

# Notes to the Financial Statements

For the year ended 31 March 2004

## 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 42.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the Statement of Standard Accounting Practice No. 12 Income taxes ("SSAP12 (Revised)") issued by the Hong Kong Society of Accountants ("HKSA"). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2003 have been restated accordingly. The adoption of SSAP 12 (Revised) has had no effect on the results for the current or prior accounting years. Accordingly, no prior year adjustment has been required. The effect of the adoption of SSAP 12 as at 1 April 2002 are summarised below:

	As previously reported <i>HK\$'000</i>	Adjustment <i>HK\$'000</i>	As restated <i>HK\$'000</i>
Deferred tax liabilities	–	(474)	(474)
Deferred tax assets	–	474	474
	<hr/>	<hr/>	<hr/>
Total effect on accumulated losses	–	–	–
	<hr/>	<hr/>	<hr/>

For the year ended 31 March 2004

### **3. 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.

#### **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.

For the year ended 31 March 2004

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Negative goodwill (continued)**

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.

#### **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.

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.

For the year ended 31 March 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 land cost, 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.

Depreciation is provided to write off the cost of property, plant and equipment, other than properties under development and construction in progress, 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
Leasehold improvement	Over the terms of the leases
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.

For the year ended 31 March 2004

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **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.

#### **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.

For the year ended 31 March 2004

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **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.

#### **Inventories**

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

#### **Properties under development for sale**

Properties under development for sale is stated at cost, less any impairment loss and is classified under current assets. Cost includes land cost, construction cost, interest, finance charges and other direct costs attributable to the development of the properties.

#### **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.

For the year ended 31 March 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

For the year ended 31 March 2004

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Taxation (continued)**

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### **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.



For the year ended 31 March 2004

#### 4. 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:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Property rental and management fee	30,187	28,263
Commission income	33,571	29,468
Interest income from margin clients	25,664	13,299
	<u>89,422</u>	<u>71,030</u>

#### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is currently organised into four (2003: 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

For the year ended 31 March 2004

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Segment information about these businesses is presented below:

	Envi- ronmental 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>	Elimination <i>HK\$'000</i>	Consolidation total <i>HK\$'000</i>
2004						
TURNOVER						
External sales	–	–	30,187	59,235	–	89,422
Inter-segment sales	–	–	1,084	–	(1,084)	–
	<u>–</u>	<u>–</u>	<u>31,271</u>	<u>59,235</u>	<u>(1,084)</u>	<u>89,422</u>
RESULTS						
Segment results	<u>(13,949)</u>	<u>(1,701)</u>	<u>17,280</u>	<u>33,626</u>	<u>–</u>	<u>35,256</u>
Interest income						3,968
Unallocated corporate expenses						<u>(36,079)</u>
Profit from operations						3,145
Finance costs						<u>(31,043)</u>
Share of results of an associate	(2,371)	–	–	–	–	<u>(2,371)</u>
Loss before taxation						<u>(30,269)</u>
Taxation						<u>(1,100)</u>
Loss before minority interests						<u>(31,369)</u>

Inter-segment sales are charged at both agreed terms.

For the year ended 31 March 2004

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**

	Envi- ronmental 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>	Elimination <i>HK\$'000</i>	Consolidation total <i>HK\$'000</i>
2003						
TURNOVER						
External sales	–	–	28,263	42,767	–	71,030
Inter-segment sales	–	–	1,511	1,705	(3,216)	–
	<u>–</u>	<u>–</u>	<u>29,774</u>	<u>44,472</u>	<u>(3,216)</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>	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.

