

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



## INTERCHINA HOLDINGS COMPANY LIMITED

### 國 中 控 股 有 限 公 司

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

The board of directors (the “**Board**” or the “**Directors**”) 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 2010 as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September

	<i>Notes</i>	2010 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited)
<b>Continuing operations</b>			
Turnover	2	124,538	89,495
Cost of sales		(48,407)	(29,175)
Other income and gain, net	3	29,185	20,141
Staff costs		(23,113)	(17,724)
Amortisation and depreciation		(15,060)	(16,916)
Administrative costs		(35,535)	(30,326)
Share-based payment expenses		(91,064)	(76,408)
Fair value change in investment properties		15,650	34,057
Loss arising on change in fair value of financial assets classified as held for trading		(28,506)	—
<b>Loss from operations</b>	4	(72,312)	(26,856)
Finance costs		(33,273)	(34,156)
<b>Loss before taxation</b>		(105,585)	(61,012)
Taxation	5	(13,587)	(8,375)
<b>Loss for the period from continuing operations</b>		(119,172)	(69,387)

**CONDENSED CONSOLIDATED INCOME STATEMENT – Continued***For the six months ended 30 September*

	<i>Notes</i>	<b>2010</b> <b>HK\$'000</b> <b>(Unaudited)</b>	<b>2009</b> <b>HK\$'000</b> <b>(Unaudited)</b>
<b>Discontinued operation</b>			
Loss for the period from discontinued operation		–	(4,999)
<b>Loss for the period</b>		<b>(119,172)</b>	<b>(74,386)</b>
<b>Attributable to:</b>			
Owners of the Company		(122,987)	(78,225)
Non-controlling interests		3,815	3,839
		<b>(119,172)</b>	<b>(74,386)</b>
<b>Loss per share for loss attributable to owners of the Company</b>			
From continuing operations			
– Basic and diluted (2009: Restated)	6	<b>(HK4.62 cents)</b>	<b>(HK3.51 cents)</b>
From continuing and discontinued operations			
– Basic and diluted (2009: Restated)	6	<b>(HK4.62 cents)</b>	<b>(HK3.75 cents)</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	At 30 September 2010 <i>HK\$'000</i> (Unaudited)	At 31 March 2010 <i>HK\$'000</i> (Audited)
<b>Non-current assets</b>			
Investment properties		636,100	609,722
Interests in leasehold land and land use rights		15,679	–
Property, plant and equipment		21,995	19,075
Intangible assets		714,399	702,801
Other financial assets		464,365	452,158
Goodwill		392,095	387,588
Other non-current assets		2,277	2,283
		2,246,910	2,173,627
<b>Current assets</b>			
Inventories		5,192	3,078
Trade and other receivables and prepayments	7	1,799,940	1,154,387
Loan receivables	8	218,819	–
Financial assets at fair value through profit or loss		56	143,546
Tax recoverable		47	47
Bank balances – trust and segregated accounts		9,207	27,734
Cash and cash equivalents		68,548	129,140
		2,101,809	1,457,932
Assets classified as held for sale		42,581	41,614
		2,144,390	1,499,546
<b>Total assets</b>		4,391,300	3,673,173
<b>Equity</b>			
Share capital		286,122	2,324,219
Share premium and reserves		2,205,661	(200,268)
		2,491,783	2,123,951
Equity attributable to owners of the Company		2,491,783	2,123,951
Non-controlling interests		237,983	234,168
		2,729,766	2,358,119
<b>Non-current liabilities</b>			
Bank borrowings – due after one year		465,875	279,147
Deferred tax liabilities		143,788	136,938
		609,663	416,085

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION – Continued**

		At <b>30 September</b> <b>2010</b> <i>HK\$'000</i> <b>(Unaudited)</b>	At 31 March 2010 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
<b>Current liabilities</b>			
Trade and other payables and deposits received	9	303,738	230,018
Tax payable		34,954	39,917
Derivative financial instruments		–	66
Bank borrowings – due within one year		404,818	214,257
Other borrowings – due within one year		288,428	394,830
Convertible notes		19,933	19,881
		<hr/>	<hr/>
		1,051,871	898,969
Liabilities classified as held for sale		–	–
		<hr/>	<hr/>
		1,051,871	898,969
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>1,661,534</b>	<b>1,315,054</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>Total equity and liabilities</b>		<b>4,391,300</b>	<b>3,673,173</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>Net current assets</b>		<b>1,092,519</b>	<b>600,577</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>Total assets less current liabilities</b>		<b>3,339,429</b>	<b>2,774,204</b>
		<hr/> <hr/>	<hr/> <hr/>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 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 except that the following assets and liabilities are stated at their fair value:

- investment property;
- financial instruments classified as trading securities; and
- derivative financial instruments

Non-current assets and disposal groups held for sale are stated at fair value less costs to sell.

