



# INTERCHINA HOLDINGS COMPANY LIMITED

## 國 中 控 股 有 限 公 司

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

The board of directors (the “Board”) of Interchina Holdings Company Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2008 together with the restated comparative figures for the corresponding period in 2007.

#### CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 September	
	Notes	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited) (Restated)
Turnover	3	27,476	18,927
Cost of sales		(8,423)	(7,506)
Other revenue		964	1,547
Interest income		19,935	19,927
Staff costs		(13,611)	(44,979)
Amortisation and depreciation		(1,760)	(1,513)
Selling costs		–	(8,774)
Administrative costs		(14,543)	(24,124)
Impairment loss recognised in respect of goodwill		(11,006)	–
Impairment loss recognised in respect of an associate		(225,146)	–
Impairment loss recognised in respect of properties under development for sale		(120,508)	–
Fair value change in derivative financial instruments		16,629	–
Fair value change in investment properties		(150,194)	–
Loss from operations	4	(480,187)	(46,495)
Finance costs		(13,676)	(14,775)
Share of results of associates		3,146	2,608
Gain on disposal of subsidiaries		–	8,360
Loss before taxation		(490,717)	(50,302)
Taxation	5	13,335	(3,619)
Loss for the period		<u>(477,382)</u>	<u>(53,921)</u>

**CONDENSED CONSOLIDATED INCOME STATEMENT – Continued**

		<b>For the six months ended</b>	
		<b>30 September</b>	
		<b>2008</b>	2007
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
		<b>(Unaudited)</b>	(Unaudited)
			(Restated)
Attributable to:			
Equity holders of the Company		(477,302)	(53,546)
Minority interests		<u>(80)</u>	<u>(375)</u>
		<u><b>(477,382)</b></u>	<u><b>(53,921)</b></u>
Loss per share for loss attributable to the equity holders of the Company			
Basic and diluted	6	<u><b>(HK2.381 cents)</b></u>	<u><b>(HK0.766 cents)</b></u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 September 2008 <i>HK\$'000</i> (Unaudited)	At 31 March 2008 <i>HK\$'000</i> (Audited) (Restated)
<b>Non-current assets</b>			
Investment properties		489,500	630,820
Interests in leasehold land and land use rights		43,093	41,938
Property, plant and equipment		252,068	239,849
Intangible assets		125,779	116,873
Other financial assets		352,943	350,098
Interests in an associate		74,000	–
Goodwill		–	11,006
Other non-current assets		2,394	2,401
		<u>1,339,777</u>	<u>1,392,985</u>
<b>Current assets</b>			
Properties under development for sale		532,184	607,714
Inventories		891	844
Trade and other receivables and prepayments	7	712,914	735,907
Loan receivables		121,711	61,899
Financial assets at fair value through profit or loss		64	98
Bank balances – trust and segregated accounts		4,649	4,346
Cash and cash equivalents		24,643	30,193
		<u>1,397,056</u>	<u>1,441,001</u>
<b>Current liabilities</b>			
Trade and other payables and deposits received	8	247,028	257,349
Amount due to a related company		–	78,564
Tax payable		3,130	2,297
Derivative financial instruments		1,079	22,736
Bank borrowings – due within one year		120,005	100,357
Other borrowings – due within one year		100,617	–
		<u>471,859</u>	<u>461,303</u>
<b>Net current assets</b>		<u>925,197</u>	<u>979,698</u>
<b>Total assets less current liabilities</b>		<u><u>2,264,974</u></u>	<u><u>2,372,683</u></u>

## CONDENSED CONSOLIDATED BALANCE SHEET – Continued

	At 30 September 2008 <i>HK\$'000</i> (Unaudited)	At 31 March 2008 <i>HK\$'000</i> (Audited) (Restated)
<b>Equity</b>		
Share capital	2,028,619	1,728,619
Share premium and reserves	(23,354)	394,369
Equity attributable to ordinary equity holders of the Company	2,005,265	2,122,988
Minority interests	9,232	9,312
	<u>2,014,497</u>	<u>2,132,300</u>
<b>Non-current liabilities</b>		
Bank borrowings – due after one year	222,829	199,631
Convertible notes	–	–
Deferred tax liabilities	27,648	40,752
	<u>250,477</u>	<u>240,383</u>
	<u><u>2,264,974</u></u>	<u><u>2,372,683</u></u>

## NOTES

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The condensed consolidated financial statements have been prepared on historical cost basis as modified for the revaluation of certain financial assets and financial liabilities at fair value through profit or loss and investment properties, which are carried at fair value.

