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# Interim Report 2006

Stock Code: 202



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

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## **CORPORATE INFORMATION**

### **BOARD OF DIRECTORS**

#### **Executive Directors**

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

#### **Independent Non-executive Directors**

Mr. Wong Hon Sum  
Ms. Ha Ping  
Dr. Tang Tin Sek

### **AUDIT COMMITTEE**

Mr. Wong Hon Sum (Chairman)  
Ms. Ha Ping  
Dr. Tang Tin Sek

### **REMUNERATION COMMITTEE**

Mr. Wong Hon Sum (Chairman)  
Mr. Chan Wing Yuen, Hubert  
Ms. Ha Ping

### **CORPORATE GOVERNANCE COMMITTEE**

Mr. Wong Hon Sum (Chairman)  
Mr. Chan Wing Yuen, Hubert

### **PRINCIPAL BANKERS**

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

### **AUDITORS**

HLB Hodgson Impey Cheng  
Chartered Accountants  
Certified Public Accountants

### **COMPANY SECRETARY**

Mr. Lam Cheung Shing, Richard

### **SOLICITORS**

Preston Gates & Ellis

### **PRINCIPAL OFFICE IN HONG KONG**

Room 701, 7/F., Aon China Building  
29 Queen's Road Central  
Hong Kong

### **SHARE REGISTRARS**

Tengis Limited  
Level 25  
Three Pacific Place  
1 Queen's Road East  
Hong Kong

### **STOCK CODE**

0202



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 Interchina Holdings Company Limited (the “Company”) to review the interim financial report as set out on pages 4 to 23.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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 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.

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 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 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 2006.

#### **HLB Hodgson Impey Cheng**

*Chartered Accountants  
Certified Public Accountants*

Hong Kong, 15 December 2006

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 September	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited and restated)
Turnover	4	14,817	83,152
Cost of sales		(2,280)	(52,491)
Other operating income		858	294
Interest income		1,122	109
Staff costs		(14,027)	(16,418)
Amortisation and depreciation		(5,937)	(6,531)
Selling costs		(8,140)	(12,928)
Administrative costs		(18,066)	(24,594)
Loss from operations	5	(31,653)	(29,407)
Finance costs		(12,120)	(13,336)
Share of results of associates		4,663	(776)
Gain on disposal of subsidiaries	18	29,828	237
Loss before taxation		(9,282)	(43,282)
Taxation	6	(284)	(355)
Loss for the period		(9,566)	(43,637)
Attributable to:			
Equity holders of the Company		(8,985)	(42,530)
Minority interests		(581)	(1,107)
		(9,566)	(43,637)
Loss per share for loss attributable to the equity holders of the Company			
Basic	7	(0.16) cents	(0.91) cents
Diluted	7	N/A	N/A

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

## CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	At 30 September 2006 HK\$'000 (Unaudited)	At 31 March 2006 HK\$'000 (Audited and restated)
<b>Non-current assets</b>			
Investment properties	9	60,694	60,694
Interests in leasehold land and land use rights	10	74,924	75,722
Property, plant and equipment	11	726,059	750,413
Interests in associates		91,748	83,448
Goodwill		2,846	2,846
Other non-current assets		2,413	2,466
		<b>958,684</b>	975,589
<b>Current assets</b>			
Properties under development for sale	12	296,320	277,974
Trade and other receivables and prepayments	13	119,098	140,835
Financial assets at fair value through profit or loss		164	172
Tax prepaid		365	649
Bank balances – trust and segregated accounts		3,694	5,277
Cash and cash equivalents		21,122	16,894
		<b>440,763</b>	441,801
<b>Current liabilities</b>			
Trade and other payables and deposits received	14	259,335	299,530
Amount due to a related company	15	7,616	450
Bank borrowings, secured – due within one year	16	155,544	155,402
Other borrowings, secured – due within one year	16	66,984	65,203
Other borrowings, unsecured – due within one year	16	40,000	–
Obligations under finance leases-due within one year		67	67
		<b>529,546</b>	520,652
<b>Net current liabilities</b>		<b>(88,783)</b>	(78,851)
<b>Total assets less current liabilities</b>		<b>869,901</b>	896,738
<b>Equity</b>			
Share capital	17	558,492	558,492
Share premium and reserves		119,814	128,799
Equity attributable to equity holders of the Company		678,306	687,291
Minority interests		21,123	21,704
		<b>699,429</b>	708,995
<b>Non-current liabilities</b>			
Bank borrowings, secured – due after one year	16	168,689	145,926
Other borrowings, unsecured – due after one year	16	–	40,000
Obligations under finance leases – due after one year		176	210
Deferred tax liabilities		1,607	1,607
		<b>170,472</b>	187,743
		<b>869,901</b>	896,738

