

# 國 中



INTERIM REPORT 2007



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

Stock Code: 202

# Contents

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

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

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

#### Independent Non-executive Directors

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

### AUDIT COMMITTEE

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

### REMUNERATION COMMITTEE

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

### CORPORATE GOVERNANCE COMMITTEE

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

### PRINCIPAL BANKERS

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

### AUDITORS

HLB Hodgson Impey Cheng  
Chartered Accountants  
Certified Public Accountants  
31/F., Gloucester Tower  
The Landmark  
11 Pedder Steet, Central  
Hong Kong

### COMPANY SECRETARY

Mr. Lam Cheung Shing, Richard

### SOLICITORS

Kirkpatrick & Lockhart Preston Gates & Ellis Solicitors  
35/F., Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

### PRINCIPAL OFFICE IN HONG KONG

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

### SHARE REGISTRARS

Tricor Tengis Limited  
26/F., Tesbury Centre  
28 Queen's Road East, Hong Kong

### STOCK CODE

0202



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 22, which comprises the condensed consolidated balance sheet of Interchina Holdings Company Limited (the “Company”) and its subsidiaries (together, the “Group”) as of 30 September 2007 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement 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 Standards (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and fair presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 statements 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 statements are not prepared, in all material respects, in accordance with HKAS 34 “Interim Financial Reporting”.

### **HLB Hodgson Impey Cheng**

Chartered Accountants  
Certified Public Accountants

Hong Kong, 21 December 2007

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 September	
		2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Turnover	3	25,644	14,817
Cost of sales		(2,728)	(2,280)
Other revenue		1,547	858
Interest income		3,196	1,122
Staff costs		(11,993)	(14,027)
Amortisation and depreciation		(5,629)	(5,937)
Selling costs		(8,774)	(8,140)
Administrative costs		(24,124)	(18,066)
Loss from operations	4	(22,861)	(31,653)
Share-based payment expense	5	(32,986)	–
Finance costs		(14,775)	(12,120)
Share of results of associates		2,608	4,663
Gain on disposal of subsidiaries	19	8,360	29,828
Loss before taxation		(59,654)	(9,282)
Taxation	6	(535)	(284)
Loss for the period		(60,189)	(9,566)
Attributable to:			
Equity holders of the Company		(59,521)	(8,985)
Minority interests		(668)	(581)
		(60,189)	(9,566)
Loss per share for loss attributable to the equity holders of the Company			
Basic	7	HK(0.85) cents	HK(0.16) cents
Diluted	7	N/A	N/A

All of the Group's activities are classed as continuing.

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

## CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	At 30 September 2007 HK\$'000 (Unaudited)	At 31 March 2007 HK\$'000 (Audited)
<b>Non-current assets</b>			
Investment properties	9	379,003	65,852
Interests in leasehold land and land use rights	10	39,543	38,638
Property, plant and equipment	11	687,379	624,543
Interests in associates		–	77,419
Goodwill		7,571	2,846
Other non-current assets		2,404	2,412
		<b>1,115,900</b>	811,710
<b>Current assets</b>			
Properties under development for sale	12	391,477	348,527
Inventories		821	–
Trade and other receivables and prepayments	13	243,598	206,668
Financial assets at fair value through profit or loss		186	169
Bank balances – trust and segregated accounts		5,931	86,410
Cash and cash equivalents		119,423	159,430
		<b>761,436</b>	801,204
<b>Current liabilities</b>			
Trade and other payables and deposits received	14	282,216	443,406
Amount due to a related company	15	280,924	444
Taxation		474	382
Bank borrowings, secured – due within one year	16	97,104	143,495
Other borrowings, unsecured – due within one year	16	30,000	–
Obligations under finance leases – due within one year		71	69
		<b>690,789</b>	587,796
<b>Net current assets</b>		<b>70,647</b>	213,408
<b>Total assets less current liabilities</b>		<b>1,186,547</b>	1,025,118
<b>Equity</b>			
Share capital	17	800,919	665,190
Share premium and reserves		172,176	119,305
Equity attributable to equity holders of the Company		973,095	784,495
Minority interests		7,033	23,317
		<b>980,128</b>	807,812
<b>Non-current liabilities</b>			
Bank borrowings, secured – due after one year	16	203,480	209,674
Obligations under finance leases – due after one year		108	141
Convertible notes		–	4,587
Deferred tax liabilities		2,831	2,904
		<b>206,419</b>	217,306
		<b>1,186,547</b>	1,025,118

Approved by the Board of Directors on 21 December 2007 and signed on its behalf by:

**Zhang Yang**  
Director

**Lam Cheung Shing, Richard**  
Director

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the period ended 30 September 2007

