國中控股有限公司

INTERCHINA HOLDINGS CO LTD

Contents

Mission

Premium Enterprises is focused on **developing and incubating revolutionary concepts** to meet the needs of modern consumers. At the cutting-edge of innovation and technology, the company endeavors to participate in the creation of services and products that will have a positive and enduring impact on society at large.

Mr. Zhang Yang
Chairman

Investment Insight

Many international enterprises have shifted their manufacturing bases to China. This has intensified competition for scarce resources such as water, land and oil, all of which are much sought-after resources needed to fuel China's economic development. Such competition has pushed up the prices of these scarce resources. Interchina's business strategy is to invest in the development of these scarce resources without taking part in the actual production processes.

As a Hong Kong listed company focused on responding to the enormous potential in Mainland China, Interchina has set high standards for its business, forming first-class strategic alliances to rapidly expand the scale of its development. Leveraging on Hong Kong as a financing base, Interchina has focused its efforts on the development of the water supply and sewage treatment business as well as other city developments that are unique to the China market. Through mergers and acquisitions, Interchina aims to grow and develop its core businesses while also seeking new opportunities, and to ultimately become a world-class investment conglomerate.

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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 Limited
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
G/F., BEA Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte
Touche
Tohmatsu

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 6 to 19.

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 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.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards No. 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 2003.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 18 December 2003

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2003

	Notes	Unaudited Six months ended 30 September 2003 HK$'000	2002 HK$'000
Turnover	3	**47,770**	32,967
Other operating income		**432**	1,109
Interest income		**587**	2,401
Staff costs		**(14,914)**	(17,744)
Amortisation and depreciation		**(8,003)**	(9,198)
Other operating expenses		**(26,862)**	(31,135)
Write-back of liability to a creditor		**–**	3,693
Loss on disposal of investment properties		**–**	(21,000)
Loss from operations	3,4	**(990)**	(38,907)
Gain on disposal of subsidiaries		**–**	77,323
Finance costs		**(8,006)**	(17,385)
Share of result of an associate		**(2,371)**	3,770
(Loss)/profit before taxation		**(11,367)**	24,801
Taxation	5	**(2,787)**	(734)
(Loss)/profit before minority interests		**(14,154)**	24,067
Minority interests		**1,862**	801
Net (loss)/profit for the period		**(12,292)**	24,868
(Loss)/earnings per share	6		
Basic		**(0.27) cents**	0.54 cents
Diluted		**(0.27) cents**	0.53 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2003

	Notes	(Unaudited) 30 September 2003 HK$'000	(Audited) 31 March 2003 HK$'000
Non-current assets			
Investment properties	7	**378,200**	378,200
Property, plant and equipment	7	**477,238**	431,108
Interests in an associate		**–**	56,083
Intangible assets		**6,718**	5,272
Loan receivable – due after one year	8	**9,200**	10,400
Other non-current assets		**2,340**	2,056
		873,696	883,119
Current assets			
Inventories		**1,302**	1,071
Amount due from an associate		**–**	23,113
Loan receivable – due within one year	8	**2,400**	1,600
Trade and other receivables	9	**316,106**	359,894
Investments in securities		**463**	404
Tax recoverable		**–**	912
Prepayment and deposits		**203,237**	20,547
Deposits with banks and other financial institution		**342,958**	64,852
		866,466	472,393
Current liabilities			
Trade and other payables	10	**136,738**	124,648
Amounts due to an associate		**–**	32,075
Amount due to a related company	11	**3,594**	86,833
Tax liabilities		**1,465**	–
Bank borrowings – due within one year	12	**152,712**	81,177
Other borrowings – due within one year	12	**305,816**	141,509
Obligations under finance leases – due within one year		**179**	240
		600,504	466,482
Net current assets		**265,962**	5,911
		1,139,658	889,030

	Notes	(Unaudited) 30 September 2003 HK$'000	(Audited) 31 March 2003 HK$'000
Capital and reserves			
Share capital		**459,492**	459,492
Share premium and reserves		**315,909**	328,229
		775,401	787,721
Minority interests		**46,390**	25,034
		821,791	812,755
Non-current liabilities			
Bank borrowings – due after one year	12	**277,131**	35,480
Obligations under finance leases – due after one year		**136**	195
Convertible loan note		**40,600**	40,600
		1,139,658	889,030

