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ITC CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

PROPOSED REDEMPTION OF CONVERTIBLE NOTES FOR AN AGGREGATE PRINCIPAL AMOUNT OF HK\$96,000,000

Independent financial adviser to the Independent Director



First Shanghai Capital Limited

A letter from the Independent Director is set out on page 7 of this circular. A letter from First Shanghai Capital Limited, the independent financial adviser to the Independent Director, containing its advice to the Independent Director is set out on pages 8 to 12 of this circular.

A notice convening a special general meeting of ITC Corporation Limited to be held at Conference Room, 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Wednesday, 25th February, 2004 at 11:00 a.m. is set out on page 87 of this circular. Whether or not they are able to attend the special general meeting, Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the principal place of business in Hong Kong of ITC Corporation Limited at 33rd Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting or any adjournment thereof should they so wish.

9th February, 2004

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	3
LETTER FROM THE INDEPENDENT DIRECTOR	7
LETTER FROM FIRST SHANGHAI	8
APPENDIX I – FINANCIAL INFORMATION OF THE GROUP	13
APPENDIX II – PROPERTY VALUATION OF THE GROUP	68
APPENDIX III – GENERAL INFORMATION	80
NOTICE OF SPECIAL GENERAL MEETING	87

DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“Announcement”	the announcement dated 16th January, 2004 made by the Company in relation to the proposed redemption of Convertible Notes in an aggregate principal amount of HK\$96,000,000
“Board”	the board of Directors
“Company”	ITC Corporation Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Completion”	completion of the redemption of certain Convertible Notes held by the Redeemed Noteholders pursuant to the Redemption Agreements
“Convertible Notes”	the convertible notes originally issued by the Company with an aggregate principal amount of HK\$392,500,000 on 3rd March, 2003 and due in 2006 as described in the Company’s circular dated 23rd September, 2002, and had an aggregate outstanding principal amount of HK\$385,500,000 as at the Latest Practicable Date
“Director(s)”	the director(s) of the Company
“Disinterested Shareholders”	Shareholders of the Company other than those having a material interest in the Proposed Redemption, including the Redeemed Noteholders and parties acting in concert with any of them
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“First Shanghai”	First Shanghai Capital Limited, a deemed licensed corporation to conduct type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser to the Independent Director
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Director”	Mr. Chuck, Winston Calptor, an independent non-executive Director, appointed by the Board for the purpose of advising the Disinterested Shareholders in respect of the Proposed Redemption
“Independent Third Parties”	independent third parties who are not a director, chief executive or substantial shareholder of the Company or any of its subsidiaries or an associate (as defined in the Listing Rules) of any of them
“Latest Practicable Date”	5th February, 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules
“Noteholders”	the registered holders of the Convertible Notes
“Paul Y. - ITC”	Paul Y. - ITC Construction Holdings Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the Stock Exchange and a 55.06% owned subsidiary of the Company as at the Latest Practicable Date

DEFINITIONS

“Preference Shares”	the compulsorily convertible cumulative preference shares of HK\$0.10 each in the share capital of the Company as described in the Company’s circular dated 27th January, 1997
“Preference Shareholders”	the holders of Preference Shares from time to time
“Proposed Redemption”	the proposed redemption of certain Convertible Notes in an aggregate principal amount of HK\$96,000,000
“Redeemed Noteholders”	the persons who the Company has been informed are the beneficial owners of the Convertible Notes to be redeemed under the Redemption Agreements, all of whom are Independent Third Parties
“Redemption Agreements”	redemption agreements dated 16th January, 2004 entered into between the Company and certain Noteholders relating to the redemption of certain Convertible Notes in an aggregate principal amount of HK\$96,000,000
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held at Conference Room, 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Wednesday, 25th February, 2004 at 11:00 a.m., notice of which is set out on page 87 of this circular
“Share Repurchase Code”	the Hong Kong Code on Share Repurchases
“Shareholders”	the holders of Shares from time to time
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

LETTER FROM THE BOARD



ITC CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

Executive Directors

Chan Kwok Keung, Charles (*Chairman*)
Lau Ko Yuen, Tom (*Deputy Chairman*)
Chau Mei Wah, Rosanna (*Managing Director*)
Chan Kwok Hung
Chan Fut Yan
Wong Kun To
Cheung Hon Kit

Independent non-executive Directors

Lai, Dominic
Chuck, Winston Calptor

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Principal place of business
in Hong Kong:*

33rd Floor, Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

9th February, 2004

*To the Shareholders and, for information only,
the holders of the Preference Shares and the Convertible Notes*

PROPOSED REDEMPTION OF CONVERTIBLE NOTES FOR AN AGGREGATE PRINCIPAL AMOUNT OF HK\$96,000,000

Dear Sir or Madam,

INTRODUCTION

On 3rd March, 2003, the Company issued to certain investors the Convertible Notes in the aggregate principal amount of HK\$392,500,000 as described in the Company's circular dated 23rd September, 2002. As at the Latest Practicable Date, the Convertible Notes in the aggregate principal amount of HK\$385,500,000 were outstanding.

The Company announced in the Announcement that on 16th January, 2004, the Company had entered into the Redemption Agreements with certain Noteholders for the early redemption of part of the Convertible Notes, in the aggregate principal amount of HK\$96,000,000. As at the Latest Practicable Date, the aggregate outstanding principal amount of the Convertible Notes held by the Redeemed Noteholders (including the Convertible Notes to be redeemed under the Redemption Agreements) was HK\$116,000,000. The balance of the Convertible Notes following Completion will be due for redemption on 3rd March, 2006 unless they are previously converted or redeemed.

The Proposed Redemption constitutes an off-market share repurchase by the Company. Accordingly, the Company has applied for the Executive's approval under Rule 2 of the Share Repurchase Code for the Proposed Redemption.

The purpose of this circular is to give you further information regarding the Redemption Agreements, to set out the opinion of First Shanghai and the recommendation of the Independent Director in respect of the Proposed Redemption, and to give notice to the Shareholders of the SGM, at which a resolution will be proposed to consider and, if thought fit, approve the Proposed Redemption.