For the year ended 31 March 2004

**5. 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		Consolidated total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
ASSETS										
Segment assets	333,778	84,987	170,621	74,451	996,866	748,681	193,484	370,533	1,694,749	1,278,652
Interests in associates	-	56,083	-	-	-	-	-	-	-	56,083
Unallocated corporate assets									17,179	20,777
Consolidated total assets									1,711,928	1,355,512
LIABILITIES										
Segment liabilities	148,955	48	28,822	1,102	111,994	84,205	18,174	34,449	307,945	119,804
Unallocated corporate liabilities									617,112	422,953
Consolidated total liabilities									925,057	542,757

Other information as at 31 March:

	Environmental protection and water treatment operation		City development and investment operation		Property investment operation		Securities and financial operation		Unallocated		Consolidated total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Additions of property, plant and equipment	272,853	29,955	107,547	62,968	129,794	93,038	118	237	908	3,608	511,220	189,806
Depreciation	517	10	100	33	14,877	13,001	649	1,592	1,722	1,408	17,865	16,044
Gain (deficit) arising on revaluation of investment properties	-	-	-	-	24,978	(800)	-	-	-	-	24,978	(800)
Goodwill amortisation (release of negative goodwill)	94	-	-	-	1,487	1,350	(1,478)	2,785	-	-	103	4,135
Impairment loss recognised on goodwill	1,218	-	-	-	5,400	-	-	-	-	-	6,618	-

For the year ended 31 March 2004

**5. 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	62,346	47,030	54,095	(2,587)
The PRC	27,076	24,000	(18,839)	4,480
	<u>89,422</u>	<u>71,030</u>	<u>35,256</u>	<u>1,893</u>
Interest income			3,968	2,916
Unallocated corporate expenses			(36,079)	(51,052)
Profit (loss) from operations			<u>3,145</u>	<u>(46,243)</u>

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 and intangible assets	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	346,948	492,113	501	284
The PRC	1,364,980	863,399	515,346	189,522
	<u>1,711,928</u>	<u>1,355,512</u>	<u>515,847</u>	<u>189,806</u>

For the year ended 31 March 2004

## 6. STAFF COSTS

	2004 HK\$'000	2003 HK\$'000
Salaries and allowances (including directors' remuneration)	30,773	35,464
Retirement benefits scheme contributions	1,073	824
	<u>31,846</u>	<u>36,288</u>

## 7. PROFIT (LOSS) FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit (loss) from operations has been arrived at after charging (crediting):		
Auditors' remuneration	1,050	1,193
Depreciation		
– Owned assets	17,705	15,884
– Assets held under finance leases	160	160
Amortisation of goodwill – net	103	4,135
	17,968	20,179
Loss on disposal of property, plant and equipment	78	–
Operating lease rentals in respect of premises	5,644	6,723
Gross rents from investment properties	(30,187)	(28,263)
Less: Outgoings	553	113
	<u>(29,634)</u>	<u>(28,150)</u>

Include in the amortisation of goodwill – net is amount of approximately HK\$1,478,000 (2003: HK\$1,248,000) regarding the release of negative goodwill as set out in note 17.

For the year ended 31 March 2004

**8. FINANCE COSTS**

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on:		
Bank loans and overdrafts and other loans wholly repayable:		
within five years	12,083	7,602
over five years	6,358	1,131
Other borrowings	17,016	19,738
Interest on obligations under finance leases	27	52
Interest on convertible loan notes	1,913	799
	<u>37,397</u>	<u>29,322</u>
Less: Amounts capitalised	(6,354)	(3,788)
	<u>31,043</u>	<u>25,534</u>

**9. DIRECTORS' EMOLUMENTS**

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Directors' fees:		
Executive	1,153	2,747
Independent non-executive	1,500	1,500
Non-executive	600	–
Other emoluments (executive directors):		
– Salaries and other benefits	10,898	12,894
– Retirement benefit scheme contributions	275	320
	<u>14,426</u>	<u>17,461</u>

For the year ended 31 March 2004

## 9. DIRECTORS' EMOLUMENTS (continued)

The emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	6	4
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	1	1
HK\$4,000,001 to HK\$4,500,000	–	1
HK\$4,500,001 to HK\$5,000,000	1	–
	<u>1</u>	<u>–</u>

## 10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2003: five) were directors of the Company as at 31 March 2004, whose emoluments are included in note 9 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 (the "Listing Rules") were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	12,920	13,652
Retirement benefit scheme contributions	336	320
	<u>13,256</u>	<u>13,972</u>

Their emoluments were within the following bands:

	Number of employees	
	2004	2003
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	1	1
HK\$4,000,001 to HK\$4,500,000	–	1
HK\$4,500,001 to HK\$5,000,000	1	–
	<u>5</u>	<u>5</u>



For the year ended 31 March 2004

**11. TAXATION**

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current tax:		
Hong Kong	<u>(1,100)</u>	<u>(360)</u>

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) of the estimated assessable profit for the year. The Profits Tax rate has been increased with effect from the year of assessment 2003/2004. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The tax charge for the year can be reconciled to (loss) profit before taxation per the income statement as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
(Loss) profit before taxation	<u>(30,269)</u>	<u>9,105</u>
Tax at the domestic income tax rate of 17.5% (2003: 16%)	(5,297)	1,457
Effect of different tax rates of subsidiaries operating in other jurisdictions	(8,439)	(8,349)
Tax effect of expenses not deductible for tax purpose	7,579	71,829
Tax effect of income not taxable for tax purpose	(7,597)	(71,749)
Tax effect of tax losses not recognised	15,022	13,332
Utilisation of tax losses previously not recognised	(278)	(5,679)
Overprovision in respect of prior year	–	(461)
Others	<u>110</u>	<u>(20)</u>
Tax expense for the year	<u>1,100</u>	<u>360</u>

For the year ended 31 March 2004

## 12. (LOSS) EARNINGS PER SHARE

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
(Loss) profit for the year and (loss) earnings for the purposes of basic (loss) earnings per share and diluted (loss) earnings per share	<u>(26,300)</u>	<u>15,008</u>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	4,594,923,632	4,579,581,166
Effect of dilutive potential ordinary shares:		
Options	–	<u>100,304,404</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>4,594,923,632</u>	<u>4,679,885,570</u>

The computation of diluted loss per share for the year ended 31 March 2004 does not assume the exercise of the Company's outstanding share options since the exercise would reduce loss per share.

For the year ended 31 March 2004

**13. INVESTMENT PROPERTIES**

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Valuation at 1 April	378,200	275,000
Acquired on acquisition of a subsidiary	–	283,000
Additions	42,611	–
Reclassification from leasehold improvements	32,082	–
Surplus (deficit) arising from revaluation	24,978	(800)
Disposal upon disposals of a subsidiary	–	(56,000)
Disposal during the year	–	(123,000)
	<u>477,871</u>	<u>378,200</u>
Valuation at 31 March	<b>477,871</b>	<b>378,200</b>

All the Group's investment properties have been valued at their open market value at 31 March 2004 by Messrs. Chesterton Petty Limited, a firm of independent professional valuer, 北京寶信房地產評估諮詢有限責任公司 and 上海房地產估價師事務所有限公司, the independent PRC valuers. The valuation of the Group's investment properties give rise to a revaluation net surplus of HK\$24,978,000 (2003: net deficit of HK\$800,000), which has been credited to the income statement.

The carrying amount of the investment properties comprises:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
In Hong Kong:		
Medium-term lease	126,000	88,000
Outside Hong Kong:		
Medium-term lease	351,871	290,200
	<u>477,871</u>	<u>378,200</u>

All the investment properties are rented out except some investment properties in PRC.

For the year ended 31 March 2004

## 14. PROPERTY, PLANT AND EQUIPMENT

	Properties under development <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Equipment, motor vehicle and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP							
COST							
At 1 April 2003	336,386	28,525	4,233	66,788	9,537	14,471	459,940
Acquired on acquisition of a subsidiary	54	–	–	–	208	1,669	1,931
Reclassification	–	–	–	(63,640)	–	–	(63,640)
Additions	235,337	270,773	–	906	1,003	3,201	511,220
Disposals	(54)	–	–	–	(30)	–	(84)
Transfer to properties under development for sale	(89,621)	–	–	–	–	–	(89,621)
At 31 March 2004	482,102	299,298	4,233	4,054	10,718	19,341	819,746
DEPRECIATION							
At 1 April 2003	–	–	127	19,581	4,780	4,344	28,832
Reclassification	–	–	–	(31,558)	–	–	(31,558)
Provided for the year	–	–	190	13,890	1,151	2,634	17,865
Eliminated on disposals	–	–	–	–	(3)	–	(3)
At 31 March 2004	–	–	317	1,913	5,928	6,978	15,136
CARRYING AMOUNTS							
At 31 March 2004	482,102	299,298	3,916	2,141	4,790	12,363	804,610
At 31 March 2003	336,386	28,525	4,106	47,207	4,757	10,127	431,108

