



# INTERCHINA HOLDINGS COMPANY LIMITED

## 中國控股有限公司

(Incorporated in Hong Kong under the Companies Ordinance with limited liability)

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

#### RESULTS

The Board of Directors (the "Board") of Interchina Holdings Company Limited (the "Company") announces the unaudited condensed consolidated income statement of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2004 together with the comparative figures for the corresponding period in previous year as follows:

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30 September</b>	
	<i>NOTES</i>	<b>2004</b>	<b>2003</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	3	<b>197,152</b>	47,770
Other operating income		<b>91</b>	432
Cost of sale of properties		<b>(169,811)</b>	–
Interest income		<b>77</b>	587
Staff costs		<b>(15,562)</b>	(14,914)
Amortisation and depreciation		<b>(2,377)</b>	(8,003)
Other operating expenses		<b>(27,594)</b>	(26,862)
Gain on disposal of investment properties		<b>1,180</b>	–
Loss from operations	3	<b>(16,844)</b>	(990)
Finance costs		<b>(15,793)</b>	(8,006)
Share of results of associate		–	(2,371)
Loss before taxation		<b>(32,637)</b>	(11,367)
Taxation	4	<b>(738)</b>	(2,787)
Loss before minority interests		<b>(33,375)</b>	(14,154)
Minority interests		<b>730</b>	1,862
Net loss for the period		<b>(32,645)</b>	(12,292)
Loss per share	5		
Basic		<b>(0.71 cents)</b>	(0.27 cents)
Diluted		<b>(0.71 cents)</b>	(0.27 cents)

NOTES:

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2004.

3. SEGMENTAL INFORMATION

The Group is currently engaged in four operating divisions, namely environmental protection and water treatment operation, city development and investment operation, property investment operation and securities and financial operation. These divisions are the basis on which the Group reports its primary segment information.

Segment information for the six months ended 30 September 2004 and 2003 is as follows:

	Environmental protection and water treatment operation <i>HK\$'000</i>	City development and investment operation <i>HK\$'000</i>	Property investment operation <i>HK\$'000</i>	Securities and financial operation <i>HK\$'000</i>	Consolidation total <i>HK\$'000</i>
Business segments					
2004					
TURNOVER					
External sales	<u>47</u>	<u>179,132</u>	<u>9,804</u>	<u>8,169</u>	<u>197,152</u>
RESULTS					
Segment results	<u>(5,879)</u>	<u>3,090</u>	<u>(928)</u>	<u>2,345</u>	<u>(1,372)</u>
Interest income					77
Unallocated corporate expenses					<u>(15,549)</u>
Loss from operations					<u>(16,844)</u>
	Environmental protection and water treatment operation <i>HK\$'000</i>	City development and investment operation <i>HK\$'000</i>	Property investment operation <i>HK\$'000</i>	Securities and financial operation <i>HK\$'000</i>	Consolidation total <i>HK\$'000</i>
Business segments					
2003					
TURNOVER					
External sales	<u>–</u>	<u>–</u>	<u>18,000</u>	<u>29,770</u>	<u>47,770</u>
RESULTS					
Segment results	<u>(3,164)</u>	<u>(6,478)</u>	<u>9,557</u>	<u>18,987</u>	<u>18,902</u>
Interest income					587
Unallocated corporate expenses					<u>(20,479)</u>
Loss from operations					<u>(990)</u>

**4. TAXATION**

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits of certain subsidiaries in Hong Kong for the period.

No provision for taxation in other jurisdictions had been made in both periods reported as the Group did not have any assessable profits in these jurisdictions.

**5. LOSS PER SHARE**

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

	<b>Six months ended</b>	
	<b>30 September 2004</b>	30 September 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period and for the purpose of basic loss per share	<u>(32,645)</u>	<u>(12,292)</u>
	<b>Six months ended</b>	
	<b>30 September 2004</b>	30 September 2003
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>4,620,989,206</u>	<u>4,594,923,632</u>

The computation of diluted loss per share for both periods does not assume the exercise of the Company's outstanding share options during the periods since their exercise would reduce the loss per share.

**INTERIM DIVIDEND**

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2004 (2003: Nil).

**MANAGEMENT DISCUSSION AND ANALYSIS****Financial Review**

The Group's turnover for the six months ended 30 September 2004 ("Period") amounted to HK\$197,152,000 (2003: HK\$47,770,000), representing an increase of 3.13 times over the corresponding period last year. Loss attributable to shareholders amounted to HK\$32,645,000 (2003: HK\$12,292,000). During the Period, the Group's city development and investment projects in Changsha generated profit for the Group, but its various environmental protection and water treatment projects in the PRC were still at their preparatory stage, hence had not yet to generate income. But on the other hand, pre-sale of the "Wang Guo Commercial Plaza" (Phase 1) of the Interchina Mall in Changsha had commenced and the water treatment plant in Qinghuangdao in Hebei Province had begun operation which is expected to generate income for the Group in the first half of 2005.

