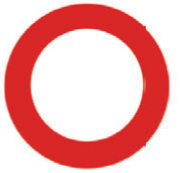
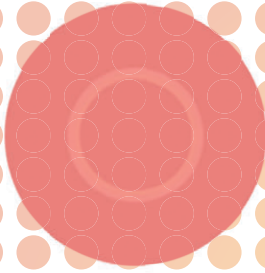
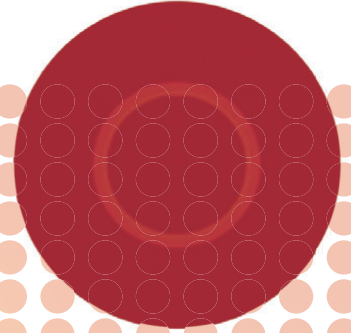




國|中|控|股|有|限|公|司  
INTERCHINA HOLDINGS CO LTD

Stock Code: 202



INTERIM REPORT  
**2011**



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Lam Cheung Shing, Richard (*Deputy Chairman*)

Mr. Zhu Yongjun (*Deputy Chairman*)

Mr. Wong Hin Shek (*Appointed on 4 October 2011*)

Mr. Zhang Yang (*Resigned on 10 October 2011*)

Mr. Zhang Chen (*Resigned on 4 October 2011*)

### Independent Non-executive Directors

Mr. Ho Yiu Yue, Louis

Mr. Ko Ming Tung, Edward

Mr. Chi Chi Hung, Kenneth (*Appointed on 4 October 2011*)

Ms. Ha Ping (*Resigned on 4 October 2011*)

Mr. Fu Tao (*Resigned on 4 October 2011*)

## AUDIT COMMITTEE

Mr. Ho Yiu Yue, Louis (*Chairman*)

Mr. Ko Ming Tung, Edward

Mr. Chi Chi Hung, Kenneth (*Appointed on 4 October 2011*)

Ms. Ha Ping (*Resigned on 4 October 2011*)

Mr. Fu Tao (*Resigned on 4 October 2011*)

## REMUNERATION COMMITTEE

Mr. Ho Yiu Yue, Louis (*Chairman*)

Mr. Chi Chi Hung, Kenneth (*Appointed on 4 October 2011*)

Mr. Lam Cheung Shing, Richard

Ms. Ha Ping (*Resigned on 4 October 2011*)

## COMPANY SECRETARY

Mr. Lau Chi Lok

## STOCK CODE

202

## WEBSITE

[www.interchina.com.hk](http://www.interchina.com.hk)

## PRINCIPAL OFFICE IN HONG KONG

Room 701, 7/F., Aon China Building

29 Queen's Road Central

Hong Kong

## AUDITORS

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

31/F., Gloucester Tower

The Landmark

11 Pedder Street, Central

Hong Kong

## SOLICITOR

Kirkpatrick & Lockhart Gates

44/F., Edinburgh Tower

The Landmark

15 Queen's Road Central

Hong Kong

## SHARE REGISTRAR

Tricor Tengis Limited

26/F., Tesbury Centre

28 Queen's Road East

Hong Kong

## PRINCIPAL BANKERS

The Bank of East Asia Limited

Standard Chartered Bank Limited

Fubon Bank (Hong Kong) Limited



**Hodgson Impey Cheng**

Chartered Accountants  
Certified Public Accountants

31/F., Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

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

*(incorporated in Hong Kong with limited liability)*

### **INTRODUCTION**

We have reviewed the interim financial information set out on pages 4 to 26, which comprises the condensed consolidated statement of financial position of Interchina Holdings Company Limited (the “Company”) and its subsidiaries as of 30 September 2011 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial statements based on our review, 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.

### **SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**HLB Hodgson Impey Cheng**  
Chartered Accountants  
Certified Public Accountants

Hong Kong, 29 November 2011

# CONDENSED CONSOLIDATED INCOME STATEMENT

|  | Notes | For the six months ended<br>30 September |                                 |
|--|-------|--|---------------------------------|
|  |       | 2011<br>HK\$'000<br>(Unaudited)          | 2010<br>HK\$'000<br>(Unaudited) |
| Turnover   | 3     | 363,417                                  | 124,538                         |
| Cost of sales  |       | (236,644)                                | (48,407)                        |
| Other income and gain, net   | 4     | 27,424                                   | 29,185                          |
| Fair value change in investment properties   |       | 21,361                                   | 15,650                          |
| Staff costs  |       | (34,474)                                 | (23,113)                        |
| Amortisation and depreciation  |       | (22,384)                                 | (15,060)                        |
| Administrative costs   |       | (55,400)                                 | (35,535)                        |
| Share-based payment expenses   |       | —  | (91,064)                        |
| Loss arising on change in fair value of financial assets<br>at fair value through profit or loss |       | (94,088)                                 | (28,506)                        |
| <b>Loss from operations</b>  | 5     | <b>(30,788)</b>                          | (72,312)                        |
| Finance costs  | 6     | (82,974)                                 | (33,273)                        |
| Share of result of an associate  |       | (49)                                     | —                               |
| <b>Loss before taxation</b>  |       | <b>(113,811)</b>                         | (105,585)                       |
| Taxation   | 7     | (11,113)                                 | (13,587)                        |
| <b>Loss for the period</b>   |       | <b>(124,924)</b>                         | (119,172)                       |
| <b>Attributable to:</b>  |       |  |                                 |
| Owners of the Company  |       | (142,519)                                | (122,987)                       |
| Non-controlling interests  |       | 17,595                                   | 3,815                           |
|  |       | (124,924)                                | (119,172)                       |
| <b>Loss per share for loss attributable to the owners of the Company</b>                         |       |  |                                 |
| — Basic and diluted  | 8     | (HK4.00 cents)                           | (HK4.62 cents)                  |

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

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

|  | For the six months ended |             |
|--|--------------------------|-------------|
|  | 30 September             |             |
|  | 2011                     | 2010        |
|  | HK\$'000                 | HK\$'000    |
|  | (Unaudited)              | (Unaudited) |
| <b>Loss for the period</b>   | <b>(124,924)</b>         | (119,172)   |
| <b>Other comprehensive income</b>  |                          |             |
| Exchange differences on translation of financial statements of overseas subsidiaries | 66,955                   | 34,576      |
| <b>Total comprehensive loss for the period</b>                                       | <b>(57,969)</b>          | (84,596)    |
| <b>Total comprehensive loss attributable to:</b>                                     |                          |             |
| Owners of the Company  | (75,564)                 | (88,411)    |
| Non-controlling interests  | 17,595                   | 3,815       |
|  | <b>(57,969)</b>          | (84,596)    |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|   | Notes | At<br>30 September<br>2011<br>HK\$'000<br>(Unaudited) | At<br>31 March<br>2011<br>HK\$'000<br>(Audited) |
|---|-------|---|---|
| <b>Non-current assets</b>                             |       |   |   |
| Investment properties                                 | 10    | 945,680   | 746,881   |
| Property, plant and equipment                         | 11    | 416,952   | 299,878   |
| Prepaid lease payments                                |       | 16,083  | 15,781  |
| Intangible assets                                     | 12    | 1,355,976   | 1,051,305                                       |
| Other financial assets                                | 13    | 497,468   | 483,996   |
| Goodwill  |       | 444,086   | 426,017   |
| Interest in an associate                              |       | 1,115   | 1,122   |
| Available-for-sale financial assets                   |       | 1,235   | 1,190   |
| Other non-current assets                              |       | 101,031   | 97,515  |
|   |       | <b>3,779,626</b>                                      | 3,123,685                                       |
| <b>Current assets</b>                                 |       |   |   |
| Inventories   |       | 9,321   | 6,511   |
| Trade and other receivables and prepayments           | 14    | 2,591,030   | 2,239,489                                       |
| Loan receivables                                      | 15    | 233,777   | 223,768   |
| Financial assets at fair value through profit or loss |       | 145,185   | 162,771   |
| Tax recoverable                                       |       | 76  | 76  |
| Bank balances — trust and segregated accounts         |       | 6,474   | 5,202   |
| Cash and cash equivalents                             |       | 392,138   | 1,072,985                                       |
|   |       | <b>3,378,001</b>                                      | 3,710,802                                       |
| <b>Total assets</b>                                   |       | <b>7,157,627</b>                                      | 6,834,487                                       |
| <b>Equity</b>   |       |   |   |
| Share capital   | 18    | 356,267   | 355,542   |
| Share premium and reserves                            |       | 3,036,384   | 3,104,884                                       |
| Equity attributable to owners of the Company          |       | 3,392,651   | 3,460,426                                       |
| Non-controlling interests                             |       | 864,905   | 831,602   |
| <b>Total equity</b>                                   |       | <b>4,257,556</b>                                      | 4,292,028                                       |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|  | Notes | At<br>30 September<br>2011<br>HK\$'000<br>(Unaudited) | At<br>31 March<br>2011<br>HK\$'000<br>(Audited) |
|--|-------|---|---|
| <b>Non-current liabilities</b>                 |       |   |   |
| Bank borrowings — due after one year           | 17    | 214,027   | 198,000   |
| Other borrowings — due after one year          | 17    | 216,049   | 822,976   |
| Deferred tax liabilities                       |       | 201,709   | 175,923   |
|  |       | <b>631,785</b>  | 1,196,899                                       |
| <b>Current liabilities</b>                     |       |   |   |
| Trade and other payables and deposits received | 16    | 577,449   | 444,414   |
| Tax payable                                    |       | 13,696  | 14,950  |
| Bank borrowings — due within one year          | 17    | 689,759   | 499,406   |
| Other borrowings — due within one year         | 17    | 987,382   | 386,790   |
|  |       | <b>2,268,286</b>                                      | 1,345,560                                       |
| <b>Total liabilities</b>                       |       | <b>2,900,071</b>                                      | 2,542,459                                       |
| <b>Total equity and liabilities</b>            |       | <b>7,157,627</b>                                      | 6,834,487                                       |
| <b>Net current assets</b>                      |       | <b>1,109,715</b>                                      | 2,365,242                                       |
| <b>Total assets less current liabilities</b>   |       | <b>4,889,341</b>                                      | 5,488,927                                       |

