

# Interchina

Interim Report

# 2004

中國



國|中|控|股|有|限|公|司  
INTERCHINA HOLDINGS CO LTD

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Zhang Yang (Chairman)  
Mr. Chan Wing Yuen, Hubert  
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 (Chairman)  
Mr. Wu Wai Chung, Michael  
Ms. Ha Ping

### COMPANY SECRETARY

Mr. Lam Cheung Shing, Richard

### PRINCIPAL BANKERS

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

### AUDITORS

Deloitte Touche Tohmatsu

### FINANCIAL ADVISOR

UOB Asia (Hong Kong) Limited

### 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

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Mr. Zhang Yang  
*Chairman*

## 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.

# Vision

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Many international enterprises have shifted their manufacturing bases to China. This has intensified competition for scarce resources such as water and land, 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.



## **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 5 to 16.

### **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 Institute of Certified Public 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 Institute of Certified Public 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 2004.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong, 17 December 2004

**CONDENSED CONSOLIDATED INCOME STATEMENT**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

		<b>Unaudited six months ended 30 September</b>	
	NOTES	<b>2004 HK\$'000</b>	2003 HK\$'000
Turnover	4	<b>197,152</b>	47,770
Other operating income		<b>91</b>	432
Cost of sale of properties		<b>(169,811)</b>	–
Interest income		<b>77</b>	587
Staff costs		<b>(15,562)</b>	(14,914)
Amortisation and depreciation		<b>(2,377)</b>	(8,003)
Other operating expenses		<b>(27,594)</b>	(26,862)
Gain on disposal of investment properties		<b>1,180</b>	–
		<hr/>	<hr/>
Loss from operations	4	<b>(16,844)</b>	(990)
Finance costs		<b>(15,793)</b>	(8,006)
Share of results of associate		–	(2,371)
		<hr/>	<hr/>
Loss before taxation		<b>(32,637)</b>	(11,367)
Taxation	5	<b>(738)</b>	(2,787)
		<hr/>	<hr/>
Loss before minority interests		<b>(33,375)</b>	(14,154)
Minority interests		<b>730</b>	1,862
		<hr/>	<hr/>
Net loss for the period		<b>(32,645)</b>	(12,292)
		<hr/>	<hr/>
Loss per share	6		
Basic		<b>(0.71 cents)</b>	(0.27 cents)
		<hr/>	<hr/>
Diluted		<b>(0.71 cents)</b>	(0.27 cents)
		<hr/>	<hr/>

**CONDENSED CONSOLIDATED BALANCE SHEET**

AT 30 SEPTEMBER 2004

	NOTES	(Unaudited) 30 September 2004 HK\$'000	(Audited) 31 March 2004 HK\$'000
<b>Non-current assets</b>			
Investment properties	7	372,159	477,871
Property, plant and equipment	7	807,837	634,799
Properties under development for sale	3	–	169,811
Intangible assets		3,392	3,178
Loan receivable – due after one year	8	6,800	8,000
Other non-current assets		2,135	2,716
		<b>1,192,323</b>	<b>1,296,375</b>
<b>Current assets</b>			
Inventories		1,326	1,561
Properties under development for sale		323,312	89,621
Loan receivable – due within one year	8	2,400	2,600
Trade and other receivables	9	93,433	262,681
Investments in securities		314	374
Tax recoverable		–	222
Cash and bank balances		48,469	58,494
		<b>469,254</b>	<b>415,553</b>
<b>Current liabilities</b>			
Trade and other payables	10	330,773	318,771
Amount due to a related company	11	21,812	6,606
Tax liabilities		515	–
Bank borrowings – due within one year	12	3,143	60,762
Other borrowings – due within one year	12	266,506	290,878
Obligations under finance leases – due within one year		57	87
		<b>622,806</b>	<b>677,104</b>
Net current liabilities		<b>(153,552)</b>	<b>(261,551)</b>
		<b>1,038,771</b>	<b>1,034,824</b>
<b>Capital and reserves</b>			
Share capital	13	468,492	459,492
Share premium and reserves		274,775	301,930
		<b>743,267</b>	<b>761,422</b>
Minority interests		24,719	25,449
		<b>767,986</b>	<b>786,871</b>
<b>Non-current liabilities</b>			
Bank borrowings – due after one year	12	270,706	247,845
Obligations under finance leases – due after one year		79	108
		<b>1,038,771</b>	<b>1,034,824</b>



