

For the year ended 31 March 2003

1. GENERAL

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 Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 45.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the inclusion of the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been required. Further details of the impact on the adoption of these new and revised SSAPs are as follows:

Foreign currencies

The revisions to SSAP 11 Foreign Currency Translation have eliminated the choice of translating the income statements of overseas operations, subsidiaries and jointly controlled entities at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) Cash Flow Statements. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating, investing and financing cash flows where appropriate. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude cash balances held for investment purposes and short-term loans that are financing in nature. Cash flows of overseas operations or subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The re-definition of cash and cash equivalents and the change in exchange rates used for translation of the cash flows of overseas operations or subsidiaries have resulted in a restatement of the comparative amounts shown in the cash flow statement.

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2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

Employee benefits

SSAP 34 Employee Benefits introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. CHANGE OF ACCOUNTING POLICY

In the current year, the Group has changed the accounting policy for land and buildings. In prior years, the land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. As from this year, the land and buildings are stated in the balance sheet at cost less any subsequent accumulated depreciation and any subsequent impairment losses which the directors consider it was more appropriate to the Group. The changed accounting policy is set out in note 4. The change of this accounting policy applied retrospectively but has had no impact to the results for the current or prior year accounting periods. Accordingly, no prior period adjustment has been required.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition. Goodwill is capitalised and amortised on a straight-line basis over its useful economic life.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented as a separate intangible asset.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition over the cost of acquisition. Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying amount of that associate. Negative goodwill arising on acquisition of subsidiary is presented as a deduction from intangible assets.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are carried at cost plus its share of post-acquisition reserves of the associates, less any identified impairment loss.

Revenue recognition

Rental income, including rentals invoiced in advance, from properties under operating leases is recognised on a straight line basis over the term of the relevant lease.

Servicing income and management fee income are recognised when services are provided.

Commission and brokerage are recognised on a trade date basis when the service is provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment other than properties under development and construction in progress are stated at cost less depreciation and accumulated impairment losses, if any.

Properties under development is stated at cost, less any impairment loss. Cost includes construction cost, interest, finance charges and other direct costs attributable to the development of the properties. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Construction in progress is stated at cost, less any impairment loss. Cost includes construction cost, interest, finance charges and other direct costs attributable to the construction. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)**Property, plant and equipment (continued)**

Depreciation is provided to write off the cost or valuation of property, plant and equipment, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the terms of the leases
Buildings	Over the estimated useful lives of 50 years or over the terms of the leases, if less than 50 years
Furniture and fixtures	15%
Equipment, motor vehicle and others	20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Asset held under a finance lease is depreciated over its expected useful live on the same basis as owned assets.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated on an arm's length basis.

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement.

Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of investment properties, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Other non-current assets

Other non-current assets are stated at cost, less any identified impairment losses.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing cost ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Assets held under finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease or contract so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight line basis over the relevant lease term.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are retranslated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of the Group's overseas subsidiaries and associates which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are dealt with in reserves and are recognised as incomes or as expenses in the period in which the operation is disposed of.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expenses in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits scheme

The retirement benefit costs charged in the income statement represents the contributions paid/ payable in respect of the current year to the Group's Mandatory Provident Fund Scheme.

Share option scheme

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled or which lapse prior to their exercise date are deleted from the register of outstanding options and have no impact on the income or balance sheet.

5. TURNOVER

Turnover represents the amount received and receivable for property rental, management fee, interest income and commission income generated from securities and commodities broking business for the year, and is analysed as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Property rental and management fee	28,263	20,181
Commission income	29,468	46,370
Interest income from margin clients	13,299	7,517
	71,030	74,068

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6. BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is currently organised into four (2002: four) operating divisions, namely environmental protection and water treatment operation, city development and investment operation, property investment operation, securities and financial operation. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Environmental protection and water treatment operation	– development of environmental protection operation
City development and investment operation	– infrastructure construction for urbanisation operation
Property investment operation	– leasing of rental property and property development for resale
Securities and financial operation	– provision of financial services

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6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Segment information about these businesses is presented below:

	Envi- ronmental protection and water treatment operation HK\$'000	City development and investment operation HK\$'000	Property investment operation HK\$'000	Securities and financial operation HK\$'000	Hotel and clubhouse investment operation HK\$'000	Other HK\$'000	Elimination HK\$'000	Consolidation total HK\$'000
2003								
TURNOVER								
External sales	-	-	28,263	42,767	-	-	-	71,030
Inter-segment sales	-	-	1,511	1,705	-	10,500	(13,716)	-
	<u>-</u>	<u>-</u>	<u>29,774</u>	<u>44,472</u>	<u>-</u>	<u>10,500</u>	<u>(13,716)</u>	<u>71,030</u>
RESULTS								
Segment results	<u>(6,629)</u>	<u>(1,127)</u>	<u>(1,934)</u>	<u>11,583</u>	<u>-</u>	<u>-</u>	<u>-</u>	1,893
Interest income								2,916
Unallocated corporate expenses								<u>(51,052)</u>
Loss from operations								(46,243)
Gain on disposal of subsidiaries	-	-	77,323	-	-	-	-	77,323
Finance costs								(25,534)
Share of results of associates	(1,071)	-	4,630	-	-	-	-	<u>3,559</u>
Profit before taxation								9,105
Taxation								<u>(360)</u>
Profit before minority interests								<u>8,745</u>

Inter-segment sales are charged at both agreed terms.