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 2011

## The Group

|   | Equity attributable to owners of the Company |               |                 |                     |               |                       |                  |                           |                           |                    |           |          | Non-controlling interests | Total equity |
|---|--|---------------|-----------------|---------------------|---------------|-----------------------|------------------|---------------------------|---------------------------|--------------------|-----------|----------|---------------------------|--------------|
|   | Share capital                                | Share premium | Special reserve | Contributed surplus | Other reserve | Share options reserve | Exchange reserve | Convertible notes reserve | Statutory surplus reserve | Accumulated losses | Sub-total |          |                           |              |
|   | HK\$'000                                     | HK\$'000      | HK\$'000        | HK\$'000            | HK\$'000      | HK\$'000              | HK\$'000         | HK\$'000                  | HK\$'000                  | HK\$'000           | HK\$'000  | HK\$'000 |                           |              |
| At 1 April 2011 (Audited)   | 355,542                                      | 1,338,944     | 571,996         | 1,342,477           | 289,004       | 67,369                | 285,813          | –                         | 13,122                    | (803,841)          | 3,460,426 | 831,602  | 4,292,028                 |              |
| Total comprehensive income/ (loss) for the period                           | –  | –             | –               | –                   | –             | –                     | 66,955           | –                         | –                         | (142,519)          | (75,564)  | 17,595   | (57,969)                  |              |
| Acquisition of additional interests in a subsidiary                         | –  | –             | –               | –                   | –             | –                     | –                | –                         | –                         | (2,640)            | (2,640)   | (14,040) | (16,680)                  |              |
| Reorganisation with Heilongjiang Interchina Water Treatment Company Limited | –  | –             | –               | –                   | 3,956         | –                     | –                | –                         | –                         | –                  | 3,956     | (3,956)  | –                         |              |
| Incorporation of a subsidiary   | –  | –             | –               | –                   | –             | –                     | –                | –                         | –                         | –                  | –         | 33,704   | 33,704                    |              |
| Exercise of share options   | 725  | 7,994         | –               | –                   | –             | (2,246)               | –                | –                         | –                         | –                  | 6,473     | –        | 6,473                     |              |
| Lapsed of share options   | –  | –             | –               | –                   | –             | (847)                 | –                | –                         | –                         | 847                | –         | –        | –                         |              |
| At 30 September 2011 (Unaudited)  | 356,267                                      | 1,346,938     | 571,996         | 1,342,477           | 292,960       | 64,276                | 352,768          | –                         | 13,122                    | (948,153)          | 3,392,651 | 864,905  | 4,257,556                 |              |

For the six months ended 30 September 2010

## The Group

|   | Equity attributable to owners of the Company |               |                 |                     |               |                       |                  |                           |                           |                    |           |          | Non-controlling interests | Total equity |
|---|--|---------------|-----------------|---------------------|---------------|-----------------------|------------------|---------------------------|---------------------------|--------------------|-----------|----------|---------------------------|--------------|
|   | Share capital                                | Share premium | Special reserve | Contributed surplus | Other reserve | Share options reserve | Exchange reserve | Convertible notes reserve | Statutory surplus reserve | Accumulated losses | Sub-total |          |                           |              |
|   | HK\$'000                                     | HK\$'000      | HK\$'000        | HK\$'000            | HK\$'000      | HK\$'000              | HK\$'000         | HK\$'000                  | HK\$'000                  | HK\$'000           | HK\$'000  | HK\$'000 |                           |              |
| At 1 April 2010 (Audited)                         | 2,324,219                                    | 405,557       | 571,996         | –                   | –             | 50,443                | 211,162          | 115                       | 1,762                     | (1,441,303)        | 2,123,951 | 234,168  | 2,358,119                 |              |
| Total comprehensive income/ (loss) for the period | –  | –             | –               | –                   | –             | –                     | 34,576           | –                         | –                         | (122,987)          | (88,411)  | 3,815    | (84,596)                  |              |
| Issue of share options                            | –  | –             | –               | –                   | –             | 91,064                | –                | –                         | –                         | –                  | 91,064    | –        | 91,064                    |              |
| Exercise of share options                         | 9,700  | 104,016       | –               | –                   | –             | (27,387)              | –                | –                         | –                         | –                  | 86,329    | –        | 86,329                    |              |
| Placing of shares                                 | 44,000                                       | 242,000       | –               | –                   | –             | –                     | –                | –                         | –                         | –                  | 286,000   | –        | 286,000                   |              |
| Share issuing expenses                            | –  | (7,150)       | –               | –                   | –             | –                     | –                | –                         | –                         | –                  | (7,150)   | –        | (7,150)                   |              |
| Capital reorganisation                            |  |               |                 |                     |               |                       |                  |                           |                           |                    |           |          |                           |              |
| – capital reduction                               | (2,091,797)                                  | –             | –               | 2,091,797           | –             | –                     | –                | –                         | –                         | –                  | –         | –        | –                         |              |
| – set off against accumulated losses              | –  | –             | –               | (749,320)           | –             | –                     | –                | –                         | –                         | 749,320            | –         | –        | –                         |              |
| At 30 September 2010 (Unaudited)                  | 286,122                                      | 744,423       | 571,996         | 1,342,477           | –             | 114,120               | 245,738          | 115                       | 1,762                     | (814,970)          | 2,491,783 | 237,983  | 2,729,766                 |              |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Notes:

## Share premium

The application of is governed by Section 48B of the Hong Kong Companies Ordinance.

## Special reserve

The special reserve represented the difference between the nominal value of shares of Burlingame International Company 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.

## Contributed surplus

Pursuant to a special resolution by the shareholders of the Company at a special general meeting held on 18 September 2009 and upon all conditions precedents to the capital reorganisation have been fulfilled on 9 April 2010, (i) the nominal value of each share was reduced from HK\$0.10 to HK\$0.01 by cancelling the Company’s paid up capital to the extent of HK\$0.09 on each share, (ii) part of the credit arising from capital reduction was utilised to set off accumulated loss of the Company and (iii) the remaining credit balance in the contributed surplus of the Company will be utilised in accordance with the Hong Kong Companies Ordinance and all applicable laws.

## Other reserve

The other reserve comprised of the following:

- (i) During the year ended 31 March 2011, pursuant to completion of issuing of shares of Heilongjiang Interchina Water Treatment Company Limited (“Heilongjiang Interchina”) to seven independent third parties, the Group’s interest in Heilongjiang Interchina have been decreased from 70.21% to 53.77%. The increase in non-controlling interest was recorded in other reserve as equity transaction.
- (ii) During the year ended 31 March 2011, Heilongjiang Interchina, an indirect non-wholly owned subsidiary of the Company with shares listed on the Shanghai Stock Exchange in the People’s Republic of China (“PRC”), acquired four companies from an indirect wholly-owned subsidiary of the Company at a consideration of approximately HK\$259,583,000. The decrease in equity attributable to the owners of the Company was due to the shortfall between the net carrying amount of the four companies and the consideration received in connection with the reorganisation of Heilongjiang Interchina. This reorganisation is treated as transaction with non-controlling interests and accordingly the effect of changes in equity attributable to the owners of the Company arising from the difference between the respective equity interests of the four companies and the consideration received is recorded in other reserve for reorganisation with Heilongjiang Interchina.
- (iii) During the six months ended 30 September 2011, Heilongjiang Interchina further acquired one more company from an indirect wholly-owned subsidiary of the Company at a consideration of approximately HK\$94,420,000. The increase in equity attributable to the owners of the Company was due to the excessive between the net carrying amount of that company and the consideration received in connection with the reorganisation of Heilongjiang Interchina. This reorganisation is treated as transaction with non-controlling interests and accordingly the effect of changes in equity attributable to the owners of the Company arising from the difference between the equity interests of that company and the consideration received is recorded in other reserve for reorganisation with Heilongjiang Interchina. Details of the transaction were set out in note 21(a).

## Share option reserve

Share options reserve represents the fair value of services estimated to be received in exchange for the grant of the relevant share options over the relevant vesting periods, the total of which is based on the fair value of the share options at grant date. The amount for each period is determined by spreading the fair value of the options over the relevant vesting period (if any) and is recognised as staff costs and related expenses with a corresponding increase in the share options reserve.

## Exchange reserve

Exchange reserve represents exchange differences relating to the translation of the net assets of the Group’s foreign operations from their functional currencies to the Group’s presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the exchange reserve. Such exchange differences accumulated in the exchange reserve are reclassified to profit or loss on the disposal of the foreign operations.

## Convertible notes reserve

Under Hong Kong Accounting Standard 32, convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using market interest rate for equivalent non-convertible notes and attributing to the equity component the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible notes reserve until the notes are either converted (in which case it is transferred to share premium) or the notes are redeemed (in which case it is released directly to accumulated losses.)

## Statutory surplus reserve

Pursuant to the relevant laws and regulations for business enterprises in the People’s Republic of China (the “PRC”), a portion of the profits of the Group’s entities which are registered in the PRC has been transferred to the statutory surplus reserve fund which is restricted as to use. When the balance of such reserve fund reaches 50% of the Group’s capital, any further appropriation is optional. The statutory surplus reserve can be utilized, upon approval of the relevant authority, to offset prior year’s losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at least 25% of capital after such usage.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

|   | For the six months ended<br>30 September |                                 |
|---|--|---------------------------------|
|   | 2011<br>HK\$'000<br>(Unaudited)          | 2010<br>HK\$'000<br>(Unaudited) |
| Net cash used in operating activities                         | (500,417)                                | (289,823)                       |
| Net cash used in investing activities                         | (337,667)                                | (372,771)                       |
| Net cash generated from financing activities                  | 64,698                                   | 596,435                         |
| Net decrease in cash and cash equivalents                     | (773,386)                                | (66,159)                        |
| Cash and cash equivalents at beginning of the period          | 1,072,985                                | 129,140                         |
| Effect of foreign exchange rate changes                       | 92,539                                   | 5,567                           |
| Cash and cash equivalents at end of the period                | 392,138                                  | 68,548                          |
| <b>Analysis of the balances of cash and cash equivalents:</b> |  |                                 |
| Cash and bank balances  | 398,612                                  | 77,755                          |
| Less: Bank balances — trust and segregated accounts           | (6,474)                                  | (9,207)                         |
|   | 392,138                                  | 68,548                          |

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL 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 located at Room 701, 7th Floor, Aon China Building, 29 Queen’s Road Central, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries are principally engaged in (i) environmental protection and water treatment operation, (ii) property investment operation, (iii) securities and financial operation and (iv) supply and procurement operation.