LETTER FROM THE BOARD

THE REDEMPTION AGREEMENTS DATED 16TH JANUARY, 2004

Date:

16th January, 2004

Parties:

- (1) The Company
- (2) a total of 3 Noteholders, representing 9 beneficial owners of such Convertible Notes who are Independent Third Parties. Brief particulars of the Redeemed Noteholders are set out in Appendix III to this circular.

Aggregate amount proposed to be redeemed

Under the Redemption Agreements, the Company will redeem at face value the Convertible Notes with an aggregate principal amount of HK\$96,000,000 held by the Redeemed Noteholders and pay them any outstanding interest up to and including the date of redemption on the principal amount to be redeemed payable in cash.

Conditions

Completion of the Redemption Agreements is subject to, inter alia:

- (a) the passing of a resolution by the Disinterested Shareholders approving the Redemption Agreements by at least three-fourths of the votes cast at a general meeting of the Company on a poll;
- (b) if required, the passing of a resolution by the Preference Shareholders approving the Redemption Agreements by a majority of the votes cast on a poll; and
- (c) the approval of the Executive of the Proposed Redemption.

It is not provided in the Redemption Agreements that condition (c) above can be waived by the parties to the Redemption Agreements and the Company has no intention to waive such condition. In the event that any of the conditions of the Redemption Agreements has not been fulfilled or waived by 31st March, 2004, the Redemption Agreements will be void and be of no effect and no party shall have any further obligations and liabilities thereunder.

The Proposed Redemption does not require the approval of the Preference Shareholders in accordance with the rights and restrictions of the Preference Shares and therefore no approval of the Proposed Redemption by the Preference Shareholders is required.

Subject to the fulfillment or waiver of the other conditions, completion of the Redemption Agreements is expected to take place on or before 31st March, 2004.

The Convertible Notes do not provide for any early redemption thereof and the Convertible Notes proposed to be redeemed under the Redemption Agreements entitle their holders to convert up to HK\$96,000,000 at the conversion price of HK\$0.30 per Share (subject to adjustments) into a total of 320,000,000 new Shares, representing approximately 48.9% and 32.8% respectively of the existing issued ordinary share capital of the Company and the issued ordinary share capital of the Company as enlarged by such issue.

The execution and completion of the Redemption Agreements will not affect the conversion rights attaching to the balance of the outstanding Convertible Notes with an aggregate principal amount of HK\$289,500,000, which will continue to be exercisable until the maturity date of the Convertible Notes.

Brief particulars of the Convertible Notes

The Convertible Notes bear interest at the rate per annum equal to the best lending rate from time to time of The Hongkong and Shanghai Banking Corporation Limited on the principal amount of the Convertible Notes outstanding and such interest is payable semi-annually in arrears.

The Convertible Notes may be converted in whole or in part (in integral multiples of HK\$100,000) at any time 3 months after 3rd March, 2003 until maturity on 3rd March, 2006 into new Shares at an initial conversion price of HK\$0.30 per Share, subject to adjustments according to the terms and conditions of the Convertible Notes.

The Company shall repay the outstanding principal amount of the Convertible Notes, together with any outstanding accrued interest on 3rd March, 2006.

LETTER FROM THE BOARD

The conversion price of HK\$0.30 per Share represents:

	Price HK\$	Premium/ (Discount) %
(i) closing price on the Latest Practicable Date	0.63	(52.38)
(ii) closing price on 16th January, 2004, being the date of the Announcement	0.56	(46.43)
(iii) average closing price for the ten consecutive trading days up to and including 16th January, 2004	0.55	(45.45)
(iv) average closing price for the thirty consecutive trading days up to and including 16th January, 2004	0.47	(36.17)
(v) average closing price for the three months period up to and including 16th January, 2004	0.42	(28.57)
(vi) average closing price for the six months period up to and including 16th January, 2004	0.36	(16.67)

REASONS FOR THE PROPOSED REDEMPTION

The Company is an investment holding company which directly and indirectly holds strategic investments in a number of listed companies including, in addition to Paul Y. - ITC, interests in Hanny Holdings Limited, Downer EDI Limited, China Strategic Holdings Limited, Burcon NutraScience Corporation, Star East Holdings Limited, M Channel Corporation Limited, Wing On Travel (Holdings) Limited, Dong Fang Gas Holdings Limited, China Enterprises Limited and MRI Holdings Limited. In addition to those businesses carried out through Paul Y. - ITC, the principal activities of the Company and its subsidiaries comprise investment holding, provision of finance, and trading of building materials and machinery.

Reference is made to the announcements of the Company dated 19th December, 2003 and 26th January, 2004 respectively in relation to, *inter alia*, its entitlements to receive an interim dividend and a special dividend in an aggregate sum of approximately HK\$211 million from Paul Y. - ITC and the disposal of 190 million shares in Paul Y. - ITC, a subsidiary of the Company, respectively. The Company elected to receive 190 million shares in Paul Y. - ITC pursuant to the scrip dividend alternative scheme of Paul Y. - ITC dated 6th January, 2004 in relation to the aforesaid interim dividend and special dividend and disposed of 190 million shares in Paul Y. - ITC for a total consideration of approximately HK\$133 million, before tax and expenses, that has been satisfied in cash.

The Board considers that due to low prevailing interest rates, which are not expected to rise substantially in the near term, and the fact that the bank deposit rate is presently below 0.1% per annum which is far below the 5% per annum payable on the Convertible Notes, the Proposed Redemption represents a good opportunity for the Company to reduce its net financing cost substantially.

