



Interchina

2005

Interim
Report



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

Contents

02	Corporate Information
03	Independent Review Report
04	Condensed Consolidated Income Statement
05	Condensed Consolidated Balance Sheet
06	Condensed Consolidated Statement of Changes in Equity
07	Condensed Consolidated Cash Flow Statement
08	Notes to the Condensed Consolidated Financial Statements
21	Interim Dividend
21	Management Discussion and Analysis
25	Directors' Interests in Securities
25	Share Option Scheme
25	Substantial Shareholders
25	Purchase, Sale or Redemption of the Company's Listed Securities
26	Audit Committee
26	Compliance with the Code of Corporate Governance Practices
26	Model Code for Securities Transactions by Directors of the Company



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, J.P.

Independent Non-executive Directors

Mr. Lee Peng Fei, Allen, J.P.
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

REMUNERATION COMMITTEE

Mr. Lee Peng Fei, Allen, J.P. (*Chairman*)
Mr. Hui Ho Ming, Herbert, J.P.
Mr. Wu Wai Chung, Michael

CORPORATE GOVERNANCE COMMITTEE

Mr. Hui Ho Ming, Herbert, J.P. (*Chairman*)
Mr. Chan Wing Yuen, Hubert
Mr. Wong Hon Sum

COMPANY SECRETARY

Mr. Lam Cheung Shing, Richard

SOLICITOR

Preston Gates & Ellis

AUDITORS

HLB Hodgson Impey Cheng

PRINCIPAL BANKERS

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

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



Chartered Accountants
Certified Public Accountants

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

(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report as set out on pages 4 to 20.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited required the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") 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 Statements of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. 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 verifications 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 2005.

HLB Hodgson Impey Cheng

*Chartered Accountants
Certified Public Accountants*

Hong Kong, 20 December 2005

**CONDENSED CONSOLIDATED INCOME STATEMENT**

For the six months ended 30 September 2005

	Notes	Six months ended 30 September	
		2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited and restated)
Turnover	3	83,152	197,152
Other operating income		294	91
Cost of sale		(50,074)	(169,811)
Interest income		109	77
Staff costs		(16,418)	(15,562)
Amortisation and depreciation		(6,531)	(3,331)
Other operating expenses		(39,939)	(27,594)
Gain on disposal of investment properties		–	1,180
Loss from operations	3	(29,407)	(17,798)
Finance costs		(13,336)	(15,793)
Gain on disposal of subsidiaries		237	–
Share of results of associates		(776)	–
Loss before taxation		(43,282)	(33,591)
Taxation	4	(355)	(738)
Loss for the period		(43,637)	(34,329)
Attributable to:			
Equity holders of the Company		(42,530)	(33,518)
Minority interests		(1,107)	(811)
		(43,637)	(34,329)
Loss per share			
Basic	5	(0.91 cents)	(0.73 cents)
Diluted	5	(0.91 cents)	(0.73 cents)

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

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2005

	Notes	As at 30 September 2005 HK\$'000 (Unaudited)	As at 31 March 2005 HK\$'000 (Audited and restated)
NON-CURRENT ASSETS			
Investment properties	6	59,686	394,325
Interest in leasehold land		86,962	85,744
Property, plant and equipment	6	722,589	732,952
Interest in associates		91,361	943
Goodwill		2,846	2,846
Loan receivable – due after one year	7	4,200	5,600
Other non-current assets		2,527	2,828
		970,171	1,225,238
CURRENT ASSETS			
Inventories		–	604
Construction contract under progress		4,188	3,266
Properties under development for sale		258,006	270,629
Loan receivable – due within one year	7	2,800	2,600
Trade and other receivables and prepayments	8	224,332	91,773
Financial assets at fair value through profit or loss		181	–
Investment in securities		–	154
Tax recoverable		804	893
Bank balances – trust and segregated accounts		9,726	8,624
Cash and bank balances		31,130	55,737
		531,167	434,280
CURRENT LIABILITIES			
Trade and other payables and deposits received	9	326,133	339,443
Amount due to an associate		4,067	–
Amount due to a related company	10	84,985	40,555
Bank borrowings, secured – due within one year	11	142,413	44,613
Other borrowings, secured – due within one year	11	64,432	270,680
Obligations under finance leases – due within one year		65	64
		622,095	695,355
NET CURRENT LIABILITIES			
		(90,928)	(261,075)
		879,243	964,163
EQUITY			
Share capital	12	468,492	468,492
Share premium and reserves		196,387	225,498
Shareholders' funds		664,879	693,990
Minority interests		21,213	22,320
		686,092	716,310
NON-CURRENT LIABILITIES			
Bank borrowings, secured – due after one year	11	152,907	247,576
Other borrowings – due after one year	11	40,000	–
Obligations under finance leases – due after one year		244	277
		879,243	964,163

