company issued the Second Tranche Convertible Notes with principal amount of HK$90,000,000 to Mr. Yao and part of the Second Tranche Convertible Notes with principal amount of HK$70,000,000 were converted into 700,000,000 ordinary shares of the Company at HK$0.10 each of the Company.

For the year ended 31 March 2009

(c) The Company exercised the Option II and issued part of the Convertible Notes II with principal amount of HK$300,000,000. The Convertible Notes II carry interest at 3.0% and will be matured on 4 July 2012. The Convertible Notes II are denominated in Hong Kong dollars. The initial conversion price is HK$0.10 per share. The effective interest rate of the liability component is 8.57% per annum.

On 2 April 2008, 16 April 2008 and 21 April 2008, the Convertible Notes II 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 Convertible Notes II were issued.

33. CONVERTIBLE NOTES *(Continued)*

Reconciliation of the liability component of the convertible notes

	2010 HK$'000	2009 HK$'000
Liabilities component at beginning of the year	**–**	–
Fair value of issue of convertible notes	**245,548**	305,028
Equity component	**(4,644)**	(32,027)
Liability component at date of issue	**240,904**	273,001
Imputed interest expense for the year	**517**	–
Conversion into ordinary share	**(221,540)**	(273,001)
Liability component at end of the year	**19,881**	–

34. DEFERRED TAX LIABILITIES

The Group

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

	Revaluation of properties HK$'000	Convertible notes HK$'000	Fair value adjustments arising on acquisition of subsidiaries HK$'000	Temporary difference on assets under HK (IFRIC)-Int 12 HK$'000	Others HK$'000	Total HK$'000
At 1 April 2008	17,603	–	–	23,149	–	40,752
Exchange alignment	3	–	–	702	–	705
Acquisition of subsidiaries	–	–	81,819	–	(76)	81,743
(Credit)/charge to the consolidated income statement	(17,606)	–	–	6,532	76	(10,998)
Effect of change in tax rate	–	–	–	(5,612)	–	(5,612)
Issue of convertible notes	–	5,284	–	–	–	5,284
Conversion of convertible notes	–	(5,284)	–	–	–	(5,284)
At 31 March 2009 and 1 April 2009	–	–	81,819	24,771	–	106,590
Exchange alignment	–	–	(671)	(199)	–	(870)
Issue of convertible notes	–	766	–	–	–	766
Charge/(credit) to the consolidated income statement	23,867	(85)	–	7,301	29	31,112
Conversion of convertible notes	–	(660)	–	–	–	(660)
At 31 March 2010	**23,867**	**21**	**81,148**	**31,873**	**29**	**136,938**

34. DEFERRED TAX LIABILITIES *(Continued)*

At 31 March 2010, the Group had unused estimated tax losses of approximately HK$1,163,184,000 (2009: HK$1,504,631,000) available for offset against future profits. No deferred tax assets have been recognised due to the unpredictability of future profit streams.

The Company

Reconciliation of the deferred tax of the convertible notes

	HK$'000
At 1 April 2008	–
Issue of convertible notes	5,284
Conversion of convertible notes	(5,284)
At 31 March 2009 and 1 April 2009	–
Issue of convertible notes	766
Charge to the income statement	(85)
Conversion of convertible notes	(660)
At 31 March 2010	**21**

At 31 March 2010, the Company had no estimated tax losses (2009: HK$392,995,000) available for offset against future profit. No deferred tax assets had been recognised for the year ended 31 March 2010 and 2009 due to the unpredictability of future profit streams of the Company.

35. SHARE CAPITAL

	Number of shares		Nominal value	
	2010	2009	**2010 HK$'000**	2009 HK$'000
Ordinary shares of HK$0.10 each				
Authorised	**40,000,000,000**	40,000,000,000	**4,000,000**	4,000,000
Issued and fully paid:				
At beginning of the year	**20,286,193,632**	17,286,193,632	**2,028,619**	1,728,619
Exercise of share options (Note a)	**706,000,000**	–	**70,600**	–
Conversion of convertible notes (Note b, c , d and e)	**2,250,000,000**	3,000,000,000	**225,000**	300,000
At end of the year	**23,242,193,632**	20,286,193,632	**2,324,219**	2,028,619

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

35. SHARE CAPITAL *(Continued)*

Notes:

For the year ended 31 March 2010

(a) In July 2009 and August 2009, the Company allotted and issued 706,000,000 new shares of HK$0.10 each pursuant to the exercise of share options granted to the Group's employees and consultants. The exercise price was HK$0.103 per share.

(b) In August 2009, the First Tranche Convertible Notes with principal amounts of HK$120,000,000 were converted into 1,200,000,000 ordinary shares of the Company at conversion price of HK$0.10 per share.

(c) In December 2009, the Favour City CN with principal amount of HK$35,000,000 were converted into 350,000,000 ordinary shares of the Company at conversion price of HK$0.10 per share.