The accounting policies used in 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 2008.

In the current interim period, the Group has applied, for the first time, the following new interpretations (“HK(IFRIC) – Int”) issued by the HKICPA which are effective for the Group’s accounting period beginning 1 April 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of HK(IFRIC) – Int 12 resulted in material impact on the condensed consolidated financial statements of the Group are separately described in Note 2 below.

The adoption of HK(IFRIC) – Int 14 and HKAS 39 & HKFRS 7 (Amendments) had no material effect on the results and the financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

HKFRSs (Amendments)	Improvements to HKFRSs <sup>5</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>2</sup>
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>1</sup>
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estates <sup>1</sup>
HK(IFRIC) – Int 16	Hedges of a New Investment in a Foreign Operation <sup>4</sup>
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual period beginning on or after 1 July 2009

The Group is currently assessing the impact of the adoption of the above standards, amendments and interpretations in future period.

## 2. CHANGES IN ACCOUNTING POLICIES

The following sets out further information on the adoption of HK(IFRIC) – Int 12 for the accounting period beginning on 1 April 2008 which has been reflected in this interim financial information.

### (a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of HK(IFRIC) – Int 12 to each of the line items in the consolidated income statement for the six months ended 30 September 2007 and the consolidated balance sheet as at 31 March 2008 as previously reported.

## Effects on the condensed consolidated income statement

	For the six months ended 30 September 2007 (as previously reported) <i>HK\$'000</i>	Effects of HK(IFRIC) – Int 12 increase/ (decrease) <i>HK\$'000</i>	For the six months ended 30 September 2007 (as restated) <i>HK\$'000</i>
Turnover	25,644	(6,717)	18,927
Cost of sales	(2,728)	(4,778)	(7,506)
Interest income	3,196	16,731	19,927
Amortisation and depreciation	(5,629)	4,116	(1,513)
Taxation	(535)	(3,084)	(3,619)
Minority interests	(668)	293	(375)
	<u>19,280</u>	<u>6,561</u>	<u>25,841</u>

## Effects on the consolidated balance sheet

	At 31 March 2008 (as previously reported) <i>HK\$'000</i>	Effects of HK(IFRIC) – Int 12 increase/(decrease) <i>HK\$'000</i>	At 31 March 2008 (as restated) <i>HK\$'000</i>
<b>Assets</b>			
Property, plant and equipment	608,661	(368,812)	239,849
Intangible assets	–	116,873	116,873
Other financial assets	–	350,098	350,098
	<u>608,661</u>	<u>98,159</u>	<u>706,820</u>
<b>Equity and liabilities</b>			
Reserves	301,905	92,464	394,369
Minority interests	6,849	2,463	9,312
Deferred tax liabilities	17,603	23,149	40,752
Trade and other payables and deposits received	277,266	(19,917)	257,349
	<u>603,623</u>	<u>98,159</u>	<u>701,782</u>

**(b) Effects of changes in accounting policies on the current period**

**Effects on the condensed consolidated income statement for the six months ended 30 September 2008**

	<b>Effects of HK(IFRIC) – Int 12 increase/(decrease) HK\$'000</b>
Turnover	(14,570)
Cost of sales	(2,252)
Interest income	19,759
Amortisation and depreciation	12,250
Taxation	(3,797)
	<hr/>
	11,390
	<hr/> <hr/>