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6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

	Envi- ronmental protection and water treatment operation HK\$'000	City development and investment operation HK\$'000	Property investment operation HK\$'000	Securities and financial operation HK\$'000	Hotel and clubhouse investment operation HK\$'000	Other HK\$'000	Elimination HK\$'000	Consolidation total HK\$'000
2002								
TURNOVER								
External sales	–	–	20,181	53,887	–	–	–	74,068
Inter-segment sales	–	–	–	–	–	–	–	–
	<u>–</u>	<u>–</u>	<u>20,181</u>	<u>53,887</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>74,068</u>
RESULTS								
Segment results	<u>(1,519)</u>	<u>–</u>	<u>41,229</u>	<u>13,316</u>	<u>(15,005)</u>	<u>–</u>	<u>–</u>	38,021
Interest income								3,072
Unallocated corporate expenses								<u>(33,341)</u>
Profit from operations								7,752
Gain on disposal of subsidiaries	–	–	149,163	–	–	–	–	149,163
Finance costs								(20,240)
Share of results of associates	(37)	–	18,086	–	–	–	–	<u>18,049</u>
Profit before taxation								154,724
Taxation								<u>(1,683)</u>
Profit before minority interests								<u>153,041</u>

Note: In the opinion of the directors, certain figures regarding the interim segment result for the period ended 30 September 2002 had been reclassified in order to show a more reasonable presentation of the result of the Group for the year ended 31 March 2003.

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6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Balance sheet as at 31 March:

	Environmental protection and water treatment operation		City development and investment operation		Property investment operation		Securities and financial operation		Hotel and clubhouse investment operation		Consolidated total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS												
Segment assets	84,987	11,727	74,451	-	748,681	659,453	370,533	182,782	-	148,285	1,278,652	1,002,247
Interests in associates	56,083	14,163	-	-	-	122,220	-	-	-	-	56,083	136,383
Unallocated corporate assets											20,777	30,605
Consolidated total assets											1,355,512	1,169,235
LIABILITIES												
Segment liabilities	48	10,080	1,102	-	84,205	74,081	34,449	58,199	-	23,622	119,804	165,982
Unallocated corporate liabilities											422,953	402,640
Consolidated total liabilities											542,757	568,622

Other information as at 31 March:

	Environmental protection and water treatment operation		City development and investment operation		Property investment operation		Securities and financial operation		Hotel and clubhouse investment operation		Unallocated		Consolidated total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions of property, plant and equipment	29,955	-	62,968	-	93,038	809	237	1,498	-	60,695	3,608	3,646	189,806	66,648
Depreciation	10	-	33	-	13,001	228	1,592	1,355	-	8,006	1,408	483	16,044	10,072
Reversal of impairment loss on properties under development	-	-	-	-	-	75,393	-	-	-	-	-	-	-	75,393
Deficit arising on revaluation of investment properties	-	-	-	-	800	84,000	-	-	-	-	-	-	800	84,000
Impairment loss on property, plant and equipment	-	-	-	-	-	94	-	-	-	-	-	-	-	94
Goodwill amortisation	-	-	-	-	1,350	-	2,785	4,032	-	1,350	-	-	4,135	5,382

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6. BUSINESS AND GEOGRAPHICAL SEGMENTS (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:

	Turnover		Segment results	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	47,030	72,746	(2,587)	(28,864)
The PRC	24,000	1,322	4,480	66,885
	71,030	74,068	1,893	38,021
Interest income			2,916	3,072
Unallocated corporate expenses			(51,052)	(33,341)
(Loss) profit from operations			(46,243)	7,752

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	492,113	497,877	284	3,796
The PRC	863,399	671,358	189,522	62,852
	1,355,512	1,169,235	189,806	66,648

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7. STAFF COSTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Salaries and allowances (including directors' remuneration)	35,464	27,541
Contributions to retirement benefits scheme	824	372
	<u>36,288</u>	<u>27,913</u>

8. (LOSS) PROFIT FROM OPERATIONS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
(Loss) profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	1,193	1,072
Depreciation		
– Owned assets	15,884	9,954
– Assets held under finance leases	160	118
Amortisation of goodwill	4,135	5,382
	20,179	15,454
Loss on disposal of property, plant and equipment	–	30
Impairment loss on property, plant and equipment	–	94
Operating lease rentals in respect of premises	6,723	5,669
Liabilities to the dissolved creditors written back	–	(6,531)
Gross rents from investment properties	(28,263)	(20,181)
Less: Outgoings	113	738
	<u>(28,150)</u>	<u>(19,443)</u>

Include in the amortisation of goodwill is amount of approximately HK\$1,248,000 (2002: Nil) regarding the release of negative goodwill as set out in note 18.

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9. FINANCE COSTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest on:		
Bank loans and overdrafts and other loans wholly repayable:		
within five years	7,602	8,626
over five years	1,131	4,493
Other borrowings	19,738	1,927
Interest on obligations under finance leases	52	30
Interest on convertible loan notes	799	3,648
	29,322	18,724
Borrowings cost amortised (<i>Note</i>)	–	1,516
Less: Amounts capitalized	(3,788)	–
	25,534	20,240

Note: In prior year, borrowings cost amortised represent the amortisation of interest capitalised for the interest expense paid by the Group in respect of funds raised for use by Shanghai Underground Centre Co., Ltd. (“Underground”) for property development projects. The interest capitalised in previous years was completely released to the income statement on the disposal of Underground and included in the gain on disposal of subsidiaries.