Approved by the Board of Directors on 15 December 2006 and signed on its behalf by:

**Zhang Yang**  
Director

**Lam Cheung Shing, Richard**  
Director

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
*For the period ended 30 September 2006*

<b>The Group</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Special reserve*</b>	<b>Exchange reserve</b>	<b>Accumulated losses</b>	<b>Sub-total</b>	<b>Minority interests</b>	<b>Total equity</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (Note 1)	<i>HK\$'000</i> (Restated)	<i>HK\$'000</i> (Restated)	<i>HK\$'000</i> (Restated)	<i>HK\$'000</i> (Restated)	<i>HK\$'000</i> (Restated)
At 1 April 2005 as previously reported	468,492	282,459	571,996	1,040	(617,301)	706,686	-	706,686
Effect on adoption of new accounting policy								
- HKAS 1	-	-	-	-	-	-	23,705	23,705
- HK(SIC)-Int 21	-	-	-	-	(1,190)	(1,190)	-	(1,190)
- HKAS 17	-	-	-	-	(12,086)	(12,086)	(1,222)	(13,308)
As restated	468,492	282,459	571,996	1,040	(630,577)	693,410	22,483	715,893
Exchange differences on translation of overseas subsidiaries not recognised in the condensed income statement (restated)	-	-	-	13,419	-	13,419	-	13,419
Net loss for the period	-	-	-	-	(42,530)	(42,530)	(1,107)	(43,637)
At 30 September 2005	468,492	282,459	571,996	14,459	(673,107)	664,299	21,376	685,675
At 1 April 2006	558,492	282,741	571,996	12,951	(738,889)	687,291	21,704	708,995
Net loss for the period	-	-	-	-	(8,985)	(8,985)	(581)	(9,566)
<b>At 30 September 2006</b>	<b>558,492</b>	<b>282,741</b>	<b>571,996</b>	<b>12,951</b>	<b>(747,874)</b>	<b>678,306</b>	<b>21,123</b>	<b>699,429</b>

\* Note:

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

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30 September 2006

	For the six months ended 30 September	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited and restated)
Net cash (used in)/generated from operating activities	(47,746)	8,009
Net cash inflow from investing activities	39,370	11,593
Net cash inflow/(outflow) from financing activities	12,604	(57,628)
Increase/(decrease) in cash and cash equivalents	4,228	(38,026)
Cash and cash equivalents at beginning of period	16,894	55,737
Effect of foreign exchange rate change	–	13,419
Cash and cash equivalents at end of period	21,122	31,130
<b>Analysis of the balances of cash and cash equivalents:</b>		
Cash and bank balances	24,816	40,856
Less: Bank balances – trust and segregated accounts	(3,694)	(9,726)
	21,122	31,130

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 30 September 2006

### 1. CORPORATE INFORMATION

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is Room 701, 7/F., Aon China Building, 29 Queen's Road Central, Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in environmental protection and water treatment operation, city development and investment operation, property investment operation and securities and financial operation.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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.

The measurement basis used in the preparation of these unaudited condensed consolidated financial statements is historical cost as modified for the revaluation of certain financial assets and financial liabilities at fair value through profit or loss, investment properties which are carried at fair value.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2006. 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 2006 with addition for the following amendments to standards and interpretations which are relevant to the Group's operation and are mandatory for financial period beginning on or after 1 April 2006:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4	Financial Guarantee Contracts
HKFRS 1	First-time Adoption of International Financial Reporting Standards – Amendment relating to HKFRS 6
HKFRS 6	Exploration for and Evaluation of Mineral Resources

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

HKFRS – Int 4	Determining whether an Arrangement contains a Lease
HKFRS – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

These amendments to standards and interpretations had no material effect on the Group's accounting policies.

The Group has not early applied the following new standards or amendments that have been issued but are not yet effective.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The directors of the Company anticipate that the application of these standards or amendments will have no material impact on the financial statements of the Group.

## 3. RECLASSIFICATION OF 2005 INTERIM COMPARATIVES

Following publication of the 2005 interim report, the Group kept under review the presentation of items in accordance with HKFRSs having regard to subsequent interpretation and emerging consensus on the restatement adjustment related to the re-classification of leasehold land and its respective amortisation.

As a result, the Group changed the presentation of certain items in the 2006 annual report from that adopted as at 30 September 2005.