**Effects on the condensed consolidated balance sheet at 30 September 2008**

	<b>Effects of HK(IFRIC) – Int 12 increase/(decrease) HK\$'000</b>
<b>Assets</b>	
Property, plant and equipment	(376,828)
Intangible assets	125,779
Other financial assets	352,943
	<hr/>
	101,894
	<hr/> <hr/>
<b>Equity and liabilities</b>	
Reserves	89,267
Minority interests	2,463
Deferred tax liabilities	(24,854)
Trade and other payables and deposits received	35,018
	<hr/>
	101,894
	<hr/> <hr/>

**(c) Service concession arrangements (HK(IFRIC) – Int 12: Service concession arrangements)**

In prior years, the Group recognised property, plant and equipment of certain of its build-operate-transfer (“BOT”) arrangements as property, plant and equipment.

With effective from 1 April 2008, in accordance with HK(IFRIC) – Int 12, the BOT arrangements of the Group, such as sewage water processing projects are service concession arrangements under HK(IFRIC) – Int 12. Infrastructure within the scope of HK(IFRIC) – Int 12 is not recognised property, plant and equipment as control of the infrastructure of the projects remain in public hands but the Group is responsible for construction or upgrade activities, as well as for operating and maintaining the public sector infrastructure.

As a result, the Group accounts for revenue and costs in accordance with HKAS 11 “Construction Contracts” for the construction and upgrade services of the plant and to account for the fair value of consideration received and receivable for the construction and upgrade services as an intangible asset in accordance with HKAS 38 “Intangible Assets” to the extent that the operator receives a right (a licence) to charge users of the public service, which amounts are contingent on the extent that the public uses the service or a financial asset in accordance with HKAS 39 “Financial Instruments: Recognition and Measurement”. In addition, the operator accounts for the services in relation to the operation of the plant in accordance with HKAS 18 “Revenue”.

Consideration received or receivable by the Group for the water treatment operation are recognised at their fair values as financial assets. For financial assets recognised, they are reduced when payments, being a portion of the sewage water processing revenue. Finance income on the financial assets is recognised using an estimate of the service concession grantors’ incremental borrowing rate of interest. For intangible asset recognised, it is amortised on a straight-line basis over its estimated useful life.

Borrowing costs incurred for the construction and upgrade services are not capitalised and are expensed in the period in which they are incurred.

### 3. SEGMENT INFORMATION

#### Business segments

The Group’s operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group’s business segments represents a strategic business unit that offers products and services which are subjected to risks and returns that are different from those of the other business segments. The following tables present turnover and results for the Group’s business segments.

There are no sales or other transactions among the business segments.

#### For the six months ended 30 September 2008

	<b>Environmental protection and water treatment operation</b>	<b>City development and investment operation</b>	<b>Property investment operation</b>	<b>Securities and financial operation</b>	<b>Elimination</b>	<b>Consolidated total</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>TURNOVER</b>						
External sales	9,485	–	8,049	9,942	–	27,476
Finance income	19,759	–	–	–	–	19,759
	<u>29,244</u>	<u>–</u>	<u>8,049</u>	<u>9,942</u>	<u>–</u>	<u>47,235</u>
<b>SEGMENT RESULTS</b>	<u>16,764</u>	<u>(125,651)</u>	<u>(143,788)</u>	<u>7,597</u>	<u>–</u>	<u>(245,078)</u>
Unallocated interest income						176
Unallocated corporate expenses						(235,285)
Loss from operations						<u>(480,187)</u>



For the six months ended 30 September 2007

	Environmental protection and water treatment operation <i>HK\$'000</i> (Restated)	City development and investment operation <i>HK\$'000</i>	Property investment operation <i>HK\$'000</i>	Securities and financial operation <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated total <i>HK\$'000</i> (Restated)
TURNOVER						
External sales	9,250	–	4,956	4,721	–	18,927
Finance income	16,731	–	–	–	–	16,731
	<u>25,981</u>	<u>–</u>	<u>4,956</u>	<u>4,721</u>	<u>–</u>	<u>35,658</u>
SEGMENT RESULTS	<u>10,453</u>	<u>(16,728)</u>	<u>1,993</u>	<u>1,671</u>	<u>–</u>	<u>(2,611)</u>
Unallocated interest income						3,196
Unallocated corporate expenses						(47,080)
Loss from operations						<u>(46,495)</u>