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2003

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Exchange reserve HK$'000	Accumulated (losses) HK$'000	Total HK$'000
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	–	(30)	–	–	–	(30)
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	276,969	571,996	1,037	(511,948)	797,546
Exchange differences on translation of overseas subsidiaries not recognised in the income statement	–	–	–	35	–	35
Loss for the period	–	–	–	–	(9,860)	(9,860)
At 1 April 2003	459,492	276,969	571,996	1,072	(521,808)	787,721
Exchange differences on translation of overseas subsidiaries not recognised in the income statement	–	–	–	(28)	–	(28)
Loss for the period	–	–	–	–	(12,292)	(12,292)
At 30 September 2003	459,492	276,969	571,996	1,044	(534,100)	775,401

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2003

	Unaudited six months ended 30 September	
	2003	2002
	HK$'000	HK$'000
Net cash (outflow) inflow from operating activities	**(174,859)**	61,582
Net cash outflow from investing activities	**(43,651)**	(37,762)
Net cash inflow from financing	**470,079**	17,340
Increase in cash and cash equivalents	**251,569**	41,160
Cash and cash equivalents brought forward	**49,441**	202,966
Effect of foreign exchange rate changes	**(29)**	(2,903)
Cash and cash equivalents carried forward	**300,981**	241,223
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**342,958**	257,608
Less: Bank balances – trust and segregated accounts	**(41,977)**	(16,385)
	300,981	241,223

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2003

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 ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") 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 accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2003, except as described below.

In the current period, the Group has adopted, for the first time, SSAP 12 (Revised) "Income Taxes" ("SSAP 12 (Revised)"). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax.

SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions.

The adoption of SSAP 12 (Revised) has had no material effect on the result for the current or prior accounting periods and, accordingly, no prior period adjustment is required.

3. SEGMENTAL INFORMATION

The Group is currently engaged in four operating divisions, namely environmental protection and water treatment operation, city development and investment operation, property investment operation, securities and financial operation. These divisions are the basis on which the Group reports its primary segment information.

Segment information for the six months ended 30 September 2003 and 2002 is as follows:

	Environmental protection and water treatment operation	**City development and investment operation**	**Property investment operation**	**Securities and financial operation**	**Consolidation total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Business segments					
2003					
TURNOVER					
External sales	**–**	**–**	**18,000**	**29,770**	**47,770**
RESULTS					
Segment results	**(3,164)**	**(6,478)**	**9,557**	**18,987**	**18,902**
Interest income					**587**
Unallocated corporate expenses					**(20,479)**
Loss from operations					**(990)**
2002					
TURNOVER					
External sales	–	–	12,074	20,893	32,967
RESULTS					
Segment results	(2,859)	–	(17,162)	3,250	(16,771)
Interest income					2,401
Unallocated corporate expenses					(24,537)
Loss from operations					(38,907)

4. LOSS FROM OPERATIONS

	Six months ended 30 September	
	2003	2002
	HK$'000	HK$'000
Loss from operations has been arrived at after (crediting)/charging:		
Profit on disposal of investments in securities	**(12)**	(8)
Compensation payment in respect of resignation of a director	**–**	1,248

5. TAXATION

Hong Kong Profits Tax is calculated at 17.5% (2002: 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.

A deferred tax asset has not been recognised in the financial statements in respect of estimated tax losses due to the unpredictability of future profit streams.

6. (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30 September	
	2003	2002
	HK$'000	HK$'000
(Loss)/profit for the period and earnings for the purpose of basic earnings per share	**(12,292)**	24,868
Effect of dilutive potential ordinary shares:		
Interest saving on convertible loan note	**–**	263
(Loss)/earnings for the purpose of diluted earnings per share	**(12,292)**	25,131

	Six months ended 30 September	
	2003	2002
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,594,923,632**	4,564,322,539
Effect of dilutive potential ordinary shares:		
Options	**–**	111,588,558
Convertible loan note	**–**	31,693,989
Weighted average number of shares for the purpose of diluted earnings per share	**4,594,923,632**	4,707,605,086

The computation of diluted loss per share for the periods ended 30 September 2003 does not assume the exercise of the Company's outstanding share options and convertible loan notes outstanding during the periods since their exercise would reduce loss per share.

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

The Group incurred approximately HK$51,025,000 on properties under development and HK$3,959,000 on other property, plant and equipment.

There were no other significant movements.