The condensed consolidated financial statements do not include all the information of disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2010.

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 2010, except for the adoption of the new standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA as noted below.

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 (Amendments)	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exceptions for First-time Adopters
HKFRS 2 (Amendments)	Amendments to HKFRS 2 Share-Based Payment – Group Cash-settled Share-Based Payment Transactions
HKAS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment)	Amendments to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues
HKAS 39 (Amendment)	Amendments to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
HK Interpretation 4 (Revised in December 2009)	Lease – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs
Amendment to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendment to HKFRS 5 Non-current Asset Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary

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.

## 2. OPERATING SEGMENT

The Group's operating businesses are structured and managed separately, according to the nature of their operation and the products and services they provide. For management purpose, the Group is currently organised into the following operating segments.

### Continuing operations

- |  |   |
|--|---|
| (i) Environmental protection and water treatment operation | – Operation of water plants and sewage treatment plants in the People's Republic of China (the "PRC") |
| (ii) Property investment operation                         | – Leasing of rental property in the PRC and Hong Kong   |
| (iii) Securities and financial operation                   | – Securities investment provision of financial service  |

### Discontinued operation

- |   |   |
|---|---|
| (i) City development and investment operation | – Infrastructure construction for urbanisation operation and property development for sale in the PRC |
|---|---|

The following tables present revenue and results for the Group's operating segments.

### For the six months ended 30 September 2010

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

## 2. OPERATING SEGMENT (Continued)

For the six months ended 30 September 2009

	Continuing operations			Discontinued operation		Consolidated total HK\$'000
	Environmental protection and water treatment operation HK\$'000	Property investment operation HK\$'000	Securities and financial operation HK\$'000	Total HK\$'000	City development and investment operation HK\$'000	
Segment revenue	75,788	8,920	4,787	89,495	–	89,495
Segment results	23,883	40,929	(1,133)	63,679	(4,479)	59,200
Interest income and unallocated gains				163	10	173
Administrative costs				(14,290)	–	(14,290)
Share-based payment expenses				(76,408)	–	(76,408)
Loss from operations				(26,856)	(4,469)	(31,325)
Gain on remeasurement to fair value less costs to sell				–	4,637	4,637
Finance costs				(34,156)	(5,167)	(39,323)
Loss before taxation				(61,012)	(4,999)	(66,011)
Taxation				(8,375)	–	(8,375)
Loss for the period				(69,387)	(4,999)	(74,386)

## 3. OTHER INCOME AND GAIN, NET

	Continuing operations		Discontinued operation		Consolidated total	
	For the six months ended 30 September		For the six months ended 30 September		For the six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Bank interest income	135	163	–	10	135	173
Government subsidies	12,989	16,998	–	–	12,989	16,998
Consultancy service income	11,238	–	–	–	11,238	–
Dividend income	3	26	–	–	3	26
Net foreign exchange gain	3,542	–	–	–	3,542	–
Fair value change in derivative financial instruments	66	–	–	–	66	–
Sundry income	1,212	2,954	–	–	1,212	2,954
	29,185	20,141	–	10	29,185	20,151

#### 4. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	Continuing operations		Discontinued operation		Consolidated total	
	For the six months ended		For the six months ended		For the six months ended	
	30 September		30 September		30 September	
	2010	2009	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation	1,955	4,546	–	–	1,955	4,546
Amortisation of leasehold land and intangible assets	13,235	12,370	–	–	13,235	12,370
Operating lease rentals in respect of premises	2,504	2,734	–	–	2,504	2,734
	<u>13,504</u>	<u>17,650</u>	<u>–</u>	<u>–</u>	<u>13,504</u>	<u>17,650</u>