For the year ended 31 March 2004

**14. PROPERTY, PLANT AND EQUIPMENT (continued)**

	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Equipment, motor vehicle and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
COST				
At 1 April 2003	1,086	363	3,536	4,985
Additions	766	15	–	781
At 31 March 2004	1,852	378	3,536	5,766
DEPRECIATION				
At 1 April 2003	322	60	534	916
Provided for the year	431	66	636	1,133
At 31 March 2004	753	126	1,170	2,049
NET BOOK VALUES				
At 31 March 2004	1,099	252	2,366	3,717
At 31 March 2003	764	303	3,002	4,069

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

	Properties under development		Land and buildings	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>THE GROUP</b>				
In the PRC:				
long-term lease	74,829	–	–	–
medium-term lease	407,273	336,386	3,916	4,106
	482,102	336,386	3,916	4,106

For the year ended 31 March 2004

#### 14. PROPERTY, PLANT AND EQUIPMENT (continued)

Properties under development of the Group are situated in the PRC. At 31 March 2004, properties under development of the Group included interest capitalised of HK\$42,071,000 (2003: HK\$42,071,000).

Construction in progress represents the construction work of a water supply plant and a sewage treatment plant, respectively. At 31 March 2004, construction in progress of the Group included interest capitalised of HK\$6,354,000 (2003: HK\$Nil).

At 31 March 2004, the net book value of equipment, motor vehicle and others includes an amount of HK\$402,000 (2003: HK\$563,000) in respect of assets held under finance leases.

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

#### 15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	232,003	517,536

Details of the principal subsidiaries of the Company as at 31 March 2004 are set out in note 42.

#### 16. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Cost of investments	–	57,200
Share of post-acquisition reserve	–	(1,117)
	–	56,083

For the year ended 31 March 2004

**16. INTEREST IN AN ASSOCIATE (continued)**

During the year, the Group acquired additional interest, up to 93%, in Interchina Aihua (Tianjin) Municipal & Environmental Engineering Co., Ltd. ("IAH"). As a result, the investors of IAH agreed to change the Articles of Association to allow the Group to appoint majority of the board of directors. Accordingly, IAH became a subsidiary of the Company and the financial result of IAH has been consolidated since then.

**17. INTANGIBLE ASSETS**

	Goodwill <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>			
COST			
At 1 April 2003	17,515	(2,726)	14,789
Arising on acquisitions during the year	1,134	–	1,134
Arising on increase in shareholding of subsidiaries	3,493	–	3,493
	<u>22,142</u>	<u>(2,726)</u>	<u>19,416</u>
At 31 March 2004	<u>22,142</u>	<u>(2,726)</u>	<u>19,416</u>
AMORTISATION AND IMPAIRMENT			
At 1 April 2003	10,765	(1,248)	9,517
Charge for the year	1,581	–	1,581
Release to the income statement	–	(1,478)	(1,478)
Impairment loss recognised in the year	6,618	–	6,618
	<u>18,964</u>	<u>(2,726)</u>	<u>16,238</u>
At 31 March 2004	<u>18,964</u>	<u>(2,726)</u>	<u>16,238</u>
CARRYING AMOUNTS			
At 31 March 2004	<u>3,178</u>	<u>–</u>	<u>3,178</u>
At 31 March 2003	<u>6,750</u>	<u>(1,478)</u>	<u>5,272</u>

For the year ended 31 March 2004

## 17. INTANGIBLE ASSETS (continued)

The goodwill is amortised on a straight-line basis over 3 to 10 years.