(d) In December 2009, the Second Tranche Convertible Notes with principal amount of HK$70,000,000 were converted into 700,000,000 ordinary shares of the Company at HK$0.10 each of the Company.

For the year ended 31 March 2009

(e) The holder of the Convertible Notes II with principal amounts of HK$ HK$300,000,000 were converted into 3,000,000,000 ordinary shares of the Company at conversion price of HK$0.10 per share.

36. SHARE PREMIUM AND RESERVES

	Share premium HK$'000	Exchange reserve HK$'000 *(Note 1)*	Convertible notes reserve HK$'000 *(Note 2)*	Share options reserve HK$'000 *(Note 3)*	Accumulated losses HK$'000	Total HK$'000
The Company						
At 1 April 2008	366,454	(4,790)	–	6,470	(368,763)	(629)
Exchange alignment	–	(345)	–	–	–	(345)
Issue of convertible notes	–	–	32,027	–	–	32,027
Recognition of deferred tax for convertible notes	–	–	(5,284)	–	–	(5,284)
Conversion of convertible notes	5,028	–	(26,743)	–	–	(21,715)
Loss for the year	–	–	–	–	(286,596)	(286,596)
At 31 March 2009 and 1 April 2009	371,482	(5,135)	–	6,470	(655,359)	(282,542)
Exchange alignment	–	114	–	–	–	114
Issue of share options	–	–	–	76,408	–	76,408
Lapse of share options	–	–	–	(1,222)	1,222	–
Exercise of share options	33,331	–	–	(31,213)	–	2,118
Issue of convertible notes	–	–	4,644	–	–	4,644
Recognition of deferred tax for convertible notes	–	–	(766)	–	–	(766)
Conversion of convertible notes	744	–	(3,763)	–	–	(3,019)
Loss for the year	–	–	–	–	(450,220)	(450,220)
At 31 March 2010	**405,557**	**(5,021)**	**115**	**50,443**	**(1,104,357)**	**(653,263)**

The Company did not have any reserves available for distribution to shareholders at 31 March 2010 (2009: Nil).

36. SHARE PREMIUM AND RESERVES *(Continued)*

Notes:

(1) Exchange reserve represents exchange differences relating to the translation of the net assets of the Company's foreign operations from their functional currencies to the Company's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the exchange reserve. Such exchange differences accumulated in the exchange reserve are reclassified to profit or loss on the disposal of the foreign operations.

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

(3) Share options reserve represents the fair value of services estimated to be received in exchange for the grant of the relevant share options over the relevant vesting periods, the total of which is based on the fair value of the share options at grant date. The amount for each period is determined by spreading the fair value of the options over the relevant vesting period (if any) and is recognised as staff costs and related expenses with a corresponding increase in the share options reserve.

37. 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 2010 and 31 March 2009.

(b) New Share Option Scheme

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

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

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

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

37. SHARE OPTIONS *(Continued)*

(b) New Share Option Scheme *(Continued)*

The following share options were outstanding under the Option Scheme during the year:

Name of category of participant	Number of share options: Outstanding as at 1 April 2008	Granted during the year	Exercised during the year	Outstanding as at 31 March 2009	Granted during the year	Lapse during the year	Exercised during the year	Outstanding as at 31 March 2010	Date of grant	Exercise period	Exercise price HK$
Directors											
Lam Cheung Shing, Richard	–	–	–	–	202,000,000	–	–	202,000,000	30-07-2009	31-07-2009 to 02-09-2012	0.103
Zhu Yongjun	–	–	–	–	202,000,000	–	–	202,000,000	30-07-2009	31-07-2009 to 02-09-2012	0.103
Wing Man Yi	–	–	–	–	202,000,000	–	–	202,000,000	30-07-2009	31-07-2009 to 02-09-2012	0.103
Mu Simon Xinming	–	–	–	–	10,000,000	(10,000,000)	–	–	30-07-2009	31-07-2009 to 02-09-2012	0.103
Ha Ping	5,000,000	–	–	5,000,000	–	–	–	5,000,000	28-08-2007	29-08-2007 to 02-09-2012	0.146
	–	–	–	–	20,000,000	–	–	20,000,000	30-07-2009	31-07-2009 to 02-09-2012	0.103
Ho Yiu Yue, Louis	–	–	–	–	10,000,000	–	–	10,000,000	30-07-2009	31-07-2009 to 02-09-2012	0.103
Ko Ming Tung, Edward	–	–	–	–	10,000,000	–	–	10,000,000	30-07-2009	31-07-2009 to 02-09-2012	0.103
Fu Tao	–	–	–	–	10,000,000	–	–	10,000,000	30-07-2009	31-07-2009 to 02-09-2012	0.103
Wong Hon Sum	5,000,000	–	–	5,000,000	–	(5,000,000)	–	–	28-08-2007	29-08-2007 to 02-09-2012	0.146
Tang Tin Sek	5,000,000	–	–	5,000,000	–	(5,000,000)	–	–	28-08-2007	29-08-2007 to 02-09-2012	0.146
Consultants											
In aggregate	33,000,000	–	–	33,000,000	–	–	–	33,000,000	28-08-2007	29-08-2007 to 02-09-2012	0.146
	–	–	–	–	524,000,000	–	(504,000,000)	20,000,000	30-07-2009	31-07-2009 to 02-09-2012	0.103
Employees											
In aggregate	40,000,000	–	–	40,000,000	–	–	–	40,000,000	28-08-2007	29-08-2007 to 02-09-2012	0.146
	–	–	–	–	378,000,000	–	(202,000,000)	176,000,000	30-07-2009	31-07-2009 to 02-09-2012	0.103
	88,000,000	–	–	88,000,000	1,568,000,000	(20,000,000)	(706,000,000)	930,000,000			
Weighted average exercise price	HK$0.146	–	–	HK$0.146	HK$0.103	HK$0.125	HK$0.103	HK$0.107			