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

	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 2003	459,492	276,969	571,996	1,072	(521,808)	787,721
Exchange differences on translation of overseas subsidiaries not recognised in the condensed 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
Exchange differences on translation of overseas subsidiaries not recognised in the condensed income statement	-	-	-	29	-	29
Loss for the period	-	-	-	-	(14,008)	(14,008)
At 1 April 2004	459,492	276,969	571,996	1,073	(548,108)	761,422
Exercise of share options	9,000	5,490	-	-	-	14,490
Loss for the period	-	-	-	-	(32,645)	(32,645)
At 30 September 2004	<u>468,492</u>	<u>282,459</u>	<u>571,996</u>	<u>1,073</u>	<u>(580,753)</u>	<u>743,267</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

	<b>Unaudited six months ended 30 September</b>	
	<b>2004 HK\$'000</b>	2003 HK\$'000
Net cash inflow (outflow) from operating activities	<b>115,856</b>	(174,859)
Net cash outflow from investing activities	<b>(68,694)</b>	(43,651)
Net cash (outflow) inflow from financing	<b>(60,427)</b>	470,079
	<hr/>	<hr/>
(Decrease) increase in cash and cash equivalents	<b>(13,265)</b>	251,569
Cash and cash equivalents brought forward	<b>47,951</b>	49,441
Effect of foreign exchange rate changes	–	(29)
	<hr/>	<hr/>
Cash and cash equivalents carried forward	<b>34,686</b>	300,981
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<b>48,469</b>	342,958
Less: Bank balances – trust and segregated accounts	<b>(13,783)</b>	(41,977)
	<hr/>	<hr/>
	<b>34,686</b>	300,981
	<hr/>	<hr/>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

### 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 and with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

### 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 2004.

### 3. RECLASSIFICATION OF THE COMPARATIVE FIGURE

Included in the property, plant and equipment for 31 March 2004, there was an amount of approximately HK\$169,811,000, representing the city and development project in Changsha which the Group had intended to transfer to the Changsha Government upon completion of the construction of the properties pursuant to the original arrangement with Changsha Government. The amount was reclassified as properties under development for sale under non-current assets. The reason being that the city and development project in Changsha should be treated as properties under development and not property, plant and equipment.

### 4. 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 and securities and financial operation. These divisions are the basis on which the Group reports its primary segment information.

#### 4. SEGMENTAL INFORMATION (Continued)

Segment information for the six months ended 30 September 2004 and 2003 is as follows:

	Environmental protection and water treatment operation HK\$'000	City development and investment operation HK\$'000	Property investment operation HK\$'000	Securities and financial operation HK\$'000	Consolidation total HK\$'000
Business segments					
2004					
TURNOVER					
External sales	47	179,132	9,804	8,169	197,152
RESULTS					
Segment results	(5,879)	3,090	(928)	2,345	(1,372)
Interest income					77
Unallocated corporate expenses					(15,549)
Loss from operations					(16,844)
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)

#### 5. TAXATION

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) 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 in these jurisdictions.

A deferred tax asset, in respect of tax loss approximately HK\$331,000,000, has not been recognised in the financial statements in respect of estimated tax losses due to the unpredictability of future profit streams.

## 6. LOSS PER SHARE

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

	<b>Six months ended</b>	
	<b>30 September 2004 HK\$'000</b>	30 September 2003 HK\$'000
Loss for the period and for the purpose of basic loss per share	<u>(32,645)</u>	<u>(12,292)</u>
	<b>Six months ended</b>	
	<b>30 September 2004</b>	30 September 2003
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>4,620,989,206</u>	<u>4,594,923,632</u>

The computation of diluted loss per share for both periods does not assume the exercise of the Company's outstanding share options during the periods since their exercise would reduce the loss per share.