10. DIRECTORS’ EMOLUMENTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Directors’ fees:		
Executive	2,747	1,652
Independent non-executive	1,500	200
Other emoluments (executive directors):		
– Salaries and other benefits	12,894	8,824
– Retirement benefit scheme contributions	320	224
	17,461	10,900

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10. DIRECTORS' EMOLUMENTS (continued)

Emoluments of the directors were within the following bands:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	4	10
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$3,000,001 to HK\$3,500,000	1	–
HK\$4,000,001 to HK\$4,500,000	1	1
	1	1

In prior year, included in the emoluments of the director was an amount HK\$2,200,000 paid by the Group to the director as compensation for termination of employment.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, five (2002: four) were directors of the Company as at 31 March 2003, whose emoluments are included in note 10 above. The emoluments of the five individuals with the highest emoluments in the Group disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange were as follows:

	2003	2002
	HK\$'000	HK\$'000
Salaries and other benefits	13,652	10,459
Retirement benefit scheme contributions	320	281
	13,972	10,740

Their emoluments were within the following bands:

	Number of employees	
	2003	2002
Nil to HK\$1,000,000	–	–
HK\$1,000,001 to HK\$1,500,000	1	3
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$3,000,001 to HK\$3,500,000	1	–
HK\$4,000,001 to HK\$4,500,000	1	1
	5	5

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12. TAXATION

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Current tax:		
Hong Kong	(360)	(1,518)
Other jurisdictions	–	(165)
	(360)	(1,683)
Taxation attributable to the Company and its subsidiaries	(360)	(1,518)
Share of taxation attributable to associates	–	(165)
	(360)	(1,683)

Hong Kong Profits Tax is calculated at 16% (2002: 16%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Details of the unprovided deferred taxation asset are set out in note 33 to the financial statements.

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13. EARNINGS PER SHARE

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

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year and earnings for the purposes of basic earnings per share	15,008	141,004
Effect of dilutive potential ordinary shares:		
Interest saving on convertible loan notes	–	3,648
Earnings for the purposes of diluted earnings per share	15,008	144,652
	2003	2002
Weighted average number of ordinary shares for the purposes of basic earnings per share	4,579,581,166	4,389,972,399
Effect of dilutive potential ordinary shares:		
Options	100,304,404	120,442,305
Convertible loan notes	–	121,095,890
Weighted average number of ordinary shares for the purposes of diluted earnings per share	4,679,885,570	4,631,510,594

For the year ended 31 March 2003, the computation of diluted earnings per share does not assume the conversion of the Company's convertible loan notes of HK\$200 million issued on 23 August 2001 and HK\$40.6 million issued on 30 January 2003 since their exercise would result in an increase in net profit per share from continuing ordinary operations.

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14. INVESTMENT PROPERTIES

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Valuation at 1 April	275,000	340,327
Addition upon acquisition of a subsidiary	283,000	–
Disposal upon disposals of a subsidiary	(56,000)	–
Disposal upon disposals during the year	(123,000)	–
Reclassification from land and buildings	–	18,673
Deficit arising from revaluation	(800)	(84,000)
Valuation at 31 March	378,200	275,000

All the Group's investment properties were revalued at their open market value at 31 March 2003 by Messrs. Chesterton Petty Limited, a firm of independent professional valuers and 上海房地產估價師事務所有限公司, an independent PRC valuer, on an open market existing use basis. The valuation of the Group's investment properties gave rise to a revaluation net deficit of HK\$800,000 (2002: HK\$84,000,000), which has been charged to the income statement.

On 19 July 2002, the Group acquired the entire issued share capital of Equal Smart Profits Limited ("Equal Smart") which held an investment property in the PRC.

The carrying amount of the investment properties comprises:

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
In Hong Kong:		
Long lease	–	179,000
Medium-term lease	88,000	96,000
	88,000	275,000
Outside Hong Kong:		
Medium-term lease	290,200	–
	378,200	275,000

All of the investment properties in the PRC are rented out.

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15. PROPERTY, PLANT AND EQUIPMENT

	Properties under development	Construction in progress	Land and buildings	Leasehold improvements	Furniture and fixtures	Equipment, motor vehicle and others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
COST							
At 1 April 2002	272,703	–	–	38,061	9,334	8,900	328,998
Reclassification	–	–	–	–	(1,102)	1,102	–
Additions	120,107	28,525	4,233	28,368	1,258	7,315	189,806
Disposals of subsidiaries	(58,806)	–	–	–	–	(84)	(58,890)
Disposals	–	–	–	–	–	(2,775)	(2,775)
Change of exchange rate	2,382	–	–	359	47	13	2,801
At 31 March 2003	336,386	28,525	4,233	66,788	9,537	14,471	459,940
DEPRECIATION							
At 1 April 2002	–	–	–	7,385	3,295	4,600	15,280
Reclassification	–	–	–	–	(261)	261	–
Provided for the year	–	–	127	12,126	1,734	2,057	16,044
Eliminated on disposals of subsidiaries	–	–	–	–	–	(1)	(1)
Eliminated on disposals	–	–	–	–	–	(2,575)	(2,575)
Change of exchange rate	–	–	–	70	12	2	84
At 31 March 2003	–	–	127	19,581	4,780	4,344	28,832
CARRYING AMOUNTS							
At 31 March 2003	336,386	28,525	4,106	47,207	4,757	10,127	431,108
At 31 March 2002	272,703	–	–	30,676	6,039	4,300	313,718

For the year ended 31 March 2003

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Equipment, and motor vehicle and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
COST				
At 1 April 2002	–	196	1,215	1,411
Additions	1,086	167	2,321	3,574
At 31 March 2003	1,086	363	3,536	4,985
DEPRECIATION				
At 1 April 2002	–	–	89	89
Provided for the year	322	60	445	827
At 31 March 2003	322	60	534	916
NET BOOK VALUES				
At 31 March 2003	764	303	3,002	4,069
At 31 March 2002	–	196	1,126	1,322

The carrying amount of the properties under development and land and buildings comprises:

	Properties under development		Land and buildings	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
THE GROUP				
In the PRC under medium-term lease	336,386	272,703	4,106	–

Properties under development by the Group are situated in the PRC. At 31 March 2003, properties under development of the Group included interest capitalised of HK\$42,071,000 (2002: HK\$38,283,000).

Properties under development by the Group comprised HK\$100,964,000 without lease term as the land use right certificate had not been issued at 31 March 2003.

The construction in progress represents the construction work of water supply projects, it included the cost on construction of factory premises and installation of other water supply equipment.