**Geographical segments**

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

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

	Hong Kong		The PRC		Consolidated total	
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i> (Restated)	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i> (Restated)
TURNOVER						
External sales	10,212	4,991	17,264	13,936	27,476	18,927
Finance income	–	–	19,759	16,731	19,759	16,731
	<u>10,212</u>	<u>4,991</u>	<u>37,023</u>	<u>30,667</u>	<u>47,235</u>	<u>35,658</u>
SEGMENT RESULTS	<u>5,861</u>	<u>1,478</u>	<u>(250,939)</u>	<u>(4,089)</u>	<u>(245,078)</u>	<u>(2,611)</u>
Unallocated interest income					176	3,196
Unallocated corporate expenses					(235,285)	(47,080)
Loss from operations					<u>(480,187)</u>	<u>(46,495)</u>

#### 4. LOSS FROM OPERATIONS

**For the six months ended  
30 September**

<b>2008</b>	<b>2007</b>
<b>HK\$'000</b>	<b>HK\$'000</b>
<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>(Restated)</b>

Loss from operations has been arrived at after charging:

Depreciation		
– Owned assets	1,427	1,185
– Assets held under finance leases	–	26
Amortisation of leasehold land and land use rights	333	302
Operating lease rentals in respect of premises	955	1,619
Net foreign exchange loss	9	160
	<u>          </u>	<u>          </u>

#### 5. TAXATION

**For the six months ended  
30 September**

<b>2008</b>	<b>2007</b>
<b>HK\$'000</b>	<b>HK\$'000</b>
<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>(Restated)</b>

Current tax	475	535
Deferred tax	(13,810)	3,084
	<u>          </u>	<u>          </u>
	<u>(13,335)</u>	<u>3,619</u>

On 26 June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profits tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. Accordingly, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the six months ended 30 September, 2008.

Taxation arising in other jurisdictions is calculated at rates prevailing in the prevailing in the relevant jurisdictions.

## 6. LOSS PER SHARE

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

	<b>For the six months ended 30 September</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited) (Restated)
Loss attributable to ordinary equity holders for the purpose of basic and diluted loss per share	<b>477,302</b>	53,546
	<b>=====</b>	<b>=====</b>
	<b>As at 30 September</b>	
Number of shares	<b>2008</b>	2007
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<b>20,048,488,714</b>	6,987,914,452
	<b>=====</b>	<b>=====</b>

Diluted loss per share for the six months ended 30 September 2007 and 2008 were the same as basis loss per share. The Company's outstanding share options and convertible notes options were not included in the calculation of diluted loss per share because the effect of the Company's outstanding share options and convertible notes options were anti-dilutive.

## 7. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group allows an average credit period of 60 days to its trade customers. The aged analysis of trade receivables of HK\$8,347,000 (31 March 2008: HK\$34,520,000) included in trade and other receivables and prepayments is as follow:

	<b>As at 30 September 2008 HK\$'000 (Unaudited)</b>	As at 31 March 2008 HK\$'000 (Audited)
Trade receivables:		
0 – 30 days	<b>8,347</b>	34,520
Margin clients accounts receivables	<b>1,227</b>	1,227
Clearing houses, brokers and dealers	<b>3,952</b>	1,502
Prepayments and deposits	<b>666,106</b>	661,716
Other receivables	<b>33,282</b>	36,942
	<b>=====</b>	<b>=====</b>
	<b>712,914</b>	735,907
	<b>=====</b>	<b>=====</b>

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

Included in the prepayments and deposits as at 31 March 2008 and 30 September 2008 amounted to approximately HK\$347,063,000 and HK\$381,703,000 are deposits paid for acquisition of Heilongjiang Black Dragon Company Limited.