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

The impairment loss on goodwill of HK\$6,618,000 is charged to the income statement in the current year. The impairment loss related to the Group's acquisition of two companies which are engaged in operating the club house business in PRC and environmental protection construction business in PRC. Due to continuous losses incurred by the two companies, the directors have reassessed the recoverable amount of the assets of the two companies, and considered that there are impairment losses to the goodwill.

## 18. LOAN RECEIVABLE

The loan receivable is repayable by monthly instalments over five years. The first instalment payment was due on the first day of August 2003. The loan receivable is unsecured and non-interest bearing.

## 19. OTHER NON-CURRENT ASSETS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Contribution to the compensation fund and fidelity fund with the Stock Exchange	354	203
Admission fee paid to Hong Kong Securities Clearing Company Limited ("HKSCCL")	100	100
Guarantee fund contributions to HKSCCL	382	153
Statutory deposits with HKFE Clearing Corporation Limited	1,500	1,500
Contribution to Hong Kong Futures Exchange Compensation Fund	–	100
Club membership	380	–
	<u>2,716</u>	<u>2,056</u>
	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Club membership	<u>380</u>	<u>–</u>



For the year ended 31 March 2004

**20. INVENTORIES**

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Consumables	1,561	1,071

All consumables were carried at cost for both years.

**21. TRADE AND OTHER RECEIVABLES**

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Accounts receivable arising from the business of dealing in securities and equity options:				
Margin clients accounts receivable	167,154	324,052	–	–
Accounts receivable arising from the business of dealing in futures and options:				
Clearing houses, brokers and dealers	2,504	1,060	–	–
Trade receivables	27,539	33,132	–	–
Other receivable, deposits and prepayments	65,484	22,197	1,434	2,384
	262,681	380,441	1,434	2,384

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.

For the year ended 31 March 2004

## 21. TRADE AND OTHER RECEIVABLES (continued)

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 – 30 days	2,900	23,495
31 – 60 days	4,237	4,704
Over 90 days	20,402	4,933
	<u>27,539</u>	<u>33,132</u>

## 22. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Trading securities		
Listed equity securities in Hong Kong at market value	<u>374</u>	<u>404</u>

## 23. CASH AND BANK BALANCES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
General accounts	47,951	49,441	8,062	8,390
Segregated accounts	1,221	2,740	–	–
Trust accounts	9,322	12,671	–	–
	<u>58,494</u>	<u>64,852</u>	<u>8,062</u>	<u>8,390</u>

For the year ended 31 March 2004

**24. TRADE AND OTHER PAYABLES**

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Accounts payable arising from the business of dealing in securities and equity options:				
Margin clients	480	4,629	–	–
Accounts payable to clients arising from the business of dealing in futures and options	3,282	3,780	–	–
Trade payables	10,057	13,454	–	–
Other payables	304,952	102,785	8,900	35,917
	<b>318,771</b>	<b>124,648</b>	<b>8,900</b>	<b>35,917</b>

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	
	2004 HK\$'000	2003 HK\$'000
0 – 30 days	<b>10,057</b>	<b>13,454</b>

For the year ended 31 March 2004

## 25. BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Secured bank loans	281,662	42,728
Secured bank loan repayable within three months from the date of advances	20,000	20,000
Secured bank overdrafts	6,945	53,929
Secured other borrowings	290,878	141,509
	<b>599,485</b>	<b>258,166</b>
The maturity of the above loans and overdrafts is as follows:		
On demand or within one year		
– bank borrowings	60,762	81,177
– other borrowings	290,878	141,509
	<b>351,640</b>	<b>222,686</b>
Bank borrowings		
More than one year but not exceeding two years	8,982	7,269
More than two years but not exceeding five years	157,701	21,953
More than five years	81,162	6,258
	<b>247,845</b>	<b>35,480</b>
	<b>599,485</b>	<b>258,166</b>

During the year, the Group obtained new bank loans and other borrowings amounting to HK\$285,056,000 and HK\$149,369,000 respectively (2003: HK\$15,239,000 and HK\$141,509,000). The bank loans bear interest at market rates and are repayable in instalments over a period of 7 to 14 years. The other borrowings were repayable on demand.