For the year ended 31 March 2003

15. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 March 2003, the net book value of equipment, motor vehicle and others includes an amount HK\$563,000 (2002: HK\$1,093,000) in respect of assets held under finance leases.

16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted investments, at cost	517,536	42,542

Details of the principal subsidiaries of the Company as at 31 March 2003 are set out in note 45.

17. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Cost of investments	57,200	62,616
Share of post-acquisition reserve	(1,117)	4,939
Interest capitalised	–	9,130
	56,083	76,685
Amount due from an associate	–	59,698
	56,083	136,383

For the year ended 31 March 2003

17. INTEREST IN AN ASSOCIATE (continued)

During the year, the Group disposed of an associate, Shanghai Underground Centre Co., Ltd. The interest capitalised in previous years was released to the income statement and included in the gain on disposal of subsidiaries.

Details of the remaining associate, Interchina Aihua (Tianjin) Municipal & Environmental Engineering Co., Ltd (“國中愛華(天津)市政環境工程有限公司”) (“IAH”), as at 31 March 2003 are as follows:

In prior year, the Group had a 30% interest in the registered capital in IAH, a sino-foreign equity joint venture incorporated and operating in the PRC, which is engaged principally in the provision of environmental management and consultancy services.

During the year, the Group acquired an additional interest in IAH by injecting a further HK\$43,000,000 into the registered capital in IAH. Upon the completion of the injection, the Group held 70.8% interest in IAH. In the opinion of the directors, the Group have 3 representatives in the board of directors out of the 7 members of the board, and considered that the Group has no unilateral control on the board of directors of IAH and, accordingly, IAH is classified as an associate.

The carrying amount of the associate included all unamortised goodwill paid on acquisition of the additional share of the associate amounting to HK\$433,000.

The amortisation period adopted for the above goodwill is 15 years.

For the year ended 31 March 2003

18. INTANGIBLE ASSETS

	Goodwill <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP			
COST			
At 1 April 2002	17,515	(1,022)	16,493
Arising on increase in shareholding of subsidiaries	—	(1,704)	(1,704)
At 31 March 2003	<u>17,515</u>	<u>(2,726)</u>	<u>14,789</u>
AMORTISATION			
At 1 April 2002	5,382	—	5,382
Release to the income statement	5,383	(1,248)	4,135
At 31 March 2003	<u>10,765</u>	<u>(1,248)</u>	<u>9,517</u>
CARRYING AMOUNTS			
At 31 March 2003	<u>6,750</u>	<u>(1,478)</u>	<u>5,272</u>
At 31 March 2002	<u>12,133</u>	<u>(1,022)</u>	<u>11,111</u>

The goodwill is amortised on a straight-line basis over 3 to 8 years.

The negative goodwill which arose on the Group's acquisition of additional interest in a subsidiaries is released to income on a straight line basis over a period of two years.

For the year ended 31 March 2003

19. LOAN RECEIVABLE

On 15 June 2002 and 22 July 2002, the Group entered into a sales & purchases agreement and a loan agreement for the disposal of the investment properties at a consideration of HK\$40,000,000. According to the agreements, the consideration will be settled on or before the date of completion, except for HK\$12,000,000 which will be repayable by monthly instalments over five years. The first instalment payment will be due on the first day of August 2003. The loan receivable is unsecured and non-interest bearing.

20. OTHER NON-CURRENT ASSETS

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contribution to the compensation fund and fidelity fund with the Stock Exchange	203	200
Admission fee paid to Hong Kong Securities Clearing Company Limited ("HKSCCL")	100	100
Guarantee fund contributions to HKSCCL	153	222
Statutory deposits with HKFE Clearing Corporation Limited	1,500	1,500
Contribution to Hong Kong Futures Exchange Compensation Fund	100	100
	2,056	2,122

21. INVENTORIES

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Consumables	1,071	1,337

All consumables were carried at cost for both years.

For the year ended 31 March 2003

22. TRADE AND OTHER RECEIVABLES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Accounts receivable arising from the business of dealing in securities and equity options:				
Margin clients accounts receivable	324,052	120,946	—	—
Accounts receivable arising from the business of dealing in futures and options:				
Clearing houses, brokers and dealers	1,060	5,588	—	—
Trade receivables	33,132	18,501	—	—
Other receivable, deposits and prepayments	22,197	29,630	2,384	4,011
	380,441	174,665	2,384	4,011

Loans to margin clients are secured by client's pledged securities, repayable on demand and bearing 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.

The Group allows an average credit period of 60 days to its credit trade customers.

The following is an aged analysis of trade receivables at the reporting dates:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
0 – 30 days	23,495	8,550	—	—
31 – 60 days	4,704	850	—	—
Over 90 days	4,933	9,101	—	—
	33,132	18,501	—	—

For the year ended 31 March 2003

23. INVESTMENTS IN SECURITIES

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Trading securities		
Listed equity securities in Hong Kong at market value	404	692

24. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTION

	THE GROUP		THE COMPANY	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
General accounts	49,441	16,076	8,390	1,824
Financial institution	–	190,280	–	–
Segregated accounts	2,740	1,952	–	–
Trust accounts	12,671	26,807	–	–
	64,852	235,115	8,390	1,824

For the year ended 31 March 2003

25. TRADE AND OTHER PAYABLES

	THE GROUP		THE COMPANY	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Accounts payable arising from the business of dealing in securities and equity options:				
Margin clients	4,629	6,092	–	–
Accounts payable to clients arising from the business of dealing in futures and options	3,780	7,092	–	–
Trade payables	13,454	31,837	–	–
Other payables	102,785	70,794	35,917	7,265
	124,648	115,815	35,917	7,265

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.

Accounts payables to clients arising from the business of dealing in futures and options are margin deposits received from clients for their trading of futures and options. The excess of the outstanding amounts over the required margin deposits stipulated are repayable to clients 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 futures and options dealing.