As at 30 September 2004, the total assets and net assets of the Group were HK\$1,661,577,000 (31 March 2004: HK\$1,711,928,000) and HK\$743,267,000 (31 March 2004: HK\$761,422,000) respectively, representing a decrease of 2.94% and 2.38% respectively as compared with those as at 31 March 2004.

As at 30 September 2004, the Group's cash on hand and deposits held in banks and other financial institution totaled approximately HK\$48,469,000 (31 March 2004: HK\$58,494,000), representing a decrease of 17.14% as compared with the balances at 31 March 2004. Approximately 40.17% of the deposits was denominated in Hong Kong dollars and the balance in Renminbi. The Group's net current liabilities amounted to HK\$153,552,000 (31 March 2004: HK\$261,551,000). The Group's outstanding bank and other borrowings were HK\$540,355,000 (31 March 2004: HK\$599,485,000), approximately HK\$269,649,000 arising mainly from bank and other borrowings repayable within one year and approximately HK\$270,706,000 from bank and other borrowings repayable after one year. The Group's gearing ratio was 32.52% (total borrowings/total assets).

As at 30 September 2004, about 5.25% of the Group's bank and other borrowings were denominated in Hong Kong dollars and the balance in Renminbi. The Group's bank and other borrowings were arranged on a floating and fixed rate basis and secured by the Group's investment properties and property, plant and equipment.

The Group's business development during the Period took place mainly in the PRC and Hong Kong, and there was no significant fluctuation in the exchange rate between Renminbi and Hong Kong dollar. Accordingly, the Group was not exposed to material risk in foreign exchange fluctuations, and there was no corresponding provision made for hedging. The Group had neither used any financial instrument for hedging purposes, nor used any instrument for hedging against foreign currency investment.

## **BUSINESS REVIEW AND PROSPECT**

After years of efforts and dedication, the Group's two core businesses - environmental protection and water treatment operation as well as city development and investment operation - have stepped into harvest period and achieved remarkable results. Besides favorable factors including rapid urban growth and mounting demand for city infrastructure construction, the Group's solid business foundation, effective business models and extensive business network are also crucial elements contributing to its encouraging growth during the Period.

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

The Group's first sewage treatment project located in Qinghuangdao, Hebei Province, has a daily processing capacity of 120,000 tonnes on average. Construction of the plant and installation of sewage treatment facilities were completed in September 2004. The plant underwent trial runs and water quality tests in November 2004 and is expected to start operations in December 2004.

In addition, the Group's first water supplies project in Hanzhong, Shaanxi Province, has a daily output of 100,000 tonnes. It is currently undergoing trial runs and water quality tests after 2 years of construction. It is scheduled to start operations in mid 2005.

In addition, the Group has started preparatory work of the water supplies plants in Xianyang City of Shaanxi Province, sewage plants in Ma'anshan City of Anhui Province and Changli City of Qinghuangdao, Hebei Province. Design and construction plans are being mapped out and construction and facilities installation will start soon.

The Group is negotiating on various water supplies and sewage projects in other provinces as well as on acquiring stake interests in water supplies plants. The management believes that investment on water supplies and sewage plants will enable the Group to further extend its water supplies and water treatment projects business, and in turn attribute to the Group's short-to-mid-term profit growth.

### **City Development and Investment Operation**

Construction works of the Changsha New Sports City, the Group's first city development and investment project, was completed in September 2004 and brought in income to the Group during the Period.

Apart of the investment in the Changsha New Sports City, Interchina Mall, a mega-scale luxurious residential and commercial complex, with cultural, entertainment and recreational facilities, in Changsha City of Hunan Province was taking shape. Comprising 3 phases, Interchina Mall houses sizeable entertainment facilities and hotel properties and service apartments. The "Wang Guo Commercial Plaza" located in Phase 1 of "Interchina Mall" was open for sale in September 2004. Of its 1,040 shops, 565 shops were already sold, generating for the Group a revenue of HK\$180 million. Apart from the "Wang Guo Commercial Plaza", hotel properties are being constructed and open sales will begin after the pre-sale permit is secured in the near future. "Interchina Mall" has successfully built for the Group a prominent brand in the PRC property market.

In September 2004, the Group sold the land situated at R-06, in Changsha New Sports City. The 49,571 square metres lot was sold at the consideration of RMB69,526,000. The land transferal is being processed and the income from this sale will be recognised in the second half of this year.

**Property and other Investment Operation**

During the Period, the Group's rental income amounted to HK\$9,804,000 (2003: HK\$18,000,000), representing a decrease of 45.53% compared with the corresponding period last year. With intense competition in the leasing market in Shanghai, the Group recorded a lower rental returns from its property in Shanghai, the PRC during the Period. The Group sold the office building at 18-22 Cheung Lok Street, Yaumatei, Kowloon, in August 2004 at a consideration of HK\$127,180,000, resulting in a profit of HK\$1,180,000.

The Group reached a conditional purchase agreement with Shanghai Qiangsheng Group Co. Ltd. in October 2003 to acquire its 39,772,732 issued shares of Shanghai Qiangsheng Holdings Co. Ltd. at a consideration of RMB178,977,294. However, the agreement was terminated automatically by its first anniversary when relevant PRC authorities did not approve the purchase. Details on the aforesaid termination of acquisition had been stated in the announcement dated 28 October 2004. The Group will look into other business opportunities with Shanghai Qiangsheng Group Co. Ltd..