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

The Group disposed of the investment properties with carrying amount of HK\$126,000,000 and acquired investment properties of approximately HK\$20,288,000 during the period.

At 30 September 2004, 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.

The Group incurred approximately HK\$175,796,000 on additions of property, plant and equipment.

There were no other significant movements.

## 8. LOAN RECEIVABLE

The loan receivable is repayable by monthly instalments over five years and 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\$26,936,000 (31.3.2004: HK\$27,539,000) included in trade and other receivables at the reporting date is as follows:

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
0 – 30 days	<b>4,798</b>	2,900
31 – 60 days	–	4,237
61 – 90 days	<b>2,117</b>	–
Over 90 days	<b>20,021</b>	20,402
	<hr/>	<hr/>
	<b>26,936</b>	27,539
Margin clients accounts receivable	<b>14,422</b>	167,154
Clearing houses, brokers and dealers	<b>8,542</b>	2,504
Other receivables	<b>43,533</b>	65,484
	<hr/>	<hr/>
	<b>93,433</b>	262,681
	<hr/>	<hr/>

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\$8,100,000 (31.3.2004: HK\$10,057,000) included in trade and other payables at the reporting date is as follows:

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Trade payables		
0 – 30 days	<b>8,100</b>	10,057
Accounts payable arising from the business of dealing in securities and equity options:		
Margin clients	<b>4,963</b>	480
Accounts payable to clients arising from the business of dealing in futures and options	<b>9,484</b>	3,282
Other payables	<b>308,226</b>	304,952
	<b>330,773</b>	318,771

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

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

Included in the other payables are payables for construction works of approximately HK\$210,000,000 (31.3.2004: approximately HK\$232,000,000).

## 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\$62,325,000 of which HK\$33,930,000 are repayable within one year and HK\$28,395,000 are repayable by instalments over 10 years. In addition, the Group repaid bank loans and other loans amounting to HK\$121,456,000. All new bank and other borrowings are secured and bear interest at market rates. The proceeds were used to finance the operations of the Group.

## 13. SHARE CAPITAL

	<b>Number of shares</b> '000	<b>Share capital</b> HK\$'000
Ordinary shares of HK\$0.10 each		
Issued and fully paid:		
At 1 April 2004	4,594,924	459,492
Exercise of options	90,000	9,000
	<u>4,684,924</u>	<u>468,492</u>
At 30 September 2004	<u>4,684,924</u>	<u>468,492</u>

## 14. PLEDGE OF ASSETS

There are additions and releases of pledge of assets during the current period.

The Group has pledged the new addition of property, plant and equipment with an aggregate carrying value of approximately HK\$134,437,000 to secure new banking facilities granted to the Group.

The decrease in aggregate carrying value of the Group's pledged investment properties is approximately HK\$97,271,000.



## 15. CONTINGENT LIABILITIES

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Guarantees given to:		
Maanshan Government, PRC	<b>4,717</b>	–
Bankers in respect of banking facilities granted to property buyers	<b>6,000</b>	<u>100,000</u>

The guarantees for the property buyers have been partially released after the Group have bought back 31 unit of properties from property buyers. The remaining balance represent the outstanding balance of banking facilities to property buyer.

The Group provides a guarantee to Maanshan Government, PRC, for the commitment to invest in Maanshan, details as per announcement dated 21 May 2004.

During the period, a bank guarantee of HK\$5,000,000 to HKFE Clearing Corporation Limited has been terminated and released.

## 16. CAPITAL COMMITMENTS

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of equity investment (note 18(ii))	<b>168,847</b>	168,847
– acquisition of property, plant and equipment	<b>160,090</b>	112,787
– property development expenditure	<b>272,853</b>	<u>240,110</u>
	<b>601,790</b>	<u>521,744</u>

## 17. RELATED PARTY TRANSACTIONS

During the period, the Group paid interest amounting to HK\$70,000 (2003: HK\$351,000) to a director of the Company's subsidiary.

In addition, the Group paid interest amounting to HK\$59,000 (2003: HK\$1,076,000) to a related company of the Company. Details of the amount due to a related company are set out in note 11.