The following is an aged analysis of trade payables at the reporting dates:

	THE GROUP		THE COMPANY	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
0 – 30 days	13,454	31,837	–	–

For the year ended 31 March 2003

26. BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Secured bank loans	42,728	154,089	–	84,885
Secured bank loan repayable within three months from the date of advances	20,000	20,000	–	–
Secured bank overdrafts (Note 39)	53,929	3,390	–	–
Secured other borrowing	141,509	–	–	–
	258,166	177,479	–	84,885
The maturity of the above loans and overdrafts is as follows:				
On demand or within one year				
– bank borrowings	81,177	53,626	–	9,961
– other borrowing	141,509	–	–	–
	222,686	53,626	–	9,961
Bank borrowings				
More than one year but not exceeding two years	7,269	17,942	–	10,293
More than two years but not exceeding five years	21,953	56,022	–	33,078
More than five years	6,258	49,889	–	31,553
	35,480	123,853	–	74,924
	258,166	177,479	–	84,885

During the year, the Group obtained new bank loans and other borrowing amounting to HK\$15,239,000 and HK\$141,509,000 respectively (2002: HK\$153,261,000 and HK\$Nil). The bank loans bear interest at market rates and are repayable in instalments over a period of 7 to 10 years. The other loan was repayable on demand.

For the year ended 31 March 2003

27. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Amounts payable under finance leases:				
Within one year	267	418	240	374
In the second to fifth year inclusive	208	651	195	594
	<u>475</u>	<u>1,069</u>	<u>435</u>	<u>968</u>
Less: Future finance charges	(40)	(101)	–	–
Present value of finance leases	<u>435</u>	<u>968</u>	<u>435</u>	<u>968</u>
Less: Amount due for settlement within one year			<u>(240)</u>	<u>(374)</u>
Amount due for settlement after one year			<u>195</u>	<u>594</u>

It is the Group's policy to lease certain of its equipment and motor vehicles under finance leases. The average lease term is 3 to 5 years. Interest rates are charged at commercial rates and fixed at the respective contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

For the year ended 31 March 2003

28. SHARE CAPITAL

	Number of shares		Share capital	
	2003 & 2002		2003 & 2002	
			HK\$'000	
At the beginning of the year				
Ordinary shares of HK\$0.10 each	10,000,000,000		1,000,000	
	Number of shares		Share capital	
	2003	2002	2003	2002
			HK\$'000	
Issued and fully paid:				
At the beginning of the year				
Ordinary shares of HK\$0.10 each	4,394,923,632	4,384,123,632	439,492	438,412
Exercise of share options (Note)	–	10,800,000	–	1,080
Conversion of convertible loan note (Note 32(a))	200,000,000	–	20,000	–
At the end of the year				
Ordinary shares of HK\$0.10 each	4,594,923,632	4,394,923,632	459,492	439,492

Note: In prior year, 10,800,000 shares were issued on the exercise of options under share option scheme at a price of HK\$0.161 per share, giving a total consideration of approximately HK\$1,739,000.

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

For the year ended 31 March 2003

29. SHARE OPTIONS

Details of the share option schemes adopted by the Group are as follows:

(a) Old Share Option Scheme

The share option scheme of the Company (the “Old Share Option Scheme”) was adopted on 25 July 2000 (the “Adoption Date”) for the primary purpose of providing incentives to executive directors and eligible employees of the Company or its subsidiaries.

The Old Share Option Scheme was for a period of 10 years commencing on the Adoption Date. Under the Old Share Option Scheme, the Board of Directors (the “Board”) of the Company may at their discretion grant options to directors or employees of the Company and its subsidiaries to subscribe for shares in the Company (the “Share”) in accordance with the terms of the Old Share Option Scheme.

The subscription price for the shares under the Old Share Option Scheme will be at a price to be determined by the directors, but may not be less than the higher of 80% of the average of the closing price of the shares on The Stock Exchange for the five trading days immediately preceding the date of the grant of the option and the nominal value of the shares, and a nominal consideration of HK\$1 is payable on acceptance of the grant of an option. Options granted should be accepted within the specified time limit in accordance with the share option offer letter dispatched to the eligible employees from the date of grant.

The maximum number of the shares in respect of which options may be granted under the Old Share Option Scheme may not exceed 10% of the Shares of the Company in issue at any point in time.

As at 31 March 2003, the number of shares in respect of which options had been granted and remained outstanding under the Old Share Option Scheme was 109,000,000 (2002: 162,425,000), representing 2.4% (2002: 3.7%) of the shares of the Company in issue at that date. No option might be granted to any one employee which if exercised in full would result in the total number of shares of the company already issued and issuable to him under all the options previously granted to him and the said option exceeding 25% of the maximum aggregate number of shares in the capital of the Company in respect of which options might at the time be granted under the Old Share Option Scheme.

For the year ended 31 March 2003

29. SHARE OPTIONS (continued)**(a) Old Share Option Scheme (continued)**

The following tables discloses details of the Company's options under the Old Share Option Scheme held by employees (including directors) and movement in such holdings during the year ended 31 March 2003 and 31 March 2002 respectively:

2003

Exercise price per share HK\$	Exercisable period	Date of share options granted	Balance at 1.4.2002	Cancelled during the year	Balance at 31.3.2003
0.161	1 April 2001 to 31 March 2005	29 March 2001	124,425,000	(15,425,000)	109,000,000
0.49	1 April 2002 to 31 March 2005	11 June 2001	18,000,000	(18,000,000)	–
0.54	1 March 2002 to 31 August 2004	2 August 2001	20,000,000	(20,000,000)	–
			<u>162,425,000</u>	<u>(53,425,000)</u>	<u>109,000,000</u>

No options had been granted or exercised during the year. On 17 October 2002, certain employees voluntarily waived at no consideration all their outstanding options.