Accordingly, the presentation of the comparative information in respect of the six months ended 30 September 2005 which appears in these interim financial statements has been changed from the information published in the 2005 interim report.

4. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into four (2005: 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 on the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- (i) Environmental protection and water treatment operation – development of environmental protection and water treatment operation
- (ii) City development and investment operation – infrastructure construction for urbanisation operation and property development for sale
- (iii) Property investment operation – leasing of rental property
- (iv) Securities and financial operation – provision of financial services

Segment information about these businesses for the six months ended 30 September 2006 and 2005 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	Consolidated total HK\$'000
<b>2006</b>						
<b>TURNOVER</b>						
External sales	12,036	-	1,101	1,680	-	14,817
Inter-segment sales	-	-	426	-	(426)	-
	<b>12,036</b>	<b>-</b>	<b>1,527</b>	<b>1,680</b>	<b>(426)</b>	<b>14,817</b>
<b>SEGMENT RESULTS</b>	<b>323</b>	<b>(18,374)</b>	<b>(460)</b>	<b>(1,149)</b>		<b>(19,660)</b>
Interest income and unallocated gains						1,122
Unallocated corporate expenses						(13,115)
Loss from operations						<b>(31,653)</b>

#### 4. SEGMENT INFORMATION (Continued)

##### Business segments (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	Consolidated total HK\$'000
<b>2005</b>						
<b>TURNOVER</b>						
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
<b>SEGMENT RESULTS</b>	(2,146)	(6,649)	1,173	(1,381)		(9,003)
Interest income and unallocated gains						109
Unallocated corporate expenses						(20,513)
Loss from operations						(29,407)

##### 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:

	Hong Kong		The PRC		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	1,950	3,481	12,867	79,671	14,817	83,152
Segment results	(1,620)	(2,958)	(18,040)	(6,045)	(19,660)	(9,003)
Interest income and unallocated gain					1,122	109
Unallocated corporate expenses					(13,115)	(20,513)
Loss from operations					(31,653)	(29,407)

5. LOSS FROM OPERATIONS

	For the six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Loss from operations has been arrived at after charging/(crediting):		
Depreciation		
– Owned assets	5,087	5,682
– Assets held under finance leases	52	52
Amortisation of leasehold land and land use rights	798	797
	5,937	6,531
Gross rents from investment properties	(1,101)	(2,186)
Less: Outgoings	–	327
	(1,101)	(1,859)
Auditors' remuneration	581	312
Operating lease rentals in respect of premises	2,201	2,704
Net foreign exchange loss	57	3,959

6. TAXATION

	For the six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Current tax:		
– Hong Kong	284	355

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits of certain subsidiaries in Hong Kong for the period. Taxation in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

At 30 September 2006, the Group had unused estimated tax losses of approximately HK\$471,622,000 (31 March 2006: HK\$462,340,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

## 7. LOSS PER SHARE

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

	For the six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Loss attributable to ordinary equity holders for the purpose of basic loss per share	8,985	42,530

  

	At 30 September	
Number of shares	2006	2005
Weighted average number of ordinary shares for the purpose of basic loss per share	5,584,923,632	4,684,923,632

No diluted loss per share is presented as there is no securities, debentures, derivatives or other financial instruments of the Company existed which have dilutive effect during the period.

## 8. INTERIM DIVIDEND

The board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 September 2006 (2005: Nil).

## 9. INVESTMENT PROPERTIES

Investment properties with the carrying amount of approximately HK\$60,694,000 (31 March 2006: HK\$60,694,000) have been pledged to secure banking facilities granted to the Group.

10. INTERESTS IN LEASEHOLD LAND AND LAND USE RIGHTS

HK\$'000

**Carrying amount**

At 1 April 2006	75,722
Amortisation	(798)

**At 30 September 2006** 74,924

Interests in leasehold land and land use rights with an aggregate net book value of approximately HK\$74,924,000 (31 March 2006: HK\$75,722,000) were pledged to secure banking facilities granted to the Group.

11. PROPERTY, PLANT AND EQUIPMENT

HK\$'000

**Net book value**

At 1 April 2006	750,413
Additions	8,757
Disposals of subsidiaries	(256)
Disposal	(312)
Depreciation	(5,139)
Adjustment upon finalisation of construction contract	(27,404)

**At 30 September 2006** 726,059

As a result of disposal of 100% interests in 2 wholly-owned subsidiaries during the period, the property, plant and equipment reduced by HK\$256,000.