## 8. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

The aged analysis of trade payables of HK\$6,920,000 (31 March 2008: HK\$8,851,000) included in trade and other payables and deposits received is as follow:

	<b>As at 30 September 2008 HK\$'000 (Unaudited)</b>	<b>As at 31 March 2008 HK\$'000 (Audited) (Restated)</b>
Trade payables:		
0 – 30 days	<b>6,920</b>	8,851
Accounts payable arising from the business of dealing in securities and equity options:		
Margin clients	<b>1,395</b>	95
Other payables and deposits received	<b>238,713</b>	248,403
	<b>247,028</b>	257,349

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

Included in the other payables and deposits received are payables for construction works of approximately HK\$126,933,000 (31 March 2008: HK\$124,562,000) and deposits received for the pre-sale properties of approximately HK\$20,770,000 (31 March 2008: HK\$25,890,000).

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2008 (2007: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS

The Group's turnover for the six months ended 30 September 2008 (the "Period") amounted to HK\$27,476,000 increased by 45.2% comparing to the restated HK\$18,927,000 in corresponding period in last year. The increase in turnover was mainly due to the Group added property investment in Shanghai and Beijing in last year, which increased its rental income. Also, the sewage treatment plant at Maanshan commenced operation in August last year, which brought revenue to its environmental protection and water treatment operation.

The Group's loss for the Period amounted to HK\$477,382,000 increased by 785.3% comparing to the restated HK\$53,921,000 in the corresponding period in last year. The loss was mainly attributable to (i) a revaluation loss of approximately HK\$270,702,000 arising on change in fair value of the Group's property investment under the recent adverse conditions of the property market and (ii) after the end of the Period, on 15 October 2008, the Company entered into a sale and purchase agreement

with an independent third party with respect to the disposal of 29.52% of the issued share capital of China Pipe Group Limited, for a consideration of HK\$74,000,000, which resulted in impairment loss of approximately HK\$225,146,000 in the Group's investment in an associate. The impairment loss is calculated based on the equity interest of the investment of HK\$299,146,000 less the disposal consideration of HK\$74,000,000 and it should be recognised in the Period in accordance with Hong Kong Financial Reporting Standards. By excluding the effects of the above losses, the Group recorded profit of HK\$18,466,000.

## **BUSINESS REVIEW AND PROSPECT**

### **Environmental Protection and Water Treatment Operation**

During the Period, the sewage treatment capacity for the environmental protection and sewage treatment projects of the Group that had commenced operation amounted to 180,000 tonnes on average per day. The total income increased by 12.6% to HK\$29,244,000.

In order to accelerate the pace of business development, the Group acquired 70.21% equity interest of Heilongjiang Black Dragon Company Limited ("Black Dragon") (stock code: 600187, its shares are listed on the Shanghai Stock Exchange and have been suspended from trading) at the beginning of 2007 and engaged in a series of activities for the resumption of trading in the shares of Black Dragon (the "Acquisition"). These activities included the grant of loans to Black Dragon for the acquisition of water treatment projects so as to complete the business restructuring, and conducted the share reform scheme for Black Dragon in the capacity as the potential substantial shareholder of Black Dragon. The approval of the Acquisition has been obtained from Ministry of Commerce of the PRC on 1 September 2008 and the final approval regarding the assets restructuring of Black Dragon and the waiver of the obligations to make the general offer by the Group (if any) has been obtained from the China Securities Regulatory Commission on 10 December 2008. Black Dragon owns two water treatment projects in Shaanxi Province, and one in Qinghai Province, with a daily aggregate sewage treatment capacity of 280,000 tonnes. Upon completion of the Acquisition, the treatment capacity of the Group's environmental protection and water treatment operation will increase to 600,000 tonnes per day, and the revenue will substantially increase. On the other hand, the sewage treatment project located at Changli City, Hebei Province, with a sewage treatment capacity of 40,000 tonnes on average per day, will be completed in the first quarter of 2009, and commence trial operation in water treatment, which will bring revenue to the Group.

The Group planned to provide through Black Dragon an additional financing platform for the environmental protection and water treatment operations of the Group, so as to further expand the scale of development in the environmental protection and water treatment operations of the Group. Environmental protection and water treatment operation will be a major and stable source of revenue of the Group.