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



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2005

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 April 2004								
As originally stated	459,492	276,969	571,996	1,073	(548,108)	761,422	25,449	786,871
Prior year adjustment under HKFRSs:								
Adoption of HKAS 17	-	-	-	-	(10,948)	(10,948)	(1,224)	(12,172)
As restated	459,492	276,969	571,996	1,073	(559,056)	750,474	24,225	774,699
Exercise of share options	9,000	5,490	-	-	-	14,490	-	14,490
Loss for the period (restated)	-	-	-	-	(33,518)	(33,518)	(811)	(34,329)
At 30 September 2004	468,492	282,459	571,996	1,073	(592,574)	731,446	23,414	754,860
At 1 April 2005								
As originally stated	468,492	282,459	571,996	1,040	(617,301)	706,686	23,705	730,391
Prior year adjustment under HKFRSs:								
Adoption of HKAS 17	-	-	-	-	(12,696)	(12,696)	(1,385)	(14,081)
As restated	468,492	282,459	571,996	1,040	(629,997)	693,990	22,320	716,310
Exchange differences on translation of overseas subsidiaries not recognised in the condensed consolidated income statement	-	-	-	13,419	-	13,419	-	13,419
Loss for the period	-	-	-	-	(42,530)	(42,530)	(1,107)	(43,637)
At 30 September 2005	468,492	282,459	571,996	14,459	(672,527)	664,879	21,213	686,092

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2005

	Six months ended 30 September	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Net cash generated from operating activities	9,121	115,856
Net cash inflow/(outflow) from investing activities	10,481	(68,694)
Net cash outflow from financing activities	(57,628)	(60,427)
Decrease in cash and cash equivalents	(38,026)	(13,265)
Cash and cash equivalents at beginning of period	55,737	47,951
Effect of foreign exchange rate change	13,419	–
Cash and cash equivalents at end of period	31,130	34,686
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	40,856	48,469
Less: Bank balances – trust and segregated accounts	(9,726)	(13,783)
	31,130	34,686

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2005

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

These unaudited condensed consolidated interim financial statements should be read in conjunction with the 2005 annual financial statements.

The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2005 except in relation to the following new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all HKASs, Interpretations issued by the Standing Interpretations Committee of IASB (“HK(SIC)-Ints”) and Interpretations issued by the HKICPA (“HK-Ints”) which are generally effective and are relevant to the Group’s operations for accounting periods beginning on or after 1 January 2005.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the HKFRSs issued and effective as at the time of preparing these statements. The HKFRSs and interpretations that will be applicable at 31 March 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these unaudited condensed consolidated interim financial statements.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. CHANGE IN ACCOUNTING POLICIES

The Group has adopted the following new/revised HKFRSs and HKASs issued up to 30 September 2005 which are pertinent to its operations and have resulted in changes to the Group’s accounting policies. The comparative figures have been restated in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes

2. CHANGE IN ACCOUNTING POLICIES (Continued)

HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HK(SIC)-INT15	Operating Leases – Incentives
HK(SIC)-INT21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HK(SIC)-INT27	Evaluating the Substance of Transaction Involving the Legal Forms of a Lease
HK-INT2	The Appropriate Accounting Policies for Hotel Properties
HK-INT3	Revenue – Pre-completion Contracts for the Sale of Development Properties
HK-INT4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HKFRS3	Business Combinations

Effect of adopting new/revised HKFRSs

- (i) The adoption of new/revised HKASs 1, 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 33, 34, 37, HK(SIC)-Ints 15, 21, 27 and HK-Ints 2, 3, 4 did not result in substantial changes to the Group's accounting policies. In summary:
- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now shown within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period.
 - HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 33, 34, 37, HK(SIC)-Ints 15, 21, 27 and HK-Ints 2, 3, 4 had no material effect on the Group's policies.