The unaudited condensed consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK\$’000), which is the same as the functional currency of the Company.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of the Group (the “Interim Financial Statements”) have been prepared in accordance with Hong Kong Accounting Standards (“HKASs”) 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”).

The Interim Financial Statements have been prepared on historical cost basis except that the following assets and liabilities are stated at their fair value:

- investment properties; and
- financial instruments classified as available-for-sale or as trading securities

The accounting policies used in the Interim Financial Statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2011.

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2011, except for the adoption of the new standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA as noted below.

|                                 |   |
|---------------------------------|---|
| HKFRSs (Amendments)             | Improvement to HKFRSs issued in 2010                        |
| HKAS 24 (Revised)               | Related Party Disclosures                                   |
| HK(IFRIC) – Int 14 (Amendments) | Prepayment of a Minimum Funding Requirement                 |
| HK(IFRIC) – Int 19              | Extinguishing Financial Liabilities with Equity Instruments |

The adoption of the above new HKFRSs has had no material effect on the accounting policies of the Group and the methods of computation in the condensed consolidated financial statements.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

|                        |  |
|------------------------|--|
| HKFRS 7 (Amendments)   | Disclosures — Transfers of Financial Assets <sup>1</sup>               |
| HKFRS 9                | Financial Instruments <sup>2</sup>                                     |
| HKFRS 10               | Consolidated Financial Statements <sup>2</sup>                         |
| HKFRS 11               | Joint Arrangements <sup>2</sup>  |
| HKFRS 12               | Disclosure of Interests in Other Entities <sup>2</sup>                 |
| HKFRS 13               | Fair Value Measurement <sup>2</sup>                                    |
| HKAS 1 (Amendments)    | Presentation of Items of Other Comprehensive Income <sup>4</sup>       |
| HKAS 12 (Amendments)   | Deferred Tax: Recovery of Underlying Assets <sup>3</sup>               |
| HKAS 19 (Revised 2011) | Employee Benefits <sup>2</sup>   |
| HKAS 27 (Revised 2011) | Separate Financial Statements <sup>2</sup>                             |
| HKAS 28 (Revised 2011) | Investments in Associates and Joint Ventures <sup>2</sup>              |
| HK(IFRIC) – Int 20     | Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup> |

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2012

The directors of the Company anticipate that the application of the new and revised standards, amendments or interpretation will have no material impact on the results and the financial position of the Group.

## 3. SEGMENT INFORMATION

For management purpose, the Group's operating businesses are structured and managed separately according to the nature of their operations and products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments. Particulars of the Group's reportable operating segments are summarised as follows:

|  |   |  |
|--|---|--|
| Environmental protection and water treatment operation | — | Operation of water plants and sewage treatment plants in the PRC   |
| Property investment operation                          | — | Leasing of rental property in the PRC and Hong Kong                |
| Securities and financial operation                     | — | Securities investment provision of financial service               |
| Supply and procurement operation                       | — | Supply and procurement of metal minerals and electronic components |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 3. SEGMENT INFORMATION (Continued)

The following is an analysis of the segment revenue and results:

For the six months ended 30 September 2011

|                                  | Environmental<br>protection<br>and water<br>treatment<br>operation<br>HK\$'000<br>(Unaudited) | Property<br>investment<br>operation<br>HK\$'000<br>(Unaudited) | Securities<br>and financial<br>operation<br>HK\$'000<br>(Unaudited) | Supply and<br>procurement<br>operation<br>HK\$'000<br>(Unaudited) | Consolidated<br>total<br>HK\$'000<br>(Unaudited) |
|----------------------------------|---|--|---|---|--|
| <b>Segment revenue</b>           | 171,987   | 10,973   | 24,626  | 155,831   | 363,417  |
| <b>Segment results</b>           | 36,359  | 20,223   | (72,642)  | (1,209)   | (17,269)   |
| Interest income and other income |   |  |   |   | 6,240  |
| Unallocated loss                 |   |  |   |   | (19,759)   |
| <b>Loss from operations</b>      |   |  |   |   | (30,788)   |
| Finance costs                    |   |  |   |   | (82,974)   |
| Share of result of an associate  |   |  |   |   | (49)   |
| <b>Loss before taxation</b>      |   |  |   |   | (113,811)  |
| Taxation                         |   |  |   |   | (11,113)   |
| <b>Loss for the period</b>       |   |  |   |   | (124,924)  |

For the six months ended 30 September 2010

|                                  | Environmental<br>protection<br>and water<br>treatment<br>operation<br>HK\$'000<br>(Unaudited) | Property<br>investment<br>operation<br>HK\$'000<br>(Unaudited) | Securities<br>and financial<br>operation<br>HK\$'000<br>(Unaudited) | Supply and<br>procurement<br>operation<br>HK\$'000<br>(Unaudited) | Consolidated<br>total<br>HK\$'000<br>(Unaudited) |
|----------------------------------|---|--|---|---|--|
| <b>Segment revenue</b>           | 98,782  | 12,754   | 13,002  | —   | 124,538  |
| <b>Segment results</b>           | 35,705  | 18,592   | (18,433)  | —   | 35,864   |
| Interest income and other income |   |  |   |   | 3,744  |
| Unallocated loss                 |   |  |   |   | (20,856)   |
| Share-based payment expenses     |   |  |   |   | (91,064)   |
| <b>Loss from operations</b>      |   |  |   |   | (72,312)   |
| Finance costs                    |   |  |   |   | (33,273)   |
| <b>Loss before taxation</b>      |   |  |   |   | (105,585)  |
| Taxation                         |   |  |   |   | (13,587)   |
| <b>Loss for the period</b>       |   |  |   |   | (119,172)  |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 4. OTHER INCOME AND GAIN, NET

|   | For the six months ended<br>30 September |                                 |
|---|--|---------------------------------|
|   | 2011<br>HK\$'000<br>(Unaudited)          | 2010<br>HK\$'000<br>(Unaudited) |
| Bank interest income                                  | 3,361                                    | 135                             |
| Government subsidies                                  | 5,556                                    | 12,989                          |
| Consultancy service income                            | 12,222                                   | 11,238                          |
| Dividend income                                       | 2  | 3                               |
| Net foreign exchange gain                             | 2,879                                    | 3,542                           |
| Fair value change in derivative financial instruments | —  | 66                              |
| Sundry income   | 3,404                                    | 1,212                           |
|   | <b>27,424</b>                            | <b>29,185</b>                   |

## 5. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

|  | For the six months ended<br>30 September |                                 |
|--|--|---------------------------------|
|  | 2011<br>HK\$'000<br>(Unaudited)          | 2010<br>HK\$'000<br>(Unaudited) |
| Depreciation   | 3,487                                    | 1,955                           |
| Amortisation of prepaid lease payments and intangible assets | 18,897                                   | 13,235                          |
| Operating lease rentals in respect of premises               | 2,912                                    | 2,504                           |

## 6. FINANCE COSTS

|                     | For the six months ended<br>30 September |                                 |
|---------------------|--|---------------------------------|
|                     | 2011<br>HK\$'000<br>(Unaudited)          | 2010<br>HK\$'000<br>(Unaudited) |
| Bank charges        | 2,123                                    | 81                              |
| Interest on:        |  |                                 |
| — Bank borrowings   | 13,707                                   | 10,755                          |
| — Other borrowings  | 67,144                                   | 21,799                          |
| — Convertible notes | —  | 638                             |
|                     | <b>82,974</b>                            | <b>33,273</b>                   |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 7. TAXATION

|                               | For the six months ended<br>30 September |                                 |
|-------------------------------|--|---------------------------------|
|                               | 2011<br>HK\$'000<br>(Unaudited)          | 2010<br>HK\$'000<br>(Unaudited) |
| Current tax                   |  |                                 |
| Hong Kong Profits Tax         | 1,930                                    | 1,484                           |
| The PRC Enterprise Income Tax | 3,285                                    | 6,185                           |
|                               | 5,215                                    | 7,669                           |
| Deferred tax                  | 5,898                                    | 5,918                           |
|                               | 11,113                                   | 13,587                          |

### Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 16.5% (for the six months ended 30 September 2010: 16.5%) of the estimated assessable profits of certain subsidiaries in Hong Kong for the current and prior period.

### The PRC Enterprise Income Tax

The provision for the PRC Enterprise Income Tax is based on the estimated taxable income for the PRC at the rate of taxation applicable to the six months ended 30 September 2011 and 2010.

## 8. LOSS PER SHARE

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

|  | For the six months ended<br>30 September |                                 |
|--|--|---------------------------------|
|  | 2011<br>HK\$'000<br>(Unaudited)          | 2010<br>HK\$'000<br>(Unaudited) |
| Loss for the period attributable to owners of the Company<br>for the purpose of basic and diluted loss per share | (142,519)                                | (122,987)                       |

| Number of Shares  | At 30 September     |                     |
|---|---------------------|---------------------|
|   | 2011<br>(Unaudited) | 2010<br>(Unaudited) |
| Weighted average number of ordinary shares for the purpose of basic<br>and diluted loss per share | 3,561,521,011       | 2,659,284,935       |

The calculation of diluted loss per share for the six months ended 30 September 2011 and 2010 were the same as the basis loss per share. The Company's outstanding share option was not included in the calculation of the diluted loss per share as these potential ordinary shares would have anti-dilutive effect.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 9. INTERIM DIVIDEND

The Board did not recommend the payment of interim dividend for the six months ended 30 September 2011 (for the six months ended 30 September 2010: Nil).

## 10. INVESTMENT PROPERTIES

During the period, the Group acquired investment properties of HK\$14,972,000 from an independent third party and HK\$162,167,000 through acquisition of subsidiaries (for the year ended 31 March 2011: HK\$7,220,000).