#### 5. TAXATION

	Continuing operations		Discontinued operation		Consolidated total	
	For the six months ended		For the six months ended		For the six months ended	
	30 September		30 September		30 September	
	2010	2009	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax						
Hong Kong Profits Tax	1,484	163	–	–	1,484	163
The PRC Enterprise Income Tax	6,185	5,496	–	–	6,185	5,496
	7,669	5,659	–	–	7,669	5,659
Deferred tax	5,918	2,716	–	–	5,918	2,716
	<u>13,587</u>	<u>8,375</u>	<u>–</u>	<u>–</u>	<u>13,587</u>	<u>8,375</u>

##### Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 16.5% (for the six months ended 30 September 2009: 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 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 2010 and 2009.





## 7. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group allows an average credit period of 60 days (31 March 2010: 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 follows:

	<b>As at 30 September 2010 HK\$'000 (Unaudited)</b>	<b>As at 31 March 2010 HK\$'000 (Audited)</b>
Trade receivables:		
0 – 30 days	177,979	148,178
31 – 60 days	–	–
61 – 90 days	–	–
Over 90 days	<b>10,622</b>	24,450
	<b>188,601</b>	172,628
Margin clients accounts receivables	<b>2,322</b>	2,570
Clearing houses, brokers and dealers	<b>12,958</b>	6,943
Prepayments and deposits	<b>1,402,170</b>	905,302
Other receivables	<b>196,083</b>	69,067
	<b>1,802,134</b>	1,156,510
Less: Impairment of other receivables and prepayment	<b>(2,194)</b>	(2,123)
	<b>1,799,940</b>	1,154,387

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.

## 8. LOAN RECEIVABLES

The loan receivables were unsecured, carrying at the prevailing interest rate ranging from 7.8% to 12% per annum with fixed repayment terms.

## 9. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

The aged analysis of trade payables is as follow:

	<b>As at 30 September 2010 HK\$'000 (Unaudited)</b>	<b>As at 31 March 2010 HK\$'000 (Audited)</b>
Trade payables:		
0 – 30 days	15,194	39,257
31 – 60 days	–	–
61 – 90 days	–	–
Over 90 days	3,707	–
	<hr/>	<hr/>
	18,901	39,257
Accounts payable arising from the business of dealing in securities and equity options:		
Margin clients	106	106
Other payables and deposits received	284,731	190,655
	<hr/>	<hr/>
	<b>303,738</b>	<b>230,018</b>
	<hr/> <hr/>	<hr/> <hr/>

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.

## 10. SUBSEQUENT EVENTS

- (i) On 16 September 2010 (after trading hours), the Company entered into a placing agreement with placing agent, pursuant to which the placing agent agreed amongst other things, on a best effort basis, to procure places to subscribe in cash for convertible notes issued by the Company up to the principal amount of HK\$495,000,000 (the “Convertible Notes”). The placing conditions precedent for the placing of the Convertible Notes under the placing agreement were fulfilled and that the placing of the Convertible Notes has been completed on 8 October 2010 pursuant to the terms of the placing agreement. Details of the placing of the Convertible Notes were set out in the Company’s announcement dated 16 September 2010 and 8 October 2010.
- (ii) On 15 October 2010 (after trading hours), the Company and CCB International Capital Limited (“CCB International”) entered into a service agreement, pursuant to which the Company has engaged CCB International as a financial adviser to provide the financial advisory service to the Company in relation to the proposed fund raising of up to HK\$8 billion for the potential acquisitions of environmental protection and water treatment projects and other potential projects. Details of the appointment were set out in the Company’s announcement dated 18 October 2010.
- (iii) On 25 October 2010, an indirect owned subsidiary of the Company, Heilongjiang Interchina Water Treatment Company Limited, a company which its shares are listed on the Shanghai Stock Exchange, published an announcement together with auditors’ report, valuation report, profit forecast legal opinions and report from independent financial advisers in relation to increase its capital by issuing not more than 115,000,000 new A shares to 10 target investors at a price of not less than RMB6.51 per A share to raise not more than RMB750,000,000 (the “Share Issue”). The proceeds from the Share Issue were used in acquisition of certain water projects (the “Water Projects Acquisition”) in the PRC. The completion of the Share Issue and the Water Projects Acquisition are still subject to the approval from the regulatory authorities in the PRC and the details of the Share Issue and the Water Projects Acquisition were set out in the Company’s announcement dated 8 March 2010, 17 August 2010, 26 October 2010 and 12 November 2010 and circular dated 29 March 2010.
- (iv) On 5 November 2010 (after trading hours), Interchina Tianjin Water Treatment Company Limited (“Interchina Tianjin”), a wholly-owned subsidiary of the Company, entered into a framework agreement (the “Framework Agreement”) with 北安市人民政府 (the “PRC Partner”), in respect of the proposed formation of a joint venture (the “JV”) with a registered capital of RMB50,000,000 and a total investment amount of RMB500,000,000. The JV will be principally engaged in the exploration, processing and sale of natural soda water.