It is currently contemplated that the payments for redeeming the Convertible Notes under the Redemption Agreements will primarily be funded from the cash portion of the interim dividend and special dividend of approximately HK\$78 million and proceeds of approximately HK\$133 million from the disposal of 190 million shares in Paul Y. - ITC. Following completion of the Proposed Redemption, the working capital (i.e. cash) of the Group will be reduced by the aggregate principal amount of the Convertible Notes of HK\$96 million to be redeemed under the Redemption Agreements and the estimated outstanding interest of approximately HK\$2 million up to and including the date of redemption on the principal amount to be redeemed and the long term liabilities of the Group (i.e. Convertible Notes) will be reduced by the aggregate principal amount of the Convertible Notes to be redeemed under the Redemption Agreements. As compared with the financial position of the Company as at 30th September, 2003 (being the date to which its latest interim unaudited consolidated accounts were made up), the Directors consider that there will not be a material adverse impact on the working capital, the ability to meet the repayment obligation of current liabilities and the gearing position of the Group as a result of the Proposed Redemption and taking into account the aforesaid interim dividend and special dividend from Paul Y. - ITC and the proceeds from disposal of 190 million shares in Paul Y. - ITC. As the Convertible Notes will be redeemed at their face value under the Redemption Agreements and the number of Shares in issue will remain unchanged, the Proposed Redemption will not have any effect on the earnings per Share and net assets per Share save for the expenses incurred in relation to the Proposed Redemption.

LETTER FROM THE BOARD

The Proposed Redemption does not require consent from the creditors of the Company. The Proposed Redemption will not have any impact on the shareholding structure of the Company and will not result in a change in the controlling shareholder.

GENERAL

The Proposed Redemption constitutes an off-market share repurchase by the Company. The Company has applied for the Executive's approval under Rule 2 of the Share Repurchase Code regarding the Proposed Redemption. The SGM has been convened to consider and approve the Redemption Agreements, which requires the passing of a resolution by the Disinterested Shareholders approving the Redemption Agreements by at least three-fourths of the votes cast at the meeting on a poll. The Redeemed Noteholders and parties acting in concert with any of them will abstain from voting at the SGM on the resolution to be proposed to approve the Redemption Agreements. Dr. Chan Kwok Keung, Charles, a Director and the Chairman, has indicated that he intends to vote, or procure the registered holders of those Shares in which he is interested, directly or indirectly, to vote, in favour of the resolution proposed at the SGM to approve the Proposed Redemption. The other Directors did not hold any Shares, directly or indirectly, as at the Latest Practicable Date.

RECOMMENDATION

The Board comprises nine Directors, seven of whom are executive Directors and two are independent non-executive Directors. None of the Directors has direct or indirect interest in the Proposed Redemption. Dr. Chan Kwok Keung, Charles, Mr. Lau Ko Yuen, Tom, Ms. Chau Mei Wah, Rosanna, Mr. Chan Kwok Hung, Mr. Chan Fut Yan, Mr. Wong Kun To and Mr. Cheung Hon Kit are the executive Directors and have participated in the discussions or negotiations leading to the Proposed Redemption. Mr. Lai, Dominic, an independent non-executive Director, has involved in the transaction by participating in the discussion at the Board meeting relating to the Proposed Redemption and is a senior partner of a legal firm which had provided legal services to the Company, Paul Y. - ITC group and Dr. Chan Kwok Keung, Charles within the past two years. As such, the Directors mentioned above are not considered to be independent to give advice in respect of the Proposed Redemption.

Mr. Chuck, Winston Calptor, an independent non-executive Director, has merely involved in the transaction by participating in the discussion at the Board meeting relating to the Proposed Redemption and therefore has been appointed by the Board as the Independent Director to advise the Disinterested Shareholders in connection with the Proposed Redemption. First Shanghai has been appointed as the independent financial adviser to advise the Independent Director in connection with the Proposed Redemption.

The Independent Director, having taken into account the advice of First Shanghai, considers that the Proposed Redemption is in the interests of the Company and the Shareholders as a whole and recommends the Disinterested Shareholders to vote in favour of the resolution set out in the notice of the SGM.

SPECIAL GENERAL MEETING

A notice convening the SGM to be held at Conference Room, 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Wednesday, 25th February, 2004 at 11:00 a.m. is set out on page 87 of this circular for the purpose of considering and, if thought fit, passing the resolution in relation to the Proposed Redemption.

Shareholders will find enclosed a form of proxy for use at the SGM. Whether or not they are able to attend such meeting, they are advised to read the notice and complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's principal place of business in Hong Kong at 33rd Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting or any adjournment thereof if they so wish.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the Appendices hereto.

Yours faithfully
For and on behalf of
ITC Corporation Limited
Dr. Chan Kwok Keung, Charles
Chairman

LETTER FROM THE INDEPENDENT DIRECTOR



ITC CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

9th February, 2004

To the Disinterested Shareholders

Dear Sir or Madam,

**PROPOSED REDEMPTION OF CONVERTIBLE NOTES
FOR
AN AGGREGATE PRINCIPAL AMOUNT OF HK\$96,000,000**

I have been appointed as the Independent Director to advise you in connection with the Proposed Redemption, details of which are set out in the "Letter from the Board" in the circular dated 9th February, 2004 (the "Circular"), of which this letter forms a part. The terms used in this letter have the meanings given to them in the Circular unless the context otherwise requires.

Having considered the terms of the Proposed Redemption and the advice and opinion of First Shanghai in relation thereto as set out on pages 8 to 12 of the Circular, I am of the opinion that the terms of the Proposed Redemption are fair and reasonable so far as the Disinterested Shareholders are concerned and the Proposed Redemption is in the interests of the Company and its Shareholders. I therefore recommend you to vote in favour of the resolution regarding the approval of the Proposed Redemption as set out in the notice of SGM contained in the Circular.

Yours faithfully,
Chuck, Winston Calptor
Independent Director

LETTER FROM FIRST SHANGHAI

The following is the text of a letter of advice to the Independent Director from First Shanghai in respect of the Proposed Redemption prepared for the purpose of incorporation in this circular.