For the year ended 31 March 2004

**26. OBLIGATIONS UNDER FINANCE LEASES**

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Amounts payable under finance leases:				
Within one year	96	267	87	240
In the second to fifth year inclusive	112	208	108	195
	208	475	195	435
Less: Future finance charges	(13)	(40)	–	–
Present value of finance leases	<u>195</u>	<u>435</u>	195	435
Less: Amount due for settlement within one year			(87)	(240)
Amount due for settlement after one year			<u>108</u>	<u>195</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 2004

**27. SHARE CAPITAL**

	Number of shares 2004 & 2003		Nominal value 2004 & 2003 <i>HK\$'000</i>	
Authorised:				
Ordinary shares of HK\$0.10 each	<u>10,000,000,000</u>		<u>1,000,000</u>	
	Number of shares		Share capital	
	2004	2003	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Issued and fully paid:				
At the beginning of the year				
Ordinary shares of HK\$0.10 each	4,594,923,632	4,394,923,632	459,492	439,492
Conversion of convertible note	–	200,000,000	–	20,000
	<u>4,594,923,632</u>	<u>4,594,923,632</u>	<u>459,492</u>	<u>459,492</u>
At the end of the year				
Ordinary shares of HK\$0.10 each	<u>4,594,923,632</u>	<u>4,594,923,632</u>	<u>459,492</u>	<u>459,492</u>

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

For the year ended 31 March 2004

## 28. 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") that was adopted on 25 July 2000 was terminated on 2 September 2002 and was substituted by a new option scheme. 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.

As at 31 March 2004, 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 (2003: 109,000,000), representing 2.4% (2003: 2.4%) of the shares of the Company in issue at that date.

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 2004 and 31 March 2003 respectively:

#### 2004

Exercise price per share HK\$	Exercisable period	Date of share options granted	Balance at 1.4.2003 and 31.3.2004
0.161	1 April 2001 to 31 March 2005	29 March 2001	<u>109,000,000</u>

No option had been granted or exercised during the year.

#### 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>

For the year ended 31 March 2004

## 28. SHARE OPTIONS (continued)

### (a) Old Share Option Scheme (continued)

No options had been granted or exercised in the year 2003. On 17 October 2002, certain employees voluntarily waived at no consideration all their outstanding options.

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.

### (b) New Share Option Scheme

The Company has, in accordance with Chapter 17 of 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 in the Company (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.

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.



For the year ended 31 March 2004

**28. SHARE OPTIONS (continued)****(b) New Share Option Scheme (continued)**

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 in both years.

**29. SHARE PREMIUM AND RESERVES**

	Share premium <i>HK\$'000</i>	Accumulated (losses) profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>			
At 1 April 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	276,969	(6,268)	270,701
Profit for the year	–	7,914	7,914
	<hr/>	<hr/>	<hr/>
At 31 March 2004	<u>276,969</u>	<u>1,646</u>	<u>278,615</u>

The Company did not have any reserves available for distribution to shareholders at 31 March 2004.

For the year ended 31 March 2004

### 30. CONVERTIBLE LOAN NOTES

Convertible loan notes (the "Notes") of HK\$40,600,000 issued on 30 January 2003 has been cancelled during the year. The Company entered into a cancellation deed with the holders of the Notes on 10 March 2004 pursuant to which the Company and the holders of the Notes agreed to cancel all of the outstanding Notes and the Company has repaid the amount of HK\$40,600,000 to the holders.

### 31. DEFERRED TAXATION

The following is the major deferred tax liabilities and assets recognised and the movements thereon during the current and the prior reporting years:

	Accelerated tax depreciation <i>HK\$'000</i>	Estimated tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002			
– as previously reported	–	–	–
– adjustment on adoption of SSAP 12 (Revised) ( <i>Note 2</i> )	(474)	474	–
– as restated	(474)	474	–
(Charge) credit to income statement	(54)	54	–
At 31 March 2003 and 1 April 2003	(528)	528	–
Credit (charge) to income statement	528	(528)	–
At 31 March 2004	–	–	–

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in SSAP 12 (Revised).