The Group	Equity attributable to equity holders of the Company									
	Share capital	Share premium	Special reserve	Share option reserve	Exchange reserve	Convertible notes reserve	Acc-umulated losses	Sub-total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000 (Note 1)	HK\$'000	HK\$'000	HK\$'000 (Note 2)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2006	558,492	282,741	571,996	-	12,951	-	(738,889)	687,291	21,704	708,995
Net loss for the period	-	-	-	-	-	-	(8,985)	(8,985)	(581)	(9,566)
<b>At 30 September 2006</b>	<b>558,492</b>	<b>282,741</b>	<b>571,996</b>	<b>-</b>	<b>12,951</b>	<b>-</b>	<b>(747,874)</b>	<b>678,306</b>	<b>21,123</b>	<b>699,429</b>
At 1 April 2007	665,190	282,741	571,996	-	34,457	590	(770,479)	784,495	23,317	807,812
Exchange difference on translation of overseas subsidiaries not recognised in the income statement	-	-	-	-	27,172	-	-	27,172	-	27,172
Net loss for the period	-	-	-	-	-	-	(59,521)	(59,521)	(668)	(60,189)
<b>Total recognised income and expenses for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,172</b>	<b>-</b>	<b>(59,521)</b>	<b>(32,349)</b>	<b>(668)</b>	<b>(33,017)</b>
Issue of convertible notes	-	-	-	-	-	11,259	-	11,259	-	11,259
Conversion of convertible notes	106,280	39,028	-	-	-	(11,849)	250	133,709	-	133,709
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	(13,896)	(13,896)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(1,720)	(1,720)
Issue of share options	-	-	-	32,986	-	-	-	32,986	-	32,986
Exercise of share options	29,449	34,603	-	(21,057)	-	-	-	42,995	-	42,995
<b>At 30 September 2007</b>	<b>800,919</b>	<b>356,372</b>	<b>571,996</b>	<b>11,929</b>	<b>61,629</b>	<b>-</b>	<b>(829,750)</b>	<b>973,095</b>	<b>7,033</b>	<b>980,128</b>

Note:

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

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the period ended 30 September 2007*

	<b>For the six months ended 30 September</b>	
	<b>2007 HK\$'000 (Unaudited)</b>	2006 HK\$'000 (Unaudited)
Net cash used in operating activities	<b>(62,064)</b>	(47,746)
Net cash generated from investing activities	<b>3,001</b>	39,370
Net cash generated from financing activities	<b>22,293</b>	12,604
(Decrease)/increase in cash and cash equivalents	<b>(36,770)</b>	4,228
Cash and cash equivalents at beginning of period	<b>159,430</b>	16,894
Effect of foreign exchange rate change	<b>(3,237)</b>	–
Cash and cash equivalents at end of period	<b>119,423</b>	21,122
<b>Analysis of the balances of cash and cash equivalents:</b>		
Cash and bank balances	<b>125,354</b>	24,816
Less: Bank balances – trust and segregated accounts	<b>(5,931)</b>	(3,694)
	<b>119,423</b>	21,122

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 30 September 2007

### 1. CORPORATE INFORMATION

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

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

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

The accounting policies used in the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2007.

In the current interim period, the Group has applied, for the first time, a new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 April 2007.

The adoption of these new HKFRSs 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. The directors of the Company anticipate that the application of these new or revised standards or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 23 (Revised)	Borrowing Cost <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 12	Service Concession Arrangement <sup>2</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – Int 14	HKAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction <sup>2</sup>

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

<sup>2</sup> Effect for annual periods beginning on or after 1 January 2008

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



### 3. SEGMENT INFORMATION (Continued)

#### 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	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Turnover	4,990	1,950	20,654	12,867	25,644	14,817
Segment results	1,478	(1,620)	(13,441)	(18,040)	(11,963)	(19,660)
Interest income					3,196	1,122
Unallocated corporate expenses					(14,094)	(13,115)
Loss from operations					(22,861)	(31,653)

### 4. LOSS FROM OPERATIONS

	For the six months ended 30 September	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Loss from operations has been arrived at after charging/(crediting):		
Depreciation		
– Owned assets	5,301	5,087
– Assets held under finance leases	26	52
Amortisation of leasehold land and land use rights	302	798
	5,629	5,937
Rents from investment properties	(4,956)	(1,101)
Auditors' remuneration	588	581
Operating lease rentals in respect of premises	1,619	2,201
Net foreign exchange loss	160	57

## 5. SHARE-BASED PAYMENT EXPENSE

The fair value of the share options granted during the period was approximately HK\$32,986,000. The Company recognised a share option expense of HK\$32,986,000 during the six months ended 30 September 2007 (2006: Nil).

The Company had 165,000,000 share options outstanding under the New Share Option Scheme as at 30 September 2007. The exercise in full of the share options would, under the present capital structure of the Company, result in issue of 165,000,000 additional ordinary shares of the Company and an additional share capital of HK\$16,500,000 and share premium of HK\$7,590,000.

## 6. TAXATION

	For the six months ended 30 September	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Current tax:		
Hong Kong	535	284

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits of certain subsidiaries in Hong Kong for the period. Taxation in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

At 30 September 2007, the Group had unused estimated tax losses of approximately HK\$562,275,000 (31 March 2007: HK\$502,621,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

## 7. LOSS PER SHARE

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

	For the six months ended 30 September	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Loss attributable to ordinary equity holders for the purpose of basic loss per share	59,521	8,985

  

Number of Shares	At 30 September	
	2007	2006
Weighted average number of ordinary shares for the purpose of basic loss per share	6,987,914,452	5,584,923,632

The computation of diluted loss per share amount for the six months ended 30 September 2007 did not assume the exercise of the Company's share options as the effect of the assumed exercise of the Company's outstanding share options would be anti-dilutive.

No diluted loss per share has been presented for the six months ended 30 September 2006 as the Company had no potential dilutive ordinary shares for the six months ended 30 September 2006.

## 8. INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2007 (2006: Nil).

## 9. INVESTMENT PROPERTIES

Investment properties with the carrying amount of approximately HK\$50,673,000 (31 March 2007: HK\$65,852,000) have been pledged to secure banking facilities granted to the Group.

## 10. INTERESTS IN LEASEHOLD LAND AND LAND USE RIGHTS

	<i>HK\$'000</i>
<b>Carrying amount</b>	
At 1 April 2007	38,638
Exchange alignment	1,207
Amortisation	(302)
<b>At 30 September 2007</b>	<b>39,543</b>

Interests in leasehold land and land use rights with an aggregate net book value of approximately HK\$39,543,000 (31 March 2007: HK\$38,638,000) were pledged to secure banking facilities granted to the Group.