FIRST SHANGHAI CAPITAL LIMITED

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

9th February, 2004

To the Independent Director

Dear Sir,

PROPOSED REDEMPTION OF CONVERTIBLE NOTES FOR AN AGGREGATE PRINCIPAL AMOUNT OF HK\$96,000,000

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Director in respect of the fairness and reasonableness of the terms of the Redemption Agreements. Details of the Proposed Redemption are set out in the letter from the Board in the circular of the Company dated 9th February, 2004 (the "Circular") to the Shareholders, of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as in the Circular.

In formulating our opinions and recommendations, we have relied on the accuracy of the information and representations contained in the Circular and information provided to us by the Company, the Board and the management of the Company. We have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date hereof. We have also assumed that all statements of belief, opinion and intention made by the Company, the Board and the management of the Company in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, the Board and the management of the Company and have been advised by the Company, the Board and the management of the Company that no material facts have been omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted an independent investigation into the businesses, affairs or prospects of the Group.

THE INDEPENDENT DIRECTOR

The Board comprises seven executive Directors and two independent non-executive Directors. None of the Directors has direct or indirect interest in the Proposed Redemption. Dr. Chan Kwok Keung, Charles, Mr. Lau Ko Yuen, Tom, Ms. Chau Mei Wah, Rosanna, Mr. Chan Kwok Hung, Mr. Chan Fut Yan, Mr. Wong Kun To and Mr. Cheung Hon Kit are the executive Directors and have participated in the discussions or negotiations leading to the Proposed Redemption. Mr. Lai, Dominic, an independent non-executive Director, has involved in the transaction by participating in the discussion at the Board meeting relating to the Proposed Redemption and is a senior partner of a legal firm which had provided legal services to the Company, Paul Y. - ITC group and Dr. Chan Kwok Keung, Charles within the past two years. As such, the Directors mentioned above are not considered to be independent to give advice in respect of the Proposed Redemption.

As mentioned in the letter from the Board in the Circular, Mr. Chuck, Winston Calptor, an independent non-executive Director, has merely involved in the transaction by participating in the discussion at the Board meeting relating to the Proposed Redemption and therefore has been appointed by the Board as the Independent Director to advise the Disinterested Shareholders in connection with the Proposed Redemption. Mr. Chuck, Winston Calptor has declared that, based on the information relating to the Redeemed Noteholders as shown in the register ("Register") kept by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, in the past two years, (i) he has not been an employee or agent

LETTER FROM FIRST SHANGHAI

of or consultant or advisor to the Redeemed Noteholders or their respective controlling shareholders; (ii) he does not have any financial or other connection with the Redeemed Noteholders or their respective controlling shareholders; and (iii) he does not hold, directly or indirectly, any shares, options, warrants or other equity related interests in the Redeemed Noteholders or their respective controlling shareholders. Accordingly, we consider Mr. Chuck, Winston Calptor eligible for appointment as the Independent Director.

BACKGROUND

On 3rd March, 2003, the Company issued to certain investors the Convertible Notes in the aggregate principal amount of HK\$392,500,000. As at the Latest Practicable Date, the Convertible Notes in the aggregate principal amount of HK\$385,500,000 (including the Convertible Notes to be redeemed under the Redemption Agreements) were outstanding.

On 16th January, 2004, the Company entered into the Redemption Agreements with certain Noteholders, who are Independent Third Parties, for the early redemption of part of the Convertible Notes at the face value with the aggregate principal amount of HK\$96,000,000. As at the Latest Practicable Date, the aggregate outstanding principal amount of the Convertible Notes held by the Redeemed Noteholders was HK\$116,000,000 and the balance of the Convertible Notes held by them following completion of the Proposed Redemption will be due for redemption on 3rd March, 2006 unless they are previously converted or redeemed.

Reference is made to the announcement of the Company dated 19th December, 2003 and 26th January, 2004 respectively in relation to, inter alia, its entitlements to receive an interim dividend and a special dividend of an aggregate sum of approximately HK\$211 million from Paul Y. - ITC (the "Dividends"), of which the Company elected to receive 190 million shares in Paul Y. - ITC pursuant to the scrip dividend alternative scheme of Paul Y. - ITC dated 6th January, 2004 in relation to the Dividends, and its disposal of 190 million shares in Paul Y. - ITC (the "Disposal") for a total consideration of approximately HK\$133 million, before tax and expenses, which had been satisfied in cash. As mentioned in the letter from the Board in the Circular, it is currently contemplated that the payments for redeeming the Convertible Notes under the Redemption Agreements will primarily be funded by the cash portion of the Dividends of approximately HK\$78 million and the proceeds of approximately HK\$133 million from the Disposal.

The Proposed Redemption constitutes an off-market share repurchase by the Company. The Company has applied for the Executive's approval under Rule 2 of the Share Repurchase Code regarding the Proposed Redemption. The SGM will be convened to consider and approve the Redemption Agreements. The Redeemed Noteholders and parties acting in concert with any of them will abstain from voting at the SGM with regard to the resolution to be proposed to approve the Redemption Agreements.

Further details of the Proposed Redemption are set out in the letter from the Board in the Circular.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinions and recommendations relating to the Proposed Redemption, we have taken into consideration the following principal factors and reasons:

1. Background of the Company

The Company is an investment holding company which directly and indirectly holds strategic investments in a number of listed companies including, in addition to Paul Y. - ITC, interests in Hanny Holdings Limited, Downer EDI Limited, China Strategic Holdings Limited, Burcon NutraScience Corporation, Star East Holdings Limited, M Channel Corporation Limited, Wing On Travel (Holdings) Limited, Dong Fang Gas Holdings Limited, China Enterprises Limited and MRI Holdings Limited. In addition to those businesses carried out through Paul Y. - ITC, the principal activities of the Company and its subsidiaries comprise investment holding, provision of finance, and trading of building materials and machinery.