At 30 September 2003, the directors have considered the carrying amount of the Group's investment properties carried at revalued amounts and have estimated that the carrying amounts did not differ significantly from that which would be determined using fair value at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

8. LOAN RECEIVABLE

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

9. 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$39,855,000 (31.3.2003: HK$33,132,000) included in trade and other receivables at the reporting date is as follows:

	30 September 2003 HK$'000	31 March 2003 HK$'000
0 – 30 days	**23,282**	23,495
31 – 60 days	**–**	4,704
61 – 90 days	**3,582**	–
Over 90 days	**12,991**	4,933
	39,855	33,132
Margin clients accounts receivable	**263,813**	324,052
Clearing houses, brokers and dealers	**4,327**	1,060
Other receivables	**8,111**	1,650
	316,106	359,894

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

10. TRADE AND OTHER PAYABLES

The aged analysis of trade payables of HK$32,636,000 (31.3.2003: HK$13,454,000) included in trade and other payables at the reporting date is as follows:

	30 September 2003 HK$'000	31 March 2003 HK$'000
Trade payables		
0 – 30 days	**32,636**	13,454
Accounts payable arising from the business of dealing in securities and equity options:		
Margin clients	**12,631**	4,629
Accounts payable to clients arising from the business of dealing in futures and options	**9,401**	3,780
	54,668	21,863

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

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

11. 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 is wholly owned by Mr. Zhang Yang, a director of the Company.

12. BANK AND OTHER BORROWINGS

During the period, the Group obtained new bank loans and other loans amounting to HK$444,528,000. All new bank and other borrowings are secured and bear interest at market rates. Amount of HK$199,245,000 are repayable within one year and HK$132,075,000 are repayable by instalments over 5 to 14 years starting from 2005 and the remaining are repayable after 3 years. The proceeds were used to finance the operations of the Group.

13. PLEDGE OF ASSETS

In addition to the pledge of assets as per the financial statements as at 31 March 2003, the Group has pledged the investment properties with an aggregate carrying value of approximately HK$290,200,000, property, plant and equipment with an aggregate carrying value of approximately HK$89,141,000 and construction in progress with an aggregate carrying value of approximately HK$36,987,000 to secure new banking facilities granted to the Group.

14. CONTINGENT LIABILITIES

	30 September 2003 HK$'000	31 March 2003 HK$'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.

In order to release the guarantees, the Group is arranging to buy back thirty-one units of properties from the property buyers at a total consideration of approximately HK$34,499,000 ("Purchase"). On 17 April 2003, the Group entered into a loan agreement of amount approximately HK$29,300,000 with a bank to finance the Purchase, however the bank loan had not been drawn down as at the balance sheet date. The guarantees would be released when the Purchase were completed.

At the balance sheet date, an indemnity had been given by the Group in favour of a bank for issuing a guarantee of HK$5,000,000 (2003: HK$5,000,000) to HKFE Clearing Corporation Limited.

15. CAPITAL COMMITMENTS

	30 September 2003 HK$'000	31 March 2003 HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of property, plant and equipment	**339,410**	408,875
– investments in the People's Republic of China ("PRC") subsidiaries and a PRC associate (Note)	**98,113**	325,289
	437,523	734,164

Note: Details regarding the commitments of the investment in the PRC subsidiaries and PRC associate are set out in the circular dated 4 July 2002 and 9 December 2002 respectively.

16. RELATED PARTY TRANSACTIONS

During the period, the Group paid interest amounting to HK$351,000 (2002: HK$351,000) to a director of the Company's subsidiary.

In addition, the Group paid interest amounting to HK$1,076,000 (2002: HK$1,606,000) to a related company of the Company. Details of the amount due to a related company are set out in note 11.

17. ACQUISITION OF A SUBSIDIARY

Net assets acquired:	HK$'000
Property, plant and equipment	618
Trade and other receivables	142,396
Amount due from a fellow subsidiary	32,075
Bank balances and cash	166,054
Trade and other payables	(20,576)
Amount due to a fellow subsidiary	(89,698)
Minority interests	(23,218)
	207,651
Goodwill arising on the acquisition of a subsidiary	1,134
	208,785
Satisfied by:	
Cash contribution	155,073
Net assets previously recorded as interest in an associate	53,712
	208,785
Net inflow of cash and cash equivalents in connection with the acquisition of a subsidiary:	
Bank balances and cash acquired	166,054
Cash contribution	(155,073)
	10,981

On 27 August 2003, the Group acquired additional interest (19.2%) in Interchina Aihua (Tianjin) Municipal & Environmental Engineering Co., Ltd. ("Interchina Aihua") by increasing the capital contribution of amount HK$155,073,000. The Group's total interest in Interchina Aihua increased to 90%. The financial result of Interchina Aihua has been consolidated from that date.