Pursuant to the Framework Agreement, Interchina Tianjin and the PRC Partner will hold 80% and 20% equity interests in the JV respectively. The formation of the JV is subject to the signing of a JV agreement and obtaining of the approvals from the relevant regulatory bodies in the PRC. Details of the proposed investment were set out in the Company’s announcement dated 5 November 2010.

## **DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2010 (for the six months ended 30 September 2009: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

For the six months ended 30 September 2010 (the “Period”), the Group is principally engaged in the businesses of environmental protection and water treatment operation, property investment operation and provision of securities and financial operation.

#### **Operating Results**

During the Period, the Group record a continuing growth in revenue amounted to approximately HK\$124,538,000, representing an increase of approximately 39.2% from that of approximately HK\$89,495,000 during the same period of last year. The increase was mainly attributable from environmental protection and water treatment operation and securities and finance operation. For the period under review, revenue derived from environmental protection and water treatment operation and securities and finance operation increased 30.3% to HK\$98,782,000 and 171.6% to HK\$13,002,000 respectively.

During the Period, the Group recognised a net loss of approximately HK\$119,172,000, representing an increase of approximately 60.2% from that of approximately HK\$74,386,000 for the same period of last year. The increase in loss is attributable to (i) the realised loss of approximately HK\$28,506,000 (for the six months ended 30 September 2009: Nil) arising from investment in listed securities; and (ii) increase in share-based payment expenses by HK\$14,656,000 from HK\$76,408,000 in the last period to HK\$91,064,000 for this period.

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

The Group operates the environmental protection and water treatment operation through Heilongjiang Interchina Water Treatment Company Limited (“Heilongjiang Interchina”) (Stock Code: 600187, it’s A share listed on the Shanghai Stock Exchange), a 70.2% owned subsidiary of the Group and Interchina Water Treatment Company Limited, a wholly owned subsidiary of the Group. As at 30 September 2010, the Group’s environmental protection and water treatment operation comprised a total of 10 sewage treatment and water supply projects with an aggregate daily processing capacity of 937,500 tonnes and is summarized below:

At the end of September 2010, the Group had ten water projects in the PRC, a summary of which is as follow:

<b>Project</b>	<b>Province</b>	<b>The Group's controlling interest</b>	<b>Daily processing capacity (tonnes)</b>
Qinhuangdao Sewage Treatment Plant ("Qinhuangdao Project")	Hebei	100%	120,000
Changli Sewage Treatment Plant ("Changli Project")	Hebei	100%	40,000
Hanzhong Xingyuan Water Supply Plant ("Xingyuan Project")	Shannxi	70.2%	110,000
Yanliang Water Supply Plant ("Yanliang Project")	Shannxi	69.5%	120,000
Hanzhong Shimen Water Supply Plant ("Shimen Project") <sup>(1)</sup>	Shannxi	80%	100,000
Maanshan Sewage Treatment Plant ("Maanshan Project)	Anhui	100%	60,000
Xiongyue Sewage Treatment Plant ("Qinghai Project")	Qinghai	66.7%	42,500
Ordos Sewage & Water Treatment Plant ("Ordos Project") <sup>(2)</sup>	Inn Mongolia	100%	35,000
Dongying Water Treatment Plant ("Dongying Project") <sup>(3)</sup>	Shandong	38.9%	150,000
Taiyuan Haofeng Sewage Treatment Plants ("Taiyuan Project") <sup>(4)</sup>	Shanxi	56.8%	160,000
Total			<u>937,500</u>

(1) The pipeline connection of Shimen Project is outstanding and is expected to be completed by mid of 2011.