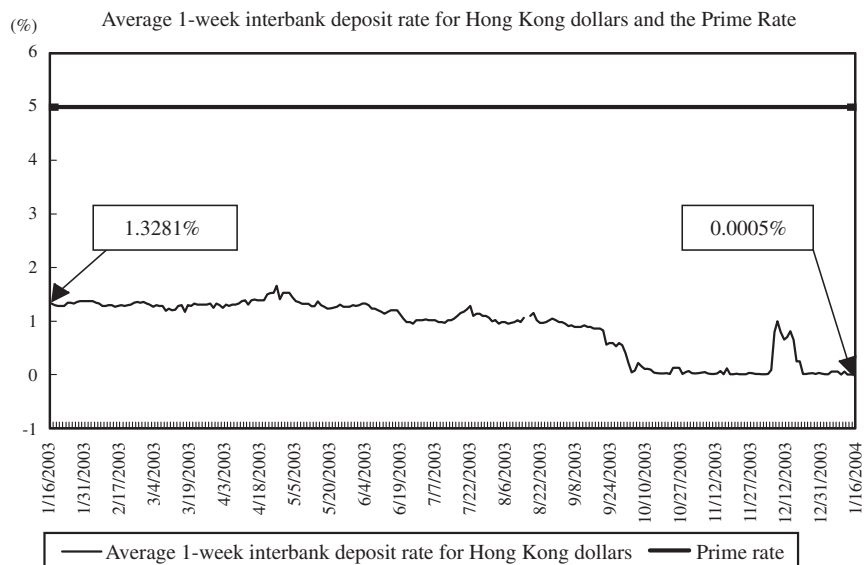
2. Reasons for the Proposed Redemption

According to the circular issued by the Company dated 23rd September, 2002, the interest rate of the Convertible Notes is based on the best lending rate for Hong Kong dollars as quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time (the "Prime Rate"). The Prime Rate has remained stable at 5% throughout the period from the date of issuance of the Convertible Notes on 3rd March, 2003 to the Latest Practicable Date. The Board considers that, due to low prevailing interest rates which are not expected to rise substantially in the near term,

LETTER FROM FIRST SHANGHAI

and that the bank deposit rate is presently less than 0.1% per annum which is far below the 5% per annum (that is, the Prime Rate as at the Latest Practicable Date) payable on the Convertible Notes, the Proposed Redemption represents a good opportunity for the Company to reduce its net financing cost.

The chart below shows the trend of the average 1-week interbank deposit rate for Hong Kong dollars and the Prime Rate for the 12-month period up to and including 16th January, 2004, being the date of the Announcement:



Source: Bloomberg

As shown in the chart above, the average 1-week interbank deposit rate for Hong Kong dollars has declined from approximately 1.3281% on 16th January, 2003 to approximately 0.0005% on 16th January, 2004 while the Prime Rate has remained stable at 5% throughout the period, therefore the spread of the deposit rate and the lending rate for Hong Kong dollars has been widening throughout the past twelve months.

As referred to the interim report of the Company for the six months ended 30th September, 2003 (the "Interim Report"), the financing costs incurred during the period was approximately HK\$21.4 million. Assuming an interest rate of 5% per annum, the redemption of the Convertible Notes of HK\$96,000,000 would reduce the interest expense of the Group by approximately HK\$2.4 million from approximately HK\$21.4 million to approximately HK\$19 million as if the Proposed Redemption was completed on 31st March, 2003, representing approximately 11.2% of the total financing costs of approximately HK\$21.4 million for the six months ended 30th September, 2003.

Having considered the trend of the interest rates in the past twelve months and the saving in interest expense of the Group after the completion of the Proposed Redemption, we concur with the Board's opinion that the Proposed Redemption represents a good opportunity for the Company to reduce its net financing cost.

3. Financial effects of the Proposed Redemption

According to the Interim Report, the unaudited total assets of the Group amounted to approximately HK\$5,105.9 million, which comprised the non-current assets of approximately HK\$2,783.5 million and the current assets of approximately HK\$2,322.4 million respectively. As at 30th September, 2003, the Group had short-term deposits, bank balances and cash of approximately HK\$284.1 million. The amount of the Group's unaudited total liabilities was approximately HK\$2,912 million, which comprised the non-current liabilities of approximately HK\$1,116.7 million and the current liabilities of approximately HK\$1,795.3 million. As at 30th September, 2003, the outstanding balance of the Convertible Notes amounted to approximately HK\$391.7 million, represented approximately 35.1% of the Group's non-current liabilities. As mentioned in the Interim Report, the current ratio (that is, the current assets divided by the current liabilities) and the

LETTER FROM FIRST SHANGHAI

gearing ratio (that is, the net borrowings divided by the shareholders' funds) of the Group were approximately 1.29 times and approximately 82.2% respectively.

As advised by the Board, upon completion of the Proposed Redemption, the working capital of the Group will be reduced by the aggregate principal amount of the Convertible Notes to be redeemed under the Redemption Agreements and the estimated outstanding interest of approximately HK\$2 million up to and including the date of redemption on the principal amount to be redeemed. As mentioned in the paragraph headed "Background" in this letter, the payments for redeeming the Convertible Notes under the Redemption Agreements will primarily be funded by the cash portion of the Dividends and the proceeds from the Disposal. We consider that, based on the financial position of the Group as at 30th September, 2003 and taking into consideration the cash portion of the Dividends and the proceeds from the Disposal, the Proposed Redemption would not have material adverse impact on the Group's current assets and current liabilities and thus, there would be no material adverse impact on the Group's working capital position and its ability to meet the repayment obligation of current liabilities as a result of the Proposed Redemption.

In the meantime, upon the completion of the Proposed Redemption, the non-current liabilities of the Group will be reduced by the aggregate principal amount of the Convertible Notes to be redeemed under the Redemption Agreements. Taking into consideration the effect on the working capital of the Group as mentioned above, the net borrowings of the Group will not be adversely affected by the Proposed Redemption. Therefore, as compared with the financial position of the Group as at 30th September, 2003, we consider that there would be no material adverse impact on the gearing position of the Group as a result of the Proposed Redemption.