18. DISPOSAL OF SUBSIDIARIES

During the prior 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. 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 prior period included in the consolidated income statement up to the effective date of disposal, were as follows:

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

19. POST BALANCE SHEET EVENTS

On 5 November 2003, the Company and Changsha Municipal Land Development and Construction Co. Ltd. ("CSLD") entered into an agreement in which the Group would acquire the remaining 30% interest in Changsha Interchina Zhong Xing Cheng Development Co. Ltd. ("Xing Cheng Development") at a consideration of RMB15 million from CSLD. Upon completion of the acquisition, the joint venture agreement as entered between CSLD and the Company for the establishment of Xing Cheng Development on 14 September 2002 would be terminated as Xing Cheng Development became a wholly owned subsidiary of the Company.

On 28 October 2003, the Company entered into a conditional sale and purchase agreement for the acquisition of approximately 12.87% of the existing issued share capital of Shanghai Qiangsheng Holdings Co. Ltd., a company listed in The Shanghai Stock Exchange at a consideration of approximately HK$168,846,000 as per announcement dated 28 October 2003.

On 27 October 2003, the Company entered into an agreement with Xianyang City Government ("Agreement") for the construction and operation of a water treatment plant in Xianyang City. Pursuant to the terms of the Agreement, the Company would establish a wholly foreign owned enterprise ("WOFE") to take up the rights and obligations of the Company under the Agreement. It was proposed that the WOFE would be established with a registered capital of not more than RMB60 million and the total investment of not more than RMB200 million.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover for the six months ended 30 September 2003 ("Period") amounted to HK$47,770,000 (2002: HK$32,967,000), representing an increase of 44.90% over the corresponding period last year. Loss attributable to shareholders amounted to HK$12,292,000 (2002: profit of HK$24,868,000). The loss was primarily due to that the Group's environmental protection and water treatment projects as well as city development and investment projects in the PRC are still at the preparatory stage. Additionally, there was no gain from disposal of the Group's subsidiaries during the Period.

As at 30 September 2003, the total assets and net assets of the Group were HK$1,740,162,000 (31 March 2003: HK$1,355,512,000) and HK$775,401,000 (31 March 2003: HK$787,721,000) respectively, representing an increase of 28.38% and a decrease of 1.56% respectively as compared with those as at 31 March 2003.

As at 30 September 2003, cash on hand and deposits held in banks and other financial institution totaled approximately HK$342,958,000 (31 March 2003: HK$64,852,000), representing an increase of 4.29 times as compared with the balances at 31 March 2003. Approximately 14.58% of the deposits was denominated in Hong Kong dollars with the balance in Renminbi. The Group's working capital (net current assets) amounted to HK$265,962,000 (31 March 2003: HK$5,911,000). The Group's outstanding bank and other borrowings were HK$735,659,000 (31 March 2003: HK$258,166,000), arising mainly from bank and other borrowings of approximately HK$458,528,000 repayable within one year and bank and other borrowings of approximately HK$277,131,000 repayable after one year. The Group's gearing ratio was 44.81% (total borrowings/total assets).

As at 30 September 2003, approximately 22.21% of the Group's bank and other borrowings was denominated in Hong Kong dollars with the balance in Renminbi. The Group's bank and other borrowings were arranged on a floating rate basis and of which approximately 88.23% was secured by the Group's investment properties and property, plant and equipment.

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

BUSINESS REVIEW AND PROSPECT

BUSINESS REVIEW

Environmental Protection and Water Treatment Operation

The Group's first water supply project located in Hanzhong City, Shaanxi Province, PRC with a daily production capacity of 100,000 tons of water is scheduled for completion by the end of 2003. Currently, the project is in the final stage of plant construction and installation of water supply facilities. Trial production and detailed terms for water supply are under preparation.

Our other sewage treatment plant project which is located in the Haigang District of Qinhuangdao City, Hebei Province, PRC is now under plant construction and installation of sewage treatment facilities. Scheduled for completion by the middle of 2004, the plant is expected to be able to treat an average daily sewage of 120,000 tons.