As at 30 September 2006, the net book value of property, plant and equipment comprised of the followings:

HK\$'000

**Net book value**

Property under development	504,714
Construction in progress	115,000
Leasehold improvement	639
Furniture and fixtures	3,054
Equipment, motor vehicles and others	6,718
Plant and machinery	95,934

**726,059**

Certain of the Group's property, plant and machinery with a net book value of approximately HK\$566,647,000 (31 March 2006: HK\$591,355,000) were pledged to secure banking facilities and other borrowings granted to the Group.

## 12. PROPERTIES UNDER DEVELOPMENT FOR SALE

	<i>HK\$'000</i>
<b>Net book value</b>	
At 1 April 2006	277,974
Additions	18,346
<b>At 30 September 2006</b>	<b>296,320</b>

At 30 September 2006, certain of the Group's properties under development for sale with a book value of approximately HK\$163,165,000 (31 March 2006: HK\$148,302,000) were pledged to secure banking facilities to the Group.

## 13. 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\$27,437,000 (31 March 2006: HK\$26,893,000) included in trade and other receivables and prepayments is as follows:

	<b>At 30 September 2006 HK\$'000</b>	At 31 March 2006 HK\$'000
Trade receivables:		
0 – 30 days	<b>9,699</b>	9,155
31 – 60 days	–	–
61 – 90 days	–	–
Over 90 days	<b>17,738</b>	17,738
	<b>27,437</b>	26,893
Margin clients accounts receivables	<b>1,451</b>	1,504
Clearing houses, brokers and dealers	<b>2,949</b>	961
Prepayments and deposits	<b>40,200</b>	49,826
Other receivables	<b>64,799</b>	79,389
	<b>136,836</b>	158,573
Less: provision for doubtful debt	<b>(17,738)</b>	(17,738)
	<b>119,098</b>	140,835

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.



#### 14. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

The aged analysis of trade payables of HK\$6,473,000 (31 March 2006: HK\$4,704,000) included in trade and other payables and deposits received is as follows:

	<b>At 30 September 2006 HK\$'000</b>	At 31 March 2006 HK\$'000
Trade payables:		
0 – 30 days	<b>6,473</b>	4,704
Accounts payable arising from the business of dealing in securities and equity options:		
Margin clients	<b>137</b>	8,043
Accounts payable to clients arising from the business of dealing in futures and options	<b>–</b>	1,432
Other payables and deposits received	<b>252,725</b>	285,351
	<b>259,335</b>	299,530

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\$33,114,000 (31 March 2006: HK\$56,300,000) and deposits received for the pre-sale of properties approximately HK\$91,688,000 (31 March 2006: HK\$95,818,000).

#### 15. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company 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.

## 16. BANK AND OTHER BORROWINGS

	At 30 September 2006 <i>HK\$'000</i>	At 31 March 2006 <i>HK\$'000</i>
Bank borrowings, secured	324,233	301,328
Other borrowings:		
secured	66,984	65,203
unsecured	40,000	40,000
Total other borrowings	106,984	105,203
Total borrowings	431,217	406,531
The maturity profile is as follows:		
On demand or repayable within one year:		
bank borrowings, secured	155,544	155,402
other borrowings, secured	66,984	65,203
other borrowings, unsecured	40,000	–
Portion classified as current liabilities	262,528	220,605
On demand or repayable in the second year:		
bank borrowings, secured	19,064	18,102
other borrowings, unsecured	–	40,000
	19,064	58,102
Bank borrowings, secured, repayable:		
in the third to fifth years, inclusive	77,800	59,531
after the fifth year	71,825	68,293
Portion classified as non-current liabilities	168,689	185,926
Total borrowings	431,217	406,531

The other borrowings bear interest at rates ranging 5.5% to 7.2% as at 31 March 2006 and 30 September 2006 respectively.

All the bank borrowings are variable-rate borrowings, thus exposing the Group to interest rate risk. The effective interest rate on bank borrowings denominated in Hong Kong dollars is based on the Prime Rate less a specified margin. The effective interest rates on bank borrowings denominated in Renminbi range from 4.5% to 6.6% and 4.6% to 8.2% as at 31 March 2006 and 30 September 2006 respectively.