Furthermore, as mentioned in the paragraph headed "Reasons for the Proposed Redemption" in this letter, the financing costs incurred during the six months ended 30th September, 2003 was approximately HK\$21.4 million. Assuming an interest rate of 5% per annum, the redemption of the Convertible Notes of HK\$96,000,000 would reduce the interest expense of the Company by approximately HK\$2.4 million from approximately HK\$21.4 million to approximately HK\$19 million as if the Proposed Redemption was completed on 31st March 2003, representing approximately 11.2% of the total financing costs of approximately HK\$21.4 million for the six months ended 30th September, 2003.

Having considered the above, we consider that the Proposed Redemption would not have material adverse impact on the Group's working capital and gearing position and would also reduce the Group's financing cost as a result of the Proposed Redemption and taking into account the cash portion of the Dividends and the proceeds from the Disposal.

4. Effect of possible conversion of the Convertible Notes

If the Convertible Notes are not redeemed under the Redemption Agreements, the Redeemed Noteholders are entitled to convert up to HK\$96,000,000 at the conversion price of HK\$0.30 per Share into a total of 320,000,000 new Shares, representing approximately 48.9% and 32.8% respectively of the existing issued ordinary share capital of the Company and the issued ordinary share capital of the Company as enlarged by such issue.

The conversion price of HK\$0.30 per Share represents:

	Price HK\$	Premium/ (Discount) %
(i) closing price on the Latest Practicable Date	0.63	(52.38)
(ii) closing price on 16th January, 2004, being the date of the Announcement	0.56	(46.43)
(iii) average closing price for the last ten consecutive trading days up to and including 16th January, 2004	0.55	(45.45)
(iv) average closing price for the last thirty consecutive trading days up to and including 16th January, 2004	0.47	(36.17)
(v) average closing price for the three months period up to and including 16th January, 2004	0.42	(28.57)
(vi) average closing price for the six months period up to and including 16th January, 2004	0.36	(16.67)

Source: www.hkex.com.hk

FINANCIAL SUMMARY

The following is a summary of the unaudited consolidated income statement and balance sheet for the six months ended 30th September, 2003 and the audited consolidated income statements and balance sheets for each of the three years ended 31st March, 2003.

	Six months ended 30th September, 2003	Year ended 31st March,		
	2003 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i> as restated
RESULTS				
Turnover	<u>1,698,387</u>	<u>768,697</u>	<u>40,147</u>	<u>63,144</u>
Profit (loss) before taxation	119,532	(332,276)	(272,457)	(586,543)
Taxation	<u>(56,691)</u>	<u>(24,835)</u>	<u>(16,853)</u>	<u>(25,870)</u>
Profit (loss) before minority interests	62,841	(357,111)	(289,310)	(612,413)
Minority interests	<u>(15,200)</u>	<u>1,703</u>	<u>–</u>	<u>–</u>
Profit (loss) for the period/year	<u>47,641</u>	<u>(355,408)</u>	<u>(289,310)</u>	<u>(612,413)</u>
	At 30th September 2003	2003	At 31st March 2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS AND LIABILITIES				
Total assets	5,105,878	4,834,138	2,115,628	2,414,819
Total liabilities	(2,912,019)	(2,725,334)	(626,194)	(802,902)
Minority interests	<u>(905,119)</u>	<u>(882,257)</u>	<u>–</u>	<u>–</u>
Shareholders' funds	<u>1,288,740</u>	<u>1,226,547</u>	<u>1,489,434</u>	<u>1,611,917</u>

FINANCIAL STATEMENTS

The following is a summary of the audited consolidated financial statements of the Group for each of the two years ended 31st March, 2003 extracted from the audited financial statements of the Group.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST MARCH, 2003

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	4	768,697	40,147
Cost of sales		<u>(709,563)</u>	<u>(5,164)</u>
Gross profit		59,134	34,983
Other operating income	5	87,557	3,830
Administrative expenses		<u>(76,959)</u>	<u>(35,753)</u>
Profit from operations	6	69,732	3,060
Finance costs	8	(36,680)	(49,446)
Investment (expenses) income – net	9	(22,789)	573
Gain on disposal and dilution of interests in subsidiaries and associates	10	–	2,128
Impairment loss in respect of goodwill	11	–	(195,466)
Share of results of associates		(344,434)	(33,306)
Share of results of jointly controlled entities		<u>1,895</u>	<u>–</u>
Loss before taxation		(332,276)	(272,457)
Taxation	12	<u>(24,835)</u>	<u>(16,853)</u>
Loss before minority interests		(357,111)	(289,310)
Minority interests		<u>1,703</u>	<u>–</u>
Loss for the year		<u><u>(355,408)</u></u>	<u><u>(289,310)</u></u>
Loss per share	14		
Basic		<u><u>(HK\$0.59)</u></u>	<u><u>(HK\$0.51)</u></u>
Diluted		<u><u>(HK\$0.59)</u></u>	<u><u>(HK\$0.51)</u></u>