(2) Ordos Project commenced trail run in October 2010.

(3) Construction work of Dongying Project is expected to be completed by mid of 2011.

(4) Construction work of Taiyuan Project is expected to be completed by mid of 2011.

The revenue of this segment represented mainly (i) sewage and water treatment income; (ii) sewage and water treatment construction service income; and (iii) finance income under service concession arrangement. During the Period, the Group's environmental protection and water treatment operation recorded revenue of HK\$98,782,000, increased by 30.3% when compared to the same period of last year (for the six months ended 30 September 2009: HK\$75,788,000). The increase is mainly attributable to the significant increase in construction service income by 176.3% to HK\$24,485,000 (for the six months ended 30 September 2009: HK\$8,861,000) as the construction of Ordors Projects in full swing during the Period.

During the Period, the Group has continuously expanded its environmental protection and water treatment operation and successfully obtained two projects. On 12 August 2010, the Group through Heilongjiang Interchina, entered into the agreements to acquire the entire equity interest in 涿州中科國益水務有限公司 (Zhuozhou Zhongke Guoyi Water Treatment Company Limited) ("Zhuozhou Zhongke"), a company established in the PRC at the aggregate consideration of RMB44,650,000 (equivalent to approximately HK\$50,738,636) (the "Zhuozhou Acquisition"). Zhuozhou Zhongke is principally engaged in sewage treatment business in Zhuozhou, Hebei Province, the PRC under a built-operate-transfer arrangement with a term of operation of 25 years. The daily processing capacity of Zhuozhou Zhongke is 80,000 tonnes. Upon completion of the Zhuozhou Acquisition, the Group's aggregate daily processing capacity reached 1,017,500 tonnes. On the even date, the Group also through Heilongjiang Interchina, entered into the agreements to acquire an aggregate of 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) ("Beijing Zhongke"), a company established in the PRC at the aggregate consideration of RMB34,850,000 (equivalent to approximately HK\$39,602,273) (the "Beijing Zhongke Acquisition"). Beijing Zhongke is one of the best service providers in providing environmental protection engineering services and solutions in the PRC. Details of the above acquisitions were set out in the Company's announcement dated 17 August 2010.

Besides, Heilongjiang Interchina has submitted a proposal to Shanghai Stock Exchange and its shareholders to increase its issued share capital by not more than 115,000,000 new A shares to 10 target investors at a price of not less than RMB6.51 per A share to raise not more than RMB750,000,000 (the "Share Issue"). The new proceeds from the Share Issue will be used to further expand the operation of the environmental protection and water treatment business of Heilongjiang Interchina. The Share Issue was approved by the shareholders of the Company at the extraordinary general meeting held on 22 April 2010. The relevant approval procedures by the regulatory authorities of the PRC are still in processing, details of which were set out in the Company's circular dated 29 March 2010. The Share Issue is expected to be completed by the end of this year.

The Group will continue to seek opportunities of merger and acquisition of quality environmental protection and water treatment projects to further increase its investment in the operation and expected the Group's daily processing capacity will reach five million tonnes within two years.

## **Property Investment Operation**

During the Period, the Group's property investment operation recorded income of HK\$12,754,000, representing an increase of approximately 43.0% from that of approximately HK\$8,920,000 for the same period of last year.

During the Period, the Group's investment properties recorded increase in fair value and revaluation gain of approximately HK\$15,650,000 (for the six months ended 30 September 2009: HK\$34,057,000). Our investment properties located in the CBD of Shanghai and Beijing, the PRC will help to secure a stable rental income stream and future profit. The Group will carry out review from time to time on its investment properties for renovation potential in order to enhance rental income.

## **Securities and Financial Operation**

During the Period, the securities and financial operation continued to provide a stable income source to the Group. When compared to the same period of last year, income generated by this segment were up by 171.6% to HK\$13,002,000 (for the six months ended 30 September 2009: HK\$4,787,000). As a small to medium size broker firm, the Group was under tremendous pressure and competition from other major securities broker firms and banks in Hong Kong. However, the Group will continue to strength internal control over the lending to clients but also will continue to launch more customer-oriented value added service to its customers in future with a view to gaining customer confidence in the Group.