17. SHARE CAPITAL

	Number of shares		Nominal value	
	At 30 September 2006	At 31 March 2006	At 30 September 2006 HK\$'000	At 31 March 2006 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:	10,000,000,000	10,000,000,000	1,000,000	1,000,000
Issued and fully paid:	5,584,923,632	5,584,923,632	558,492	558,492

18. DISPOSAL OF SUBSIDIARIES

The net assets of the wholly owned subsidiaries at the date of disposal were as follows:

	For the six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Investment properties	–	334,906
Property, plant and equipment	256	6,016
Inventories	–	604
Trade receivables	–	9,742
Deposits, prepayments and other receivables	22,906	1,180
Cash and bank balances	26	5,767
Other creditors and accruals	(4,662)	(18,783)
Amount due to ultimate holding company	442	(5,973)
Amount due to an associate	(696)	–
Bank loans	–	(105,521)
Net assets disposed of	18,272	227,938
Less: remaining share of net assets held by the Group as associated companies	–	(91,175)
Gain on disposal	18,272 29,828	136,763 237
Total consideration	48,100	137,000
Less: Cash and bank balances of disposed subsidiaries	(26)	(5,767)
Net cash flow from disposals of subsidiaries	48,074	131,233
Satisfied by:		
Cash	48,100	137,000

## 18. DISPOSAL OF SUBSIDIARIES *(Continued)*

On 26 May 2006, China Field Investments Limited (a wholly-owned subsidiary of the Company) entered into a disposal agreement in relation to the disposal of the entire issued share capital of New Experience Investments Limited and the shareholder's loan amounting to HK\$20,750,000 due and owing by New Experience Investments Limited to China Field Investments Limited at an aggregate consideration of HK\$48,100,000, which shall be satisfied by the vendor in cash.

## 19. CONTINGENT LIABILITIES

At 30 September 2006, 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.

## 20. CAPITAL COMMITMENTS

	<b>At 30 September 2006 HK\$'000</b>	At 31 March 2006 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	<b>282,281</b>	512,054

## 21. COMMITMENTS

- (a) At 30 September 2006, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of the Group's guarantee lease arrangement for the pre-sale properties. The lease commitment of the Group will be as follows:

	<b>At 30 September 2006 HK\$'000</b>	At 31 March 2006 HK\$'000
Within one year	<b>11,951</b>	13,097
In the second to fifth year inclusive	<b>39,666</b>	44,124
After five years	<b>27,071</b>	31,008
	<b>78,688</b>	88,229

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

- (b) At 30 September 2006, 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 100% of the original property sales price on the option exercise date. The exercise date of the options is six years after the completion date of the sale and purchase agreements of the properties with the total contract sum of approximately HK\$115,077,000 (31 March 2006: HK\$127,460,000).

## 22. OPERATING LEASE COMMITMENTS

### The Group as lessee

At 30 September 2006, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	<b>At 30 September 2006 HK\$'000</b>	At 31 March 2006 HK\$'000
Within one year	<b>2,825</b>	3,479
In the second to fifth year inclusive	<b>6,289</b>	5,565
After five years	<b>8,043</b>	8,043
	<b>17,157</b>	17,087

## 22. OPERATING LEASE COMMITMENTS *(Continued)*

### The Group as lessor

At 30 September 2006, the Group had contracted with tenants for the following future minimum lease payments:

	<b>At 30 September 2006 HK\$'000</b>	At 31 March 2006 HK\$'000
Within one year	1,492	1,921
In the second to fifth year inclusive	52	315
	<b>1,544</b>	2,236

## 23. MATERIAL RELATED PARTY TRANSACTIONS

- (a) During the period, the Group paid interest amounting to HK\$90,000 (2005: HK\$70,000) to a director of the Company's subsidiary.
- (b) During the period, the Group paid interest amounting to HK\$380,000 (2005: HK\$2,662,000) to a related company of the Company.
- (c) During the year, the Group received rental income approximately HK\$270,000 (2005: HK\$180,000) from a director of the Company.
- (d) Key management personnel compensation

Compensation for key management personnel, including amount paid to the Company's directors and the senior executives is as follows:–

	<b>For the six months ended 30 September</b>	
	<b>2006 HK\$'000</b>	2005 HK\$'000
Salaries and other short-term benefits	4,995	5,138
Pension scheme contributions	182	132
	<b>5,177</b>	5,270