To enhance investments in water supply and sewage treatment, the Group increased its capital contribution in Interchina Aihua (Tianjin) Municipal & Environmental Engineering Co. Ltd. ("Interchina Aihua") in August 2003, resulting in increase in its shareholding to 90%. This has laid a strong foundation for the Group to develop and operate infrastructure business of urban development and environmental protection in the PRC.

In addition, the Group entered into a cooperation framework agreement with the Construction Office of Anhui Province in April 2003, whereby the Group obtained an exclusive and pre-emptive negotiation right in respect of the development of water supply, sewage treatment and garbage treatment projects in various cities and towns of the Anhui Province in PRC. Currently, the Group is finalizing cooperation details for the implementation of the development project with the government of Anhui Province in the PRC. Top priority will be given to medium-sized projects with a daily treatment capacity of 50,000 to 100,000 tons. Such projects are expected to underpin the Group's development over the next three years.

City Development and Investment Operation

During the Period, construction of the gymnasium and ancillary facilities for the development project of Changsha New Sports City – the arena for the 5th National City Game of the PRC – was successfully completed and put into use. The remaining part of the development project of the Changsha New Sports City is still under construction.

The Group develops a large development project in Changsha – Interchina Mall, through participation in the municipal construction of the Changsha New Sports City. Interchina Mall is located in the Changsha New Sports City in the Yuhua District of Changsha City, approximately 5 km from downtown. The project, covering a land area of approximately 640 mu, will be developed in three phases. The first phase of the Interchina Mall covers a land area of approximately 274 mu in total, including commercial areas, hotels, serviced apartments and offices with low-cost and high-quality approach and in an innovative style. The design and planning for the first phase of the Interchina Mall has been completed and the first phase of the construction is expected to be completed by the middle of 2005.

Property Investment Operation

During the Period, the Group's revenue from rental and management fee amounted to HK$18,000,000 (2002: HK$4,263,000), representing an increase of 322.24% as compared with the corresponding period last year. The increase was mainly attributable to an acquisition of rental properties in Shanghai last year, which brought in significant and steady rental income for the Group.

Securities and Financial Operation

Stimulated by a series of economic measures in Hong Kong, coupled with the signing and implementation of CEPA and the launching of the Individual Visit Scheme, the economy of Hong Kong improved significantly during the Period. In addition, a buoyant residential property market has improved the overall sentiments in the investment market, while an increase in capital inflow added further momentum to the stock market. As a result, the securities and futures operation of the Group recorded HK$29,770,000 of commissions and interests from margin clients (2002: HK$20,893,000), representing an increase of 42.49% over the corresponding period last year.

PROSPECTS

Environmental Protection and Water Treatment Operation

The water supply plant in Hanzhong City and the sewage treatment plant in Qinhuangdao City are expected to be fully in use by early and the middle of 2004 respectively, which is expected to generate long-term and stable operating income for the Group.

In October 2003, the Group entered into an agreement with the municipal government of Xianyang under which the Group will be granted exclusive rights to invest, finance, design, construct and operate a water supply project – "The Xianyang Water Supply Plant" for a period of 50 years by forming a wholly foreign-owned enterprise. The Xianyang Water Supply Plant is expected to be completed by 2005 with a daily production capacity of 300,000 tons of water.

Apart from the projects of water supply, sewage treatment and garbage treatment of the Anhui Province, the Group is negotiating other two sewage treatment projects in other provinces of the PRC.

The management believed that the increased investments in water supply plant and water treatment services could accelerate the short and medium term profit growth of the Group.

City Development and Investment Operation

The rapid development of Changsha's economy is expected to generate huge demand for infrastructural investments in the city and the construction of the Interchina Mall ties in well with the city's future development plan. Changsha Interchina Zhong Xing Cheng Development Company Limited ("Xing Cheng Development") is principally engaged in the development of Interchina Mall. The Group acquired a 30% stake of the Xing Cheng Development held by Changsha Municipal Land Development and Construction Company Limited in November 2003. Upon the completion of the acquisition, Xing Cheng Development will become a wholly owned subsidiary of the Group.

In view of a robust economy in China, large-scale urban construction projects become the prime investment of the Group. The Group will make use of the operational model of the city and development and investment in Changsha to expand our city development and investment in the PRC in order to broaden the Group's profit base in the short and medium term.

The Group is currently discussing with other provinces on the feasibility of developing large scale local urban construction projects, and negotiations in some of the provinces are going to be finalized soon.