2002

Exercise price per share HK\$	Exercisable period	Date of share options granted	Balance at 1.4.2001	Granted during the year	Exercised during the year	Cancelled during the year	Balance at 31.3.2002
0.161	1 April 2001 to 31 March 2005	29 March 2001	162,000,000	–	(10,800,000)	(26,775,000)	124,425,000
0.49	1 April 2002 to 31 March 2005	11 June 2001	–	18,000,000	–	–	18,000,000
0.54	1 March 2002 to 31 August 2004	2 August 2001	–	20,000,000	–	–	20,000,000
			<u>162,000,000</u>	<u>38,000,000</u>	<u>(10,800,000)</u>	<u>(26,775,000)</u>	<u>162,425,000</u>

For the year ended 31 March 2003

29. SHARE OPTIONS (continued)

(a) Old Share Option Scheme (continued)

Total consideration received for the acceptance of the grant of share options during the year ended 31 March 2002 was HK\$4.

Options granted under the Company's share option schemes should be accepted within the specified time limit in accordance with the share option offer letter dispatched to the eligible employees from the date of grant.

During the year, the Old Share Option Scheme was terminated. Upon the termination of the Old Share Option Scheme, no further options will be granted thereunder but in all other respects, the provisions of the Old Share Option Scheme shall remain in force and all options which have been granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

(b) New Share Option Scheme

The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), terminated the Old Share Option Scheme and adopted a new share option scheme (the "New Share Option Scheme"), as approved by the shareholders of the Company at the annual general meeting held on 2 September 2002.

The New Share Option Scheme permits the Company to grant options to a wider category of participants as defined in the Company's circular issued on 30 July 2002 (the "Participants"), and not just the eligible grantees as under the Old Share Option Scheme (the "Eligible Grantees"). Under the rules of the New Share Option Scheme, the Board has discretion to set a minimum period for which an option has to be held before the exercise of the subscription rights attaching thereto. This discretion allows the Board to provide incentive to a Participant during such period. This discretion, couple with the power of the Board to impose any performance target as it consider appropriate before any option can be exercised, enable the Group to provide incentives to the Participants to use their best endeavours in assisting the growth and development of the Group. Although the New Share Option Scheme does not provide for the Shares on the Stock Exchange, the directors are of the view that the flexibility given to the Board in granting options to Participants, other than the Eligible Grantees and to impose minimum period for which the options have to be held and performance targets that have to be achieved before the options can be exercised, will place the Group in a better position to attract human resources that are valuable to the growth and development of the Group as whole, than the Old Share Option Scheme.

For the year ended 31 March 2003

29. SHARE OPTIONS (continued)

(b) New Share Option Scheme (continued)

The subscription price for Shares under the New Share Option Scheme shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a Share.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the New Share Option Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each Participant in any 12-month period shall not exceed 1% of the issued share capital of the Company in issue (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant, shall be subject to the issue of a circular to the shareholders and the shareholders' approval in general meeting of the Company with such Participant and his associates abstaining from voting.

No options have been granted during the year.

For the year ended 31 March 2003

30. SHARE PREMIUM AND RESERVES

	Share premium <i>HK\$'000</i>	Accumulated (losses) profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY			
At 1 April 2001	96,344	(105,602)	(9,258)
Premium arising from issue of shares	659	–	659
Expenses incurred in connection with issue of shares	(4)	–	(4)
Profit for the year	–	98,814	98,814
	<hr/>	<hr/>	<hr/>
At 31 March 2002	96,999	(6,788)	90,211
Premium arising from issue of shares	180,000	–	180,000
Expenses incurred in connection with issue of shares	(30)	–	(30)
Profit for the year	–	520	520
	<hr/>	<hr/>	<hr/>
At 31 March 2003	<u>276,969</u>	<u>(6,268)</u>	<u>270,701</u>

The Company did not have any reserves available for distribution to shareholders at 31 March 2003.

31. LOANS FROM MINORITY SHAREHOLDERS

THE GROUP

During the year, the loan from minority shareholders had been partially settled and the remaining balance had been waived by the minority shareholders. In prior year, the loans are unsecured, non-interest bearing and have no fixed repayment terms. The directors consider that the minority shareholders would not demand the repayment of these loans within twelve months from the balance sheet date and accordingly, the loans are shown as non-current liabilities in the financial statements.

For the year ended 31 March 2003

32. CONVERTIBLE LOAN NOTES

- (a) A convertible loan note of HK\$200,000,000 (the “Note”) was issued on 23 August 2001 to a subscriber (the “Subscriber”). The Note is convertible into ordinary shares of the Company (“Conversion Shares”) for a certain percentage of the principal amount of the Note within 30 days prior to the expiry of 12, 24, 30 and 36 months, respectively, from the date of issue. If the Note has not been converted, it will be redeemed on the third anniversary of the date of issue. Interest at 3% per annum will be paid annually up and until the settlement date.

The Company received a written notice on 16 April 2002 (“Conversion Date”) from the Subscriber stating its intention to convert the entire outstanding principal amount of HK\$200,000,000 under the Note into shares of the Company at a price of HK\$1 each with effect from the Conversion Date.

Pursuant to the Subscriber’s request, the Company has agreed with the Subscriber on 23 April 2002 to vary the conversion rights attaching to the Note to the extent that the Subscriber may convert the entire or partially the principal amount outstanding under the Note into Conversion Shares at the price to be determined on the date of conversion.

On 29 April 2002, 200,000,000 shares were allotted at HK\$1.00 each at a premium of HK\$0.90 each.

- (b) Convertible loan notes of total aggregate amount of HK\$40,600,000 (the “Notes”) were issued on 30 January 2003 to the subscribers. The Notes are convertible into the Share at a price per share that will equal the higher of (a) HK\$1.5; and (b) the average closing price per share as quoted on the Stock Exchange over the 10 consecutive trading days immediately preceding the date on which conversion takes place.