37. SHARE OPTIONS *(Continued)*

(b) New Share Option Scheme *(Continued)*

(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 fair values of the share options granted during the year ended 31 March 2008 and 2010 were calculated, using the Binomial Option Pricing Model, by Savills Valuation and Professional Services Limited and Ascent Partners Transaction Service Limited, respectively. The inputs into the model at the date of grant of options were as follows:

Date of grant:	28 August 2007	30 July 2009
Total number of share options:	459,490,000	1,568,000,000
Option value: – (employees)	HK$0.070891	HK$0.049
– (consultants)	HK$0.078000	HK$0.049
Valuables		
– Maturity date	2 September 2012	2 September 2012
– Annual risk free rate*	4.4%	0.100% – 0.984%
– Stock price at the date of grant	HK$0.146	HK$0.103
– Exercise price	HK$0.146	HK$0.103
– Expected life	5 years	1 to 3.09 years
– Expected volatility	66%	93% – 113%
– Expected ordinary dividend	Nil	Nil

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

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

37. SHARE OPTIONS *(Continued)*

(b) New Share Option Scheme *(Continued)*

The Group recognised share-based payment expenses amounted to approximately HK$76,408,000 for the year ended 31 March 2010 (2009: HK$ Nil) in relation to share options granted by the Company.

At 31 March 2010, the Company had 930,000,000 share options (2009: 88,000,000) 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 930,000,000 additional ordinary shares of HK$0.1 each of the Company.

38. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

(a) In November 2009, the Group entered into a conditional sale and purchase agreement with 漢中萬邦置業發展有限公司, relating to the sale of 100% equity interest in 漢中國中酒店管理有限公司 (“漢中國中酒店”), at a consideration of RMB36,620,000. 漢中國中酒店 was principally engaged in property investment operation in Hanzhong, the PRC.

The major class of assets classified as held for sale as at 31 March 2010 were as follows:

	HK$'000
Assets classified as held for sale	
Interest in leasehold land and land use rights	31,975
Property, plant and equipment	10,872
Cash and cash equivalents	8
	42,855
Remeasurement to fair value less costs to sell	(1,241)
	41,614

38. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE *(Continued)*

(b) On 10 December 2008, the Company entered into a conditional sale and purchase agreement with 上海方華實業發展有限公司 (Shanghai Fanghua Shiye Development Limited), relating to the sale of (i) 100% equity interest in 國中(長沙)體育新城投資項目管理有限公司 (Interchina (Changsha) Investments and Management Company Limited) ("ICIM"), (ii) 38.9% equity interest in 長沙國中星城置業有限公司 (Changsha Interchina Star City Company Limited) ("CIC") and (iii) a non-interest bearing loan due from ICIM to the Company (the "ICIM Loan") (collectively referred to as the "Disposal"), at a consideration of approximately RMB330,000,000. The consideration will be satisfied in cash. ICIM and CIC were principally engaged in city development and investment operation in Changsha, the PRC. Details of the Disposal were set out in the Company's announcement dated 12 December 2008, 27 April 2009 and 16 July 2009 and circular dated 24 July 2009.