## 24. SUBSEQUENT EVENTS

On 19 October 2006, the Company entered into a framework agreement (the “Framework Agreement”) with Shanghai Lam Hong (Group) Company Limited (上海臨江控股(集團)有限公司) for the sale and purchase of the entire interest in Burlingame (Shanghai) Investment Limited (“BSI”), the entire interest in Interchina (Changsha) Investments And Management Company Limited (“ICIM”) (國中長沙體育新城投資項目管理有限公司), 38.9% interest in Changsha Interchina Star City Company Limited (“CIC”) (長沙國中星城置業有限公司), a non-interest bearing shareholder loan owing by BSI to Burlingame International Company Limited (“BIC”) (the “BIC Shareholder Loan”), a non-interest bearing shareholder loan owing by BSI to Chinese Asial Investments Limited (“CAI”) (the “CAI Shareholder Loan”) and a non-interest bearing shareholder loan owing by ICIM to the Company (the “ICIM Shareholder Loan”) at a total consideration of HK\$617,870,000. Pursuant to the Framework Agreement, BIC, CAI and Mr. Zhang entered into an agreement on 19 October 2006 regarding the sale and purchase of the entire interest in BSI, the BIC Shareholder Loan and the CAI Shareholder Loan. Pursuant to the Framework Agreement, the Company and Tangible Wealth Investments Limited entered into an agreement on 19 October 2006 regarding the sale and purchase of the entire interest in ICIM, 38.9% interest in CIC and the ICIM Shareholder Loan. Details of the transactions are set out in the Company’s announcement dated 20 October 2006.

The Disposal Group principally engaged in property investment and development in the PRC. BSI is mainly holding the leasehold land under resettlement of original inhabitants in progress of a site area of approximately 9,000 square meters and situated in Street Square 81, Dongdaming Road, Hongkou District, Shanghai, PRC. ICIM does not conduct any business activity or hold any asset except the holding of the 61.1% equity interest in the capital of CIC. CIC is mainly holding the leasehold land of a site area of approximately 215,000 square meters and situated in R-11 West, R-11 East and R-18 South, Changsha new Sport City, Yuhua District, Changsha, PRC, which construction work has not commenced, and the property under construction of an gross floor area of approximately 140,000 square meters upon completion of the construction work and situated in Interchina Mall, Interchina Mall – Hotel Blocks 1, 2, 3 and 4, Yuhua District, Changsha, PRC, which construction work commenced in April 2004.

## 24. SUBSEQUENT EVENTS *(Continued)*

The revenues, expense and results, assets and liabilities, and other information in related to the Disposal Group are set out as follows:

### (a) Revenues, expense and results

	For the six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Turnover	-	66,780
Cost of sales	-	(50,074)
Other operating income	-	8
Other operating expenses	(12,695)	(7,821)
Finance costs	(4,024)	(3,886)
Taxation	-	-
Profit/(loss) for the year	(16,719)	5,007

### (b) Assets/liabilities

	At 30 September 2006 HK\$'000	At 31 March 2006 HK\$'000
Aggregate assets	894,178	876,882
Aggregate liabilities	724,702	690,752

### (c) Other information

	For the six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Depreciation and amortization	1,115	1,425
Capital expenditure	4,990	2,227



## INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2006 (2005: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

The Group's turnover for the six months ended 30 September 2006 (the "Period") amounted to HK\$14,817,000 (2005: HK\$83,152,000), representing a decrease of 82.18% as compared with the corresponding period last year. Loss attributable to shareholders was HK\$8,985,000 (2005: HK\$42,530,000). 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 during the Period, no revenue had been recorded from them yet. At the same time, the Group had no income from the sales of land during the Period. Excluding the Group's turnover of HK\$66,779,000 generated from the sales of land in the corresponding period last year, the Group's turnover during the Period decreased 9.50% as compared with the corresponding period last year.

As at 30 September 2006, total assets and net assets of the Group valued at HK\$1,399,447,000 (31 March 2006: restated HK\$1,417,390,000) and HK\$678,306,000 (31 March 2006: HK\$687,291,000) respectively, representing a decrease of 1.27% and 1.31% respectively as compared with those as at 31 March 2006.

As at 30 September 2006, the Group's cash on hand and deposits in bank (including segregated and trust account) totaled approximately HK\$24,816,000 (31 March 2006: HK\$22,171,000), representing an increase of 11.93% against the balance as at 31 March 2006. Approximately 19.05% of the deposits was denominated in Hong Kong dollars while the remainder in Renminbi. The Group's net current liabilities amounted to HK\$88,783,000 (31 March 2006: HK\$78,851,000). The Group's outstanding bank and other borrowings were HK\$431,217,000 (31 March 2006: HK\$406,531,000) which mainly comprised bank and other borrowings of approximately HK\$262,528,000 repayable within a year, and HK\$168,689,000 of bank and other borrowings repayable after one year. The gearing ratio was 31.36% (total borrowings/total assets).