The fair value of the Group's investment properties at 30 September 2011 have been arrived at on the basis of a valuation carried out on that date by Messrs. Jointgoal Surveyors Limited, Cushman & Wakefield Valuation Advisory Services (HK) Limited and 上海房地產估價師事務所有限公司, independent professional valuers. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in similar location.

At 30 September 2011, investment properties with the carrying amount of approximately HK\$367,414,000 (31 March 2011: HK\$316,550,000) have been pledged to secure banking facilities granted to the Group.

## 11. PROPERTY, PLANT AND EQUIPMENT

|                                       | HK\$'000<br>(Unaudited) |
|---------------------------------------|-------------------------|
| <b>Net book value</b>                 |                         |
| At 1 April 2011                       | 299,878                 |
| Exchange alignment                    | 2,025                   |
| Additions                             | 119,244                 |
| Acquisition of subsidiaries (note 20) | 35                      |
| Written off                           | (743)                   |
| Depreciation                          | (3,487)                 |
| <b>At 30 September 2011</b>           | <b>416,952</b>          |

At 30 September 2011, the net book value of property, plant and equipment comprises the following:

|                                      | HK\$'000<br>(Unaudited) |
|--------------------------------------|-------------------------|
| <b>Net book value</b>                |                         |
| Building                             | 28,518                  |
| Leasehold improvements               | 24,911                  |
| Plant and machinery                  | 336,455                 |
| Furniture and fixtures               | 10,196                  |
| Equipment, motor vehicles and others | 16,872                  |
|                                      | <b>416,952</b>          |

At 30 September 2011, plant and machinery and equipment, motor vehicle and others with carrying amounts of approximately HK\$336,455,000 and HK\$1,843,000 respectively (31 March 2011: plant and machinery: HK\$244,509,000, furniture and fixtures: HK\$30,000 and equipment, motor vehicle and others: HK\$1,542,000 respectively) have been pledged to secure general banking facilities granted to the Group.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 12. INTANGIBLE ASSETS

|                             | Concession<br>intangible<br>assets<br>HK\$'000<br>(Unaudited) |
|-----------------------------|---|
| <b>Net book value</b>       |   |
| At 1 April 2011             | 1,051,305   |
| Exchange alignment          | 26,742  |
| Additions                   | 296,544   |
| Amortisation                | (18,615)  |
| <b>At 30 September 2011</b> | <b>1,355,976</b>  |

## 13. OTHER FINANCIAL ASSETS

|   | At<br>30 September<br>2011<br>HK\$'000<br>(Unaudited) | At<br>31 March<br>2011<br>HK\$'000<br>(Audited) |
|---|---|---|
| Receivables under service concession arrangements | 497,468   | 483,996   |

Other financial assets, bear interest at rates ranging from 3.22% to 15.46% (year ended 31 March 2011: 5.45% to 14.71%), represented the considerations paid for the construction and operation of sewage water treatment plants under service concession arrangements. The amounts are not yet due for payment and will be settled by revenue to be generated during the operating periods of the arrangements.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 14. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group allows an average credit period of 60 days (31 March 2011: 60 days) to its trade customers. Trade receivables that are less than 60 days past due are not considered impaired. The aged analysis of trade receivables is as follow:

|   | At<br>30 September<br>2011<br>HK\$'000<br>(Unaudited) | At<br>31 March<br>2011<br>HK\$'000<br>(Audited) |
|---|---|---|
| Trade receivables:                                    |   |   |
| 0–30 days   | 579,734   | 385,223   |
| Over 90 days  | –   | 10,622  |
|   | <b>579,734</b>  | 395,845   |
| Margin clients accounts receivables                   | 1,228   | 9,222   |
| Clearing houses, brokers and dealers                  | 1,581   | 1,075   |
| Prepayments and deposits                              | 1,739,310   | 1,726,522                                       |
| Other receivables                                     | 271,490   | 109,138   |
|   | <b>2,593,343</b>                                      | 2,241,802                                       |
| Less: Impairment of other receivables and prepayments | <b>(2,313)</b>  | (2,313)   |
|   | <b>2,591,030</b>                                      | 2,239,489                                       |

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 of the Company, the aged analysis does not give additional value in view of the nature of business of share margin financing.

The Group's prepayments and deposits as at 30 September 2011, inter alia, are (i) a deposit of approximately HK\$672,715,000 (31 March 2011: HK\$504,762,000) paid for acquisition of companies principally engaged in the exploration, mining, processing and sale of Manganese resources in the Republic of Indonesia. Details of the acquisition were set out in the Company announcement dated 2 March 2011; (ii) deposits of approximately HK\$198,765,000 (31 March 2011: HK\$292,007,000) paid for acquisition of certain investment properties in the PRC; (iii) deposits of approximately HK\$306,914,000 (31 March 2011: HK\$295,952,000) paid for acquisition of several potential water projects in the PRC; and (iv) prepayments of approximately HK\$225,956,000 (31 March 2011: HK\$349,149,000) to various contractors for construction of environmental protection and water treatment projects in the PRC.

## 15. LOAN RECEIVABLES

The loan receivables were unsecured, carrying at the prevailing interest rate ranging from 9% to 9.6% per annum (year ended 31 March 2011: from 7.5% to 15% per annum) with fixed repayment terms.

Loan receivables relate to a number of independent debtors. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there had not been a significant change in credit quality and the amounts were still considered recoverable. The Group does not hold any collateral over these balances.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 16. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

The aged analysis of trade payables are as follows:

|  | At<br>30 September<br>2011<br>HK\$'000<br>(Unaudited) | At<br>31 March<br>2011<br>HK\$'000<br>(Audited) |
|--|---|---|
| Trade payables   |   |   |
| 0–30 days  | 84,150  | 152,735   |
| Over 90 days   | 3,935   | 3,795   |
|  | <b>88,085</b>   | 156,530   |
| Accounts payable arising from the business of dealing in securities<br>and equity options: |   |   |
| Margin clients   | 117   | 1,732   |
| Other payables and deposits received   | 489,247   | 286,152   |
|  | <b>577,449</b>  | 444,414   |

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

The Group's other payables and deposits received as at 30 September 2011, inter alia, are (i) an amount due to a director of approximately HK\$14,635,000 (31 March 2011: HK\$25,705,000); (ii) amounts of approximately HK\$285,715,000 (31 March 2011: HK\$125,805,000) due to various contractors for construction of environmental protection and water treatment projects in the PRC; and (iii) interest payables of approximately HK\$70,048,000 (31 March 2011: HK\$12,230,000).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 17. BANK AND OTHER BORROWINGS

|  | At<br>30 September<br>2011<br>HK\$'000<br>(Unaudited) | At<br>31 March<br>2011<br>HK\$'000<br>(Audited) |
|--|---|---|
| Bank borrowings, secured                           | 537,035   | 545,648   |
| Bank borrowings, unsecured                         | 366,751   | 151,758   |
| Total bank borrowings                              | 903,786   | 697,406   |
| Other borrowings, secured                          | 1,172,592   | 1,136,666                                       |
| Other borrowings, unsecured                        | 30,839  | 73,100  |
| Total other borrowings                             | 1,203,431   | 1,209,766                                       |
| Total borrowings                                   | 2,107,217   | 1,907,172                                       |
| The maturity profiles are as follows:              |   |   |
| On demand or repayable within one year:            |   |   |
| bank borrowings                                    | 689,759   | 499,406   |
| other borrowings                                   | 987,382   | 386,790   |
| Portion classified as current liabilities          | 1,677,141   | 886,196   |
| Repayable in the second year, inclusives:          |   |   |
| bank borrowings                                    | 102,521   | 84,490  |
| other borrowings                                   | 216,049   | 822,976   |
|  | 318,570   | 907,466   |
| Repayable in the third to fifth years, inclusives: |   |   |
| bank borrowings                                    | 89,901  | 77,200  |
| other borrowings                                   | —   | —   |
|  | 89,901  | 77,200  |
| Repayable after the fifth year                     |   |   |
| bank borrowings                                    | 21,605  | 36,310  |
| other borrowings                                   | —   | —   |
|  | 21,605  | 36,310  |
| Portion classified as non-current liabilities      |   |   |
| bank borrowings                                    | 214,027   | 198,000   |
| other borrowings                                   | 216,049   | 822,976   |
|  | 430,076   | 1,020,976                                       |
| Total borrowings                                   | 2,107,217   | 1,907,172                                       |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 17. BANK AND OTHER BORROWINGS (Continued)

Notes:

- (a) The bank borrowings are variable-rate borrowings, thus exposing the Group to cash flow interest rate risk. The effective interest rate on bank borrowings denominated in Hong Kong dollars is based on Hong Kong Inter Bank Offered Rate plus a specified margin. The effective interest rates on bank borrowings denominated in Renminbi ranging from 1.94% to 7.83% (year ended 31 March 2011: 2.45% to 7.83%) per annum.

The other borrowings bear interest at rates of 5.31% to 12% per annum for the six months ended 30 September 2011 (year ended 31 March 2011: 5.31% to 9% per annum).

- (b) Secured bank borrowings comprise term loans and mortgage loans which bear interest at commercial rates. The term loans are secured by the assets of the Group with carrying values as follow:

|                        | At<br>30 September<br>2011<br>HK\$'000<br>(Unaudited) | At<br>31 March<br>2011<br>HK\$'000<br>(Audited) |
|------------------------|---|---|
| Intangible assets      | 477,101   | 424,080   |
| Other financial assets | 394,302   | 331,961   |
|                        | <b>871,403</b>  | <b>756,041</b>                                  |

The mortgage loans are secured by the Group's investment properties in both the PRC and Hong Kong with carrying values of approximately HK\$367,414,000 (31 March 2011: HK\$316,550,000). The term loans are repayable on agreed repayment schedule and the mortgage loans are repayable by instalments over a period of 1 to 20 years.

The Company's interest in shares of Heilongjiang Interchina, an indirectly owned subsidiary of the Company which its shares are listed on the Shanghai Stock Exchange, with market value of approximately HK\$3,641,408,000 (31 March 2011: HK\$4,348,366,000), have been pledged to secure of other borrowings granted to the Group.