2. CHANGE IN ACCOUNTING POLICIES (Continued)

Effect of adopting new/revised HKFRSs (Continued)

- (ii) The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of interest in leasehold land from property, plant and equipment to operating leases and retrospective application is required. The up-front prepayments made for the interest in leasehold land are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. A lease of land and building is split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in land element and the building element of the lease at the inception of the lease. The lease of land is stated at cost and amortised over the period of the lease whereas the building is stated at cost less accumulated depreciation. In prior years, interest in leasehold land was classified under property, plant and equipment at cost and amortised over the terms of the leases except those classified as properties under development which was stated at cost less impairment.

The adoption of revised HKAS 17 resulted in:

Consolidated Balance Sheet

	30 September 2005 HK\$'000	31 March 2005 HK\$'000
Increase in interest in leasehold land	86,962	85,744
Decrease in property, plant and equipment	86,962	85,744
Decrease in minority interests	1,468	1,385

Consolidated Income Statement

	Year ended 31 March 2005 HK\$'000	Six months ended 30 September 2005 HK\$'000	2004 HK\$'000
Increase in depreciation and amortisation	1,909	1,052	954
Increase in minority interests	162	83	81
Increase in basic and diluted loss per share	(0.04 cents)	(0.02 cents)	(0.02 cents)

2. CHANGE IN ACCOUNTING POLICIES (Continued)

Effect of adopting new/revised HKFRSs (Continued)

- (iii) The adoption of HKASs 32 and 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. In prior years, listed equity securities held for trading purpose were disclosed as investments in securities and stated at market value with changes to such value accounted through profit or loss. Under HKAS 39, listed equity securities held for trading purpose are classified as financial assets at fair value through profit or loss and are continued to be stated at closing price with all realised and unrealised gains or losses to be recognised in the income statement.

The adoption of revised HKAS 39 resulted in:

Consolidated Balance Sheet

	30 September 2005 HK\$'000	31 March 2005 HK\$'000
Increase in financial assets at fair value through profit or loss	181	–
Decrease in investment in securities	181	–

- (iv) The adoption of HKAS 40 has resulted in a change in accounting policy for the Group's investment properties. In prior years, increases in the valuation of investment property were credited to the investment property revaluation reserve while decreases in the valuation of investment property were firstly set off against the surplus of the investment property revaluation reserve and thereafter charged to the profit and loss account. Following the adoption of HKAS 40, all changes in valuation of the investment property are to be recognised in the profit and loss account.
- (v) The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for positive goodwill and negative goodwill and prospective application is required.

Prior to this, positive and negative goodwill were amortised in the income statement on a straight line basis over their estimated useful lives.

Following the adoption of HKFRS 3, HKAS 36 and HKAS 38:

- The Group ceased amortisation of remaining goodwill and remaining negative goodwill from 1 April 2005;
- Accumulated amortisation as at 31 March 2005 has been deducted from the cost of positive goodwill;
- For the year ending 31 March 2006 onwards, positive goodwill will be tested annually for impairment, as well as when there is indication of impairment;
- In accordance with the transitional provision of HKFRS 3, all negative goodwill was derecognised as at 1 April 2005 with a corresponding decrease in accumulated losses.



3. SEGMENTAL INFORMATION

The Group is currently engaged in four (2004: 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 about these businesses for the six months ended 30 September 2005 and 2004 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	Elimination HK\$'000	Consolidation total HK\$'000
Business segments						
2005						
Turnover						
External sales	10,885	66,780	2,186	3,301	-	83,152
Inter-segment sales	-	-	512	-	(512)	-
	10,885	66,780	2,698	3,301	(512)	83,152
Results						
Segment results	(2,146)	(6,649)	1,173	(1,381)		(9,003)
Interest income						109
Unallocated corporate expenses						(20,513)
Loss from operations						(29,407)

3. SEGMENTAL INFORMATION (Continued)

	Environmental protection and water treatment operation HK\$'000	City development and investment operation HK\$'000	Property investment operation HK\$'000	Securities and financial operation HK\$'000	Elimination HK\$'000	Consolidation total HK\$'000
Business segments						
2004						
Turnover						
External sales	47	179,132	9,804	8,169	-	197,152
Inter-segment sales	-	-	512	-	(512)	-
	47	179,132	10,316	8,169	(512)	197,152
Results						
Segment results	(6,039)	(4,850)	6,218	2,345		(2,326)
Interest income						77
Unallocated corporate expenses						(15,549)
Loss from operations						(17,798)

Inter-segment sales are charged at both agreed terms.