At the balance sheet date, the Group has unused estimated tax losses of HK\$297,604,000 (2003: HK\$239,286,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$Nil (2003: HK\$3,300,000) of such losses. No deferred tax asset has been recognised in respect of remaining HK\$297,604,000 (2003: HK\$235,986,000) due to the unpredictability of future profit streams.

For the year ended 31 March 2004

**32. ACQUISITION OF A SUBSIDIARY**

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net assets acquired:		
Property, plant and equipment	1,931	–
Investment properties	–	283,000
Trade and other receivables	141,083	9,476
Amount due from a fellow subsidiary	32,075	–
Cash and bank balances	166,054	–
Trade and other payables	(20,576)	–
Amount due to a fellow subsidiary	(89,698)	–
Loan from a former shareholder	–	(9,476)
Minority interests	(23,218)	–
Less: Amount represented interest in an associate acquired in previous year	53,712	–
	<u>153,939</u>	283,000
Goodwill arising on the acquisition of a subsidiary	1,134	–
	<u>155,073</u>	<u>283,000</u>
Satisfied by:		
Cash	155,073	260,888
Other payables	–	22,112
	<u>155,073</u>	<u>283,000</u>
Net inflow (outflow) of cash and cash equivalents in connection with the acquisition of a subsidiary:		
Cash and bank balances acquired	166,054	–
Cash consideration	(155,073)	(260,888)
	<u>10,981</u>	<u>(260,888)</u>

As disclosed in note 16, the Group acquired additional interest in Interchina Aihua (Tianjin) Municipal & Environmental Engineering Co., Ltd. during the year. The Group's total interest in IAH increased to 93%. The financial result of IAH has been consolidated.

The subsidiary acquired during the year did not contribute to the Group's turnover, but increase the Group's loss for the year of HK\$4,560,000.

For the year ended 31 March 2004

### 33. DISPOSAL OF SUBSIDIARIES

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net assets disposed of:		
Investment property	–	56,000
Property, plant and equipment	–	58,889
Interest in an associate	–	67,153
Amount due from an associate	–	59,698
Trade and other receivables	–	19,918
Trade and other payables	–	(18,606)
Amount due to a related company	–	(47)
Bank balances	–	605
	–	243,610
Exchange losses realised	–	(933)
	–	242,677
Gain on disposal	–	77,323
Total consideration	–	320,000
Satisfied by cash	–	320,000
Net cash inflow arising on disposal:		
Cash consideration	–	320,000
Bank balances disposed of	–	(605)
	–	319,395

The subsidiaries disposed of in prior year contributed HK\$1,674,000 to the Group's turnover and HK\$2,911,000 to the Group's profit from operations.

For the year ended 31 March 2004

**34. PLEDGE OF ASSETS**

At the balance sheet date, the Group has pledged investment properties with an aggregate carrying value of approximately HK\$455,511,000 (2003: HK\$88,000,000), and property, plant and equipment with an aggregate carrying value of approximately HK\$615,505,000 (2003: HK\$239,528,000) to secure general banking facilities granted to the Group.

**35. CONTINGENT LIABILITIES**

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees given to bankers in respect of banking facilities utilised by:				
Subsidiaries	–	–	61,196	104,157
Property buyers	100,000	100,000	–	–
	<b>100,000</b>	<b>100,000</b>	<b>61,196</b>	<b>104,157</b>

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 arranged to buy back 31 units of properties from the property buyers at a total consideration of approximately HK\$34,499,000 ("Purchase"). On 17 April 2003, the Group entered into a loan agreement of amount approximately HK\$29,300,000 with a bank to finance the Purchase. The guarantees would be released when the Purchase were completed. As at 31 March 2004, 10 out of 31 units of properties had been bought back by the Group and approximately HK\$905,000 had been drawn down under the loan agreement. Up to 7 June 2004, the Group have already bought back all the 31 properties.

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 (2003: HK\$5,000,000) to HKFE Clearing Corporation Limited.