The major class of assets and liabilities classified as held for sale as at 31 March 2009 were as follows:

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

39. DISPOSAL OF SUBSIDIARIES

(a) During the year, the Group completed the Disposal at consideration of RMB330,000,000. The net assets of ICIM and CIC and the ICIM Loan as at the Disposal date were as follows:

	HK$'000
Interest in leasehold land and land use rights	42,427
Property, plant and equipment	340,097
Other non-current assets	94
Properties under development for sale	253,622
Other receivables and prepayments	170,915
Cash and cash equivalents	48,047
Amount due to the Group	(706,895)
Other payables	(422,379)
Bank borrowings	(57,471)
	(331,543)
Amount due to the Group assigned to the purchaser	706,895
Release of translation reserves	(20,980)
Gain on disposal of subsidiaries	21,819
Total consideration	376,191
Satisfied by:	
Cash consideration	377,748
Transaction cost directly attributable to the Disposal	(1,557)
	376,191
Net cash flow arising from the Disposal	
Cash consideration received	377,748
Transaction cost directly attributable to the Disposal	(1,557)
Cash and cash equivalents disposed of	(48,047)
	328,144

39. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) On 9 February 2010, the Company entered into a conditional sale and purchase agreement with Sun Delight Investments Limited, relating to the sale of (i) 100% equity interest in Equal Sharp Investments Limited ("Equal Sharp"), (ii) 100% equity interest in 湖南泛星國際企業管理有限公司（"湖南泛星"） and (iii) a non-interest bearing loan due from Equal Sharp to the Company (the "Equal Sharp Loan") at a consideration of approximately HK$10,000. The consideration will be satisfied in cash. Equal Sharp and 湖南泛星 were principally engaged in property management and general trading in the PRC.

The aggregated net assets of Equal Sharp and 湖南泛星 at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	54
Other receivables	154
Cash and cash equivalents	5
Other payables	(729)
Amount due to the Group	(15,546)
	(16,062)
Amount due to the Group assigned to the purchaser	15,546
Release of translation reserves	(1,686)
Gain on disposal of subsidiaries	2,212
Total consideration	10
Satisfied by:	
Cash consideration	10
Net cash flow arising from the disposal	
Cash consideration received	10
Cash and cash equivalents disposed of	(5)
	5

40. DISCONTINUED OPERATION

Following the Disposal as detailed in note 38 and 39(a), ICIM and CIC ceased to be subsidiaries of the Company and the business of city development and investment operation which was solely carried out by ICIM and CIC became a discontinued operation to the Group.

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

	Notes	2010 HK$'000	2009 HK$'000
Interest income	*8*	**10**	5
Staff cost	*9*	**(1,028)**	(2,650)
Amortisation and depreciation		**(572)**	(1,079)
Administrative costs		**(2,784)**	(5,484)
Impairment loss recognised in respect of property under development		**–**	(182,770)
Finance costs	*11*	**(4,873)**	(4,589)
		(9,247)	(196,567)
Loss on remeasurement to fair value less costs to sell		**–**	(216,300)
Loss before taxation from discontinued operation		**(9,247)**	(412,867)
Taxation	*12*	**–**	–
Loss for the year from discontinued operation		**(9,247)**	(412,867)
Loss per share			
– Basic		**HK(0.424) cents**	HK(20.472) cents
– Diluted		**HK(0.414) cents**	HK(20.472) cents

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

	2010 HK$'000	2009 HK$'000
Operating activities	**66,103**	53,473
Investing activities	**(92,405)**	(132)
Financing activities	**52,315**	(56,188)
	26,013	(2,847)

41. ACQUISITION OF SUBSIDIARIES

For the year ended 31 March 2010

On 18 September 2009, the Group acquired 47.27% equity interest in Regent Victor from an independent third party. On the same date, the Group further subscribed 8,999,996 shares in Regent Victor and the Group's equity interest in Regent Victor increased to 71%.

Details of the assets and liabilities acquired in the transaction and the goodwill arising are as follows:

	Fair value HK$'000
Other receivables and prepayments	10,998
Cash and bank balances	5
Other payables	(68)
	10,935
Less: non-controlling interests	(5,766)
	5,169
Goodwill	31
	5,200
Satisfied by cash	5,200
Net cash flow arising from acquisition of Regent Victor	
Cash consideration paid	(5,200)
Cash and bank balances acquired	5
	(5,195)

The subsidiary acquired did not make any significant revenue, result or cash flow to the Group.

As the revenue and result of Regent Victor 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 2009, are not disclosed as the information does not give additional value.

41. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 March 2009

In January 2009, the Group completed the acquisition of the Heilongjiang Interchina Group. The acquisition was satisfied by cash. The fair value of the identifiable assets and liabilities of the Heilongjiang Interchina 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 HK$'000	Adjustment HK$'000	Fair value HK$'000
Investment properties	489	–	489
Property, plant and equipment	2,306	–	2,306
Intangible assets	287,455	273,198	560,653
Other financial assets	65,567	23,149	88,716
Deferred tax assets	76	–	76
Inventories	2,874	–	2,874
Trade and other receivables and prepayments	189,848	–	189,848
Cash and cash equivalents	14,715	–	14,715
Trade and other payables and deposits received	(135,006)	–	(135,006)
Tax payable	(32,516)	–	(32,516)
Bank borrowings	(130,909)	–	(130,909)
Deferred tax liabilities	(7,732)	(74,087)	(81,819)
	257,167	222,260	479,427
Non-controlling interests			(146,123)
Goodwill			387,557
Consideration			720,861
Satisfied by:			
Cash			708,012
Transaction cost directly attributable to the acquisition			12,849
			720,861
Net cash outflow arising from acquisition:			
Cash consideration paid			377,549
Deposit paid			330,463
Transaction cost directly attributable to the acquisition			12,849
Cash and cash equivalents acquired			(14,715)
			706,146

41. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 March 2009 *(Continued)*

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

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

42. CAPITAL COMMITMENTS

	The Group	
	2010	2009
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of property, plant and equipment and properties under development for sale	**336,799**	109,087
– acquisition of investment properties	**6,618**	–

43. COMMITMENTS

(a) At 31 March 2010, the Group had no 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 for the year ended 31 March 2009 was as follow:

	The Group	
	2010	2009
	HK$'000	HK$'000
Within one year	**–**	9,674
In the second to fifth year inclusive	**–**	14,569
After five years	**–**	14,369
	–	38,612

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

(b) At 31 March 2009, the Group had commitments to the property buyers of certain pre-sales properties that the Group would buy back the properties at 100% of the original property sales price on the request from the property buyers. The commitments are six years after the completion date of the sale and purchase agreements of the properties with the total contract sum of approximately HK$63,284,000. Following the completion of the disposal of ICIM and CIC, the Group had no such commitments as at 31 March 2010.

44. OPERATING LEASE COMMITMENTS

The Group as lessee

At 31 March 2010 and 2009, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Within one year	**5,697**	2,920
In the second to fifth year inclusive	**10,383**	5,208
After five years	**10,722**	11,930
	26,802	20,058

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

The Group as lessor

Property rental income earned during the year was HK$18,404,000 (2009: HK$18,211,000). Some of the properties held have committed tenants for one to two years.

At 31 March 2010, the Group had contracted with tenants for the following future minimum lease payments:

	The Group	
	2010	2009
	HK$'000	HK$'000
Within one year	**12,407**	9,647
In the second to fifth year inclusive	**26,600**	14,342
After five years	**22,838**	1,046
	61,845	25,035

45. 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 (2009: Nil) are used to reduce the contributions for the year ended 31 March 2010. 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 subsidiaries in the PRC 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.

46. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Transactions with related parties

(i) During the year, the Group did not paid any interests to a related company of the Company (2009: HK$56,000).

(ii) During the year, the Group received rental income amounted to approximately HK$90,000 (2009: HK$540,000) from a director of the Company.

(iii) For the year ended 31 March 2009, the Group entered into an acquisition agreement with Maxable International Enterprises Limited, which is a company wholly-owned by Ms. Wing Man Yi ("Ms. Wing"), for acquisition of 29.52% of the issued share capital of China Pipe Group Limited at a consideration of HK$296,000,000. Ms. Wing was appointed as a director of the Company on 11 June 2009 and resigned on 31 December 2009. She is also the wife of the brother-in-law of Mr. Zhang, a former director of the Company who has resigned on 11 May 2009. Details of the transactions are set out in the Company's announcement and circular dated 18 December 2007 and 17 May 2008 respectively.

46. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) 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:

	2010 HK$'000	2009 HK$'000
Salaries and other short-term benefits	**13,481**	9,813
Pension scheme contributions	**427**	463
Share-based payment expenses	**29,442**	–
	43,350	10,276

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

(c) Balances with related parties

Included in other receivables was an amount advanced to directors of a subsidiary amounted to approximately HK$5,798,000 (2009: HK$Nil).

47. GOVERNMENT SUBSIDIES

During the year, the Group received government subsidies of HK$32,520,000 (2009: HK$5,172,000) for the contribution towards the business in Xian and Hanzhong, the PRC. The amount has been included in other revenue for the year.

48. FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, cash and cash equivalents, loan receivables, financial assets at fair value through profit or loss, trade and other payables, bank and other borrowings, derivative financial instruments and convertible notes. 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.

48. FINANCIAL RISK MANAGEMENT *(Continued)*

Categories of financial instruments

	The Group	
	2010	2009
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**364,812**	441,232
Financial assets at fair value through profit or loss	**143,546**	80
Financial liabilities		
Financial liabilities at fair value through profit or loss	**66**	–
Amortised cost	**1,083,803**	1,073,896

Financial risk factors

The Group is exposed to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow and fair value interest rate risk, which result 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.

(a) Market risk

(i) 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. It results the Group 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 2010, if there is a 5% increase or decrease in exchange rate of 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$46,023,000 (2009: HK$54,141,000).

48. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Price risk (Continued)

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated statement of financial position as financial assets at fair value through profit or loss which are measured at fair value at each of the reporting period. 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 end of the reporting period.