CONSOLIDATED BALANCE SHEET
AT 31ST MARCH, 2003

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	15	489,331	25,611
Investment properties	16	572,608	1,125
Negative goodwill	17	(434,580)	–
Interests in associates	19	1,352,832	1,797,104
Interests in jointly controlled entities	20	8,743	–
Investments in securities	21	676,092	4,008
Convertible notes receivable	22	17,500	–
		<u>2,682,526</u>	<u>1,827,848</u>
Current assets			
Inventories		251	210
Amounts due from customers for contract works	23	200,934	–
Debtors, deposits and prepayments	24	1,079,351	2,575
Amounts due from associates	25	137,253	148,528
Amounts due from jointly controlled entities	26	207	–
Amounts due from related companies	27	299,848	45,746
Loans receivable	28	159,595	4,724
Investments in securities	21	26,527	–
Taxation recoverable		6,457	–
Bank deposits		214,963	82,218
Bank balances and cash		26,226	3,779
		<u>2,151,612</u>	<u>287,780</u>
Current liabilities			
Amounts due to customers for contract works	23	494,855	–
Creditors and accrued expenses	29	797,355	22,008
Amounts due to associates	30	12,772	111
Amounts due to jointly controlled entities	30	69,343	–
Amounts due to related companies	30	205	–
Convertible notes	31	–	577,635
Taxation payable		4,503	–
Bank borrowings – due within one year	32	167,853	9,123
Other loans – due within one year	33	77,317	17,317
		<u>1,624,203</u>	<u>626,194</u>
Net current assets (liabilities)		<u>527,409</u>	<u>(338,414)</u>
Total assets less current liabilities		<u>3,209,935</u>	<u>1,489,434</u>
Minority interests		<u>882,257</u>	<u>–</u>
Non-current liabilities			
Convertible notes	31	391,799	–
Bank borrowings – due after one year	32	637,175	–
Other loans – due after one year	33	66,500	–
Deferred taxation	34	3,930	–
Provision for long service payments	35	1,727	–
		<u>1,101,131</u>	<u>–</u>
		<u>1,226,547</u>	<u>1,489,434</u>
Capital and reserves			
Share capital			
Ordinary shares	36	63,096	63,096
Compulsorily convertible cumulative preference shares	36	26,798	26,798
		<u>89,894</u>	<u>89,894</u>
Reserves		<u>1,136,653</u>	<u>1,399,540</u>
		<u>1,226,547</u>	<u>1,489,434</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****BALANCE SHEET**
AT 31ST MARCH, 2003

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Non-current asset			
Interests in subsidiaries	18	1,949,961	2,012,030
Current assets			
Debtors, deposits and prepayments		3,282	275
Loans receivable	28	1,898	–
Bank deposits		4,000	81,316
Bank balances and cash		43	39
		<u>9,223</u>	<u>81,630</u>
Current liabilities			
Creditors and accrued expenses		16,895	18,090
Convertible notes	31	–	577,635
Bank borrowings – due within one year	32	9,936	–
Other loans – due within one year	33	17,317	17,317
		<u>44,148</u>	<u>613,042</u>
Net current liabilities		<u>(34,925)</u>	<u>(531,412)</u>
Total assets less current liabilities		<u>1,915,036</u>	<u>1,480,618</u>
Non-current liabilities			
Convertible notes	31	391,799	–
Other loans – due after one year	33	66,500	–
		<u>458,299</u>	<u>–</u>
		<u>1,456,737</u>	<u>1,480,618</u>
Capital and reserves			
Share capital			
Ordinary shares	36	63,096	63,096
Compulsorily convertible cumulative preference shares	36	26,798	26,798
		<u>89,894</u>	<u>89,894</u>
Reserves	38	1,366,843	1,390,724
		<u>1,456,737</u>	<u>1,480,618</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST MARCH, 2003

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Properties revaluation reserve HK\$'000	Translation reserve HK\$'000	Goodwill reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st April, 2001	79,394	153,843	2,092,234	908	450	-	(63,943)	(202,956)	(448,013)	1,611,917
Exchange differences arising from translation of overseas operations	-	-	-	-	-	-	(173)	-	-	(173)
Share of post-acquisition reserve movements of associates	-	-	-	-	-	-	42,247	-	-	42,247
Net gain not recognised in the income statement	-	-	-	-	-	-	42,074	-	-	42,074
Issue of ordinary shares	10,500	52,500	-	-	-	-	-	-	-	63,000
Shares issue expenses	-	(1,121)	-	-	-	-	-	-	-	(1,121)
Reserve movements arising on reduction of interests in associates	-	-	-	-	-	-	18	1,088	-	1,106
Share of post-acquisition reserve movements of associates	-	-	-	-	-	-	-	62,218	-	62,218
Released on disposal of investment properties	-	-	-	-	(450)	-	-	-	-	(450)
Loss for the year	-	-	-	-	-	-	-	-	(289,310)	(289,310)
At 31st March, 2002	89,894	205,222	2,092,234	908	-	-	(21,851)	(139,650)	(737,323)	1,489,434
Exchange differences arising from translation of overseas operations	-	-	-	-	-	-	34,587	-	-	34,587
Share of post-acquisition reserve movements of associates	-	-	-	-	-	-	16,010	-	-	16,010
Surplus arising on revaluation of land and buildings	-	-	-	-	-	805	-	-	-	805
Net gain not recognised in the income statement	-	-	-	-	-	805	50,597	-	-	51,402
Share of post-acquisition reserve movements of associates	-	-	-	-	-	-	-	41,119	-	41,119
Loss for the year	-	-	-	-	-	-	-	-	(355,408)	(355,408)
At 31st March, 2003	89,894	205,222	2,092,234	908	-	805	28,746	(98,531)	(1,092,731)	1,226,547

The accumulated losses of the Group include accumulated losses of approximately HK\$631,320,000 (2002: HK\$712,680,000) and accumulated profit of approximately HK\$1,895,000 (2002: Nil) retained by the associates and jointly controlled entities of the Group respectively.

The contributed surplus of the Group comprises the difference between the nominal amount of the ordinary share capital issued by the Company in exchange for the nominal amount of the share capital of a subsidiary acquired pursuant to a corporate reorganisation on 24th January, 1992 and the credits arising from the changes in the capital and reserves of the Company and the transfers to the accumulated losses arising from another capital reorganisation.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST MARCH, 2003