## 18. POST BALANCE SHEET EVENTS

- (i) On 25 November 2004, the Group entered into an agreement with Hanzhong Economic Development Zone Committee ("Agreement") for the development of infrastructure in the Hanzhong Economic Development Zone. Pursuant to the terms of the Agreement, the Company would establish a wholly foreign owned enterprise ("WFOE") to take up the rights and obligations under the Agreement. It was proposed that the WFOE would be established with a registered capital of not less than RMB20 million and total investment of approximately RMB200 million.
- (ii) On 28 October 2003, the Group entered into an agreement with Shanghai Qiang Sheng Group Co. Ltd. to purchase shares in Shanghai Qiang Sheng Holdings Co. Ltd., a company listed in Shanghai Stock Exchange. The completion was conditional upon satisfaction of the conditions precedent as set out in the agreement, which among other matters, includes obtaining the approval from the relevant PRC authorities in relation to the sale and purchase. Since the transfer of the shares were not approved by the relevant PRC authorities after the first anniversary of the agreement, the agreement was automatically terminated on 28 October 2004. The capital commitment, amount to approximately HK\$168,847,000, in respect of the acquisition of the shares, as set out in Note 16 to the financial statements, was subsequently released.

## INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2004 (2003: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The Group's turnover for the six months ended 30 September 2004 ("Period") amounted to HK\$197,152,000 (2003: HK\$47,770,000), representing an increase of 3.13 times over the corresponding period last year. Loss attributable to shareholders amounted to HK\$32,645,000 (2003: HK\$12,292,000). During the Period, the Group's city development and investment projects in Changsha generated profit for the Group, but its various environmental protection and water treatment projects in the PRC were still at their preparatory stage, hence had not yet to generate income. But on the other hand, pre-sale of the "Wang Guo Commercial Plaza" (Phase 1) of the Interchina Mall in Changsha had commenced and the water treatment plant in Qinghuangdao in Hebei Province had begun operation which is expected to generate income for the Group in the first half of 2005.

As at 30 September 2004, the total assets and net assets of the Group were HK\$1,661,577,000 (31 March 2004: HK\$1,711,928,000) and HK\$743,267,000 (31 March 2004: HK\$761,422,000) respectively, representing a decrease of 2.94% and 2.38% respectively as compared with those as at 31 March 2004.

As at 30 September 2004, the Group's cash on hand and deposits held in banks and other financial institution totaled approximately HK\$48,469,000 (31 March 2004: HK\$58,494,000), representing a decrease of 17.14% as compared with the balances at 31 March 2004. Approximately 40.17% of the deposits was denominated in Hong Kong dollars and the balance in Renminbi. The Group's net current liabilities amounted to HK\$153,552,000 (31 March 2004: HK\$261,551,000). The Group's outstanding bank and other borrowings were HK\$540,355,000 (31 March 2004: HK\$599,485,000), approximately HK\$269,649,000 arising mainly from bank and other borrowings repayable within one year and approximately HK\$270,706,000 from bank and other borrowings repayable after one year. The Group's gearing ratio was 32.52% (total borrowings/total assets).

As at 30 September 2004, about 5.25% of the Group's bank and other borrowings were denominated in Hong Kong dollars and the balance in Renminbi. The Group's bank and other borrowings were arranged on a floating and fixed rate basis and secured by the Group's investment properties and property, plant and equipment.

The Group's business development during the Period took place mainly in the PRC and Hong Kong, and there was no significant fluctuation in the exchange rate between Renminbi and 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

After years of efforts and dedication, the Group's two core businesses – environmental protection and water treatment operation as well as city development and investment operation – have stepped into harvest period and achieved remarkable results. Besides favorable factors including rapid urban growth and mounting demand for city infrastructure construction, the Group's solid business foundation, effective business models and extensive business network are also crucial elements contributing to its encouraging growth during the Period.

### Environmental Protection and Water Treatment Operation

The Group's first sewage treatment project located in Qinghuangdao, Hebei Province, has a daily processing capacity of 120,000 tonnes on average. Construction of the plant and installation of sewage treatment facilities were completed in September 2004. The plant underwent trial runs and water quality tests in November 2004 and is expected to start operations in December 2004.