The Notes bear interest on the outstanding principal from the date of issue the date of redemption or conversion at a rate of 5% per annum payable in arrears annually on 1 April in each year.

Unless converted or repaid in accordance with the terms and conditions of the Notes, the Company will repay the outstanding principal amount of the Notes together with such additional amount as may be payable thereunder on the third anniversary of the date of the instrument creating the Notes.

For the year ended 31 March 2003

33. DEFERRED TAXATION

At the balance sheet date, the major components of the unprovided deferred taxation asset were as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Tax effect of timing differences because of:				
Taxation losses	34,332	35,522	1,707	1,312
Excess of tax allowances over depreciation	(209)	(369)	–	–
	34,123	35,153	1,707	1,312

The amount of the unprovided deferred tax debit/(credit) for the year is as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Tax effect of timing differences because of:				
Tax losses utilised (arising)	1,190	(2,515)	(395)	(522)
Difference between tax allowances and depreciation	(160)	477	–	–
	1,030	(2,038)	(395)	(522)

The potential deferred taxation asset has not been recognised in the financial statements as it is not certain that it will be realised in the foreseeable future.

For the year ended 31 March 2003

34. ACQUISITION OF SUBSIDIARIES

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net assets acquired:		
Investment properties	283,000	–
Other receivable	9,476	–
Loan from a former shareholder	(9,476)	–
	<hr/>	<hr/>
Total consideration	283,000	–
	<hr/>	<hr/>
Satisfied by:		
Cash	260,888	–
Other payables	22,112	–
	<hr/>	<hr/>
	283,000	–
	<hr/>	<hr/>

The subsidiaries acquired during the year contributed HK\$24,000,000 to the Group's turnover, and HK\$23,957,000 to the Group's profit from operation.

After the acquisition, the former shareholder agreed to waive the loan amount of HK\$9,476,000 and as a result, the Company has written back the payables to the income statement.

For the year ended 31 March 2003

35. DISPOSAL OF SUBSIDIARIES

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net assets disposed of:		
Investment property	56,000	–
Property, plant and equipment	58,889	55
Properties held for sale	–	85,000
Interest in an associate	67,153	–
Amount due from an associate	59,698	–
Trade and other receivables	19,918	610
Trade and other payables	(18,606)	(55,709)
Tax liabilities	–	(22,925)
Amount due to a related company	(47)	–
Bank borrowings	–	(3,738)
Bank balances	605	2,737
	<u>243,610</u>	<u>6,030</u>
Exchange losses realised	(933)	(4,193)
	<u>242,677</u>	<u>1,837</u>
Gain on disposal	77,323	149,163
	<u>320,000</u>	<u>151,000</u>
Total consideration	<u>320,000</u>	<u>151,000</u>
Satisfied by cash	<u>320,000</u>	<u>151,000</u>
Net cash inflow arising on disposal:		
Cash consideration	320,000	151,000
Bank balances disposed of	(605)	(2,737)
	<u>319,395</u>	<u>148,263</u>

The subsidiaries disposed of during the year contributed HK\$1,674,000 (2002: HK\$1,325,000) to the Group's turnover and HK\$2,911,000 (2002: HK\$410,000) to the Group's profit (loss) from operations.

For the year ended 31 March 2003

36. MAJOR NON-CASH TRANSACTIONS

During the year, the Group had major non-cash transactions as follows:

On 26 September 2002, the Group has entered into an unconditional Sales & Purchases Agreement regarding the disposal of the entire issued share capital of Burlingame (Chinese) Investment Ltd. together with a non-interest bearing shareholder's loan. The only asset of the subsidiary on completion date was the investments in an associate, Shanghai Underground Centre Co., Ltd. As at 31 March 2003, the balance due to the associate amounting to HK\$17,235,000 was reclassified as other payables, accordingly.

The Group acquired the remaining interests in Interchina Securities Limited and Interchina Futures Limited. These two companies become wholly owned subsidiaries of the Group thereafter and the balance due to minority shareholders amounting to HK\$10,000,000 were reclassified as other payables, accordingly.

In prior year, the Group entered into new finance leases in respect of assets with a total capital value at the inception of the leases of HK\$1,245,000.

In prior year, part of the capital injection to an associate was injected by capitalising a loan due from a subsidiary of the Company amounted to HK\$29,356,000.

37. PLEDGE OF ASSETS

At the balance sheet date, the Group has pledged investment properties with an aggregate carrying value of approximately HK\$88,000,000 (2002: HK\$275,000,000), property, plant and equipment with an aggregate carrying value of approximately HK\$239,528,000 (2002: HK\$215,393,000) to secure general banking facilities granted to the Group.

In prior year, the Group's bank fixed deposit of HK\$17,500,000 had been pledged to secure bank facilities granted to the Group. The pledged fixed deposit had been released during the year.

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38. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Guarantees given to bankers in respect of banking facilities utilised by:				
Subsidiaries	–	–	104,157	79,966
Property buyers	100,000	100,000	–	–
	100,000	100,000	104,157	79,966

Guarantees were given by the Group to the property buyers for obtaining mortgage facilities from a bank. In order to release the guarantees, the Group had made certain arrangement as set out in note 44 to the financial statements.

At the balance sheet date, an indemnity had been given by the Group in favour of a bank for issuing a guarantee of HK\$5,000,000 (2002: HK\$5,000,000) to HKFE Clearing Corporation Limited.

39. BANKING FACILITIES

The bank overdrafts are secured by marketable securities held by the Group on behalf of clients with their consent.

For the year ended 31 March 2003

40. OPERATING LEASE COMMITMENTS**The Group and the Company as lessee**

At 31 March 2003, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP		THE COMPANY	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	4,762	6,235	3,643	1,609
In the second to fifth year inclusive	2,192	5,411	1,575	3,197
	6,954	11,646	5,218	4,806

Operating lease payment represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 3 years.