Property and Other Investment Operation

The Group is planning to speed up the construction of the property development project at the Beiwaitan area of Shanghai to cope with the developments in that area.

Meanwhile, the Group has renovated its own commercial building at 18-22 Cheong Lok Street, Yaumatei, Kowloon for rental purpose. At present, a catering group has expressed interest to lease the whole building from the Group for the establishment of a comprehensive recreational and catering center and it thus increase the rental income of the Group.

In October 2003, the Group entered into a conditional sale and purchase agreement with Shanghai Qiangsheng Group Co. Ltd., under which the Group acquired 12.87% of the existing issued share capital of Shanghai Qiangsheng Holdings Co. Ltd as its long-term investment at a consideration of RMB178,977,294. The acquisition is subject to the shareholders' approval at the extraordinary general meeting to be convened on 9 January 2004. The management believes that the acquisition will increase the Group's return on assets. Details of the aforesaid acquisition have been included in the circular dated 18 December 2003.

Securities and Financial Operation

The local stock market rebounded sharply at the end of April 2003 and further climbed to over 12,000 points in the third quarter. In the meantime, the daily volume of market transactions soared from an average of HK$8.1 billion for the second quarter to HK$12 billion for the third quarter in 2003. As the economy of Hong Kong continued to improve, the local stock market is expected to remain steady in 2004. The management believes that the performance of the Group will be better in the second half of the year.

The opening up of the PRC financial business under the PRC's open-door policy, will result in substantial business opportunities. The Group is well positioned to enter the PRC financial market.

Liquidity and Financial Resources

During the Period, the Group's financial resources were mainly from cash income generated by its business operations as well as bank and other borrowings. During the Period, the Group successfully obtained two long-term bank borrowings totalling RMB140,000,000 for the development of the Group's existing environmental protection and water treatment projects. The Group also succeeded in obtaining several bank and other borrowings totalling RMB310,000,000 for its business development of the PRC city development and investment operation, property investment operation and other potential investment projects. The Group will, in response to additional funds necessary for its present and future business development plans (including capital expenditure), make financial arrangements that are in the Group's shareholders' best interests and to achieve the objective of reducing financing costs.

Contingent Liabilities

As at 30 September 2003, the Group had provided a corporate guarantee to a bank for its mortgage loans of HK$100,000,000 (31 March 2003: HK$100,000,000) to the purchaser of the Group's property. In order to release the guarantee, the Group entered into repurchase and loan agreements with a bank in April 2003 to buy back 31 units of properties from the purchaser at a total consideration of approximately HK$34,499,000. The guarantee would be released upon the completion of the aforesaid transaction.

As at 30 September 2003, an indemnity had been given by the Group in favour of a bank for issuing a guarantee of HK$5,000,000 (31 March 2003: HK$5,000,000) to HKFE Clearing Corporation Limited.

Pledge of Group's Assets

As at 30 September 2003, the Group's assets were pledged as security for liabilities, comprising investment property with a book value of HK$378,200,000 (31 March 2003: HK$88,000,000) and property, plant and equipment with a book value of HK$372,251,000 (31 March 2003: HK$239,528,000).

Employment and Remuneration Policy

As at 30 September 2003, the Group had a total of 320 employees in the PRC and Hong Kong. Staff costs for the Period amounted to HK$14,914,000 (2002: HK$17,744,000). 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

As at 30 September 2003, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise required to notify to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Long Positions in the Company's Shares

Directors	**Personal interest**	**Corporate interest**	**Percentage of entire issued capital**
Mr. Zhang Yang	–	1,612,025,000 (Note 1)	35.08%
Mr. Zhang Jiyei, Jack	5,000	–	0.0001%

Note:

1. The ordinary shares were held through Wealth Land Development Corp., a company beneficially owned by Mr. Zhang Yang.

Certain directors held nominee shares in certain subsidiaries in trust for the Company or its subsidiaries.

Share Option Scheme

Particulars of the share option in relation to the shares of the Company during the Period are as follows:

Director	**Date of grant**	**Exercise price per share** (HK$)	**Exercise period**	**Note**	**Balances at 1.4.2003 and 30.9.2003**
Mr. Zhang Yang	29.3.2001	0.161	1.4.2001 to 31.3.2005	1	109,000,000

Note:

(1) No vesting period.

Save as disclosed above, as at 30 September 2003, none of the Directors, chief executives and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise required to notify to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, other than Directors' Interests in Shares as disclosed above, no other person had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S 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 2003