Geographical segments:

The Group's operations are located in Hong Kong and the People's Republic of China other than Hong Kong (the "PRC").

The following table provides an analysis of the Group's sales by location of markets, irrespective of the origin of the goods/services:

	Turnover		Segment results	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	3,481	8,130	(2,958)	(868)
The PRC	79,671	189,022	(6,045)	(1,458)
	83,152	197,152	(9,003)	(2,326)
Interest income			109	77
Unallocated corporate expenses			(20,513)	(15,549)
Loss from operations			(29,407)	(17,798)



4. TAXATION

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits of certain subsidiaries in Hong Kong for the period.

A deferred tax asset, are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profit is probable. The Group did not recognise deferred income tax assets of HK\$78,226,000 (31 March 2005: HK\$81,150,000) in respect of losses amounting to HK\$375,568,000 (31 March 2005: HK\$373,314,000) that can be carried forward against future taxable income. Losses amounting to HK\$80,655,000 (31 March 2005: HK\$102,065,000) expire in 2010.

5. LOSS PER SHARE

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

	Six months ended 30 September	
	2005 HK\$'000	2004 HK\$'000
Loss for the period and for the purpose of basic loss per share and diluted loss per share	(42,530)	(33,518)

	Six months ended 30 September	
	2005	2004
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share and diluted loss per share	4,684,923,632	4,620,989,206

The computation of diluted loss per share for both periods does not assume the conversion of the Company's option since the exercise price of the Company's options was higher than the average market price for shares of both periods.

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

As a result of disposal of 60% interests in 3 wholly-owned subsidiaries during the period, the investment properties and property, plant and equipment reduced by HK\$335,000,000 and HK\$5,953,000 respectively.

At 30 September 2005, 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\$8,210,000 on additions of property, plant and equipment.

There were no other significant movements.

7. 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.



8. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group allows an average credit period of 60 days to its trade customers. The aged analysis of trade receivables of HK\$25,626,000 (31 March 2005: HK\$11,811,000) included in trade and other receivables and prepayments at the reporting date is as follows:

	30 September 2005 HK\$'000	31 March 2005 HK\$'000
0 – 30 days	7,028	5,163
31 – 60 days	–	1,500
61 – 90 days	18,598	1,500
Over 90 days	–	3,648
	25,626	11,811
Margin clients accounts receivable	1,626	3,859
Clearing houses, brokers and dealers	2,862	17,948
Prepayments	66,316	41,514
Other receivables	127,902	16,641
	224,332	91,773

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

Included in other receivables is receivable for disposal of 60% interests in 3 wholly-owned subsidiaries of approximately HK\$117,000,000 (31 March 2005: Nil).

9. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

The aged analysis of trade payables of HK\$11,550,000 (31 March 2005: HK\$12,540,000) included in trade and other payables and deposits received at the reporting date is as follows:

	30 September 2005 HK\$'000	31 March 2005 HK\$'000
Trade payables		
0 – 30 days	11,550	12,540
Accounts payable arising from the business of dealing in securities and equity options:		
Margin clients	2,152	13,585
Accounts payable to clients arising from the business of dealing in futures and options	1,678	8,648
Other payables and deposits received	310,753	304,670
	326,133	339,443

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 and deposits received are payables for construction works of approximately HK\$140,841,000 (31 March 2005: approximately HK\$137,000,000) and deposits received for the pre-sale of properties approximately HK\$120,535,000 (31 March 2005: approximately HK\$72,000,000).

10. 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.

**11. BANK AND OTHER BORROWINGS**

As a results of disposal of 60% interests in 3 wholly-owned subsidiaries during the period, the bank and other borrowings reduced by HK\$107,550,000.

During the period, the Group repaid bank and other borrowings amounting to HK\$68,070,000 without obtaining new bank and other borrowings. The bank borrowings bear interest at market rates and are either repayable on demand or in installments over a period of 1 to 20 years. The other borrowings bear interest at market rates and repayable on demand.

12. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each	4,684,924	468,492

13. PLEDGE OF ASSETS

There are no additions or releases of pledge of assets during the period.

The decrease in aggregate carrying value of the Group's pledged land and building and investment properties are approximately HK\$3,725,000 and HK\$335,000,000 in relation to the disposal of 60% interests in 3 wholly-owned subsidiaries during the period.