If the prices of the respective equity instruments have been 5% higher/lower, profit before taxation for the Group would be increased/decreased by approximately HK$718,000 (2009: increased/decreased by approximately HK$4,000) as a result of the changes in fair value of financial assets at fair value through profit or loss.

(b) 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 statement of financial position. In order to minimise the credit risk, the Group has policies in place in determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk is significant reduced.

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

48. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

(c) Liquidity risk

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 end of the reporting period 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 HK$'000	Between 1 and 5 years HK$'000	Over 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Total carrying amount HK$'000
At 31 March 2010						
Continuing operations						
Non-derivative financial liabilities						
Trade and other payables	–	230,018	–	–	230,018	230,018
Bank and other borrowings	7.12%	647,817	213,329	85,693	946,839	888,234
Convertible notes	5.448%	20,000	–	–	20,000	19,881
		897,835	213,329	85,693	1,196,857	1,138,133
At 31 March 2009						
Continuing operations						
Non-derivative financial liabilities						
Trade and other payables	–	295,977	39,458	4,252	339,687	339,687
Bank and other borrowings	12.73%	242,654	272,934	76,813	592,401	523,838
Discontinued operations						
Other payables	–	210,370	–	–	210,370	210,370
		749,001	312,392	81,065	1,142,458	1,073,895

48. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

(d) 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 end of the reporting period. For variable-rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period 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/lower and all other variables were held constant, the Group's profit for the year ended 31 March 2010 would decrease/increase by approximately HK$7,929,000 (2009: HK$2,019,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Fair value estimation

Effective from 1 April 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the consolidated statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

48. FINANCIAL RISK MANAGEMENT *(Continued)*

Fair value estimation *(Continued)*

The following table presents the Group's financial assets and financial liabilities that are measured at fair value at 31 March 2010.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 March 2010				
Financial assets at fair value through profit or loss	143,546	–	–	143,546
Derivative financial instruments	–	–	66	66

There have been no significant transfers between level 1, 2 and 3 in the reporting period.

The fair value of the Group's derivative financial instruments as classified under Level 3 has been estimated using a valuation technique based on assumptions and significant input. The assumptions and relevant input and the reconciliation were set out in note 31 to the financial statement.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the 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 less cash and cash equivalent divided by total equity. The Group aims to maintain the gearing ratio at a reasonable level.

48. FINANCIAL RISK MANAGEMENT *(Continued)*

Capital risk management *(Continued)*

The gearing ratios at the end of the reporting period are as follows:

	2010 HK$'000	2009 HK$'000
Total borrowings (note 32 and 33)	908,115	523,838
Less: Cash and cash equivalents	(129,140)	(34,259)
	778,975	489,579
Total equity	2,123,951	1,719,465
Gearing ratio	37%	28%

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Company name	Place of incorporation/ registration and operation	Paid-up issued ordinary shares/ registered capital* HK$ (unless otherwise stated)	Percentage of issued ordinary shares/registered capital held by the Company Directly %	Indirectly %	Principal activities
Action Investments Limited	Hong Kong	100	100	–	Property letting
Burlingame International Company Limited	Hong Kong	425,019,668	100	–	Investment holding
Interchina Corporate Services Limited	Hong Kong	10,000	100	–	Corporate management
Interchina (Tianjin) Water Treatment Company Limited @	PRC	*RMB900,000,000	100	–	Environmental protection
國中(漢中)石門供水有限公司 #	PRC	*RMB50,000,000	–	80	Water supply
Interchina Futures Limited	Hong Kong	8,500,000	30	70	Commodities brokerage
Interchina Securities Limited	Hong Kong	300,000,000	5	95	Securities brokerage

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operation	Paid-up issued ordinary shares/ registered capital* HK$ (unless otherwise stated)	Percentage of issued ordinary shares/registered capital held by the Company Directly %	Indirectly %	Principal activities
Interchina Finance (H.K.) Limited	Hong Kong	10,000	–	100	Provision of financial services
Best Plain Trading Limited	Hong Kong	310,000,000	–	100	Property letting
Interchina Water Treatment Limited	BVI	US$10,000	–	100	Investment holding
國水(昌黎)污水處理有限公司 @	PRC	*RMB26,000,000	–	100	Sewage treatment
國水(馬鞍山)污水處理有限公司 @	PRC	*50,660,000	–	100	Sewage treatment
Interchina (Qinhuangdao) Sewage Treatment Company Limited @	PRC	*US$4,091,003	–	100	Sewage treatment
Success Flow International Limited	BVI	US$1	100	–	Investment holding
Long Bao Property Limited (formerly known as Guo Xin (China) Limited)	Hong Kong	100	–	100	Investment holding
北京龍堡物業管理有限公司 @	PRC	*RMB45,000,000	–	100	Property management
Money Capture Investments Limited	BVI	US$100	100	–	Investment holding
Shanghai Interchina Club Company Limited services	PRC	*US$769,210	–	100	Provision of entertainment
Equal Smart Profits Limited	BVI	US$1	–	100	Property investment
Heilongjiang Interchina Water Treatment Company Limited	PRC	*RMB327,225,000	–	70.21	Investment holding