## **Prospects**

In the past decade of development, the Company has chosen the environmental protection and water treatment operation which has good development potential, helping the Group to establish firmly its market position in the environmental and water industry. Currently, the Company has gained access to the domestic A-share market investment and financing platform with its holding of Heilongjiang Interchina, which allows the Group to own two direct investment and financing platforms. There is no precedent for such structure in China and Hong Kong so far. Under the prevailing PRC economic policies favouring towards water business, the sewage treatment and water supply sector is optimistic. The possession of two platforms, PRC and Hong Kong capital markets, enables the Group to enjoy the exchange gains brought by the appreciation of RMB; the benefits of high valuation of the domestic capital market; and the strategic synergy of reducing costs and enhancing return on water assets. The Group has planned to invest HK\$8 billion in the water business in the coming two years through financing for the acquisition of debt-free water projects in China with an aggregate daily processing capacity of 4.5 million tonnes. The Group will leverage on the current macroeconomic environment and monetary condition to acquire sufficient external financing, for investment in the water assets in RMB which provides stable income. Under the trend of favourable exchange rate and interest rate, we will strive to bring admirable returns to the shareholders of the Company in addition to enjoying the profits from the specific industry and business it is engaged. The Group will also carefully assess any new business investment opportunities, such as natural resources, to ensure a stable and sound future for shareholders.



## FINANCIAL REVIEW

### Financial Position

At 30 September 2010, the Group's total assets were HK\$4,391,300,000 (31 March 2010: HK\$3,673,173,000) and the total liabilities were HK\$1,661,534,000 (31 March 2010: HK\$1,315,054,000), and the equity reached HK\$2,729,766,000 (31 March 2010: HK\$2,358,119,000). At 30 September 2010, the current ratio of the Group was approximately 2.04 (31 March 2010: 1.67) whereas the gearing ratio (total outstanding borrowings over total assets) of the Group was 26.8% (31 March 2010: 24.7%).

### Financial Resources and Capital Structure

The Group primarily finances its operations with internally generated cash flow, bank and other borrowings and the issuance of convertible notes. At 30 September 2010, the Group's cash on hand and deposits in bank was approximately HK\$77,755,000 (31 March 2010: HK\$156,874,000). At 30 September 2010, 24.2% of the Group's cash on hand and deposits in bank was held in Hong Kong dollars and 75.8% in Renminbi.

At 30 September 2010, the Group's bank and other borrowings increased to HK\$1,179,054,000 (31 March 2010: HK\$908,115,000). The Group's outstanding bank and other borrowings comprising bank borrowings of HK\$870,693,000 (31 March 2010: HK\$493,404,000), other borrowings of HK\$288,428,000 (31 March 2010: HK\$394,830,000) and convertible notes of HK\$19,933,000 (31 March 2010: HK\$19,881,000) whereas 56% of the Group's outstanding bank and other borrowings carried interest on floating rate basis and the remaining 44% were at fixed interest rate. The maturity profile of the outstanding bank and other borrowings was spread over a period of more than five years with HK\$713,179,000 repayable within one year, HK\$335,216,000 repayable after one year but within five years and HK\$130,659,000 repayable after five years. At 30 September 2010, 27.8% of the Group's outstanding borrowings was denominated in Hong Kong dollars and the rest in Renminbi.

During the Period, on 9 April 2010, the Company completed the capital reorganisation which involved: (a) a reduction in the nominal value of each issued ordinary share of the Company from HK\$0.10 to HK\$0.01 by the cancellation of HK\$0.09 of the paid up capital for each issued ordinary share; (b) the application of the credit arising from such reduction of approximately HK\$2,091,797,427 to cancel towards the accumulated losses; (c) the consolidation of every ten reduced shares of HK\$0.01 each in the capital of the Company into one adjusted share of HK\$0.10 each; and (d) to increase the authorised share capital of the Company from HK\$400,000,000 divided into 4,000,000,000 consolidated shares to HK\$1,000,000,000 divided into 10,000,000,000 consolidated shares by the creation of an additional 6,000,000,000 new consolidated shares.

On 19 May 2010, the Company successfully placed 440,000,000 ordinary shares at the price of HK\$0.65 per share raising net proceeds of approximately HK\$278,000,000. Details of the placing were set out in the Company's announcement dated 28 April 2010 and 19 May 2010.

During the Period, a total of 322,000,000 share options were granted by the Company at an exercise price range from HK\$0.83 to HK\$0.89. During the Period, a total 97,000,000 share options granted were exercised, for which a total of 97,000,000 new shares were issued. The proceeds in the sum of HK\$86,330,000 generated from the exercise of share options were used as general working capital of the Group.

On 16 September 2010, the Company entered in to a placing agreement with Kingston Securities Limited (the "Placing Agreement"). Pursuant to the Placing Agreement, subsequent to the period end in October 2010, the Company issued 2-year convertible notes bearing interest at 5% p.a. convertible into a total 550,000,000 shares of HK\$0.9 each. The net proceeds of approximately HK\$482,500,000 will be used for the development of its environmental protection and water treatment operation and exploration of potential business and investment opportunities in the future. Details of the placing were set out in the Company's announcement dated 16 September 2010 and 8 October 2010.

### **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 Zhuozhou Acquisition and Beijing Zhongke Acquisition have been described in the "Business Review and Prospects" section, there was no material acquisition or disposal during the Period.

### **Pledge of Group's Assets**

At 30 September 2010, the Group's assets were pledged as security for its liabilities, comprising investment properties with carrying amounts of HK\$220,553,000, intangible assets with carrying amounts of HK\$405,960,000 and other financial assets with carrying amounts of HK\$464,365,000. 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 2010, the Group had no significant contingent liability.

## **Capital Commitment**

At 30 September 2010, the Group had no significant capital commitment.

## **Employment and Remuneration Policy**

At 30 September 2010, the Group had approximately 811 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.

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

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the period ended 30 September 2010.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "HKSE"). The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the six months ended 30 September 2010 and all Directors confirmed that they have fully complied with the relevant requirements set out in the Model Code during the period.

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

Throughout the six months ended 30 September 2010, save as disclosed below, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules.

### **Code Provision A.4.1**

There was a deviation from provision A.4.1 of the Code:

The code provision A.4.1 of the Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Currently, all directors of the Company (including executive and non-executive directors) are not appointed for any specific term. However, 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.

### **Code Provision E.1.2**

There was a deviation from provision E.1.2 of the Code:

E.1.2 of the Code stipulates that the chairman of the Board (the "Chairman") should attend the annual general meeting of the Company ("AGM"). Due to the appointment of the Chairman had been outstanding since 22 June 2010, no Chairman could attend the AGM on that day. The vice-chairman and an executive Director attended the AGM to ensure effective communication with the shareholders of the Company.

### **AUDIT COMMITTEE**

The Audit Committee of the Company was established in accordance with Appendix 14 to the Listing Rules. The existing Audit Committee comprises Mr. Ho Yiu Yue, Louis (Chairman), Mr. Ko Ming Tung, Edward, Ms. Ha Ping and Dr. Fu Tao, all being independent non-executive Directors.

The Audit Committee met with the management and external auditors on 23 November 2010, to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting including the review of the Group's interim results for the six months ended 30 September 2010 before proposing to the Board for approval.

## REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to consider the remuneration for Directors and senior management of the Company. The Remuneration Committee comprises Mr. Ho Yiu Yue, Louis (Chairman) and Ms. Ha Ping who are independent non-executive Directors and Mr. Lam Cheung Shing, Richard, who is an executive Director.

## ANNOUNCEMENT OF INTERIM RESULTS AND PUBLICATION OF INTERIM REPORT

This results announcement will be published on the Company's website (<http://www.interchina.com.hk>) and the website of the HKSE at [www.hkexnews.hk](http://www.hkexnews.hk). The Interim Report will also be available at the websites of the Company and the HKSE and will be dispatched to shareholders of the Company before the end of December 2010.

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

Hong Kong, 29 November 2010

*As at the date of this announcement, the Board comprised Mr. Lam Cheung Shing, Richard, Mr. Zhu Yongjun and Mr. Zhang Chen as executive Directors and Mr. Ho Yiu Yue, Louis, Mr. Ko Ming Tung, Edward, Ms. Ha Ping and Dr. Fu Tao as independent non-executive Directors.*