- (c) The Group's borrowings are denominated in the following currencies:

|                   | At<br>30 September<br>2011<br>HK\$'000<br>(Unaudited) | At<br>31 March<br>2011<br>HK\$'000<br>(Audited) |
|-------------------|---|---|
| Hong Kong dollars | 248,841   | 92,165  |
| Renminbi          | 1,858,376   | 1,815,007                                       |
|                   | <b>2,107,217</b>                                      | <b>1,907,172</b>                                |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 18. SHARE CAPITAL

|                                      | Number of shares           |                        | Nominal value   |   |
|--------------------------------------|----------------------------|------------------------|---|---|
|                                      | At<br>30 September<br>2011 | At<br>31 March<br>2011 | At<br>30 September<br>2011<br>HK\$'000<br>(Unaudited) | At<br>31 March<br>2011<br>HK\$'000<br>(Audited) |
| Ordinary shares of HK\$0.10 each     |                            |                        |   |   |
| <b>Authorised:</b>                   |                            |                        |   |   |
| At beginning of the period/year      | 10,000,000,000             | 40,000,000,000         | 1,000,000   | 4,000,000                                       |
| Capital reduction                    | —                          | —                      | —   | (3,600,000)                                     |
| Share consolidation                  | —                          | (36,000,000,000)       | —   | —   |
| Increase in authorised share capital | —                          | 6,000,000,000          | —   | 600,000   |
| At end of the period/year            | 10,000,000,000             | 10,000,000,000         | 1,000,000   | 1,000,000                                       |
| <b>Issued and fully paid:</b>        |                            |                        |   |   |
| At the beginning of the period/year  | 3,555,419,363              | 23,242,193,632         | 355,542   | 2,324,219                                       |
| Capital reduction                    | —                          | —                      | —   | (2,091,797)                                     |
| Share consolidation                  | —                          | (20,917,974,269)       | —   | —   |
| Placement of shares                  | —                          | 440,000,000            | —   | 44,000  |
| Exercise of share options (note)     | 7,250,000                  | 221,200,000            | 725   | 22,120  |
| Conversion of convertible notes      | —                          | 570,000,000            | —   | 57,000  |
| At end of the period/year            | 3,562,669,363              | 3,555,419,363          | 356,267   | 355,542   |

All shares issued by the Company rank pari passu with the then existing shares in all respects.

### For the six months ended 30 September 2011

Note:

During the six months ended 30 September 2011, the Company issued 7,250,000 new shares of HK\$0.10 each pursuant to the exercise of share options granted to the Group's employees and consultants. The exercise price was HK\$0.89 per share.

## 19. SHARE OPTIONS

The Company adopted a share option scheme pursuant to an extraordinary resolution passed on 2 September 2002 (the "2002 Share Option Scheme"). Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 12 August 2011, the Company adopted a new share option scheme (the "New Share Option Scheme") and terminated the 2002 Share Option Scheme. No further share options shall be offered under the 2002 Share Option Scheme but the options which had been granted, during the life of the 2002 Share Option Scheme shall continue to be valid and exercisable in accordance with the terms of issue and in all other respects the provisions of the 2002 Share Option Scheme shall remain in full force and effect.

During the period for the six months ended 30 September 2011, no share option was granted under the 2002 Share Option Scheme and the New Share Option Scheme. Detail of the movements in the share options during the six months ended 30 September 2011 under the 2002 Share Option Scheme is included in the section head "Share Option Scheme".

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 20. ACQUISITION OF SUBSIDIARIES

On 4 July 2011, the Group acquired entire equity interest in External Fame Limited (“External Fame”) and its subsidiaries (hereinafter collectively referred to as the “External Fame Group”) from an independent third party.

Details of the assets and liabilities acquired in the transaction and the goodwill arising are as follows:

|  | Fair value<br>HK\$'000<br>(Unaudited) |
|--|---------------------------------------|
| Investment properties                          | 162,167                               |
| Property, plant and equipment                  | 35                                    |
| Trade receivables                              | 185                                   |
| Cash and cash equivalents                      | 65                                    |
| Trade and other payables and deposits received | (852)                                 |
| Deferred tax liabilities                       | (17,669)                              |
|  | 143,931                               |
| Goodwill                                       | 18,069                                |
| Consideration                                  | 162,000                               |
| Satisfied by:                                  |                                       |
| Trade receivables                              | 10,622                                |
| Prepayments and deposits                       | 100,000                               |
| Other receivables                              | 51,378                                |
|  | 162,000                               |
| Net cash inflow on acquisition of subsidiaries |                                       |
| Cash and cash equivalent acquired              | 65                                    |

## 21. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

### (a) Reorganisation with Heilongjiang Interchina

Pursuant to the transfer agreements (the “Reorganisation”) entered into between Heilongjiang Interchina, an indirect non-wholly owned subsidiary of the Company, and Interchina Water Treatment Company Limited (“Interchina Water Treatment”), an indirect wholly owned subsidiary of the Company, dated 3 March 2010, Interchina Water Treatment agreed to transfer its 80% equity interest in 太原豪峰污水处理有限公司 to Heilongjiang Interchina (the “Transferred Assets”).

The considerations of the exchange of the Transferred Assets between Heilongjiang Interchina and Interchina Water Treatment were determined based on the valuation of the respective assets as at 31 December 2009.

The Reorganisation was approved by China Securities Regulatory Committee on 13 January 2011 and the completion date of the Reorganisation was 24 August 2011. Heilongjiang Interchina paid a cash consideration of HK\$94,420,000 to Interchina Water Treatment.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 21. TRANSACTIONS WITH NON-CONTROLLING INTERESTS (Continued)

### (a) Reorganisation with Heilongjiang Interchina (Continued)

The reorganisation with Heilongjiang Interchina is treated as transaction with non-controlling interests. The consideration paid by Heilongjiang Interchina and the carrying amounts of the Transferred Assets on the completion date were approximately HK\$94,420,000 and HK\$83,722,000 respectively. Considering the non-controlling interest increased from 20% to 56.98% before and after the Reorganisation and the consideration received by the Group in excess of the carrying amounts of the Transferred Assets, the Group recognised a decrease in non-controlling interests of approximately HK\$3,956,000 and a increase in equity attributable to the owners of the Company of approximately HK\$3,956,000 respectively. The effect of changes of the equity attributable to the owners of the Company and the non-controlling interests as at the completion date of the Reorganisation is summarised as follow:

|   | HK\$'000 |
|---|----------|
| Carrying amounts of the Transferred Assets                            | 83,722   |
| Consideration received from Heilongjiang Interchina                   | (94,420) |
|   | (10,698) |
| Multiply: percentage of effective interest                            | 36.98%   |
| Effect of changes on the equity attributable to owners of the Company | 3,956    |
| Effect of changes in non-controlling interests                        | 3,956    |

### (b) Acquisition of non-controlling interests

In July 2011 the Group acquired of additional 29% interests in Regent Victor Development Limited ("Regent Victor") for consideration of HK\$16,680,000, increasing its ownership in Regent Victor from 71% to 100%. The carrying amount of Regent Victor's net assets in the Group's financial statements on the date of the acquisition was approximately HK\$48,414,000. The Group recognised a decrease in non-controlling interest of approximately HK\$14,040,000 and a decrease in retained earnings of approximately HK\$2,640,000.

## 22. CAPITAL COMMITMENTS

|   | At<br>30 September<br>2011<br>HK\$'000<br>(Unaudited) | At<br>31 March<br>2011<br>HK\$'000<br>(Audited) |
|---|---|---|
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of: |   |   |
| — acquisition of property, plant and equipment  | 449,341   | 332,720   |
| — acquisition of subsidiaries   | 127,285   | 295,238   |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 23. OPERATING LEASE COMMITMENTS

### The Group as lessee

At 30 September 2011 and 31 March 2011, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

|  | At<br>30 September<br>2011<br>HK\$'000<br>(Unaudited) | At<br>31 March<br>2011<br>HK\$'000<br>(Audited) |
|--|---|---|
| Within one year                        | 5,772   | 7,060   |
| In the second to fifth years inclusive | 6,486   | 9,719   |
| Over five years                        | 9,901   | 10,109  |
|  | <b>22,159</b>   | 26,888  |

Operating lease payments represent rentals payable by the Group for certain of its office properties and land use rights in the PRC. Leases for the office properties are negotiated for an average term of three years. Lease for land use rights in the PRC is negotiated for 20 years.

### The Group as lessor

At 30 September 2011 and 31 March 2011, the Group had contracted with tenants for the following future minimum lease payments:

|  | At<br>30 September<br>2011<br>HK\$'000<br>(Unaudited) | At<br>31 March<br>2011<br>HK\$'000<br>(Audited) |
|--|---|---|
| Within one year                        | 18,559  | 14,903  |
| In the second to fifth years inclusive | 25,383  | 26,953  |
| Over five years                        | 17,740  | 19,632  |
|  | <b>61,682</b>   | 61,488  |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 24. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the condensed consolidated financial statements, the Group entered into the following material transactions with related parties during the period:

### Compensation of key management personnel

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

|  | For the six months ended |             |
|--|--------------------------|-------------|
|  | 30 September             |             |
|  | 2011                     | 2010        |
|  | HK\$'000                 | HK\$'000    |
|  | (Unaudited)              | (Unaudited) |
| Salaries and other short-term benefits | 4,968                    | 3,868       |
| Pension scheme contributions           | 138                      | 198         |
| Share-based payment expenses           | —                        | 29,442      |
|  | 5,106                    | 33,508      |

## 25. EVENTS AFTER THE REPORTING PERIOD

Heilongjiang Interchina entered into a share transfer agreement ("Agreement") to sell 99% equity interest in Xian Aviation Technology Asset Zone Water Supply Company Limited ("Xian Aviation Water Supply") amounted to RMB128,310,000 and the loan owing by Xian Aviation Water Supply to Heilongjiang Interchina and its subsidiaries as at the date of the Agreement amounted to RMB21,190,000 at an aggregate consideration of RMB149,500,000. The disposal was not yet completed up to the reporting date. Details of the disposal were set out in the Company's announcement dated 28 October 2011.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Environmental Protection and Water Treatment Operation