## 11. PROPERTY, PLANT AND EQUIPMENT

	<i>HK\$'000</i>
<b>Net book value</b>	
At 1 April 2007	624,543
Exchange alignment	19,868
Additions	47,684
Acquisition of subsidiaries	1,879
Disposals of subsidiaries	(886)
Disposal	(382)
Depreciation	(5,327)
<b>At 30 September 2007</b>	<b>687,379</b>

As a result of disposal of equity interests in a 93% owned subsidiary during the period, the property, plant and equipment reduced by HK\$886,000.

**11. PROPERTY, PLANT AND EQUIPMENT** *(Continued)*

As at 30 September 2007, the net book value of property, plant and equipment comprised of the followings:

	<i>HK\$'000</i>
<b>Net book value</b>	
Property under development	347,112
Construction in progress	232,756
Leasehold improvement	427
Furniture and fixtures	5,353
Equipment, motor vehicles and others	6,404
Plant and machinery	95,327
	<b>687,379</b>

Certain of the Group's property, plant and machinery with a net book value of approximately HK\$ 254,770,000 (31 March 2007: HK\$400,864,000) were pledged to secure bank loans.

**12. PROPERTIES UNDER DEVELOPMENT FOR SALE**

	<i>HK\$'000</i>
<b>Net book value</b>	
At 1 April 2007	348,527
Exchange alignment	10,891
Additions	32,059
<b>At 30 September 2007</b>	<b>391,477</b>

At 30 September 2007, no properties under development for sale were pledged to secure bank loans (31 March 2007: Nil).

### 13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group allows an average credit period of 60 days to its trade customers. The aged analysis of trade receivables of HK\$21,265,000 (31 March 2007: HK\$43,378,000) included in trade and other receivables and prepayments is as follow:

	<b>As at 30 September 2007 HK\$'000 (Unaudited)</b>	As at 31 March 2007 HK\$'000 (Audited)
Trade receivables:		
0 – 30 days	<b>21,265</b>	43,378
Margin clients accounts receivables	<b>1,227</b>	1,338
Clearing houses, brokers and dealers	<b>12,392</b>	66,238
Prepayments and deposits	<b>179,835</b>	20,369
Other receivables	<b>28,879</b>	75,345
	<b>243,598</b>	206,668

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

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

The aged analysis of trade payables of HK\$16,787,000 (31 March 2007: HK\$179,139,000) included in trade and other payables and deposits received is as follow:

	<b>As at 30 September 2007 HK\$'000 (Unaudited)</b>	As at 31 March 2007 HK\$'000 (Audited)
Trade payables:		
0 – 30 days	<b>16,787</b>	179,139
Accounts payable arising from the business of dealing in securities and equity options:		
Margin clients	<b>4,169</b>	606
Other payables and deposits received	<b>261,260</b>	263,661
	<b>282,216</b>	443,406

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\$113,538,000 (31 March 2007: HK\$84,611,000) and deposits received for the pre-sale of properties approximately HK\$32,984,000 (31 March 2007: HK\$68,776,000).

## 15. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company is unsecured, interest bearing at Hong Kong Inter Bank Offered Rate plus 1.75% and repayable on demand.

The related company is wholly-owned by Mr. Zhang Yang, a director of the Company.

## 16. BANK AND OTHER BORROWINGS

	<b>As at 30 September 2007 HK\$'000 (Unaudited)</b>	As at 31 March 2007 HK\$'000 (Audited)
Bank borrowings, secured	<b>300,584</b>	353,169
Other borrowings, unsecured	<b>30,000</b>	–
<b>Total borrowings</b>	<b>330,584</b>	353,169
The maturity profile is as follows:		
On demand or repayable within one year:		
bank borrowings	<b>97,104</b>	143,495
other borrowing	<b>30,000</b>	–
Portion classified as current liabilities	<b>127,104</b>	143,495
On demand or repayable in the second year:		
bank borrowings	<b>26,504</b>	25,664
Bank borrowings repayable:		
in the third to fifth years, inclusive	<b>96,440</b>	103,535
after the fifth year	<b>80,536</b>	80,475
Portion classified as non-current liabilities	<b>203,480</b>	209,674
<b>Total borrowings</b>	<b>330,584</b>	353,169

All the bank borrowings are variable-rate borrowings, thus exposing the Group to interest rate risk. The effective interest rate on bank borrowings denominated in Hong Kong dollars is based on the Prime Rate less a specified margin. The effective interest rates on bank borrowings denominated in Renminbi range from 5.5% to 6.9% (31 March 2007: 5.5% to 6.9%) per annum.

The other borrowing is unsecured, interest bearing at 10% per annum and repayable on demand.