**36. 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 2004

### 37. OPERATING LEASE COMMITMENTS

#### The Group and the Company as lessee

At 31 March 2004, 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	3,513	4,762	342	3,643
In the second to fifth year inclusive	3,382	2,192	–	1,575
	<u>6,895</u>	<u>6,954</u>	<u>342</u>	<u>5,218</u>

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\$30,187,000 (2003: HK\$28,263,000). 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	
	2004 HK\$'000	2003 HK\$'000
Within one year	8,070	–
In the second to fifth year inclusive	30,208	–
After five years	4,356	–
	<u>42,634</u>	<u>–</u>

Subsequent to 31 March 2004, the Group dispose an investment property, including the right of the lease, with a carrying amount of HK\$126,000,000. The amounts of the related future minimum lease payments at the balance sheet date within one year, in the second to fifth year inclusive and after five years are approximately HK\$7,467,000, HK\$29,867,000 and HK\$4,356,000 respectively.

For the year ended 31 March 2004

**38. CAPITAL COMMITMENTS**

	THE GROUP		THE COMPANY	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of:				
– acquisition of shareholdings	168,847	–	168,847	–
– acquisition of property, plant and equipment	352,897	408,875	–	605
– investments in the PRC subsidiaries and a PRC associate	–	325,289	37,750	170,176
	<b>521,744</b>	<b>734,164</b>	<b>206,597</b>	<b>170,781</b>

**39. 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\$2,500 (2003: HK\$28,000) are used to reduce the contributions for the year ended 31 March 2004. 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.

For the year ended 31 March 2004

#### **40. RELATED PARTY TRANSACTIONS**

The Group had entered certain construction agreements with an associate, IAH. 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\$160,717,000. As at 27 August 2003, the construction cost that has been incurred amounted to approximately HK\$115,651,000. As at 27 August 2003, the Group acquire additional interest of IAH, and IAH become the subsidiary of the Group. Detail is set out in note 16 to the financial statements.

The amount due to a related company are unsecured, interest bearing at Hong Kong Inter Bank Offered Rate ("HIBOR") plus 1.75% (2003: HIBOR plus 1.75%) and repayable on demand. The interest paid to the related company for the year was amounting to HK\$1,174,000 (2003: 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.

#### **41. POST BALANCE SHEET EVENTS**

On 18 May 2004, the Company has entered into an agreement ("Agreement") with Ma'anshan City Municipal Management Bureau which an exclusive right was granted for a period of 22 years relate to water treatment plant project in PRC. The total investment cost to the project is approximately HK\$72,000,000. Details of the transaction is set out in the circular of the Company dated 8 June 2004.

On 24 May 2004, the Group entered into a sale and purchase agreement with an independent third party to dispose the investment property with carrying value of HK\$126,000,000 at the consideration of HK\$127,180,000.



For the year ended 31 March 2004

**42. PARTICULARS OF PRINCIPAL SUBSIDIARIES**

Particulars of the Company's principal subsidiaries at 31 March 2004 are as follows:

Name of subsidiary	Place of incorporation/ registration/ and operation	Class of share held	Paid-up issued ordinary share/ registered capital* <i>HK\$ (unless otherwise stated)</i>	Percentage of issued ordinary shares/registered capital held by the Company		Principal activity
				<i>Directly %</i>	<i>Indirectly %</i>	
Action Investments Limited	Hong Kong	Ordinary	100	100	–	Property letting
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 Aihua (Tianjin) Municipal & Environmental Engineering Company Limited	PRC	–	*RMB250,000,000	3	90	City development and environmental protection infrastructure construction
@ 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	–	*RMB90,000,000	38.89	61.11	Property development

For the year ended 31 March 2004

**42. 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* <i>HK\$ (unless otherwise stated)</i>	Percentage of issued ordinary shares/registered capital held by the Company		Principal activity
				<i>Directly</i> %	<i>Indirectly</i> %	
! 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
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 debt securities outstanding at the end of the year or at any time during the year.

! Sino foreign equity joint venture

@ Wholly-owned foreign enterprise