The Group as lessor

Property rental income earned during the year was HK\$28,263,000 (2002: HK\$19,812,000). Some of the properties held have committed tenants for three months.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	—	3,348

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41. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:				
– acquisition of property, plant and equipment	408,875	599	605	599
– investments in the PRC subsidiaries and a PRC associate (<i>Note</i>)	325,289	267,799	170,176	232,440
	734,164	268,398	170,781	233,039

Note: Details regarding the commitments of the investment in the PRC subsidiaries and PRC associate are set out in the circular dated 4 July 2002 and 9 December 2002 respectively.

42. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (“MPF Scheme”) under rules and regulations at Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. The MPF Scheme comprises statutory and voluntary contribution. The Company contributes 5% of eligible employees’ relevant aggregate income. The forfeited contributions of approximately HK\$28,000 (2002: HK\$51,000) are used to reduce the contributions for the year ended 31 March 2003. The Contributions are charged to income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administrated fund. The Group’s employer contributions vest ranging from 30% to 100% with the employees according to the years of employment except those employer contributions which are under the statutory requirement.

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43. RELATED PARTY TRANSACTIONS

During the year, the Group had entered certain construction agreements with an associate, Interchina Aihua (Tianjin) Municipal & Environmental Engineering Co., Ltd. The associate is engaged in the establishment and operation of city development and environmental protection infrastructure construction. The total contract sum involved were amounting to HK\$159,764,000. During the year, the construction cost that recognised as the cost of construction in progress was amounted to approximately HK\$18,491,000.

The Group entered into an agreement during the year with a company wholly-owned by Mr. Zhang Yang, chairman of the Company to provide shares placement service to the company. The total services fee income was approximately amounting to HK\$1,437,000.

The amount due to a related company are unsecured, interest bearing at Hong Kong Inter Bank Offered Rate plus 1.75% (2002: Interest free) and repayable on demand. The interest paid to the related company for the year was amounting to HK\$2,770,000.

The related company is the company where one of the directors is also the shareholder.

The amounts due from (to) an associate are unsecured, interest free and repayable on demand.

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44. POST BALANCE SHEET EVENTS

On 11 April 2003, the Company has entered into the Agreement for the establishment of a sino-foreign equity joint venture, to be named as Zhong Huan Water Treatment Investment Company Limited (“ZHWT”). The total investment of ZHWT will be approximately HK\$660,377,000. The Group will invest 50% equity interest in ZHWT. ZHWT will be principally engaged in activities including investment in the establishment and operation of water plants and sewage treatment plants, development and supply of water protection equipment, development and franchise of sewage treatment technique in PRC.

The maximum commitment of the Company in the establishment of ZHWT pursuant to the associate agreement and the articles of association of ZHWT, to be executed by the wholly-owned subsidiary, will be approximately HK\$330,189,000. Details of the transaction were set out in the circular of the Company dated 2 May 2003. Subsequently, the name, ZHWT, changed to China Water & Sewage Treatment Company Limited.

In order to release the guarantees, which were given by the Group to the property buyers for obtaining mortgage facilities from a bank as disclosed in note 38. The Group would arrange to buy back thirty-one units of properties from the property buyers at a total consideration of approximately HK\$34,499,000 (“Purchase”). The Group also entered into a loan agreement of amount approximately HK\$29,300,000, dated 17 April 2003, with a bank to finance the Purchase. The guarantees would be released, accordingly.

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45. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 March 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Class of share held	Paid-up issued ordinary share/ registered capital* HK\$ (unless otherwise stated)	Percentage of issued ordinary shares/registered capital held by the Company		Principal activity
				Directly %	Indirectly %	
Burlingame International Company Limited	Hong Kong	Ordinary	425,019,668	100	–	Investment holding
Equal Smart Profits Limited	The British Virgin Island ("BVI")	Ordinary	US\$1	100	–	Property letting
Interchina City Development & Investment Limited	BVI	Ordinary	US\$10,000	100	–	Investment holding
Interchina Corporate Services Limited	Hong Kong	Ordinary	10,000	100	–	Management
Money Capture Investments Limited	BVI	Ordinary	US\$1	100	–	Investment holding
@ Interchina (Changsha) Investment & Management Co., Ltd	PRC	–	*US\$18,080,000	100	–	Property development
! 長沙國中星城置業有限公司	PRC	–	*RMB50,000,000	70	–	Property development
! 漢中市石門城市供水有限公司	PRC	–	*RMB50,000,000	–	80	Water supply
Interchina Futures Limited	Hong Kong	Ordinary	8,500,000	30	70	Commodities brokerage

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45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Class of share held	Paid-up issued ordinary share/ registered capital* HK\$ (unless otherwise stated)	Percentage of issued ordinary shares/registered capital held by the Company		Principal activity
				Directly %	Indirectly %	
Interchina Securities Limited	Hong Kong	Ordinary	300,000,000	5	95	Securities brokerage
Best Plain Trading Limited	Hong Kong	Ordinary	310,000,000	–	100	Property letting
Burlingame (Shanghai) Investment Limited	Hong Kong	Ordinary	119,152,722	–	100	Investment holding
Interchina Environmental Protection Company Limited	BVI	Ordinary	US\$1	–	100	Investment holding
@ Interchina (Qinhuangdao) Sewage Treatment Co., Ltd	PRC	–	*US\$4,091,003	–	100	Sewage treatment
Interchina Water Treatment Limited	BVI	Ordinary	US\$10,000	–	100	Investment holding
! Shanghai Hung Tai Real Estate Company Limited	PRC	–	*US\$12,000,000	–	90	Property development

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

! Sino foreign equity joint venture

@ Wholly-owned foreign enterprise