14. CONTINGENT LIABILITIES

The Group provides a guarantee of RMB5,000,000, to Ma'anshan Municipal Government, the PRC, for the commitment to invest in the sewage treatment project in Ma'anshan, details as per announcement dated 21 May 2004.

As at 30 September 2005, the Company had given unconditional guarantee to a bank to secure banking facilities available to a subsidiary to the extent of approximately HK\$29,300,000.

15. CAPITAL COMMITMENTS

	30 September 2005 HK\$'000	31 March 2005 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of property, plant and equipment and properties under development for sale	474,486	468,241

16. RELATED PARTY TRANSACTIONS

During the period, the Group paid interest amounting to HK\$70,000 (2004: HK\$70,000) to a director of the Company's subsidiary.

In addition, the Group paid interest amounting to HK\$2,662,000 (2004: HK\$759,000) to a related company of the Company. Details of the amount due to a related company are set out in note 10.

During the period, the Group received rental income approximately HK\$180,000 (2004: Nil) from a director of the Company.

17. COMMITMENTS

- (i) Commitments for future minimum lease payments under non-cancellable operating lease in respect of the Group's guarantee lease arrangement for the pre-sale properties.

	30 September 2005 HK\$'000	31 March 2005 HK\$'000
Within one year	24,036	16,086
In the second to fifth year inclusive	113,892	85,793
After five years	99,482	85,309
	237,410	187,188

- (ii) The Group has written certain repurchase options for the pre-sale properties to the property buyers. The options give the right to the property buyers that they can request the Group to buy back the properties at the original property sales price on the option exercise date. The exercise date of the options is within six years after the completion date of the sale and purchase agreements of the properties with the total contract sum of approximately HK\$246,000,000.



18. SUBSEQUENT EVENTS

On 14 October 2005, the Group entered into the subscription agreements with the subscribers, pursuant to which the Company agreed to issue and the subscribers agreed to subscribe for the Convertible Notes in an aggregate principal amount of HK\$90,000,000. The Convertible Notes are convertible into shares at the conversion price, which is equal to HK\$0.10 per share. The completion of the subscription agreements was conditional on the granting by the Stock Exchange of the listing of and permission to deal in the Conversion Shares which may fall to be issued on conversion in full of the Convertible Notes.

In November 2005, the Group completed the issued of the aforesaid Convertible Notes.

19. COMPARATIVE FIGURES

Certain comparative figures presented in the condensed consolidated financial statements have been restated to comply with the relevant new/revised HKFRSs as set out in Note 2.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2005 (2004: Nil)

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's turnover for the six months ended 30 September 2005 (the "Period") amounted to HK\$83,152,000 (2004: HK\$197,152,000), representing a decrease of 57.82% as compared with the corresponding period last year. Loss attributable to shareholders was HK\$42,530,000 (2004: restated HK\$33,518,000). Since a significant number of the Group's city development and investment projects, and environmental protection and water treatment projects in China were still under construction, no revenue had been recorded from them yet. During the Period, the Group generated an income of RMB69,451,000 from sale of the land situated at R-06, in Changsha New Sports City, Changsha, the PRC. The Qinghuangdao Sewage Treatment Plant located in Hebei Province recorded an income of RMB11,320,000 to the Group.

As at 30 September 2005, total assets and net assets of the Group valued at HK\$1,501,338,000 (31 March 2005: restated HK\$1,659,518,000) and HK\$664,879,000 (31 March 2005: restated HK\$693,990,000) respectively, representing an decrease of 9.53% and 4.19% respectively as compared with those as at 31 March 2005.

As at 30 September 2005, the Group's cash on hand, deposits in bank (including segregated and trust account) and deposits in other financial institutions totaled approximately HK\$40,856,000 (31 March 2005: HK\$64,361,000), representing a decrease of 36.52% against the balance as at 31 March 2005. Approximately 44.68% of the deposits was denominated in Hong Kong dollars while the remainder in Renminbi. The Group's net current liabilities amounted to HK\$90,928,000 (31 March 2005: restated HK\$261,075,000). The Group's outstanding bank and other borrowings were HK\$399,752,000 (31 March 2005: HK\$562,869,000) which mainly comprised bank and other borrowings of approximately HK\$206,845,000 repayable within a year, and HK\$192,907,000 of bank and other borrowings repayable after one year. The gearing ratio was 32.29% (total borrowings/total assets).