In addition, the Group's first water supplies project in Hanzhong, Shaanxi Province, has a daily output of 100,000 tonnes. It is currently undergoing trial runs and water quality tests after 2 years of construction. It is scheduled to start operations in mid 2005.

In addition, the Group has started preparatory work of the water supplies plants in Xianyang City of Shaanxi Province, sewage plants in Maanshan City of Anhui Province and Changli City of Qinghuangdao, Hebei Province. Design

and construction plans are being mapped out and construction and facilities installation will start soon.

The Group is negotiating on various water supplies and sewage projects in other provinces as well as on acquiring stake interests in water supplies plants. The management believes that investment on water supplies and sewage plants will enable the Group to further extend its water supplies and water treatment projects business, and in turn attribute to the Group's short-to-mid-term profit growth.

### City Development and Investment Operation

Construction works of the Changsha New Sports City, the Group's first city development and investment project, was completed in September 2004 and brought in income to the Group during the Period.



Apart of the investment in the Changsha New Sports City, Interchina Mall, a mega-scale luxurious residential and commercial complex, with cultural, entertainment and recreational facilities, in Changsha City of Hunan Province was taking shape. Comprising 3 phases, Interchina Mall houses sizeable entertainment facilities and hotel properties and service apartments. The "Wang Guo Commercial Plaza" located in Phase 1 of "Interchina Mall" was open for sale in September 2004. Of its 1,040 shops, 565 shops were already sold, generating for the Group a revenue of HK\$180 million. Apart from the "Wang Guo Commercial Plaza", hotel properties are being constructed and open sales will begin after the pre-sale permit is secured in the near future. "Interchina Mall" has successfully built for the Group a prominent brand in the PRC property market.

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

#### Property and other Investment Operation

During the Period, the Group's rental income amounted to HK\$9,804,000 (2003: HK\$18,000,000), representing a decrease of 45.53% compared with the corresponding period last year. With intense competition in the leasing market in Shanghai, the Group recorded a lower rental returns from its property in Shanghai, the PRC during the Period. The Group sold the office building at 18-22 Cheung Lok Street, Yaumatei, Kowloon, in August 2004 at a consideration of HK\$127,180,000, resulting in a profit of HK\$1,180,000.



The Group reached a conditional purchase agreement with Shanghai Qiangsheng Group Co. Ltd. in October 2003 to acquire its 39,772,732 issued shares of Shanghai Qiangsheng Holdings Co. Ltd. at a consideration of RMB178,977,294. However, the agreement was terminated automatically by its first anniversary when relevant PRC authorities did not approve the purchase. Details on the aforesaid termination of acquisition had been stated in the announcement dated 28 October 2004. The Group will look into other business opportunities with Shanghai Qiangsheng Group Co. Ltd..

#### Securities and Financial Operation

The Group's securities and futures operation generated commission and interest income of HK\$8,169,000 (2003: HK\$29,770,000) from margin clients. As the Group enhanced the internal control over the borrowings to margin clients during the Period, especially reducing the proportion of borrowings for the non-index constituent stocks, such commission and interest income from margin clients decreased by 72.56% compared with the corresponding period last year.

**Liquidity and Financial Resources**

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

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

**Contingent Liabilities**

During the Period, with reference to the signed repurchase and loan agreements with a bank in April 2003, the Group bought back 31 units of properties from the property buyers. As a result, the guarantees for the property buyers were partially released after the Group have bought back these units of properties. The remaining balance of HK\$6,000,000 (31 March 2004: HK\$100,000,000) represent the outstanding balance of banking facilities to property buyer.

During the Period, the Group had provided a guarantee of RMB5,000,000 to the Ma'anshan Municipal Government for the development of sewage treatment project in Ma'anshan, Anhui Province. Details have been included in the published announcement dated 20 May 2004.

During the Period, a bank guarantee of HK\$5,000,000 to HKFE Clearing Corporation Limited has been terminated and released.