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operation	Paid-up issued ordinary shares/ registered capital* HK$ (unless Otherwise stated)	Percentage of issued ordinary shares/registered capital held by the Company Directly %	Indirectly %	Principal activities
漢中市國中自來水有限公司	PRC	*RMB60,000,000	–	70.21	Water supply
漢中市漢江供水實業有限責任公司	PRC	*RMB5,026,000	–	70.21	Water facilities construction
漢中市漢江水業發展有限責任公司	PRC	*RMB910,000	–	70.21	Distilled water supply
西安航空科技產業園供排水有限公司	PRC	*RMB40,000,000	–	69.51	Water supply
青海雄越環保科技有限責任公司	PRC	*RMB20,900,000	–	66.70	Sewage treatment

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

Sino foreign equity joint venture
@ Wholly-owned foreign enterprise

50. EVENTS AFTER THE REPORTING PERIOD

(a) In July 2009, the board of the Company proposed (i) to reduce the share capital of the Company by cancelling the issued and paid up capital to the extent of HK$0.09 on each of the Company's shares in issued and any further shares of the Company which may be issued prior to the date for the confirmation of the capital reduction is heard by the Court of First Instance of the High Court of Hong Kong (the "Court") and by reducing the nominal value of all the issued and unissued shares from HK$0.10 each to HK$0.01 each (the "Capital Reduction"), follow by (ii) a consolidation of every ten reduced shares into one consolidated share (the "Share Consolidation") (collectively referred to as the "Capital Reorganisation") and (iii) increase of the authorised share capital of the Company from HK$400,000,000 divided into 4,000,000,000 consolidated shares to HK$1,000,000,000 divided into 10,000,000,000 consolidated share by the creation of an additional 6,000,000,000 new consolidated shares.

50. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(a) *(Continued)*

On 1 April 2010, the Court granted an order confirming the capital reduction in the hearing of the petition held on the date. On 9 April 2010, upon registration of the confirming order and minute with the Companies Registrar, all the condition precedents to the Capital Reorganisation have been fulfilled, and the Capital Reorganisation, as well as the increase in authorised share capital, become effective. Following completion of the Capital Reorganisation, the exercise price of the outstanding share options were adjusted from HK$0.146 to HK$1.46 and from HK$0.103 to HK$1.03. The conversion price of the outstanding convertible notes and the convertible note option were adjusted from HK$0.10 to HK$1.00. Details of the adjustment were set out in the Company's announcement dated 9 April 2010.

(b) On 4 March 2010, Heilongjiang Interchina, an indirect owned subsidiary of the Company, submitted a revised share increase proposal (the "Revised Share Increase Proposal") to the Shanghai Stock Exchange to revise the terms of the share increase proposal submitted in November 2009. Details of the share increase proposal submitted in November 2009 were set out in the Company's announcement dated 13 November 2009 and the Company's circular dated 28 December 2009. Details of the Revised Share Increase Proposal submitted in March 2010 were set out in the Company's announcement dated 8 March 2010 and the Company's circular dated 29 March 2010. Under the Revised Share Increase Proposal, Heilongjiang Interchina proposed to issue up to 115,000,000 shares and acquire several water projects in the PRC. The Revised Share Increase Proposal was approved by the shareholders of the Company at the extraordinary general meeting held on 22 April 2010 but the relevant approval procedures from the regulatory authorities in the PRC are still in the process. As at the date of approval of these financial statements, the management of the Group was still in the midst of determining the financial effect of the aforesaid transactions.

(c) On 3 March 2010, Interchina (Tianjin) Water Treatment Company Limited, a wholly-owned subsidiary of the Company established in the PRC, entered into several agreements with Heilongjiang Interchina to dispose (i) 75% equity interest in Interchina (Qinhuangdao) Sewage Treatment Company Limited; (ii) 100% equity interest in Interchina (Changli) Sewage Treatment Company Limited; (iii) 100% equity interest in Interchina (Maanshan) Sewage Treatment Company Limited; (iv) 100% equity interest in Ordos Interchina Water Treatment Company Limited and (v) 80% equity interest in Taiyuan Haofeng Wastewater Treatment Company Limited to Heilongjiang Interchina at consideration of approximately RMB294,530,000 (subject to adjustment). Details of the disposal transactions were set out in the Company's announcement dated 8 March 2010 and 26 March 2010 and the Company's circular dated 29 March 2010. The disposal transactions were approved by the shareholders of the Company at the extraordinary general meeting held on 22 April 2010 but the completion are still conditional which subject to the completion of the Revised Share Increase Proposal as detailed in note 50(b) above. As at the date of approval of these financial statements, the management of the Group was still in the midst of determining the financial effect of the aforesaid transactions.