As at 30 September 2005, approximately 18.58% of the Group's bank and other borrowings were denominated in Hong Kong dollars while the rest in Renminbi. The Group's bank and other borrowings were arranged on both fixed or floating rate basis of which approximately 89.99% were secured by the Group's investment property, property, plant and equipment and property under development for sale.

Since the Group's business is primarily based in China and Hong Kong, the Group's borrowings are designated in local currencies of the project investments in China and Hong Kong so as to match the corresponding payment currencies to mitigate exposure on exchange rate fluctuations.



Business Review and Prospect

Environmental Protection and Water Treatment Operation

Being the Group's first environmental protection and water treatment project, the sewage treatment plant situated at Haigang District, Qinghuangdao City, Hebei Province, the PRC officially commenced operation in December last year and generated revenue of RMB11,320,000 for environmental protection and water treatment operation during the Period. The sewage treatment plant currently processes exceeding 110,000 tonnes of sewage on average per day and its production capacity will gradually increase to 120,000 tonnes.

Last year, the Group was granted the right by the Ma'anshan Municipal Government in Anhui Province and Qinghuangdao Municipal Government in Hebei Province, the PRC to construct and operate two sewage treatment projects in Ma'anshan and Changli respectively with aggregate sewage treatment capacity of 100,000 tonnes on average per day. Both projects are in preliminary preparatory stage.

In addition, the Group is discussing with the Hanzhong Municipal Government in Shaanxi Province of the PRC on finalising the details of operation of the water supply project in Hanzhong City, and commencement of operation is scheduled in late-2006. Meanwhile, the Group is also discussing with the Xianyang Municipal Government in Shaanxi Province of the PRC on the operation terms of its water plant project.

In May this year, the Group entered into a cooperation agreement with the Zhuozhou Municipal Government in Hebei Province of the PRC, which granted the Group the exclusive right to finance, design, construct, own, manage, maintain and operate two sewage treatment plants (each processing 40,000 tonnes of sewage per day) in Zhuozhou City, Hebei Province, the PRC for 25 years.

Apart from kept accelerating the construction works of its existing environmental protection and water treatment projects, the Group also entered into a legally binding memorandum with an independent third party in May this year in relation to the acquisition of the entire equity interest in Shanghai You Lian Enterprise (Holdings) Limited ("You Lian Enterprise"). You Lian Enterprise runs Zuyuan First Sewage Treatment Plant in Pudong New District, Shanghai. The plant, a major sewage treatment facility in Shanghai, has a daily sewage treatment capacity of 1,700,000 tonnes. Upon completion of the acquisition, the Group's daily water treatment capacity by then will reach more than 2,000,000 tonnes and thus will be a paramount force in the PRC's environmental protection and water treatment industry.

The Group will continue to actively identify opportunities for merger and acquisition of quality water projects in the PRC in order to further consolidate the business development and scale of the Group's water treatment operation.

City Development and Investment Operation

The Group's Wang Guo Commercial Plaza in Interchina Mall (Phase One), a mega-scale luxurious residential and commercial complex in Changsha, is near completion. It is expected that completion will take place before mid-2006. However, the Group has already commenced promotion of Wang Guo Commercial Plaza and reached preliminary intent of cooperation with a number of well-known entertainment and catering management companies in Hong Kong, Taiwan and Shanghai. Certain portion of the Plaza is reserved by the Group for its own retail business operation. As such, it is expected that the Plaza will be developed into a commercial complex featuring shopping, traveling, dining and entertainment. The other four hotel equities are under construction.

In September last year, the Group disposed of a piece of land situated at R-06, Changsha New Sports City, the PRC at a consideration of RMB69,451,000. The land transfer procedures have been completed and the disposal has been accounted for in the Period.

In February this year, the Group purchased four pieces of land with an aggregate area of 378.53 hectares in the New Industrial Park of the Xian Hi-tech Industrial Zone (高新技術產業開發區新型工業園), the PRC (the "Land"). The Group plans to develop the Land into another Interchina Mall, and to introduce a market-oriented operation mode for the city development and investment to other provinces and cities in the PRC, developing a chain operation.

In addition, the Group is discussing with the Hanzhong Municipal Government in Shaanxi Province of the PRC on the work plan of the construction and development projects of urban ancillary facilities and infrastructure in the Hanzhong Economic Development Zone (North District), Shaanxi Province, the PRC. The project is currently in preliminary preparatory stage.