The Group will continue to seek opportunities of merger and acquisition of quality water treatment projects, to further increase its investment in environmental protection and water treatment operation, so as to keep on expanding the development scale of environmental protection and water treatment operation of the Group.

## **City Development and Investment Operation**

With the impacts of the global economic downturn and a series of macro-economic control measures, the Interchina Mall – the Group’s mega-scale luxurious residential and commercial complex in Changsha has recorded impairment loss of HK\$120,508,000 in properties under development for sale.

In light of the introduction of macroeconomic control measures on property developers in the PRC and the recent stagnation in the economy, uncertainty of investment in property development in the PRC have increased. The huge capital needed to continue the development of the project also increased the risks of investment and reduced the financial resources available to other core business operation of the Group. As a result, in December this year, the Group disposed its entire interests in and shareholders’ loan due from two wholly-owned subsidiaries, which held property development projects located in Changsha at a total consideration of RMB330,000,000 (the “Disposal”), to enhance the working capital of the Group. Details of the transactions were set out in the Company’s announcement dated 12 December 2008.

After completion of the Disposal, the Group will ceased to be engaged in the city development and investment operation and concentrated its resources on development its core environmental protection and water treatment operation.

## **Property Investment Operation**

During the Period, the turnover for the Group’s property investment operation increased 62.4% to HK\$8,049,000. The Group’s investment properties are mainly comprised of a shopping mall of about 18,000 square meters in the CBD of Shanghai, the PRC and a commercial unit of about 9,000 square meters in the CBD of Beijing, the PRC.

During the Period, the Group’s investment properties recorded decrease in fair value and revaluation loss of approximately HK\$150,194,000. The revaluation loss was non-cash and had no material impact on the Group’s finance and business.

## **Securities and Financial Operation**

During the Period, the turnover of the Group’s securities and financial operation increased 110.6% to HK\$9,942,000, which is mainly attributable to the increase in interest income. The Group will continue to strengthen internal control over the borrowings to margin clients, especially in reducing the margin ratio for non-index constituent stocks, so as to reduce the risk arising from the fluctuation of the stock market.

## FINANCIAL REVIEW

### Liquidity, Financial Resources and Capital Structure

During the Period, the Group's financial resources mainly comprised cash inflow generated by its business operations, bank and other borrowings and the issuance of convertible notes. As at 30 September 2008, the Group's cash on hand and deposits in bank (including segregated and trust accounts) totaled approximately HK\$29,292,000 (31 March 2008: HK\$34,539,000).

As at 30 September 2008, the Group had total assets of HK\$2,736,833,000 (31 March 2008: restated HK\$2,833,986,000).

As at 30 September 2008, the Group had outstanding borrowings of HK\$443,451,000 (31 March 2008: HK\$299,988,000) comprising secured bank and other borrowings of HK\$394,026,000 (31 March 2008: HK\$252,210,000) and unsecured bank borrowings of HK\$49,425,000 (31 March 2008: HK\$47,778,000) whereas 77.3% of the Group's outstanding borrowings carried interest on floating rate basis and the remaining 22.7% were at fixed interest rate. The gearing ratio was 16.2% (total outstanding borrowings/total assets). The maturity profile of the outstanding borrowings was spread over a period of more than five years with HK\$220,622,000 repayable within one year, HK\$144,650,000 repayable after one year but within five years and HK\$78,179,000 repayable after the five years. The Group's secured bank and other borrowings were secured by the Group's investment properties, interest in leasehold land, and the equity interest in an associate.

The Group's principal assets, liabilities, revenue and payments are denominated in Hong Kong dollars and Renminbi. As at 30 September 2008, 43.9% of the Group's cash on hand and deposits in bank was held in Hong Kong dollars and 56.1% in Renminbi; whereas 28.7% of the Group's outstanding borrowings was denominated in Hong Kong dollars and the rest in Renminbi.