**16. BANK AND OTHER BORROWINGS** (Continued)

The Group's borrowings are denominated in the following currencies:

	<b>As at 30 September 2007 HK\$'000 (Unaudited)</b>	As at 31 March 2007 HK\$'000 (Audited)
Hong Kong dollars	59,242	30,575
Renminbi	271,342	322,594
<b>Total</b>	<b>330,584</b>	353,169

**17. SHARE CAPITAL**

	Number of shares		Nominal value	
	30 September 2007	31 March 2007	30 September 2007 HK\$'000	31 March 2007 HK\$'000
<b>Ordinary shares of HK\$0.10 each</b>				
Authorised: (note c)	40,000,000,000	10,000,000,000	4,000,000	1,000,000
<b>Issued and fully paid:</b>				
At beginning of period	6,651,903,632	5,584,923,632	665,190	558,492
Conversion of convertible notes (notes a & b)	1,062,800,000	1,066,980,000	106,280	106,698
Exercise of share options (note d)	294,490,000	–	29,449	–
	<b>8,009,193,632</b>	6,651,903,632	<b>800,919</b>	665,190

- (a) On 6 July 2007, 50,000,000 ordinary shares of HK\$0.10 each were issued upon the conversion of the convertible notes with principal amount of HK\$5,000,000 issued by the Company on 19 March 2007.
- (b) On 10 August 2007, 1,012,800,000 ordinary shares of HK\$0.10 each at HK\$0.131 per share were issued upon the conversion of the convertible notes with principal amount totalling HK\$132,676,800 issued by the Company on 9 August 2007 for the purpose of satisfying payment of the balance of consideration of HK\$132,676,800 arising from the acquisition of 60% equity interests in Money Capture Investments Limited.

**17. SHARE CAPITAL** *(Continued)*

- (c) On 1 September 2007, the Company increased the authorised share capital from HK\$1,000,000,000 to HK\$4,000,000,000 by the creation of an additional 30,000,000,000 new ordinary shares of HK\$0.10 each.
- (d) During the period, certain option holders exercised their option rights to subscribe for an aggregate of 294,490,000 shares at an exercise price of HK\$0.146 per share. The net proceeds from the exercise of option rights amounted to approximately HK\$42,995,540.

**18. BUSINESS COMBINATION**

On 9 August 2007, the Group acquired remaining 60% equity interests in Money Capture Investments Limited and its subsidiaries (the "Money Capture Group") from an independent third party.

The fair value of the identifiable assets and liabilities of Money Capture Group as at the date of acquisition were as follows:

	<b>Fair value</b> <i>HK\$'000</i>
Investment properties	313,131
Property, plant and equipment	1,879
Inventories	924
Deposits, prepayments and other debtors	11,085
Cash and bank balances	62,279
Amount due from fellow subsidiaries	62,989
Other creditors and accruals	(8,908)
Amount due to related companies	(251,380)
Net assets acquired	191,999
Less: remaining share of net assets held by the Group as associated companies	(76,800)
	115,199
Goodwill	3,682
	<b>118,881</b>
Satisfied by:	
Issue of convertible notes	118,881
Net cash inflow in respect of the acquisition of subsidiaries:	
Bank balances and cash acquired	62,279

The corresponding carrying amount of the identifiable assets and liabilities are at fair value at the date of acquisition.

**18. BUSINESS COMBINATION** *(Continued)*

The subsidiary acquired during the period contributed approximately HK\$3,260,000 to the Group's turnover and profit after taxation and minority interests of approximately HK\$3,260,000 to the Group's profit for the period.

If the acquisition had been completed on 1 April 2007, total restated group turnover for the six months ended 30 September 2007 would have been HK\$32,164,000 and restated loss for the six months ended 30 September 2007 would have been HK\$53,048,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 April 2007, nor is it intended to be a projection of future results.

**19. DISPOSAL OF SUBSIDIARIES**

The net assets of the 93% owned subsidiary at the date of disposal were as follows:

	<b>For the six months ended 30 September</b>	
	<b>2007 HK\$'000 (Unaudited)</b>	2006 HK\$'000 (Unaudited)
Interest in associates	<b>1,010</b>	–
Property, plant and equipment	<b>886</b>	256
Deposits, prepayments and other debtors	<b>18,971</b>	22,906
Cash and bank balances	<b>3,427</b>	26
Amount due from ultimate holding company	<b>3,998</b>	442
Other creditors and accruals	<b>(84)</b>	(4,662)
Amount due to an associate	<b>–</b>	(696)
	<b>28,208</b>	18,272
Minority interest	<b>(1,720)</b>	–
Net assets disposed of	<b>26,488</b>	18,272
Gain on disposal	<b>8,360</b>	29,828
Total consideration	<b>34,848</b>	48,100
Less: Cash and bank balances of disposed subsidiary	<b>(3,427)</b>	(26)
Net cash flow from disposals of subsidiary	<b>31,421</b>	48,074
Satisfied by:		
Cash	<b>34,848</b>	48,100

**19. DISPOSAL OF SUBSIDIARIES** *(Continued)*

On 27 April 2007, Beijing Capital (Hong Kong) Limited ("Beijing Capital") and the Company entered into a sale and purchase agreement, pursuant to which the Company agreed to sell and Beijing Capital agreed to buy the 93% equity interests held in Interchina Aihua (Tianjin) Municipal & Environmental Engineering Company Limited at a consideration of RMB 34,500,000. During the period ended 30 September 2007, Interchina Aihua (Tianjin) Municipal and Environmental Engineering Company did not contribute any turnover to the Group and incurred a loss for the period of approximately HK\$4,938,000.

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

**20. CAPITAL COMMITMENTS**

	<b>As at 30 September 2007 HK\$'000 (Unaudited)</b>	As at 31 March 2007 HK\$'000 (Audited)
Capital expenditure contracted for but not provided in the financial statements in respect of: development expenditure of properties	<b>251,414</b>	282,181

**21. COMMITMENTS**

- (a) At 30 September 2007, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of the Group's guarantee lease arrangement for the pre-sale properties. The lease commitment of the Group will be as follows:

	<b>As at 30 September 2007 HK\$'000 (Unaudited)</b>	As at 31 March 2007 HK\$'000 (Audited)
Within one year	<b>5,695</b>	6,341
In the second to fifth year inclusive	<b>36,442</b>	41,488
After five years	<b>22,630</b>	26,611
	<b>64,767</b>	74,440

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

**21. COMMITMENTS** *(Continued)*

- (b) At 30 September 2007, the Group has written certain repurchase options for the pre-sale properties to the property buyers. The option gives the right to the property buyers that they can request the Group to buy back the properties at 100% of the original property sales price on the option exercise date. The exercise date of the options is six years after the completion date of the sale and purchase agreements of the properties with the total contract sum of approximately HK\$106,788,000 (31 March 2007: HK\$120,889,000).