As at 30 September 2006, approximately 16.66% 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 fixed or floating rate basis of which approximately 90.72% were secured by the Group's investment property, property, plant and equipment, interests in leasehold land and land use rights 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

During the Period, the Group continued to accelerate the pace in the development of existing project according to the schedule of water treatment operation projects contracted for. On the basis of cost effectiveness and feasibility of individual water supply and sewage treatment projects, our resources were focused on the development of water supply and sewage treatment projects with potential. The Group will also continue to regard environmental protection and water treatment operation as its core businesses for continuous development and expansion.

Since the Group's sewage treatment plant located in the Haigang District of Qinhuangdao in Hebei Province commenced operation in 2004, the daily average processing capacity was increased from 100,000 tonnes to 120,000 tonnes, bringing a turnover of RMB12,518,000 (2005: RMB11,320,000) to the Group's environmental protection and water treatment operation during the Period. When the Group obtains the right of price determination with respect to the water processed by the sewage treatment plant next year, the Group will positively revise its charges flexibly according to the price index. It is expected that this will bring more revenue to the Group.

Regarding the two sewage treatment projects in Ma'anshan and Changli, the aggregate sewage treatment capacity was 100,000 tonnes on average per day. Both projects are in construction stage. It is expected to be completed by the first quarter of next year, and will commence operation officially in the middle of next year.

Further, the Group is still discussing with the Hanzhong Municipal Government about details on the operation of the water supply project in Hanzhong City ("Operation Details"). It is expected that the process relating to the Operation Details will be finalized and operation will commence next year, supplying approximately 100,000 tonnes of water to Hanzhong City per day.

It is expected that upon the commencement of operations of both Ma'anshan and Changli sewage treatment plants as well as the water supply plant in Hanzhong City in next year, the amount of water processed daily by the Group's environmental protection and water treatment operation will additionally increase by 200,000 tonnes to 320,000 tonnes, and the revenue from the Group's environmental protection and water treatment operation will substantially increase. Environmental protection and water treatment operation will be a major and stable source of revenue of the Group.

In addition to the existing environmental protection and water treatment project, the Group is negotiating with the Hanzhong Municipal Government over the acquisition of a water supply Company in Hanzhong City (the "Acquisition"). The water supply Company is currently the only one water supply Company in Hanzhong City. The Group has reached consensus with the Hanzhong Municipal Government on the Acquisition which is expected to be completed by the middle of next year. The Group will continue to seek opportunities for merger and acquisition of quality water projects in the PRC and further invest in environmental protection and water treatment operation in order to further expand the development scale of the Group's environmental protection and water treatment operation.

## City Development and Investment Operation

The construction of the Interchina Mall, the Group's mega-scale luxurious residential and commercial complex in Changsha, was comprised of three phases. The total gross floor area of Wang Guo Commercial Plaza and four hotel equities in Interchina Mall (Phase One) is about 140,000 square meters. Civil engineering construction works were completed. The total undeveloped site area is about 215,000 square meters.

The Group disposed its entire interests in and shareholder's loan due from its wholly-owned subsidiary, which held a property development project located in Xian, at a consideration of HK\$48,100,000 in May this year. A profit of approximately HK\$29,828,000 was recorded by the Group.

The site area of another property development project locating at HongKou District, Shanghai is about 9,000 square meters. and will be used for commercial and financial purposes. It is currently in a stage of preliminary preparatory work and resettlement of original inhabitants.

With a series of macro-economic control measures launched by the State on real estate developers, which increased uncertainties and unfavourable factors to the property development market in the PRC, the Group's property development operation in the PRC was affected to a certain extent. Competition within the property development market in the PRC became more intense, which cast more uncertainties to securing favourable returns. As a result, the Group considered that it an appropriate timing to dispose its property development projects in the PRC, and in October this year, the Group disposed its entire interests in and shareholders' loan due from three wholly-owned subsidiaries, which held property development projects located in Changsha and Shanghai, at a total consideration of HK\$617,870,000 ("Disposal"). It is expected to record a profit of approximately HK\$98,693,000, and a Special General Meeting of the Company regarding the approval of the Disposal is being arranged currently. Details were set out in the announcement dated 20 October 2006.

Furthermore, during the Period, the Group has been uninterruptedly collecting the outstanding amount ("the Outstanding Amount") in respect to the disposal of the land located in Changsha, China last year (details as set out in 2006 annual report). However it still remained outstanding as at to date. Hence, the Group has taken legal proceeding to the People's Court at Changsha, hoping to collect the Outstanding Amount as soon as possible.