Leveraging on the city development and investment project in Changsha, the Group will focus on the current city development and investment projects in Xian and Hanzhong. The Group will also continue to identify and explore urban and city construction projects in other provinces with development potential, so as to yield higher return for our shareholders.

Property Investment Operation

During the Period, the Group's rental income amounted to HK\$2,186,000 (2004: HK\$9,804,000), representing a decrease of 77.7% compared with the corresponding period of last year which is mainly due to the Group's disposal of 60% controlling interest in Money Capture Investments Limited ("Money Capture") in April this year, resulting in indirect disposal of the interest of the investment property held by Money Capture in Shanghai, the PRC.



Securities and Financial Operation

The Group's securities and future operation generated commission and interest income from margin clients amounting to HK\$3,301,000 (2004: HK\$8,169,000). Having continuously strengthened internal control over the borrowings to margin clients during the Period, especially in reducing the proportion of borrowings for non-index constituent stocks, the relevant commission and interest income from margin clients decreased by 59.59% compared with the corresponding period last year.

Liquidity and Financial Resources

During the Period, the Group's financial resources mainly comprised cash inflow generated by its business operations and the proceed of disposal of subsidiaries as well as bank and other borrowings. Depending on the additional funding required for facilitating its current and future business development plans (including capital expenditure), the Group will make financial arrangements for the best interest of shareholders and at minimum financial cost.

In November 2005, the Group completed the issue to four subscribers of 3-year convertible notes bearing interest at 4.5% p.a. convertible into a total of 900,000,000 shares of HK\$ 0.1 each. The proceeds in the sum of HK\$90,000,000 were used as general working capital.

Contingent Liabilities

The Group provides a guarantee of RMB5,000,000 to Ma'anshan Municipal Government, the PRC, for the commitment to invest in the sewage treatment project in Ma'anshan, details as per announcement dated 21 May 2004.

At 30 September 2005, the Company had given unconditional guarantee to a bank to secure banking facilities available to a subsidiary to the extent of approximately HK\$29,300,000.

Pledge of Group's Assets

As at 30 September 2005, the Group's assets were pledged as security for the banking facilities granted to the Group, comprising investment property with a net book value of HK\$59,686,000 (31 March 2005: HK\$394,325,000) and property, plant and equipment with a net book value of approximately HK\$580,342,000 (31 March 2005: restated HK\$591,827,000) and interest in leasehold land with a net book value of HK\$82,544,000 (31 March 2005: restated HK\$81,342,000) and property under development for sale with a book value of HK\$130,685,000 (31 March 2005: restated HK\$110,036,000).

Employment and Remuneration Policy

As at 30 September 2005, the Group had a total of 281 employees in the PRC and Hong Kong. Staff costs for the Period amounted to HK\$16,418,000 (2004: HK\$15,562,000). To maintain the Group's competitiveness, salary adjustments and award of bonus for staff are subject to the performance of individual staff members. Apart from offering a retirement benefit scheme and a share options scheme for its staff, the Group also provides staff with various training and development programs.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2005, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Director	Capacity/ nature of interest	Number of ordinary shares held Long position	Approximate percentage of interest
Mr. Zhang Yang	Corporate Personal (<i>Note 1</i>)	103,495,000	2.21%

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

Saved as disclosed above, as at 30 September 2005, none of the Directors, or their associates had any personal, family, corporate or other beneficial interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTION SCHEME

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

During the Period, no option had been granted under either the Old Share Option Scheme or New Share Option Scheme by the Company.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests or short positions, being 5% or more of the Company's issued share capital.

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 Company's Audit Committee comprise members of the three independent non-executive directors of the Company, namely, Mr. Wong Hon Sum (Chairman of the Audit Committee), Mr. Wu Wai Chung, Michael and Ms. Ha Ping. The Audit Committee is responsible for reviewing with the management the accounting principles and practices adopted by the Group and discussing auditing, internal control and financial reporting matters, including the review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2005.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

For the six months ended 30 September 2005, the Company has complied with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, except for the following deviation:

Code Provision A4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. All Directors of the Company (including executive and non-executive Directors) were not appointed for any specific term. However, all Directors are subject to retirement by rotation at each annual general meeting in accordance with the Company's Articles of Association and shall be eligible for re-election. The Board of Directors shall ensure all Directors shall be subject to retirement by rotation at least once every three years so as to accomplished the same purpose as a specific term of appointment.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

By order of the Board

Zhang Yang

Chairman

Hong Kong, 20 December 2005