**22. OPERATING LEASE COMMITMENTS****The Group as lessee**

At 30 September 2007, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	<b>As at 30 September 2007 HK\$'000 (Unaudited)</b>	As at 31 March 2007 HK\$'000 (Audited)
Within one year	2,692	2,802
In the second to fifth year inclusive	5,766	6,818
After five years	11,871	11,855
	<b>20,329</b>	21,475

**The Group as lessor**

At 30 September 2007, the Group had contracted with tenants for the following future minimum lease payments:

	<b>As at 30 September 2007 HK\$'000 (Unaudited)</b>	As at 31 March 2007 HK\$'000 (Audited)
Within one year	1,384	1,732
In the second to fifth year inclusive	109	62
	<b>1,493</b>	1,794

### 23. MATERIAL RELATED PARTY TRANSACTIONS

- (a) During the period, the Group paid interest amounting to HK\$106,000 (2006: HK\$90,000) to a director of the Company's subsidiary.
- (b) During the period, the Group paid interest amounting to HK\$3,305,000 (2006: HK\$380,000) to a related company of the Company.
- (c) During the period, the Group received rental income approximately HK\$270,000 (2006: HK\$270,000) from a director of the Company.
- (d) Key management personnel compensation

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

	<b>For the six months ended 30 September</b>	
	<b>2007 HK\$'000 (Unaudited)</b>	2006 HK\$'000 (Unaudited)
Salaries and other short-term benefits	4,763	4,995
Pension scheme contributions	165	182
Share-based payment	5,459	–
	<b>10,387</b>	5,177

- (e) On 5 July 2007, the Company entered into a subscription agreement ("Subscription Agreement") with Mr. Zhang Yang ("Mr. Zhang"), a director of the Company, in relation to share subscription and the grant of convertible note options.

Pursuant to the Subscription Agreement, the Company had conditionally agreed to (i) allot and issue the subscription shares (being a total 2,700,000,000 new shares) at the share subscription price (equivalent to HK\$0.10 per subscription share) to Mr. Zhang and (ii) grant of the convertible note options at the premium of HK\$20,000,000 after the completion of share subscription, being options to subscribe for the first tranche convertible notes (up to the aggregate principal amount of HK\$650,000,000) and the second tranche convertible notes (up to the aggregate principal amount of HK\$1,200,000,000) at an initial conversion price (equivalent to HK\$0.10 per conversion share).

Upon completion of the share subscription and the exercise in full of the conversion rights attached to the first tranche convertible notes and the second tranche convertible notes, an aggregate of 21,200,000,000 new shares will be allotted and issued by the Company.

## 24. SUBSEQUENT EVENTS

- (a) On 17 May 2007 and 29 June 2007, Interchina (Tianjin) Water Treatment Limited (“Interchina (Tianjin)”), a then 94.05% owned subsidiary of the Company, entered into a conditional agreement and a supplemental agreement with Heilong Group Limited (the “Heilong”) for the sale and purchase of 229,725,000 domestic shares of Heilongjiang Black Dragon Company Limited (“Black Dragon”), representing approximately 70.21% of issued share capital of Black Dragon at a consideration of approximately RMB350,000,000 (the “Acquisition”). On 15 November 2007, Interchina (Tianjin) and Heilong entered into a supplemental agreement for amending the total consideration for the Acquisition to RMB420,000,000. In addition, Interchina (Tianjin) and Heilong entered into the agency agreement, whereby Black Dragon agreed to appoint Interchina (Tianjin) to act as its agent to handle the acquisition of the water projects which are intended to be acquisition by Black Dragon (the “Water Projects”) and Interchina (Tianjin) will provide the loan not exceeding the amount of approximately RMB173,000,000 to Black Dragon for payment of consideration of the Water Projects. Details of the transactions are set out in the Company’s announcement dated on 24 August 2007 and 15 November 2007 respectively.
- (b) On 3 October 2007, pursuant to the Subscription Agreement as disclosed in Note 23 (e) on page 21 of this report, the Company issued and allotted 2,700,000,000 ordinary shares of the Company to Mr. Zhang at HK\$0.10 each. The subscription resulted in increase in share capital of HK\$270,000,000.
- (c) On 5 October 2007, the Company entered into a sale and purchase agreement with Mega Winner Investments Limited (“Mega Winner”) in relation to the acquisition of the entire issued share capital of Success Flow International Limited (“Success Flow”) and the amount due from Success Flow to Mega Winner at a total consideration of HK\$167,000,000. Details of the transactions are set out in the Company’s announcement dated 5 October 2007.
- (d) Pursuant to the Subscription Agreement as disclosed in Note 23 (e) on page 21 of this report, the Company issued part of the first tranche convertible notes in the aggregate principal amount of HK\$200,000,000 and HK\$50,000,000 in October 2007 and November 2007 respectively. On 26 October 2007, 30 October 2007 and 8 November 2007, the holders of the first tranche convertible notes converted principal amount of HK\$150,000,000, HK\$50,000,000 and HK\$50,000,000 into shares respectively at the conversion price of HK\$0.10 per share. 2,500,000,000 ordinary shares were issued upon the conversion of the first tranche convertible notes. Details of the transactions are set out in the Company’s monthly announcement in relation to the conversion of convertible notes on 7 November 2007 and 5 December 2007.
- (e) On 18 December 2007, the Company entered into the acquisition agreement with Maxable International Enterprises Limited in relation to the acquisition of 29.52% of the issued share capital of China Pipe Group Limited at a consideration of HK\$296,000,000. Details of the transactions are set out in the Company’s announcement dated 18 December 2007.

## INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2007 (2006: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The Group's turnover for the six months ended 30 September 2007 (the "Period") amounted to HK\$25,644,000 (2006: HK\$14,817,000), representing an increase of 73.1% as compared with the corresponding period last year. Loss attributable to shareholders was HK\$59,521,000 (2006: HK\$8,985,000), representing an increase of 562.4% as compared with the corresponding period last year. During the Period, although turnover of the Group increased as compared with the corresponding period last year, as the Company recognised share-based payment expense of HK\$32,986,000 (2006: nil) based on the fair value of the share options granted in respect of the share option scheme during the Period in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") 2 "Share-based Payment", loss attributable to the shareholders increased significantly from the corresponding period last year. Also, loss attributable to the shareholders last year included recognised gain of HK\$29,828,000 on disposal of subsidiaries, loss attributable to the shareholders decreased 10.1% as compared with the corresponding period last year excluding the share-based payment expense and the gain on disposal of subsidiaries.

As at 30 September 2007, total assets and net assets of the Group valued at HK\$1,877,336,000 (31 March 2007: HK\$1,612,914,000) and HK\$973,095,000 (31 March 2007: HK\$784,495,000) respectively, representing an increase of 16.4% and 24% respectively as compared with those as at 31 March 2007.

As at 30 September 2007, the Group's cash on hand and deposits in bank (including segregated and trust accounts) totaled approximately HK\$125,354,000 (31 March 2007: HK\$245,840,000), representing a decrease of 49% against the balance as at 31 March 2007. Approximately 62.8% of the deposits were denominated in Hong Kong dollars while the remainder in Renminbi. The Group's net current assets amounted to HK\$70,647,000 (31 March 2007: HK\$213,408,000). The Group's outstanding bank and other borrowings were HK\$330,584,000 (31 March 2007: HK\$353,169,000) which mainly comprised bank and other borrowings of approximately HK\$127,104,000 repayable within one year, and HK\$203,480,000 of bank and other borrowings repayable after one year. In addition, the Group's 2-year convertible notes amounted to nil (31 March 2007: HK\$4,587,000). The gearing ratio was 32.6% (total borrowings/total assets).

As at 30 September 2007, approximately 17.9% of the Group's bank and other borrowings were denominated in Hong Kong dollars while the rest in Renminbi. The Group's bank and other borrowings were arranged on fixed or floating rate basis of which approximately 90.9% were secured by the Group's investment properties, property, plant and equipment and interests in leasehold land.

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

## BUSINESS REVIEW AND PROSPECT

### Environmental Protection and Water Treatment Operation

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

Since the Group's sewage treatment plant located in the Haigang District of Qinhuangdao in Hebei Province reached a daily average processing capacity of 120,000 tonnes, and the water price with respect to the water processed by the sewage treatment plant increased approximately 9% during the Period, a turnover of RMB15,329,000 (2006: RMB12,518,000) was achieved by the Group's environmental protection and water treatment operation.

Regarding the two sewage treatment projects in Ma'anshan and Changli, the aggregate sewage treatment capacity was 100,000 tonnes on average per day. The Ma'anshan sewage treatment project was completed in May this year and commenced its trial run. The Group expects that the Ma'anshan sewage treatment project will make contribution to the Group's revenue in the near future. For the Changli sewage treatment project, completion is expected by the end of this year and operation will commence in the first quarter next year.

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

In addition to the Qinghuangdao and Ma'anshan sewage treatment plants, it is expected that upon the commencement of operations of both Changli sewage treatment plant as well as the water supply plant in Hanzhong City, the water processed by the Group's environmental protection and water treatment operation will additionally increase by 140,000 tonnes to 320,000 tonnes per day, and the revenue from the Group's environmental protection and water treatment operation will substantially increase. Environmental protection and water treatment operation will be a major and stable source of revenue of the Group.

In addition to the existing environmental protection and water treatment projects, the Group announced a major transaction in relation to the acquisition of 黑龍江黑龍股份有限公司 "Black Dragon", (stock code: 600187, its A shares are listed on the Shanghai Stock Exchange and have been suspended from trading) during the Period. The Group entered into an agreement with the vendor in relation to the purchase of 70.21% equity interest of Black Dragon (the "Acquisition") in May this year, and entered into a supplemental agreement for amending the total consideration for the Acquisition to RMB420,000,000 in November this year. In addition, Black Dragon has entrusted the Group to be its agent to purchase the water treatment project, and the Group will offer a loan of not more than approximately RMB173,000,000 to Black Dragon as the consideration for Black Dragon to settle the water treatment project, details of which were set out in the circular dispatched on 3 December 2007. The Group expects that Black Dragon will provide an additional financing platform for the environmental protection and water treatment operation of the Group and further expand the development scale of environmental protection and water treatment operation of the Group. The relevant approval procedures of the Acquisition by the regulatory authorities of Hong Kong and the Mainland are in process, details of which were set out in the announcements dated on 24 August and 15 November 2007 respectively.