Pursuant to the Share Subscription Agreement dated 5 July 2007, in April 2008, the Company issued 5-year convertible notes bearing interest at 3% p.a. convertible into a total of 3,000,000,000 shares of HK\$0.1 each in respect of the second tranche convertible note options, and all of the convertible notes had been converted into share capital during the Period. The net proceeds were mainly applied as usual working capital. As at 30 September 2008, the issued capital of the Company was 20,286,193,632 shares and shareholders equity amounted to HK\$2,005,265,000.

## **Significant Disposal**

On 15 October 2008, the Company entered into the sale and purchase agreement with Singapore Zhongxin Investment Company Limited with respect to the disposal of 3,700,000,000 shares in China Pipe Group Limited (“China Pipe”), representing approximately 29.52% of the issued share capital of China Pipe, for a consideration of HK\$74,000,000. Details of the disposal were set out in the Company’s announcement dated 17 October 2008.

On 10 December 2008, the Company entered into a sale and purchase agreement with Shanghai Fanghua Shiye Development Limited for the disposal of the entire interest in Interchina (Changsha) Investments and Management Company Limited (“ICIM”), 38.9% interest in Changsha Interchina Star City Company Limited and a non-interest bearing shareholder’s loan owing by ICIM to the Company at a total consideration of RMB330,000,000. Details of the transactions were set out in the Company’s announcement dated 12 December 2008.

Save as those disclosed above, during the Period, the Group did not have other significant investment or acquisition or disposal of subsidiaries.

## **Pledge of Group’s Assets**

As at 30 September 2008, the Group’s assets were pledged as security for its bank and other borrowings, comprising investment properties with carrying amounts of HK\$166,868,000 (31 March 2008: HK\$62,611,000) and interests in leasehold land with carrying amounts of HK\$43,093,000 (31 March 2008: HK\$41,938,000). In addition, certain shares of an associate held by the Group were also pledged to lender to secure loan facilities granted to the Group.

## **Foreign Exchange Exposure**

The Group’s assets, liabilities and transactions are mainly denominated either in Hong Kong dollar or Renminbi. As Renminbi becomes more volatile, the Group’s operations and performances might thus be affected. Presently, the Group does not have any currency hedging policy but will closely monitor the fluctuation of Renminbi exchange rate and take appropriate measures to minimize any adverse impact that may be caused by such fluctuation.

## **Employment and Remuneration Policy**

As at 30 September 2008, the Group had a total of 240 employees in the PRC and Hong Kong. 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.



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

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

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

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules, throughout the six months ended 30 September 2008, save for the deviation as set out below:

The code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for specific term, subject to re-election. Currently, all directors of the Company (including executive and non-executive directors) are not appointed for any specific term. However, all directors are subject to retirement by rotation at each annual general meeting in accordance with the Company's Articles of Association and shall be eligible for re-election. The Board shall ensure that all directors shall be subject to retirement by rotation at least once every three years so as to accomplished the same purpose as a specific term of appointment.

The code provision E.1.2 of the CG Code stipulates that the Chairman of the Board should attend the 2008 annual general meeting of the Company ("2008 AGM"). The Chairman did not attend the 2008 AGM due to other business engagements.

## **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 six months ended 30 September 2008.

## **AUDIT COMMITTEE**

The audit committee which comprised three independent non-executive directors of the Company, namely Mr. Wong Hon Sum, Dr. Tang Tin Sek and Ms. Ha Ping, has reviewed with management the accounting principles and policies adopted by the Group and discussed internal control and the financial reporting matters including the review of the unaudited condensed financial statements for the six months ended 30 September 2008.

## **PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT**

This results announcement is published on the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.interchina.com.hk](http://www.interchina.com.hk)). The 2008 Interim Report will be dispatched to Shareholders in late December 2008 and will be available at the Stock Exchange's website and the Company's website accordingly.

## **BOARD OF DIRECTORS**

As at the date of this announcement, the executive Directors are Mr. Zhang Yang, Mr. Zhu Yongjun, Mr. Chan Wing Yuen, Hubert and Mr. Lam Cheung Shing, Richard and the independent non-executive Directors are Mr. Wong Hon Sum, Ms. Ha Ping and Dr. Tang Tin Sek.

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

Hong Kong, 23 December 2008