**Securities and Financial Operation**

The Group's securities and futures operation generated commission and interest income of HK\$8,169,000 (2003: HK\$29,770,000) from margin clients. As the Group enhanced the internal control over the borrowings to margin clients during the Period, especially reducing the proportion of borrowings for the non-index constituent stocks, such commission and interest income from margin clients decreased by 72.56% compared with the corresponding period last year.

**Liquidity and Financial Resources**

During the Period, the Group's financial resources comprised mainly cash income generated by its business operations as well as bank and other borrowings. The Group will make financial arrangements (including capital investment) for the best interest of shareholders and at minimum financial cost to facilitate its current and future business development plans.

Of the net amount of HK\$126,400,000 from selling property received by the Group in August 2004, HK\$80,941,000 was used to repay bank loan and the rest as the Group's operating capital.

**Contingent Liabilities**

During the Period, with reference to the signed repurchase and loan agreements with a bank in April 2003, the Group bought back 31 units of properties from the property buyers. As a result, the guarantees for the property buyers were partially released after the Group have bought back these units of properties. The remaining balance of HK\$6,000,000 (31 March 2004: HK\$100,000,000) represent the outstanding balance of bank facilities to property buyer.

During the Period, the Group had provided a guarantee of RMB5,000,000 to the Ma'anshan Municipal Government for the development of sewage treatment project in Ma'anshan, Anhui Province. Details have been included in the published announcement dated 20 May 2004.

During the Period, a bank guarantee of HK\$5,000,000 to HKFE Clearing Corporation Limited has been terminated and released.

**Pledge of Group's Assets**

As at 30 September 2004, the Group's assets were pledged as security for liabilities, comprising investment properties with a book value of HK\$358,240,000 (31 March 2004: HK\$455,511,000) and property, plant and equipment with a book value of HK\$749,942,000 (31 March 2004: HK\$615,505,000).

**Employment and Remuneration Policy**

As at 30 September 2004, the Group had a total of 420 employees in the PRC and Hong Kong. Staff costs for the Period amounted to HK\$15,562,000 (2003: HK\$14,914,000). To maintain the Group's competitiveness, salary adjustment and bonus for staff are subject to the performance of individual staff members. Apart from offering a retirement benefits scheme and a share options scheme for its staff, the Group also provides them with various training and development programs.

### **Business Development and Prospect**

Riding on the success of the “Interchina Mall” brand, the Group is in negotiation for the development of its second “Interchina Mall”, further demonstrating the Group’s sound business foundation and repeatable operation model.

On 25 November 2004, the Group signed an agreement with the Committee of Hanzhong Economic Development Zone of Hanzhong, Shaanxi Province to develop city supplements and infrastructure in the business and travel resort in the Northern District of the Economic Zone. The project involves a development area of 4.3 square kilometres. The project also marked the beginning of the Group’s “Premium Land Reserve” development for commercial and residential uses. In addition, the Group will undertake various infrastructure projects including road building, lighting and electric supply, water supply network and land flattening in the business and travel resort in the Northern District of the Hanzhong Economic Development Zone. The Group is also allowed to undertake development projects in other aspects such as real estate development, and has priority in obtaining permits for land use. The Group enjoys preferential tax rebates offered to foreign enterprises and related to the development of Western China.

After several years’ efforts of business consolidation and restructuring, the Group has established a business framework covering environmental protection and water treatment, and city development and investment. Seizing the promising opportunities arising from the rapid economic development and extensive urbanisation programs in Mainland China, the Group has forged a solid platform for expanding its businesses to other markets in China.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

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

### **AUDIT COMMITTEE**

The Audit Committee has reviewed the interim report of the Group for the Period. The Committee has held regular meeting since its formation, at a frequency of at least twice a year.

### **CODE OF BEST PRACTICE**

The Company has complied throughout the Period ended 30 September 2004 with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### **PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGES WEBSITE**

All information required by paragraphs 46(1) to 46(6) of Appendix 16 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Exchange”) will be published on the Exchange’s website in due course. The Group’s unaudited interim consolidated financial statements have been reviewed by the Company’s auditor, Deloitte Touche Tohmatsu, in accordance with SAS 700 “Engagements to review interim financial reports” issued by the HKICPA. Their review report will be included in the interim report to shareholders.

### **BOARD OF DIRECTORS**

As at the date of this announcement, the Board of Directors comprises of Mr. Zhang Yang, Mr. Chan Wing Yuen, Hubert and Mr. Lam Cheung Shing, Richard as executive directors, Mr. Hui Ho Ming, Herbert as non-executive director, and Mr. Lee Peng Fei, Allen, Mr. Wu Wai Chung, Michael, Mr. Wong Hon Sum and Ms. Ha Ping as independent non-executive directors.

By order of the Board  
**Zhang Yang**  
Chairman

Hong Kong, 17 December 2004

Please also refer to the published version of this announcement in The Standard dated 20 December 2004.