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

The construction of the Interchina Mall, the Group's mega-scale luxurious residential and commercial complex in Changsha, comprised three phases. The total gross floor area of Wang Guo Commercial Plaza and four hotel equities in Interchina Mall (Phase One) is about 140,000 square meters. Civil engineering construction works were completed. The planning and design work of the Phase Two residential project, which accounted for a gross floor area of 150,000 square meters, has been completed. Construction will be commenced in the first quarter next year, and is expected to bring huge revenue to the Group.

As at 30 September 2007, the total undeveloped site area in Changsha was about 215,000 square meters. The Group will continue to develop the Changsha property development project and is negotiating with established developers for possible cooperation in various ways. However, the Group does not rule out the possibility of disposing the Changsha property development project if opportunity arises.

In addition to the existing projects, in November this year, the Group entered into an agreement at a total consideration of approximately RMB200,000,000 with the Management Committee of Economic Development Zone in Hanzhong, Shaanxi in relation to the construction of the main highway and relevant facilities (such as greening, water, electricity, communication, gas, etc.) in the northern district of the development zone. The Group will share with the district government revenue from disposal of the land of approximately 2,000 hectares for commercial development in the northern district of the development zone, or it may acquire directly the above-mentioned land by ways of tender, listing-for-sale and auction. This will help the Group to develop the city development and investment operations in the western cities of the PRC.

Currently, the PRC government has imposed a series of macro-economic control measures on real estate developers to stabilise the market and enhance the healthy development of the domestic real estate market, which will be beneficial to the long-term development of the Group's real estate operation in the PRC.

### Property Investment Operation

During the Period, the Group's rental income was mainly generated from investment properties located in Beijing, Shanghai and Hong Kong. During the Period, the Group's rental income amounted to HK\$4,956,000 (2006: HK\$1,101,000), representing an increase of 350.1% compared with the corresponding period of last year which was mainly due to the repurchase of 60% equity interest and shareholders' loan in a 40% owned associate which had interests in an investment property located in Shanghai, the PRC, during the Period for a total consideration of approximately HK\$195,039,000. As the demand for prime properties remains strong in Beijing, the PRC and we are optimistic about the prospect of the leasing market in the city, the Group has also acquired a 100% interests together with shareholders' loan of a subsidiary which held interests in an investment property located in the centre of Beijing, the PRC, in November this year for a total consideration of approximately HK\$167,000,000 so as to enhance the rental income of the Group, details of which were set out in the circular despatched on 26 October 2007.

### Securities and Financial Operation

The Group's securities and futures operation generated commission and interest income from margin clients amounting to HK\$4,721,000 (2006: HK\$1,680,000), representing an increase of 181% as compared with the corresponding period last year, which is mainly attributable to the development of securities operation driven by the continuous economic growth in Hong Kong. However, 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 resulted from the fluctuation of the securities market.

### Liquidity and Financial Resources

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

During the Period, the Company completed the issuance of a total of 1,012,800,000 shares of HK\$0.1 each upon conversion of the 2-year convertible notes bearing interest at 3.5% p.a. to settle the remaining consideration of HK\$132,676,800 for the Group to buy back 60% controlling interest in a 40% owned associate which held interests in an investment property located in Shanghai, the PRC, details of which were set out in the announcement issued on 7 August 2007. All the relevant convertible notes had been converted into share capital during the Period. In addition, a total of 294,490,000 new shares were also issued through the exercise of certain share options in accordance with the Company's share option scheme and the proceeds in the sum of HK\$42,900,000 generated from the exercise of share options was used as general working capital of the Group.

In September this year, the authorised share capital of the Company was increased from HK\$1,000,000,000 divided into 10,000,000,000 shares to HK\$4,000,000,000 divided into 40,000,000,000 shares.

Subsequent to the Period ended, in October this year, the Company also completed the issuance of 2,700,000,000 new shares of HK\$0.1 each and the grant of two tranches of convertible note options totaling HK\$1,850,000,000. Up to 30 November 2007, the Company issued 5-year convertible notes bearing interest at 3% p.a. convertible into a total of 2,500,000,000 shares of HK\$0.1 each in respect of the first tranche convertible note options, and all of the convertible notes had been converted into share capital. The proceeds in the sum of approximately HK\$505,000,000 (after deducting expenses of issuing new shares and convertible notes) were mainly used as working capital for environmental protection and water treatment, city development operation and property investment.

### Pledge of Group's Assets

As at 30 September 2007, the Group's assets were pledged as security for its liabilities, comprising investment properties with a net book value of HK\$50,673,000 (31 March 2007: HK\$65,852,000) and property, plant and equipment with a net book value of HK\$254,770,000 (31 March 2007: HK\$400,864,000) and interests in leasehold land with a net book value of HK\$39,543,000 (31 March 2007: HK\$38,638,000).