The Group mainly operates the environmental protection and water treatment operation through its wholly-owned subsidiary, Interchina (Tianjin) Water Treatment Company Limited ("Interchina (Tianjin)") and the 53.77% owned Heilongjiang Interchina Water Treatment Company Limited ("Heilongjiang Interchina") (Stock Code: 600187, listed on the Shanghai Stock Exchange). As at 30 September 2011, the Group's environmental protection and water treatment operation comprised a total of 13 projects, which includes 5 water supply projects and 8 sewage treatment projects with aggregate daily processing capacity of approximately 1,357,500 tonnes, representing an increase of 420,000 tonnes as compared with 10 sewage and water treatment projects with aggregate daily operation capacity of 937,500 tonnes in the same period of last year. Analysis of the segment revenue of environmental protection and water treatment operation during the period are set out below:

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------------------|------------------|
| Sewage and water treatment income                   | 106,453          | 45,226           |
| Construction service income                         | 44,252           | 24,485           |
| Finance income under service concession arrangement | 21,282           | 29,071           |
| <b>Total revenue of this segment</b>                | <b>171,987</b>   | <b>98,782</b>    |

The sewage and water treatment income of HK\$106,453,000 was recorded for the period, representing an increase of HK\$61,227,000 or 135.4% as compare with the same period of last year. The increase in the aggregate daily operation capacity were mainly attributable to the Ordos Project, Dongying Project and Taiyuan Project which commenced operation in November 2010, July 2011 and August 2011 respectively and the Zhuozhou Project which was acquired in December 2010. Besides, the increase in construction services income by HK\$19,767,000 or 80.7% as compare with the same period of last year was mainly attributable to acquisition the 85% equity interest in 北京中科國益環保工程有限公司 (Beijing Zhongke Guoyi Environmental Protection Engineering Company Limited) in December 2010 a company which established in the PRC with principal business in providing environmental protection engineering services and solutions in the PRC. The segment profit of HK\$36,359,000 was recorded for the period, representing an increase of HK\$654,000 or 1.8% as compared with the same period of last year.

## MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is a summary of the Group's water projects as at 30 September 2011:

| Project  | Province     | The Group's controlling interest | Daily processing capacity (tonnes) |
|--|--------------|----------------------------------|------------------------------------|
| <b>Project under operation</b>   |              |                                  |                                    |
| Qinhuangdao Sewage Treatment Plant ("Qinhuangdao Project")                 | Hebei        | 100%                             | 120,000                            |
| Changli Sewage Treatment Plant ("Changli Project")                         | Hebei        | 100%                             | 40,000                             |
| Zhuozhou Sewage & Water Treatment Plants ("Zhuozhou Project") <sup>1</sup> | Hebei        | 100%                             | 80,000                             |
| Hanzhong Xingyuan Water Supply Plant ("Xingyuan Project")                  | Shannxi      | 100%                             | 110,000                            |
| Yanliang Water Supply Plant ("Yanliang Project")                           | Shannxi      | 99%                              | 120,000                            |
| Maanshan Sewage Treatment Plant ("Maanshan Project")                       | Anhui        | 100%                             | 60,000                             |
| Xiongyue Sewage Treatment Plant ("Qinghai Project")                        | Qinghai      | 95%                              | 42,500                             |
| Ordos Sewage & Water Treatment Plant ("Ordos Project")                     | Inn Mongolia | 100%                             | 35,000                             |
| Dongying Water Supply Plant ("Dongying Project")                           | Shandong     | 55.4%                            | 150,000                            |
| Taiyuan Haofeng Wastewater Treatment Plant ("Taiyuan Project")             | Shanxi       | 80%                              | 160,000                            |
| Sub-total  |              |                                  | 917,500                            |
| <b>Project under construction</b>  |              |                                  |                                    |
| Hanzhong Shimen Water Supply Plant ("Shimen Project") <sup>2</sup>         | Shannxi      | 80%                              | 100,000                            |
| Xiangtan Water Supply Plant ("Xiangtan Project") <sup>3</sup>              | Hunan        | 81.8%                            | 300,000                            |
| Hekou Wastewater Treatment Plant ("Hekou Project") <sup>4</sup>            | Shandong     | 100%                             | 40,000                             |
| Sub-total  |              |                                  | 440,000                            |
| Total  |              |                                  | 1,357,500                          |

(1) Zhuozhou Project consists of Eastern plant and Western plant with average daily treatment capacity of 40,000 tonnes respectively and is currently under upgrading work to Grade 1A of the national waste water discharge standard.

(2) The pipeline connection of Shimen Project is outstanding and is expected to be completed by mid of 2012.

(3) The construction of Xiangtan Project is expected to be completed by the end of 2012.

(4) The construction of Hekou Project is expected to be completed by the end of 2012.

# MANAGEMENT DISCUSSION AND ANALYSIS

During the period, the Group has continuously expanded its environmental protection and water treatment operation and successfully obtained two projects. On 16 May 2011, Heilongjiang Interchina, entered into a joint venture agreement with 湘潭九華經濟建設投資有限公司 (Xiangtan Jiuhua Economic Construction Investment Company Limited) (“Xiangtan Jiuhua”) in relation to the establishment of Xiangtan Interchina Water Treatment Company Limited (“Xiangtan Interchina”) in the PRC for the construction and operation of water supply projects in the Xiangtan Jiuhua Demonstration Zone. Heilongjiang Interchina will inject RMB122,700,000 and Xiangtan Jiuhua will inject RMB27,300,000 to Xiangtan Interchina representing 81.8% and 18.2% of the registered capital of Xiangtan Interchina respectively. Xiangtan Interchina is formally established on 26 August 2011. Xiangtan Interchina will invest, construct, produce and operate a water supply plant project of the Xiangtan Jiuhua Demonstration Zone with a daily capacity of 300,000 tonnes during the franchise period of 30 years. Detail of the transaction was set out in the Company’s announcement dated 18 May 2011. On 25 August 2011, Heilongjiang Interchina entered into the franchise agreement with the People’s Government of Dongying City, Hekou District. The People’s Government of Dongying City, Hekou District has granted franchise to Heilongjiang Interchina for investment, construction and operation, during the franchise period, of the sewage treatment project of Shandong Hekou Lanse Economic Development Zone in the PRC with a daily capacity of 40,000 tonnes, for a franchise period of 30 years. Detail of the transaction was set out in the Company’s announcement dated 26 August 2011.

During the period under review, the upgrading work for the Changli Project and Zhuozhou Project had been completed, laying a solid foundation for the further expansion of this segment. The Group has entered into supplemental agreement with the People’s Government of Changli City and Zhuozhou City respectively to increase the sewage treatment fee after the completion of upgrading to Grade 1A of the national waste water discharge standard.

In order to coordinate with the Xian Municipal Government policy in water resources allocation in Xian, subsequent to the period ended, in October 2011, the Group entered into a share transfer agreement with 西安閻良航城水務有限公司 (Xian Yanliang Hang Cheng Water Co., Ltd.) (“Hang Cheng Water”) pursuant to which the Group agreed to sell and Hang Cheng Water agreed to acquire 99% equity interest in Xian Aviation Technology Assets Zone Water Supply Co., Ltd. (“Xian Aviation Water”) and sale loan at an aggregate consideration of RMB149,500,000 (equivalent to approximately HK\$184,568,000). The major asset of Xian Aviation Water is the Yanliang Project with daily operation capacity of 120,000 tonnes. Detail of the transaction was set out in the Company’s announcement dated 28 October 2011.

With the objectives of the Twelve “Five-Year Plan” gradually in shape, energy-saving environmental protection industry becomes the first of China’s Seven Strategic Emerging Industries. It is expected that the environmental protection and water treatment operation projects of the Group will also benefit from it. Currently, the Company has gained access to the domestic A-share market investment and financing platform with its holding of Heilongjiang Interchina. With the Company listing status in Hong Kong and the A-share listing status of Heilongjiang Interchina in Shanghai, the Company will raise free-cost capital through its listing platform in Hong Kong, invest in environmental and water projects and inject the matured project into A-share Heilongjiang Interchina platform to generate high PE growth. By the way, we can enjoy low investment cost, high PE growth return and remarkable exchange gain brought by the appreciation of Renminbi. We expect that the daily processing capacity of the Heilongjiang Interchina with gradually increase to 4,500,000 tonnes within next two to five years and becoming a leading domestic water business enterprise. In addition, the Group is currently actively seeking opportunity to acquire companies with advanced environmental technology in the European and U.S. to strengthen the technology competitiveness of the Group.

## Property Investment Operation

The Group’s property investment operation, which mainly comprise two investment properties located in the centre of Beijing and Shanghai, recorded revenue of HK\$10,973,000 for the period, representing a decrease of HK\$1,781,000 or 14% as compared with the same period of last year. The segment profit of HK\$20,223,000 was recorded for the period, representing an increase of HK\$1,631,000 or 8.8% as compared with the same period of last year. The increase in segment profit was mainly attributable from fair value gain of HK\$21,361,000 on the appreciation of the property values for the period (for the six months ended 30 September 2010: HK\$15,650,000).

During the period, the Group has further acquired 32 commercial units and some car parking spaces of the Beijing property with aggregate areas of approximately 9,600 square meters at the consideration of HK\$162,000,000. At 30 September 2011, the Beijing property was almost fully let out whereas the Shanghai property was still under renovation. The Group is planning to develop the Shanghai property as an entertainment centre to provide food and beverage, karaoke facility etc. in the district through leasing. It expects the Shanghai property can contribute rental revenue to the Group after the Chinese New Year in 2012.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Securities and Financial Operation

During the period under review, the Group's securities and financial operation recorded revenue of HK\$24,626,000 (for the six month ended 30 September 2010: HK\$13,002,000) and the segment loss of HK\$72,642,000 (for the six month ended 30 September 2010: loss of HK\$18,433,000). The increase in the segment loss is mainly attributable to the unrealised loss arising from the drop in fair value of the securities investment of HK\$113,060,000 recorded for the period due to recent downturn in the global financial markets.