(d) On 28 April 2010, the Company entered in a placing agreement with placing agent pursuant to which the Company has conditionally agreed to place, through the placing agent, up to 440,000,000 placing shares at placing price of HK$0.65 per placing share. The maximum net proceeds from the placing will amount to approximately HK$278,700,000 which is intended to be used for development of the Group's environmental protection and water treatment operation and exploration of other potential business and investment opportunities in the future. Details of the placing were set out in the Company's announcement dated 28 April 2010.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 June 2010.

	For the year ended 31 March				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)	(Restated)	(Restated)
Results					
Turnover	**234,770**	116,182	103,007	131,995	146,594
Profit/(loss) from ordinary activities before taxation	**126,277**	(365,869)	7,105	(7,734)	(83,698)
Taxation	**(56,661)**	14,491	(21,120)	(9,073)	(9,150)
Profit/(loss) for the year from continuing operations	**69,616**	(351,378)	(14,015)	(16,807)	(92,848)
Loss for the year from discontinued operation	**(9,247)**	(412,867)	(26,706)	–	–
Profit/(loss) for the year	**60,369**	(764,245)	(40,721)	(16,807)	(92,848)
Owners of the Company	**63,293**	(764,496)	(39,762)	(18,252)	(92,803)
Non-controlling interests	**(2,924)**	251	(959)	1,445	(45)
Profit/(loss) for the year	**60,369**	(764,245)	(40,721)	(16,807)	(92,848)

Assets and liabilities

	As at 31 March				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)	(Restated)	(Restated)
Total assets	**3,673,173**	3,065,296	2,833,986	1,694,083	1,476,926
Total liabilities	**(1,315,054)**	(1,190,145)	(701,686)	(810,821)	(709,275)
Non-controlling interests	**(234,168)**	(155,686)	(9,312)	(25,488)	(22,872)
Shareholders' funds	**2,123,951**	1,719,465	2,122,988	857,774	744,779

INVESTMENT PROPERTIES

Location	Use	Lease term
Flat No. 17 on 27/F, Apartment Tower, Western Side of Convention Plaza, Wan Chai, Hong Kong	Residential premises for rental	Long-term lease
Units B01, B02, B03, B04, B05, B06, B07, B08, B09, B10, B11, B12, 101, 102, 103, 104A, 104B, 105, 106, 107, 108,109A, 109B, 110, 201, 202, 203A, 203B, 204, 205, 206, 207, 208, 209, 210A, 210B, 211, 212, 213, 214 303B, 401, 412B, 416, 510A, 511, 517, 518, 526A, 607, 615, 616, 715, 722, 726B, 810A, 818, 825, 827, 819A, 910A, 912B, 916, 1005, 1010, 1003B, 1017, 1112B, 1116, 1126B, 1202, 402, 415, 523A, 516, 609, 801, 803A, 803B, 828, 903A, 912A, 1028, 1115, 1128, 1203B, 1023A, 1012B, 1019A 國中商業大廈 33, Dengshikou Street, Dong Cheng District, Beijing, PRC	Commercial premises for rental	Medium-term lease
Basements 1 to 2 and Levels 1 to 2, Guozhong Club, No. 1546 Dalian Road, Yangpu District, Shanghai, PRC	Commercial premises for rental	Medium-term lease
Units 12, 13, 14, 15 North Comprehensive Building Taibai Lu Zhong Duan Dao Han Tai District, Hanzhong, PRC	Commercial premises for rental	Medium-term lease

BOARD OF DIRECTORS

Executive Directors
Mr. Lam Cheung Shing, Richard *(Deputy Chairman)*
Mr. Zhu Yongjun *(Deputy Chairman)*
Mr. Zhang Chen

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

AUDIT COMMITTEE

Mr. Ho Yiu Yue, Louis *(Chairman)*
Ms. Ha Ping
Mr. Ko Ming Tung, Edward
Dr. Fu Tao

REMUNERATION COMMITTEE

Mr. Ho Yiu Yue, Louis *(Chairman)*
Ms. Ha Ping
Mr. Lam Cheung Shing, Richard

COMPANY SECRETARY

Mr. Lau Chi Lok, Freeman

STOCK CODE

0202

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Chartered Accountants
Certified Public Accountants
31/F., Gloucester Tower
The Landmark
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Hong Kong

SOLICITORS

Kirkpatrick & Lockhart Gates
44/F., Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

The Bank of East Asia Limited
Standard Chartered Bank Limited
Fubon Bank (Hong Kong) Limited

SHARE REGISTRARS

Tricor Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong