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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Yang (Chairman)
Mr. Liu Shunxin (Honorary Chairman)
Mr. Lam Cheung Shing, Richard
Mr. Chan Wing Yuen, Hubert
Mr. Jack Jiyei Zhang

Non-executive Director

Mr. Hui Ho Ming, Herbert

Independent Non-executive Directors

Mr. Lee Peng Fei, Allen
Mr. Wu Wai Chung, Michael
Mr. Wong Hon Sum
Ms. Ha Ping

AUDIT COMMITTEE

Mr. Wong Hon Sum
Ms. Ha Ping

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Standard Chartered Bank
International Bank of Asia Limited

AUDITORS

Deloitte Touche Tohmatsu

COMPANY SECRETARY

Mr. Yip Kar Hang, Raymond

SOLICITORS

Preston Gates & Ellis
To, Lam & Co.

PRINCIPAL OFFICE IN HONG KONG

45/F., Far East Finance Centre
16 Harcourt Road, Admiralty
Hong Kong

SHARE REGISTRARS

Tengis Limited
4/F., Hutchison House
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Central, Hong Kong

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
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**Deloitte
Touche
Tohmatsu**

INDEPENDENT AUDITORS' REVIEW REPORT

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF INTERCHINA HOLDINGS COMPANY LIMITED

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 4 to 17.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2002.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 18 December 2002

The board of directors (the "Board") of Interchina Holdings Company Limited (the "Company") announces the unaudited condensed consolidated income statement of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2002 together with the comparative figures for the corresponding period in previous year as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2002

		Unaudited six months ended 30 September	
	Notes	2002 HK\$'000	2001 HK\$'000
Turnover	3	32,967	35,498
Other operating income		1,109	705
Interest income		2,401	4,625
Staff costs		(17,744)	(13,361)
Amortisation and depreciation		(9,198)	(3,733)
Other operating expenses		(31,135)	(24,105)
Write-back of liability to a creditor		3,693	4,531
Loss on disposal of investment properties		(21,000)	–
(Loss)profit from operations	3, 4	(38,907)	4,160
Gain on disposal of subsidiaries		77,323	149,163
Finance costs		(17,385)	(9,896)
Share of results of associates		3,770	–
Profit before taxation		24,801	143,427
Taxation	5	(734)	(1,341)
Profit before minority interests		24,067	142,086
Minority interests		801	(2,148)
Net profit for the period		24,868	139,938
Earnings per share	6		
Basic		0.54 cents	3.19 cents
Diluted		0.53 cents	3.09 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2002

	Notes	(Unaudited) 30 September 2002 HK\$'000	(Audited) 31 March 2002 HK\$'000
Non-current assets			
Investment properties	7	379,000	275,000
Property, plant and equipment	7	357,078	313,718
Interests in associates	8	13,303	136,383
Intangible assets		8,802	11,111
Other non-current assets		1,995	2,122
Loan receivable - due after one year	9	11,600	–
		771,778	738,334
Current assets			
Inventories		1,232	1,337
Trade and other receivables	10	263,966	174,665
Loan receivable – due within one year	9	400	–
Investments in securities		486	692
Tax recoverable		1,593	1,592
Pledged bank deposit		–	17,500
Deposits with banks and other financial institution		257,608	235,115
		525,285	430,901
Current liabilities			
Trade and other payables	11	140,197	115,815
Amounts due to an associate		1,415	17,235
Amounts due to minority shareholders		10,000	10,000
Amount due to a related company	12	101,688	35,041
Tax liabilities		497	245
Bank borrowings – due within one year	13	167,318	53,626
Obligations under finance leases – due within one year		376	374
		421,491	232,336
Net current assets		103,794	198,565
		875,572	936,899

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

At 30 September 2002

	Notes	(Unaudited) 30 September 2002 HK\$'000	(Audited) 31 March 2002 HK\$'000
Capital and reserves			
Share capital	14	459,492	439,492
Share premium and reserves		338,053	133,792
		797,545	573,284
Minority interests		35,961	27,329
		833,506	600,613
Non-current liabilities			
Loans from minority shareholders		11,839	11,839
Bank borrowings – due after one year	13	29,821	123,853
Obligations under finance leases – due after one year		406	594
Convertible loan note	15	–	200,000
		875,572	936,899

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2002

	Share capital	Share premium	Special reserve	Exchange reserve	Accumulated (losses) profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2001	438,412	96,344	571,996	6,126	(677,820)	435,058
Exchange differences on translation of overseas subsidiaries not recognised in the income statement	–	–	–	(1,255)	–	(1,255)
Exercise of share options	735	–	–	–	–	735
Premium arising from issue of shares	–	448	–	–	–	448
Expenses incurred in connection with issue of shares	–	(4)	–	–	–	(4)
Realised on disposal of subsidiaries	–	–	–	(4,193)	–	(4,193)
Profit for the period	–	–	–	–	139,938	139,938
At 30 September 2001	439,147	96,788	571,996	678	(537,882)	570,727
Exchange differences on translation of overseas subsidiaries not recognised in the income statement	–	–	–	935	–	935
Exercise of share options	345	–	–	–	–	345
Premium arising from issue of shares	–	211	–	–	–	211
Profit for the period	–	–	–	–	1,066	1,066
At 1 April 2002	439,492	96,999	571,996	1,613	(536,816)	573,284
Exchange differences on translation of overseas subsidiaries not recognised in the income statement	–	–	–	357	–	357
Share issued pursuant of the application of the convertible loan note holder	20,000	–	–	–	–	20,000
Premium arising from issue of shares	–	180,000	–	–	–	180,000
Expenses incurred in connection with issue of shares	–	(31)	–	–	–	(31)
Release on disposal of a subsidiary and an associate	–	–	–	(933)	–	(933)
Profit for the period	–	–	–	–	24,868	24,868
At 30 September 2002	459,492	276,968	571,996	1,037	(511,948)	797,545

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2002

	Unaudited	
	six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
Net cash inflow (outflow) from operating activities	61,582	(107,723)
Net cash (outflow) inflow from investing activities	(37,762)	20,077
Net cash inflow from financing	17,340	152,495
	<hr/>	<hr/>
Increase in cash and cash equivalents	41,160	64,849
Cash and cash equivalents brought forward	202,966	115,463
Effect of foreign exchange rate changes	(2,903)	(1,255)
	<hr/>	<hr/>
Cash and cash equivalents carried forward	241,223	179,057
Analysis of balances of cash and cash equivalents		
Cash and cash equivalent as previously reported	182,966	115,463
Effect of reclassification of revolving loans	20,000	–
	<hr/>	<hr/>
Cash and cash equivalent brought forward as restated	202,966	115,463
	<hr/>	<hr/>
Bank balances and cash	257,608	227,085
Less: Bank balances – trust and segregated accounts	(16,385)	(48,028)
	<hr/>	<hr/>
	241,223	179,057
	<hr/>	<hr/>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2002

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

The condensed financial statements have been prepared in accordance with the accounting policies consistent with those adopted by the Group in its financial statements for the year ended 31 March 2002.

In the current period, the Group has adopted, for the first time, a number of revised or new SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no material effect on the results for current or prior accounting periods.

Cash flow statements

In accordance with SSAP 15 (Revised) "Cash Flow Statements", the cash and cash equivalents is presented by means of cash flow during the period according to operating, investing and financing activities. Interest and dividends, which were previously presented under a separate heading, are classified as operating, investment and financing cash flows where appropriate. In addition, the amounts presented for cash and cash equivalents have been amended to excluding cash balances held for short-term loans that are financing in nature. The redefinition of cash and cash equivalents has resulted in a restatement of the cash and cash equivalents brought forward in current period.

Employee benefits

In the current period, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. The adoption of this SSAP has not had any material effect on the results for the current and prior accounting periods.

3. SEGMENTAL INFORMATION

The Group is currently engaged in four operating divisions, namely property investment, hotel and clubhouse investment, securities and commodities broking business and infrastructure and environmental protection investment. These divisions are the basis on which the Group reports its primary segment information.

Segment information for the six months ended 30 September 2002 and 2001 is as follows:

	Property Investment HK'000	Hotel and clubhouse investment HK'000	Securities and commodities broking HK'000	Infrastructure and environmental protection investment HK'000	Consolidation total HK'000
<u>Business segments</u>					
<u>2002</u>					
TURNOVER					
External sales	<u>4,263</u>	<u>7,811</u>	<u>20,893</u>	<u>-</u>	<u>32,967</u>
RESULTS					
Segment results	<u>(13,597)</u>	<u>(3,565)</u>	<u>3,250</u>	<u>(2,859)</u>	<u>(16,771)</u>
Interest income					2,401
Unallocated corporate expenses					<u>(24,537)</u>
Loss from operations					<u>(38,907)</u>
<u>2001</u>					
TURNOVER					
External sales	<u>11,725</u>	<u>-</u>	<u>23,773</u>	<u>-</u>	<u>35,498</u>
RESULTS					
Segment results	<u>12,696</u>	<u>(3,007)</u>	<u>4,370</u>	<u>(1,296)</u>	12,763
Interest income					4,625
Unallocated corporate expenses					<u>(13,228)</u>
Profit from operations					<u>4,160</u>

4. (LOSS) PROFIT FROM OPERATIONS

	Six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Loss on disposal of property, plant and equipment	–	(28)
Profit (loss) on disposal of investments in securities	8	(120)
Compensation payment in respect of resignation of a director	1,248	2,200
	<u>1,248</u>	<u>2,200</u>

5. TAXATION

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits of certain subsidiaries in Hong Kong for the period.

No provision for taxation in other jurisdictions had been made in both periods reported as the Group did not have any assessable profits.

6. EARNINGS PER SHARE

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

	Six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000
Profit for the period and earnings for the purpose of basic earnings per share	24,868	139,938
Effect of dilutive potential ordinary shares:		
Interest saving on convertible loan note	263	648
Earnings for the purpose of diluted earnings per share	25,131	140,586
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,564,322,539	4,386,367,894
Effect of dilutive potential ordinary shares:		
Options	111,588,558	117,467,273
Convertible loan note	31,693,989	42,622,951
Weighted average number of shares for the purpose of diluted earnings per share	4,707,605,086	4,546,458,118

7. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group disposed of investment properties with a carrying amount of HK\$123,000,000 for a consideration of HK\$102,000,000, resulting in a loss on disposal of HK\$21,000,000.

Through the disposal of a subsidiary, the Group disposed of an investment property amounting to HK\$56,000,000.

The Group acquired an investment property in the People's Republic of China ("PRC") through the acquisition of a subsidiary amounting to HK\$283,000,000.

In addition, the Group incurred approximately HK\$75,192,000 on the properties under development, HK\$4,232,000 on acquisition of a property in the PRC, HK\$24,425,000 on additions to leasehold improvement and furniture and fittings in the club house in the PRC and HK\$2,777,000 on other property, plant and equipment.

Through the disposal of a subsidiary, the Group disposed of property, plant and equipment amounting to approximately HK\$58,889,000.

There were no other significant movements.

8. INTERESTS IN ASSOCIATES

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Cost of investments	14,200	62,616
Share of post-acquisition result	(897)	4,939
Interest capitalised (Note)	–	9,130
	13,303	76,685
Amount due from an associate	–	59,698
	13,303	136,383

Interchina Aihua (Tianjin) Municipal & Environmental Engineering Co., Ltd. (“國中愛華(天津)市政環境工程有限公司”)

The Group invested 37.5% (2001: 30%) registered capital in Interchina Aihua (Tianjin) Municipal & Environmental Engineering Co., Ltd, a limited company incorporated and operating in the PRC which is engaged principally in the provision of environmental management and consultancy services. The change of the shareholding was due to the withdrawal of one of the joint venture partners.

Note: Interest capitalised represents the interest expense paid by the Group in respect of funds raised for use by an associate, Shanghai Underground Centre Co., Ltd for property development projects. The associate had been disposed of during the period and all the interest capitalised had been written off to income statement.

9. LOAN RECEIVABLE

The loan is unsecured, non-interest bearing and was repayable by monthly instalments over five years. The first instalment payment will be due on the first day of August 2003.

10. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers. The aged analysis of trade receivables of HK\$74,433,000 (31.3.2002: HK\$145,035,000) included in trade and other receivables at the reporting date is as follows:

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Current to 30 days	15,227	8,550
31 days to 60 days	–	850
61 days to 90 days	–	–
Over 90 days	8,471	9,101
	23,698	18,501
Margin clients accounts receivable	48,810	120,946
Clearing houses, brokers and dealers	1,925	5,588
	74,433	145,035

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

11. TRADE AND OTHER PAYABLES

The aged analysis of trade payables of HK\$32,175,000 (31.3.2002: HK\$45,021,000) included in trade and other payables at the reporting date is as follows:

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Current to 30 days	20,045	31,837
Accounts payable arising from the business of dealing in securities and equity options:		
Margin clients	7,353	6,092
Accounts payable to clients arising from the business of dealing in futures and options	4,777	7,092
	32,175	45,021

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

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

12. AMOUNT DUE TO A RELATED COMPANY

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

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

13. BANK BORROWINGS

During the period, the Group obtained new bank loans amounting to HK\$146,748,000. All bank borrowings are secured and bear interest at market rates and are repayable either within one year or by instalments over 7 years. The proceeds were used to finance the operations of the Group.

14. SHARE CAPITAL

	Six months ended	
	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.1 each		
Issued and fully paid		
At 1 April 2002	4,394,923,632	439,492
Issued pursuant to the application of the convertible loan note holder	200,000,000	20,000
At 30 September 2002	4,594,923,632	459,492

15. CONVERTIBLE LOAN NOTE

A convertible loan note of HK\$200,000,000 (the "Note") was issued on 23 August 2001 to a subscriber (the "Subscriber"). The Note was convertible into ordinary shares of the Company. Interest at 3% per annum will be paid annually up and until the settlement date.

The Company has on 16 April 2002 ("Conversion Date") received a written notice from the Subscriber stating its intention to convert the entire outstanding principal amount of HK\$200,000,000 under the Note into shares of the Company at a price of HK\$1 each with effect from the Conversion Date.

On 29 April 2002, the Note was converted into ordinary shares and 200,000,000 shares were issued at HK\$1 each and a premium of HK\$0.90 each.

16. CONTINGENT LIABILITIES

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Guarantees given to bankers in respect of banking facilities granted to:		
Property buyers	100,000	100,000

Guarantees were given by the Group to the property buyers for obtaining mortgage facilities from a bank.

17. CAPITAL COMMITMENTS

As at 30 September 2002, the Group was committed to capital expenditure of approximately HK\$605,000 for the acquisition of property, plant and equipment and HK\$453,195,000 on the investment in Changsha as per announcements dated 12 June 2002 and 20 September 2002.

18. RELATED PARTY TRANSACTIONS

During the period, the Group paid interest amounting to HK\$351,000 (2001: HK\$806,000) to a director of the Company's subsidiary.

In addition, the Group paid interest amounting to HK\$1,606,000 (2001: Nil) to a related company of the Company. For details of the amount due, see note 12.

19. ACQUISITION OF A SUBSIDIARY

	30 September 2002
	HK\$'000
Net assets acquired:	
Investment properties	283,000
Satisfied by:	
Cash consideration	226,400
Deferred payment	56,600
	<u>283,000</u>

On 19 July 2002, the Group acquired 100% of the issued share capital of Equal Smart Profits Limited at a consideration of HK\$283,000,000.

20. DISPOSAL OF SUBSIDIARIES

During the period, the Group disposed of its 100% interest in Interchina Hotel Management Limited, 100% interest in Burlingame (Chinese) Investment Limited and 100% interest in Make Sales Enterprise Limited at a total consideration of HK\$320,000,000. Included in the total consideration, an amount of HK\$134,359,000 was not yet settled. These transactions were effected in order to generate cash flow for the expansion of the Group's other business.

The results of the subsidiaries disposed of during the period included in the consolidated income statement up to the effective date of disposal, were as follows:

	30 September 2002 HK\$'000	30 September 2001 HK\$'000
Revenue	2,913	1,325
Operating costs	(1)	(1,734)
Finance costs	(1)	(414)
Share of results of an associate	4,630	–
Profit (loss) before taxation	7,541	(823)
Taxation	–	–
Profit (loss) after taxation	7,541	(823)

21. POST BALANCE SHEET EVENTS

On 11 October 2002, the Group paid HK\$17,908,464 to the minority shareholder of the two subsidiaries to purchase the remaining shareholdings in these two subsidiaries as a result of exercising of the option granted by the Group to the minority shareholder.

On 24 October 2002, the Group entered into an agreement with one of the minority shareholders of a subsidiary, Burlingame (Shanghai) Investment Limited, to acquire the 1,000 shares in the subsidiary and the shareholder's loan of amount HK\$2,365,910 at a total consideration of HK\$2,000,000.

On 15 November 2002, the Group entered into an agreement regarding the increase in registered capital in an associate, Interchina Aihua (Tianjin) Municipal & Environmental Engineering Co., Ltd., from approximately HK\$37,736,000 to HK\$235,849,000. The increased amount, approximately HK\$198,113,000, would be completely contributed by the Group.

On 29 November 2002, the Company entered into a conditional agreement regarding the proposed issue of convertible loan notes up to the aggregate principal amount of HK\$200,000,000 as per announcement dated 2 December 2002.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2002 (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's turnover for the six months ended 30 September 2002 (the "Period") amounted to HK\$32,967,000 (2001: HK\$35,498,000), representing a decrease of 7.13% as compared with the same period last year. Profit attributable to the shareholders amounted to HK\$24,868,000 (2001: HK\$139,938,000), representing a decrease of 82.23% as compared with the same period last year. Such decrease was mainly attributable to the loss of HK\$21,000,000 arising from disposal by the Group of some of its investment properties in Hong Kong during the Period. On the other hand, the gain from disposal of the Group's subsidiaries reduced by HK\$71,840,000 as compared with the same period last year.

As at 30 September 2002, the total assets and net assets of the Group were HK\$1,297,063,000 (31 March 2002: HK\$1,169,235,000) and HK\$797,545,000 (31 March 2002: HK\$573,284,000) respectively, representing an increase of 10.93% and 39.12% respectively as compared with that as at 31 March 2002.

As at 30 September 2002, the Group's cash on hand and deposits held in banks and other financial institutions totalled approximately HK\$241,223,000 (31 March 2002: HK\$206,356,000), representing an increase of 16.90% as compared with the balance as at 31 March 2002. Approximately 82.77% of the deposit was denominated in Hong Kong dollars with the balance in Renminbi. The Group's working capital (net current assets) amounted to HK\$103,794,000 (31 March 2002: HK\$198,565,000). The Group's outstanding bank borrowings were HK\$197,139,000 (31 March 2002: HK\$177,479,000), which mainly comprised secured bank loans of approximately HK\$167,318,000 repayable within one year and secured bank loans of approximately HK\$29,821,000 repayable after one year. The gearing ratio was 23.04% (total borrowings / total assets).

As at 30 September 2002, approximately 26.86% of the Group's bank borrowings were denominated in Hong Kong dollars with the balance in Renminbi. The Group's bank borrowings were arranged on a floating rate basis and secured by the Group's investment property.

During the Period, the Group mainly derived its financial resources from cash inflow from its operating business and bank borrowings. The Group will also make financial arrangement for the interests of the Group's shareholders, in response to additional funds necessary for the Group's present and future business development plans (including capital expenditure) in order to achieve the objective of reducing finance cost.

Since the Group mainly developed its business in the PRC and Hong Kong during the Period, there was no significant fluctuations in the exchange rate of Renminbi against Hong Kong dollar. Accordingly, the Group did not have material risk in foreign exchange fluctuations, and there was no corresponding hedging provision. The Group had neither used any financial instrument for hedging purposes, nor used any instrument for hedging against foreign currency investment.

BUSINESS REVIEW

Environmental Protection and Water Treatment Operation

In March 2002, the Group has participated in a water supply project in Hanzhong City of Shaanxi Province, the PRC. Construction of factory premises and installation of other water supply equipment are currently underway. The project is intended for a daily supply of water of 100,000 tons. It is expected that upon completion of the project by the end of 2003, not only will it supply water to Hanzhong City but will also bring considerable and stable income to the Group.

Since its incorporation in December 2001, Interchina Aihua (Tianjin) Municipal & Environmental Engineering Co., Ltd (“IAH”), an associate of the Group, has been actively engaged in the development and operation of city development and environmental protection infrastructure construction. IAH has already commenced its first project in Shaanxi Province, the PRC.

City Development and Investment Operation

In September 2002, the Group entered into first phase BT (build and transfer) investment agreement with 長沙市土地開發建設有限責任公司 (Changsha Municipal Land Development and Construction Company Limited) (“CSLD”) in respect of the construction of Changsha New Sports City, and a schedule of capital contribution was drawn up. As at 30 September 2002, the Group has made capital contribution according to the schedule to meet the funding requirement. The construction has now been started.

Property Investment Operation

To complement its future business development and in view of the local prevailing gloomy property market, the Group disposed of most of its investment properties in Hong Kong during the Period and recorded a loss of approximately HK\$21,000,000. During the Period, the Group’s rental and management fee income amounted to HK\$4,263,000 (2001: HK\$11,725,000), representing a decrease of 63.64% compared to the corresponding period in the previous year.

During the Period, the Group recorded a profit of HK\$77,323,000 in total from the disposal of its interests in subsidiaries, mainly including Interchina Hotel Management Limited which indirectly owns a piece of land in Shanghai at Heng Feng Road near the bank of Suzhou River, and Burlingame (Chinese) Investment Limited, which indirectly owns the Shanghai Underground Shopping Mall in Shanghai.

In July 2002, the Group acquired the entire issued share capital of Equal Smart Profits Limited at a consideration of HK\$283,000,000. Equal Smart Profits Limited is principally engaged in investment and operation of property development projects in the PRC with market potential. The Group has authorised an experienced management company to manage its premium properties in Shanghai, the PRC which are intended for use as clubhouses. Such acquisition will provide the Group with stable return.

The Group's property development project located at the Beiwaitan area in Shanghai, the PRC is in progress as planned.

Securities and Financial Operation

Overshadowed by the difficult global and regional economic environments, investment sentiment remained dampened. During the Period, the Group received HK\$20,893,000 (2001: HK\$23,773,000) in commissions from its securities and futures business, representing a decrease of 12.11% from the corresponding period in the previous year. Such commission income accounted for 63.38% (2001: 66.97%) of the Group's total turnover. Earnings of HK\$1,335,000 (2001: HK\$2,797,000) were recorded, representing a decrease of 52.27% from the corresponding period in the previous year.

PROSPECTS

Environmental Protection and Water Treatment Operation

With its accession to World Trade Organization and the furtherance of its open door policy, the PRC is well poised for sustained economic development. A booming economy lies ahead of its major infrastructure developments in urban areas. It is expected that the PRC government will firstly privatise its water treatment development and in future, there will be plenty of room for business growth opportunities in terms of water supply and sewage treatment projects in the PRC. In order to increase its existing investment in water supply and sewage treatment, the Group committed a capital injection of RMB210,000,000 to IAH in November 2002, as a result of which, its interest in IAH will increase from 37.5% to 90%.

In July 2002, the Group succeeded in its bidding for the development project of a sewage treatment plant in Haigang District, Qinhuangdao City, Hebei Province, the PRC. Total investment amounts to approximately RMB110,000,000 and negotiations in respect of the terms and conditions are now in progress.

City Development and Investment Operation

It is expected that the economic boom in the PRC will continue for the next decade and large-scale infrastructure construction for urbanisation will be the ultimate driving force for economic development. The Group's business plan and development targets build on such rationale and are consistent with the PRC's economic development. Accordingly, investment in the PRC infrastructure projects will constitute the key investment projects of the Group in future. The Group will make use of the opportunities arising from the infrastructure projects driven by urbanisation in the PRC to boost its short-term and medium-term profits growth.

The project in Changsha City represents the beginning of the Group's investing activities in city development. The Group is actively exploring premium city development and investment projects.

Property Investment Operation

As the economic boom in the PRC is expected, investment in the development of luxury residential property in the PRC will enable the Group to leverage on the PRC's economic growth, thereby achieving both its short-term and medium-term profits. Participation in the development of Changsha New Sports City would strengthen the Group's cooperation relationship with the Changsha Municipal Government. Accordingly, the Group entered into a joint venture agreement with CSLD in September 2002 and had subsequently established 長沙國中星城置業有限公司(Changsha Interchina Zhong Xing Cheng Development Company Limited) ("CSI"), which is engaged in the development of luxury residential units and provision of property management and related businesses. The total investment in CSI amounted to RMB125,000,000 and the project will be fully completed by the end of 2006.

Securities and Financial Operation

In October 2002, the Group acquired a 15% interest in Interchina Securities Limited and a 30% interest in Interchina Futures Limited at a consideration of approximately HK\$15,269,000 and approximately HK\$2,639,000 respectively in order to strengthen the investment in its securities business and to pave the way for its venture into the PRC securities and financial industry. Upon completion of the acquisitions, Interchina Securities Limited and Interchina Futures Limited became the wholly-owned subsidiaries of the Group.

In addition, the Group is now negotiating co-operation arrangements with several major financial institutions in the PRC with a view to entering the PRC financial market as soon as practicable.

Liquidity and Financial Resources

The 3-year convertible loan note with an aggregate amounts of HK\$200,000,000 was converted into 200,000,000 ordinary shares of HK\$0.1 each in the share capital of the Group in April 2002.

In November 2002, the Group signed an agreement with Citic Capital Markets Limited in connection with the issue of convertible loan notes in principal up to HK\$200,000,000. Net proceeds are estimated to be approximately HK\$197,800,000, half of which is intended to be used for expanding the current environmental protection and water treatment operation, city development and investment operation, and the PRC property investment operation, while the balance is proposed to be used as investment fund for potential projects when appropriate opportunities arise. Details had been included in the announcement dated 2 December 2002.

Contingent Liabilities

As at 30 September 2002, the Group executed a guarantee amounting to HK\$100,000,000 in respect of mortgage facilities granted by a bank to third parties.

Disposal of the Group's interests in its Subsidiaries

During the Period, the Group disposed of its interests in the following subsidiaries, including Interchina Hotel Management Limited, Burlingame (Chinese) Investment Limited and Make Sales Enterprise Limited resulting in a total gain of HK\$77,323,000.

Charges on Group Assets

As at 30 September 2002, the Group's assets were pledged as security for liabilities, comprising investment property with book value of HK\$96,000,000 (31 March 2002: HK\$275,000,000) and property, plant and equipment with book value of HK\$195,219,000 (31 March 2002: HK\$215,393,000).

Employment and Remuneration Policy

As at 30 September 2002, the Group had a total of 377 employees in the PRC and Hong Kong. Staff costs for the Period amounted to HK\$17,744,000 (2001: HK\$13,361,000). In order to maintain competitiveness, the salary and bonus of the staff are based on their individual performance. Apart from setting up a retirement benefits scheme and a share options scheme for its staff, the Group has also provided them with various training and development programs.

DIRECTORS' INTERESTS IN SHARES

At 30 September 2002, the interests of the directors and their associates in the issued share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

Name of directors	Personal interest	Corporate interest
Mr. Zhang Yang	–	1,612,025,000 (Note 1)
Mr. Jack Jiyei Zhang	5,000	–

Note:

1. The ordinary shares were held through Wealth Land Development Corp., which is wholly owned by Mr. Zhang Yang.

Save as the directors' interests in Shares, Share Option Scheme disclosed and other than certain nominee shares in subsidiaries held by the directors in trust for the Company or its subsidiaries, no director or chief executive held an interest in the share capital of the Company or its associated corporation as defined in the SDI Ordinance, and none of the directors or chief executive, nor their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the Period.

SHARE OPTION SCHEME

During the Period, details of movements of share options were as follows:

Name of directors	Date of grant	Exercise Price per share HK\$	Exercisable period	Notes	Balance as at 1 April 2002 and 30 September 2002
Mr. Zhang Yang	29 March 2001	0.161	1 April 2001 till 31 March 2005	1	109,000,000
Mr. Lam Cheung Shing, Richard	2 August 2001	0.540	1 March 2002 till 31 August 2004	2	20,000,000
Mr. Jack Jiyei Zhang	29 March 2001	0.161	1 April 2001 till 31 March 2005	3	7,000,000
					136,000,000
Employees					
	29 March 2001	0.161	1 April 2001 till 31 March 2005	3	6,300,000
	29 March 2001	0.161	1 April 2001 till 31 March 2005	4	2,125,000
	11 June 2001	0.490	1 April 2002 till 31 March 2005	5	18,000,000
					26,425,000
Total					162,425,000

No share options had been granted, exercised or lapsed during the Period. On 17 October 2002, Mr. Lam Cheung Shing, Richard, Mr. Jack Jiyei Zhang and other employees voluntarily waived at no consideration all their outstanding options.

Notes:

- (1) No vesting period.
- (2) The options are vested in 5 tranches as to 20% each exercisable from the commencement date of exercise period, the expiry of 6 months, 12 months, 18 months and 24 months from the commencement of exercise period respectively.
- (3) The options are vested in 4 tranches as to (i) 15% exercisable from the commencement date of exercise period; (ii) 15% exercisable from the expiry of 6 months from the commencement of exercise period; (iii) 35% exercisable from the expiry of 12 months from the commencement of exercise period; and (iv) 35% exercisable from the expiry of 24 months from the commencement of exercise period.
- (4) The options are vested in 3 tranches as to (i) 15% exercisable from the expiry of 6 months from the commencement of exercise period; (ii) 40% exercisable from the expiry of 12 months from the commencement of exercise period; and (iii) 45% exercisable from the expiry of 24 months from the commencement of exercise period.
- (5) The options are vested in 2 tranches as to (i) 45% exercisable from the commencement of exercise period and (ii) 55% exercisable from the expiry of 12 months from the commencement of exercise period.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain Directors' Interests in Shares, the Company has not been notified of any other interests representing 10% or more in the issued share capital of the Company as at 30 September 2002.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

AUDIT COMMITTEE

The Audit Committee has reviewed the interim report of the Group for the Period. The committee has held regular meetings since its formation, at a frequency of at least twice a year.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of information that would reasonably indicate that the Company was not for any part of the accounting period covered by the interim report, in compliance with Appendix 14 to the Listing Rules.

By order of the Board
Zhang Yang
Chairman

Hong Kong, 18 December 2002