**Pledge of Group's Assets**

As at 30 September 2004, the Group's assets were pledged as security for liabilities, comprising investment properties with a book value of HK\$358,240,000 (31 March 2004: HK\$455,511,000) and property, plant and equipment with a book value of HK\$749,942,000 (31 March 2004: HK\$615,505,000).

**Employment and Remuneration Policy**

As at 30 September 2004, the Group had a total of 420 employees in the PRC and Hong Kong. Staff costs for the Period amounted to HK\$15,562,000 (2003: HK\$14,914,000). To maintain the Group's competitiveness, salary adjustment and bonus for staff are subject to the performance of individual staff members. Apart from offering a retirement benefits scheme and a share options scheme for its staff, the Group also provides them with various training and development programs.

**Business Development and Prospect**

Riding on the success of the "Interchina Mall" brand, the Group is in negotiation for the development of its second "Interchina Mall", further demonstrating the Group's sound business foundation and repeatable operation model.

On 25 November 2004, the Group signed an agreement with the Committee of Hanzhong Economic Development Zone of Hanzhong, Shaanxi Province to develop city supplements and infrastructure in the business and travel resort in the Northern District of the Economic Zone. The project involves a development area of 4.3 square kilometres. The project also marked the beginning of the Group's "Premium Land Reserve" development for commercial and residential uses.



In addition, the Group will undertake various infrastructure projects including road building, lighting and electric supply, water supply network and land flattening in the business and travel resort in the Northern District of the Hanzhong Economic Development Zone. The Group is also allowed to undertake development projects in other aspects such as real estate development, and has priority in obtaining permits for land use. The Group enjoys preferential tax rebates offered to foreign enterprises and related to the development of Western China.

After several years' efforts of business consolidation and restructuring, the Group has established a business framework covering environmental protection and water treatment, and city development and investment. Seizing the promising opportunities arising from the rapid economic development and extensive urbanisation programs in Mainland China, the Group has forged a solid platform for expanding its businesses to other markets in China.

## DIRECTORS' INTERESTS IN SHARES

As at 30 September 2004, 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 otherwise required to be 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 ("Model Code") were as follows:

### Long Positions in the Company's Shares

Director	Personal interest	Corporate interest	Total	Percentage of issued capital
Mr. Zhang Yang	90,000,000	1,612,025,000 (Note 1)	1,702,025,000	36.33%

Note:

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

### Share Option Scheme

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

Director	Note	Date of grant	Exercise price per share (HK\$)	Balance at 1.4.2004	Exercised during the Period	Balance at 30.9.2004
Mr. Zhang Yang	1	29.3.2001	0.161	109,000,000	90,000,000	19,000,000

Note:

- No vesting period. The exercise period is from 1 April 2001 to 31 March 2005.

Save as disclosed above, as at 30 September 2004, 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 otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.



## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, the interests of the substantial shareholders, other than the Directors, chief executives and their respective associates, in the shares and underlying shares of the Company as recorded in the register of interests in shares and short positions required to be kept under Section 336 of the SFO were as follows:

<b>Name</b>	<b>Number of Shares</b>	<b>Percentage of holding</b>
Wealth Land Development Corp. (Note)	1,612,025,000	34.41%
Qiang Sheng (HK) Company Limited	279,070,000	5.96%

Note: By virtue of the SFO, Mr. Zhang Yang is deemed to be interested in the 1,612,025,000 shares of the Company held by Wealth Land Development Corp. Details are disclosed in "Directors' Interests in Shares – Long Positions in the Company's Shares" above.

Save as disclosed above, according to the register maintained by the Company pursuant to Section 336 of the SFO and so far as the Directors are aware, other than Directors or chief executives of the Company, no other person has an interest or short position in the shares or underlying shares of the Company.

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

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

## AUDIT COMMITTEE

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

## CODE OF BEST PRACTICE

The Company has complied throughout the Period ended 30 September 2004 with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by Directors. The Company, after having made specific enquiries to all Directors, confirmed that all Directors were in compliance with the requirements set out in the Model Code during the period ended 30 September 2004.

Hong Kong, 17 December 2004

By order of the Board

**Zhang Yang**

*Chairman*