### Employment and Remuneration Policy

As at 30 September 2007, the Group had a total of 150 employees in the PRC and Hong Kong. Staff costs for the Period amounted to HK\$11,993,000 (2006: HK\$14,027,000). To maintain the Group's competitiveness, salary adjustment 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.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2007, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained 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:

Name of Director	Capacity	Number of Shares	Approximate percentage of issued share capital of the Company
Zhang Yang ("Mr. Zhang")	Interests of controlled corporation and beneficial owner ( <i>Note 1</i> )	21,380,495,000 (L)	266.95%
Lam Cheung Shing, Richard ("Mr. Lam")	Beneficial owner	77,000,000 (L)	0.96%
Chan Wing Yuen, Hubert ("Mr. Chan")	Beneficial owner	77,000,000 (L)	0.96%
Ha Ping ("Ms. Ha")	Beneficial owner ( <i>Note 2</i> )	5,000,000 (L)	0.06%
Wong Hon Sum ("Mr. Wong")	Beneficial owner ( <i>Note 3</i> )	5,000,000 (L)	0.06%
Tang Tin Sek ("Dr. Tang")	Beneficial owner ( <i>Note 4</i> )	5,000,000 (L)	0.06%

(L) denotes the long position held in the Shares

Notes:

- These Shares represent (i) the 103,495,000 Shares held by Wealth Land Development Corp., which is wholly and beneficially owned by Mr. Zhang Yang, who is a Director and the chairman of the Company; (ii) the 2,700,000,000 Shares to be allotted and issued to Mr. Zhang Yang pursuant to the subscription agreement dated 5 July 2007; (iii) the 18,500,000,000 Shares to be allotted and issued to Mr. Zhang Yang upon the exercise in full of the conversion rights attaching to the convertible notes to be issued by the Company, details of which are set out in announcement of the Company dated 6 July 2007; and (iv) the 77,000,000 Shares to be allotted and issued to Mr. Zhang Yang upon the exercise in full of the subscription rights attaching to the options granted to him by the Company.
- These Shares represent the Shares which may be allotted and issued to Ms. Ha Ping upon the exercise in full of the subscription rights attaching to the options granted by the Company.
- These Shares represent the Shares which may be allotted and issued to Mr. Wong Hon Sum upon the exercise in full of the subscription rights attaching to the options granted by the Company.
- These Shares represent the Shares which may be allotted and issued to Dr. Tang Tin Sek upon the exercise in full of the subscription rights attaching to the options granted by the Company.

Save as disclosed above, as at 30 September 2007, none of the Directors or chief executive of the Company, or their associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register maintained under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEME

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

Details of the share options granted under the New Share Option Scheme and the outstanding options as at 30 September 2007 were as follows:

Grantee	Date of grant	Exercise price (HK\$)	Exercise period	Outstanding at 1 April 2007	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30 September 2007	Note
<b>Directors</b>									
Mr. Zhang	28/8/2007	0.146	28/8/2007-2/9/2012	-	77,000,000	-	-	77,000,000	1
Mr. Lam	28/8/2007	0.146	28/8/2007-2/9/2012	-	77,000,000	(77,000,000)	-	-	1, 2
Mr. Chan	28/8/2007	0.146	28/8/2007-2/9/2012	-	77,000,000	(77,000,000)	-	-	1, 2
Ms. Ha	28/8/2007	0.146	28/8/2007-2/9/2012	-	5,000,000	-	-	5,000,000	1
Mr. Wong	28/8/2007	0.146	28/8/2007-2/9/2012	-	5,000,000	-	-	5,000,000	1
Dr. Tang	28/8/2007	0.146	28/8/2007-2/9/2012	-	5,000,000	-	-	5,000,000	1
<b>Eligible employees</b>									
(in aggregate)	28/8/2007	0.146	28/8/2007-2/9/2012	-	155,490,000	(115,490,000)	-	40,000,000	1, 2
<b>Eligible participants</b>									
(in aggregate)	28/8/2007	0.146	28/8/2007-2/9/2012	-	58,000,000	(25,000,000)	-	33,000,000	1, 2
				-	459,490,000	(294,490,000)	-	165,000,000	

No option granted under the New Share Option Scheme was cancelled during the Period.

Options to subscribe for 459,490,000 shares were granted under the New Share Option Scheme during the Period. According to the Binomial Option Pricing Model, the fair value of the options granted in the Period measured as at the date of grant of 28 August 2007 was approximately HK\$0.072 per option, taking into account various factors, variables and assumptions which including the following:

Exercise price per share	HK\$0.146
Annual risk free rate	4.4%
Expected volatility	66%
Life of the option	5.02 years
Exercise Period	From 28 August 2007 to 2 September 2012
Expected dividend yield	Nil

The result of the Binomial Option Pricing Model can be materially affected by changes in these variables and assumptions. Therefore, an option's actual value may differ from the estimated fair value of the options due to limitations of the Binomial Option Pricing Model.

All the options forfeited before expiry of the New Scheme will be treated as lapsed options which will not be added back to the number of shares available to be issued under the New Share Option Scheme.

The total expenses recognised in the Company's income statement for the Period in respect of the grant of the aforesaid 459,490,000 options is HK\$32,986,000.

Notes:

- (1) The closing price immediately before the date of granted was HK\$0.146; and
- (2) The weighted average closing price of the Company's shares immediately before the date on which the options were exercised in the Period was HK\$0.136 (2006: N/A).

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2007, so far is known to, or can be ascertained after reasonable enquiry by the Directors and chief executive of the Company, the persons or corporations (other than the Directors and chief executive of the Company) who have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or have otherwise notified to the Company were as follows:

### Long positions in the shares of the Company

Name	Capacity	Number of Shares	Approximate percentage of issued share capital of the Company
Li Gong Tao	Beneficial owner	685,665,000	8.56%

Save as disclosed above, as at 30 September 2007, 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

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

## AUDIT COMMITTEE

The audit committee which comprised by three independent non-executive Directors of the Company, namely, Mr. Wong Hon Sum, Dr. Tang Tin Sek and Ms. Ha Ping had reviewed with management the accounting principles and policies adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim report for the six-months ended 30 September 2007.

## 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 2007, save for the deviation from the code provision A.4.1 of the CG Code 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.

### 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 month ended 30 September 2007.

By order of the Board

**Zhang Yang**

*Chairman*