As a small size broker firm, the Group was under tremendous pressure and competition from other major securities broker firms and banks in Hong Kong. The recent fluctuation of the securities market has also affected the Group's business plan to this segment. Where there are suitable opportunities, the Group does not eliminate the possibility of selling or withdrawing the securities and financial operation, so as to concentrate the Group's financial resources in the environmental and water treatment operation and nature resources operation in long term.

## Supply and Procurement Operation

During the period, Interchina Qian Yuan (Shanghai) Co., Ltd, an indirect wholly-owned subsidiary of the Company commenced the supply and procurement of metal minerals and electronic components in Shanghai and recorded a turnover of HK\$155,831,000 and segment loss of HK\$1,209,000 for the period. Subsequent to the period ended, the management has reassessed the possibility of development this segment and potential risk of this business. It decided to cease the operation as soon as practicable, so as to concentrate the Group's financial resources in the environmental and water treatment operation and nature resources operation in long term.

## Nature Resources Operation

On 2 March 2011, the Group entered into a sale and purchase agreement for the acquisition of the entire equity interest in Universe Glory Limited ("Universe Glory"), for consideration of HK\$800,000,000 (the "Universe Glory Acquisition"). Upon completion of the Universe Glory Acquisition, Universe Glory shall be directly interested in 65% equity interest in P.T. Satwa Lestari Permai ("SLP"), a company incorporated in the Republic of Indonesia, which is licensed by the Indonesian Government for exploration, exploitation, refining and processing of manganese ore. The flagship asset of SLP is a mining block of approximately 2,000 hectare in and around the sub-district of Amfoang Selatan, sub-district of Takari and sub-district of Fatuleu, Kupang City Nusantara Timor Tenggara, Indonesia ("Mining Block") and have rights for exploitation, refining, processing and export in the Mining Block. Based on the preliminary technical report prepared by professional valuer in accordance with JORCO Code, it is estimated that the Mining Block has aggregate resources of approximately 18,800,000 tonnes which consists of measured resources of approximately 3,750,000 tonnes, indicated resources of approximately 5,050,000 tonnes and inferred resources of approximately 10,000,000 tonnes. The Board considers that the Universe Glory Acquisition has milestone significance to the Group's investments in the mining sector. The Universe Glory Acquisition constitutes a discloseable transaction of the Company under the Listing Rules and detail of the transaction was set out in the Company's announcement dated 2 March 2011.

Pursuant to the agreement, the Universe Glory Acquisition will be completed in August 2011. However, additional time is required for Universe Glory to obtain the operation and production of IUP for the Mining Block, the Group and the vendor has agreed to further extend the long stop date from 31 August 2011 to 31 December 2011. It is expected that the Universe Glory Acquisition will be completed in December 2011. Upon completion of the Universe Glory Acquisition, the Group should directly hold the 65% interest in the Mining Block. The Group has commissioned Northwest Nonferrous International Investment Company Limited to plan a further exploration and formal exploitation and production program in the Mining Block and planned to create favorable conditions for commencement of exploitation project by building roads, setting up electricity supply system and preliminary construction within the Mining Block. The construction of processing centre is nearly completed.

In the coming years, the Company will continue seek for other suitable nature resources investment opportunities for business expansion and growth of the Group. It is expected that this segment can bring a significant cashflows and returns to the Group in the near future.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Prospect

Recent global debt crisis has brought forth the uncertainty over external economic environment as well as slowdown the economic growth of China. Driven by the current favourable government policies on environmental protection and water treatment industry, we believe that the environmental protection and water treatment operation as the core business of the Group is less influenced by economy volatility. While focusing on its existing environmental protection and water treatment development, the Group will also actively expand nature resources operation as another core business of the Group, so as to strengthen the Group's profit in the long run.

Challenges will be abundant in the year 2012. The Group will closely monitor the performance of each business sector and place stronger emphasis on operating cash flow management, stringent control on working capital and cost management. In addition, the Group will continue to look for any potential investment opportunities capable of enhancing the Group's asset portfolio strengthen the foothold of the Group and maximise shareholders' benefit.

## FINANCIAL REVIEW

### Operating Results

During the period, the Group recorded a continuing growth in revenue amounted to HK\$363,417,000, representing an increase of 191.8% as compared to the same period of last year of HK\$124,538,000. The increase was mainly attributable to the revenue derived from environmental protection and water treatment operation increased 74.1% to HK\$171,987,000 and a revenue of HK\$155,831,000 contributed by the Group's newly established supply and procurement business in the PRC during the period.

During the period, the Group recorded a loss of HK\$124,924,000, representing a slightly increase of 4.8% as compared to the same period of last year of HK\$119,172,000. The Group cannot turn into profit from loss for the period was mainly attributable to (i) the result of the downturn in global investment market conditions during the period, a loss arising on change in fair value of investment in listed securities of HK\$94,088,000 was recorded, representing an increase of HK\$65,582,000 or 230% as compared with the same period of last year of HK\$28,506,000; and (ii) the increase in finance cost of HK\$49,701,000 as a result of increase in bank and other borrowings for the Group's expansion.

### Financial Position

As at 30 September 2011, the Group's total assets were HK\$7,157,627,000 (31 March 2011: HK\$6,834,487,000) and the total liabilities were HK\$2,900,071,000 (31 March 2011: HK\$2,542,459,000), and the equity reached HK\$4,257,556,000 (31 March 2011: HK\$4,292,028,000). As at 30 September 2011, the current ratio of the Group was approximately 1.49 (31 March 2011: 2.76) whereas the gearing ratio (total outstanding borrowings over total assets) of the Group was 29.4% (31 March 2011: 27.9%).

### Financial Resources and Capital Structure

As at 30 September 2011, the Group's cash on hand and deposits in bank was approximately HK\$398,612,000 (31 March 2011: HK\$1,078,187,000). Around 6% of the Group's cash on hand and deposits in bank was denominated in Hong Kong dollars with the rest mainly in Renminbi.

As at 30 September 2011, the Group's total borrowings comprising bank borrowings of HK\$903,786,000 (31 March 2011: HK\$697,406,000), other borrowings of HK\$1,203,431,000 (31 March 2011: HK\$1,209,766,000). The maturity profile of the outstanding bank and other borrowings was spread over a period of more than five years with HK\$1,677,141,000 repayable within one year, HK\$408,471,000 repayable after one year but within five years and HK\$21,605,000 repayable after five years. Around 12% of the Group's total borrowings was denominated in Hong Kong dollars with the rest mainly in Renminbi. The increase in bank and other borrowings was mainly due to the increase in investment by financing from non-financial institutions in China for the business development.



## MANAGEMENT DISCUSSION AND ANALYSIS

During the period, pursuant to the share option scheme, a total 7,250,000 share options granted were exercised, for which a total of 7,250,000 new shares were issued. The proceeds in the sum of approximately HK\$6,473,000 generated from the exercise of share options were used as general working capital of the Group.

### Foreign Exchange Exposure

The Group's principal assets, liabilities, revenue and payments are denominated in Hong Kong dollars and Renminbi. During the period, the Group did not employ any financial instruments for hedging purpose and did not engage in foreign currency speculative activities. The Group will closely manage and monitor foreign currency risks whenever its financial impact is material to the Group.

### Significant Acquisition and Disposal

Save as the acquisition has been described in the "Business Review" section, there was no material acquisition or disposal during the period.

### Pledged of Group's Assets

As at 30 September 2011, the Group's assets were pledged as security for its liabilities, comprising investment properties with carrying amounts of HK\$367,414,000, property, plant and equipment with carrying amounts of HK\$338,298,000, intangible assets with carrying amounts of HK\$477,101,000 and other financial assets with carrying amounts of HK\$394,302,000. In addition, certain shares of subsidiary held by the Group were also pledged to lender(s) to secure loan facilities granted to the Group.

### Contingent Liability

At 30 September 2011, the Group had no significant contingent liability.

### Human Resources and Remuneration Policy

As at 30 September 2011, the Group had approximately 910 employees in Hong Kong and the PRC. 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 retirement benefit scheme, share option scheme and medical insurance for its staff, the Group also provides staff with various training and development programs.

### Dividend

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2011 (for the six months ended 30 September 2010: Nil).

## BOARD CHANGES

The change of directors' information as required to be disclosed pursuant to Rule 13.51B of the Listing Rules are set out below:

1. Mr. Zhang Chen has resigned as executive director of the Company with effect from 4 October 2011.
2. Ms. Ha Ping and Mr. Fu Tao have resigned as independent non-executive director of the Company with effect from 4 October 2011.
3. Mr. Wong Hin Shek was appointed as executive director of the Company with effect from 4 October 2011.
4. Mr. Chi Chi Hung, Kenneth was appointed as independent non-executive director of the Company with effect from 4 October 2011.
5. Mr. Zhang Yang has resigned as Chairman and executive director of the Company with effect from 10 October 2011.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 2011, the interests of the directors of the Company in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### Long positions in shares and underlying shares

| Name of Director   | Number of shares and underlying shares held, capacity and nature of interest |                             |                | Approximate percentage of the issued share capital of the Company (Note 2) |
|--|--|-----------------------------|----------------|--|
|  | Beneficial owner   | Equity derivatives (Note 1) | Total interest |  |
| Zhang Yang ( <i>Resigned on 10 October 2011</i> ) (Note 3) | 1,033,300,000  | —                           | 1,033,300,000  | 29.00%   |
| Lam Cheung Shing, Richard                                  | 7,700,000  | 42,200,000                  | 49,900,000     | 1.40%  |
| Zhu Yongjun  | —  | 47,200,000                  | 47,200,000     | 1.32%  |
| Zhang Chen ( <i>Resigned on 4 October 2011</i> )           | 6,045,000  | 20,000,000*                 | 26,045,000     | 0.73%  |
| Ha Ping ( <i>Resigned on 4 October 2011</i> )              | —  | 5,000,000*                  | 5,000,000      | 0.14%  |
| Ho Yiu Yue, Louis  | —  | 3,500,000                   | 3,500,000      | 0.10%  |
| Fu Tao ( <i>Resigned on 4 October 2011</i> )               | —  | 3,500,000*                  | 3,500,000      | 0.10%  |

\* Lapsed on 4 October 2011

Notes:

- (1) These represent the interests in share options granted to the Directors as beneficial owner under a share option scheme of the Company adopted on 2 September 2002.
- (2) The calculation of percentages is based on 3,562,669,363 shares of the Company in issue as at 30 September 2011.
- (3) Rich Monitor Limited, which is wholly-owned by Mrs. Chu Yuet Wah has acquired 1,033,300,000 shares of the Company from Mr. Zhang Yang.