## Property Investment Operation

During the Period, the Group's rental income was mainly generated from investment properties located in Beijing, the PRC and Hong Kong. During the Period, the Group's rental income amounted to HK\$1,101,000 (2005: HK\$2,186,000), representing a decrease of 49.63% compared with the corresponding period of last year which was mainly due to the disposal of the Group's 60% controlling interest in a wholly-owned subsidiary, which held interests in an investment property located in Shanghai, the PRC last year. At 30 September 2006, the Group's interests in associates was HK\$91,748,000 (31 March 2006: HK\$83,448,000), which was attributable to the holding of an investment property in Shanghai, the PRC, and contributed a profit of HK\$4,663,000 to the Group during the Period.

## Securities and Financial Operation

The Group's securities and future operation generated commission and interest income from margin clients amounting to HK\$1,680,000 (2005: HK\$3,301,000). Having continuously imposing internal control over the borrowings to margin clients during the Period, especially in reducing the proportion of borrowings for non-index constituent stocks, and the keen competition within the securities and futures industry, the relevant commission and interest income from margin clients decreased by 49.11% 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 proceeds 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 the shareholders of the Group and at minimum financial cost.

The Group disposed its entire interests in and shareholder's loan due from its wholly-owned subsidiary, which held a property development project located in Xian, at a consideration of HK\$48,100,000 in May this year. The proceeds were used as general working capital of the Group and the working capital of city development and investment operation, and environmental protection and water treatment operation.

In October this year, the Group also disposed its entire interests in and shareholders' loan due from three wholly-owned subsidiaries, which held property development projects located in Changsha and Shanghai, at a total consideration of HK\$617,870,000. Approximately HK\$150,000,000 of the proceeds were used as working capital of the Group's environmental protection and water treatment operation, approximately HK\$300,000,000 were used as the working capital of the Group's city development and investment operation and property investment operation, while the rest will be used as general working capital of the Group.

It is expected that upon the completion of the above disposal, the working capital of the Group will increase substantially, which is beneficial to the future business development of the Group.

## Contingent Liabilities

As at 30 September 2006, 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.

## Pledge of Group's Assets

As at 30 September 2006, the Group's assets were pledged as security for the banking facilities and other borrowings granted to the Group, comprising investment properties with a net book value of HK\$60,694,000 (31 March 2006: HK\$60,694,000) and property, plant and equipment with a net book value of HK\$566,647,000 (31 March 2006: HK\$591,355,000) and interests in leasehold land and land use rights with a net book value of HK\$74,924,000 (31 March 2006: HK\$75,722,000) and property under development for sale with a net book value of HK\$163,165,000 (31 March 2006: HK\$148,302,000).

## Employment and Remuneration Policy

As at 30 September 2006, the Group had a total of 298 employees in the PRC and Hong Kong. Staff costs for the Period amounted to HK\$14,027,000 (2005: HK\$16,418,000). 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 for its staff, the Group also provides staff with various training and development programs.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2006, 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 ("Model Code") were as follows:

### Number of shares held (Long position)

Director	Personal interest	Company interest	Percentage
Mr. Zhang Yang	–	103,495,000 ( <i>Note 1</i> )	1.85%

*Note:*

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

Saved as disclosed above, as at 30 September 2006, none of the Directors, or their associates had any personal, family, corporate or other beneficial interests or short positions in the shares, underlying shares and debentures of the Company or 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 2006, the Company had not been notified of any interests or short positions held, being 5% or more of the Company’s issued share capital, as recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

## **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.

## **COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Listing Rules, throughout the six months ended 30 September 2006, with deviations from the code provision A.4.1 and B.1.1 of the CG Code as summarized below:

The code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Currently, all directors of the Company (including executive and non-executive directors) are not appointed for any specific term. 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 shall ensure that all directors shall be subject to retirement by rotation at least once every three years so as to accomplish the same purpose as a specific term of appointment.

The code provision B.1.1 of the CG Code stipulates that a majority of the members of the remuneration committee should be independent non-executive directors. As Mr. Lee Peng Fei, Allen, J.P. resigned as the member and Chairman of the Remuneration Committee on 1 March 2006, the Remuneration Committee consisted only one independent non-executive director and one non-executive director. On 19 June 2006, the Board appointed Mr. Wong Hon Sum, an independent non-executive director of the Company, as a member and also a Chairman of the Remuneration Committee so as to comply with the code provision B.1.1 of the CG Code.

## DIRECTORS' SECURITIES TRANSACTION

The Company has adopted the Model Code. Having made specific enquiry of all directors, all directors of the Company confirmed they have complied with the Model Code.

By order of the Board

**Zhang Yang**

*Chairman*