Save as disclosed above, as at 30 September 2011, none of the directors or chief executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## OTHER INFORMATION

### SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Company adopted a share option scheme pursuant to an extraordinary resolution passed on 2 September 2002 (the "2002 Share Option Scheme"). Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 12 August 2011, the Company adopted a new share option scheme (the "New Share Option Scheme") and terminated the 2002 Share Option Scheme. No further share options shall be offered under the 2002 Share Option Scheme but the options which had been granted, during the life of the 2002 Share Option Scheme shall continue to be valid and exercisable in accordance with the terms of issue and in all other respects the provisions of the 2002 Share Option Scheme shall remain in full force and effect. The New Share Option Scheme became effective for a period of 10 years commencing on 12 August 2011 and the Old Share Option Scheme was terminated on the same date. Under the New Share Option Scheme, the Board is authorised, at their discretion, invite a wider category of participants as defined in the Company's circular issued on 18 July 2011 (the "Participants"), to take up options to subscribe for fully paid ordinary shares in the Company subject to the terms and conditions stipulated therein.

Details of the movements in the share option during the six months ended 30 September 2011 under the 2002 Share Option Scheme and the New Share Option Scheme were set out below:

#### (a) 2002 Share Option Scheme

The following share options under the 2002 Share Option Scheme were outstanding at 30 September 2011:

| Name of category of participant | Date of granted (DD/MM/YY) | Exercise price per share HK\$ | Exercise period (DD/MM/YY) | Number of share options         |                           |                             |                          | Outstanding as at 30 September 2011 |
|---------------------------------|----------------------------|-------------------------------|----------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------|-------------------------------------|
|                                 |                            |                               |                            | Outstanding as at 31 March 2011 | Granted during the period | Exercised during the period | Lapsed during the period |                                     |
| <b>Director</b>                 |                            |                               |                            |                                 |                           |                             |                          |                                     |
| Lam Cheung Shing, Richard       | 31/7/2009                  | 1.03                          | 31/07/09 to 02/09/12       | 20,200,000                      | —                         | —                           | —                        | 20,200,000                          |
|                                 | 26/7/2010                  | 0.83                          | 26/07/10 to 02/09/12       | 7,000,000                       | —                         | —                           | —                        | 7,000,000                           |
|                                 | 25/8/2010                  | 0.89                          | 25/08/10 to 02/09/12       | 15,000,000                      | —                         | —                           | —                        | 15,000,000                          |
| Zhu Yongjun                     | 31/7/2009                  | 1.03                          | 31/07/09 to 02/09/12       | 20,200,000                      | —                         | —                           | —                        | 20,200,000                          |
|                                 | 26/7/2010                  | 0.83                          | 26/07/10 to 02/09/12       | 7,000,000                       | —                         | —                           | —                        | 7,000,000                           |
|                                 | 25/8/2010                  | 0.89                          | 25/08/10 to 02/09/12       | 20,000,000                      | —                         | —                           | —                        | 20,000,000                          |
| Zhang Chen                      | 5/7/2010                   | 0.86                          | 05/07/10 to 02/09/12       | 20,000,000                      | —                         | —                           | —                        | 20,000,000*                         |
| Ha Ping                         | 28/8/2007                  | 1.46                          | 28/08/07 to 02/09/12       | 500,000                         | —                         | —                           | —                        | 500,000*                            |
|                                 | 31/7/2009                  | 1.03                          | 31/07/09 to 02/09/12       | 2,000,000                       | —                         | —                           | —                        | 2,000,000*                          |
|                                 | 25/8/2010                  | 0.89                          | 25/08/10 to 02/09/12       | 2,500,000                       | —                         | —                           | —                        | 2,500,000*                          |
| Ho Yiu Yue, Louis               | 31/7/2009                  | 1.03                          | 31/07/09 to 02/09/12       | 1,000,000                       | —                         | —                           | —                        | 1,000,000                           |
|                                 | 25/8/2010                  | 0.89                          | 25/08/10 to 02/09/12       | 2,500,000                       | —                         | —                           | —                        | 2,500,000                           |
| Ko Ming Tung, Edward            | 31/7/2009                  | 1.03                          | 31/07/09 to 02/09/12       | 1,000,000                       | —                         | (1,000,000)                 | —                        | —                                   |
|                                 | 25/8/2010                  | 0.89                          | 25/08/10 to 02/09/12       | 2,500,000                       | —                         | (2,500,000)                 | —                        | —                                   |
| Fu Tao                          | 31/7/2009                  | 1.03                          | 31/07/09 to 02/09/12       | 1,000,000                       | —                         | —                           | —                        | 1,000,000*                          |
|                                 | 25/8/2010                  | 0.89                          | 25/08/10 to 02/09/12       | 2,500,000                       | —                         | —                           | —                        | 2,500,000*                          |
|                                 |                            |                               |                            | 124,900,000                     | —                         | (3,500,000)                 | —                        | 121,400,000                         |

## OTHER INFORMATION

| Name of category of participant | Date of granted<br>(DD/MM/YY) | Exercise price per share<br>HK\$ | Exercise period<br>(DD/MM/YY) | Number of share options         |                           |                             |                          | Outstanding as at 30 September 2011 |
|---------------------------------|-------------------------------|----------------------------------|-------------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------|-------------------------------------|
|                                 |                               |                                  |                               | Outstanding as at 31 March 2011 | Granted during the period | Exercised during the period | Lapsed during the period |                                     |
| <b>Consultants</b>              |                               |                                  |                               |                                 |                           |                             |                          |                                     |
| In aggregate                    | 28/8/2007                     | 1.46                             | 28/08/07 to 02/09/12          | 3,300,000                       | –                         | –                           | –                        | 3,300,000                           |
|                                 | 31/7/2009                     | 1.03                             | 31/07/09 to 02/09/12          | 2,000,000                       | –                         | –                           | –                        | 2,000,000                           |
|                                 | 26/7/2010                     | 0.83                             | 26/07/10 to 02/09/12          | 10,000,000                      | –                         | –                           | –                        | 10,000,000                          |
|                                 | 25/8/2010                     | 0.89                             | 25/08/10 to 02/09/12          | 27,000,000                      | –                         | (1,750,000)                 | –                        | 25,250,000                          |
|                                 |                               |                                  |                               | 42,300,000                      | –                         | (1,750,000)                 | –                        | 40,550,000                          |
| <b>Employees</b>                |                               |                                  |                               |                                 |                           |                             |                          |                                     |
| In aggregate                    | 28/8/2007                     | 1.46                             | 28/08/07 to 02/09/12          | 1,500,000                       | –                         | –                           | –                        | 1,500,000                           |
|                                 | 31/7/2009                     | 1.03                             | 31/07/09 to 02/09/12          | 7,600,000                       | –                         | –                           | –                        | 7,600,000                           |
|                                 | 26/7/2010                     | 0.83                             | 26/07/10 to 02/09/12          | 2,000,000                       | –                         | (2,000,000)                 | –                        | –                                   |
|                                 | 25/8/2010                     | 0.89                             | 25/08/10 to 02/09/12          | 11,000,000                      | –                         | –                           | (3,000,000)              | 8,000,000                           |
|                                 |                               |                                  |                               | 22,100,000                      | –                         | (2,000,000)                 | (3,000,000)              | 17,100,000                          |
|                                 |                               |                                  |                               | 189,300,000                     | –                         | (7,250,000)                 | (3,000,000)              | 179,050,000                         |

\* Lapsed on 4 October 2011

- (1) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- (2) The exercise price of the share option is subject to adjustment in the case of a capitalization issue, rights issue, sub-division or consolidation of the Company's share or reduction of the Company's share capital.

At 30 September 2011, the Company had 179,050,000 share options (31 March 2011: 189,300,000) outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in issue of 179,050,000 additional ordinary shares of HK\$0.1 each of the Company.

### (b) New Share Option Scheme

No share options have been granted pursuant to the New Share Option Scheme since its adoption.

## OTHER INFORMATION

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 2011, the register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO shows that the following shareholders had an interest of 5% or more in the issued share capital of the Company.

#### Long positions in shares and underlying shares

| Name of shareholder | Capacity         | Number of shares and underlying shares held | Approximate percentage of the issued share capital of the Company |
|---------------------|------------------|---|---|
| Zhang Yang          | Beneficial owner | 1,033,300,000<br>(Note 1)                   | 29.00%  |
| Shen Angang         | Beneficial owner | 180,000,000                                 | 5.05%   |

Note:

(1) Rich Monitor Limited, which is wholly and beneficially owned by Mrs. Chu Yuet Wah has acquired these shares from Mr. Zhang Yang and became a substantial shareholder of the Company on 10 October 2011.

(2) The calculation of percentages is based on 3,562,669,363 shares of the Company in issue as at 30 September 2011.

Save as disclosed above, as at 30 September 2011, the Company has not been notified by any other person or corporation having interests or short positions in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

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

Neither the Company nor its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 September 2011.

### COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 September 2011, in the opinion of the Board, the Company complied with all code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules, except for one code provision under the CG Code. 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, in view of the fact that they are subject to retirement by rotation in accordance with the Company's Articles of Association, the Company considers that there are sufficient measures to ensure that the corporate governance standard of the Company is not less exacting than that of the code provisions.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code contained in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard as set out in the Model Code throughout the period under review.

### AUDIT COMMITTEE

The Audit Committee comprises all the independent non-executive directors of the Company and had reviewed with management of the accounting principles and policies adopted by the Group and discussed internal control and financial reporting matters including review of the interim results of the Group for the six months ended 30 September 2011.

By order of the Board  
**Interchina Holdings Company Limited**  
**Lam Cheung Shing, Richard**  
*Executive Director and Chief Executive Officer*

Hong Kong, 29 November 2011