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
OPERATING ACTIVITIES		
Loss before taxation	(332,276)	(272,457)
Adjustments for:		
Share of results of associates	344,434	33,306
Share of results of jointly controlled entities	(1,895)	–
Amortisation of negative goodwill	(18,895)	–
Interest expenses	34,295	46,332
Amortisation of deferred expenditure on issuance of convertible notes	2,385	3,114
Depreciation and amortisation of property, plant and equipment	18,756	1,765
Gain on disposal and dilution of interests in subsidiaries and associates	–	(2,128)
Impairment loss in respect of goodwill	–	195,466
Impairment loss on investment securities	20,410	–
Surplus arising from revaluation of investment properties	–	(125)
Surplus arising from revaluation of land and buildings	(242)	(250)
Net unrealised holding loss (gain) on listed other investments	3,049	(232)
Gain on disposal of listed other investments	(669)	–
Loss on disposal of property, plant and equipment	2,746	62
Gain on disposal of investment properties	(1)	(216)
	<hr/>	<hr/>
Operating cash flows before movements in working capital	72,097	4,637
Increase in inventories	(38)	(34)
Increase in amounts due from (to) customers for contract works, net of attributable interest expenses and depreciation and amortisation	(26,763)	–
Decrease (increase) in debtors, deposits and prepayments	28,716	(137)
Decrease in amounts due from associates	73	4,784
Increase in amounts due from related companies	(4,846)	(3,746)
Decrease in loans receivable	826	9,276
Decrease in creditors and accrued expenses	(82,186)	(2,936)
Increase (decrease) in amounts due to associates	4,889	(6,687)
Decrease in amounts due to related companies	(1,569)	–
	<hr/>	<hr/>
Cash (used in) from operations	(8,801)	5,157
Dividends received from associates	8,973	11,017
Dividends received from a jointly controlled entity	5,000	–
Overseas tax refunded	7	–
Hong Kong Profits Tax refunded	12	–
Hong Kong Profits Tax paid	(513)	–
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	4,678	16,174

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP
CONSOLIDATED CASH FLOW STATEMENT (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

	Note	2003 HK\$'000	2002 HK\$'000
INVESTING ACTIVITIES			
Repayments from associates		134,129	181,700
Purchase of subsidiaries, net of cash and cash equivalents acquired	39	81,286	–
Repayments from related companies		36,663	–
Proceeds from disposal of property, plant and equipment		13,582	–
Proceeds from disposal of listed other investments		3,561	–
Proceeds from disposal of investment properties		1,126	22,566
Proceeds from disposal of associates		27	–
Amounts advanced to associates		(109,326)	(314,700)
Amounts advanced to related companies		(37,043)	(42,000)
Acquisition of shares of associates		(27,370)	(12,193)
Investment in convertible notes receivable		(17,500)	–
Additions to property, plant and equipment		(12,023)	(759)
Additions to investment securities		(1,286)	(14,463)
Redemption of convertible notes receivable from an associate		–	385,900
		<u>65,826</u>	<u>206,051</u>
NET CASH FROM INVESTING ACTIVITIES			
FINANCING ACTIVITIES			
Proceeds from issue of convertible notes		392,500	–
New bank loans raised		218,190	–
Other loans raised		146,500	15,000
Amounts advanced from jointly controlled entities		21,883	–
Loan advanced from minority shareholders		1,560	–
Redemption of convertible notes		(580,000)	(150,000)
Repayments of bank borrowings		(92,815)	–
Interest paid		(36,712)	(49,195)
Repayments of other loans		(20,000)	(15,000)
Dividend paid to minority shareholders of subsidiaries		(1,350)	–
Expenditure incurred for issuance of convertible notes		(721)	–
Proceeds from issue of new shares		–	63,000
Repayments of amounts payable under margin accounts		–	(9,531)
Shares issue expenses		–	(1,121)
		<u>49,035</u>	<u>(146,847)</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES			
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		119,539	75,378
CASH AND CASH EQUIVALENTS BROUGHT FORWARD			
		76,874	1,357
EFFECT OF FOREIGN EXCHANGE RATE CHANGES			
		(759)	139
CASH AND CASH EQUIVALENTS CARRIED FORWARD			
		<u>195,654</u>	<u>76,874</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank deposits		214,963	82,218
Bank balances and cash		26,226	3,779
Bank overdrafts		(45,535)	(9,123)
		<u>195,654</u>	<u>76,874</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2003****1. GENERAL**

The Company is an exempted company incorporated in Bermuda with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries and the Group's principal associates and jointly controlled entities are set out in note 49.

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

In the current year, the Group has adopted, for the first time, the following new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

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. The adoption of the new and revised accounting policies has had no material effect on the results for the current or prior accounting years. Accordingly, no prior period adjustment has been required.

Presentation of financial statements

In accordance with SSAP 1 (Revised), the consolidated statement of recognised gains and losses is replaced by the consolidated statement of changes in equity.

Foreign currency translation

The revisions to SSAP 11 have eliminated the choice of translating the income statements of overseas operations 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. SSAP 11 (Revised) is required to be applied retrospectively. The Group has adopted the transitional provision of this SSAP that where the calculation of a prior period adjustment is impractical, these changes in policy are applied only to current and future financial statements and the effect on the results for the current year is not significant.

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 paid is classified as financing cash flows. Dividends paid and received are classified as financing and operating cash flows, respectively. Comparative amounts have been reclassified in order to achieve a consistent presentation.

Employee benefits

SSAP 34 has introduced measurement rules and disclosure requirements 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 impact on the financial statements.

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, and 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 31st March each year.

The results of subsidiaries, associates and jointly controlled entities acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

Any significant intercompany transactions and balances within the Group are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
FOR THE YEAR ENDED 31ST MARCH, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Property, plant and equipment

Property, plant and equipment and freehold land, are stated at cost or valuation less depreciation and amortisation and accumulated impairment losses.

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 amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation increase is transferred to accumulated profits.

No amortisation is provided in respect of freehold land.

Amortisation is provided to write off the valuation of leasehold land over the remaining period of the relevant lease using the straight-line method. The valuation of buildings is depreciated, using the straight-line method, over their estimated useful lives of fifty years or the remaining period of the relevant lease, whichever is shorter.

Depreciation is provided so as to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight-line method, at rates ranging from 10% to 33¹/₃% per annum.

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.

Investment properties

Investment properties are completed properties which are held for their investment potential, with rental income being negotiated at arm's length.

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

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, an associate or a jointly controlled entity at the date of acquisition.

Goodwill arising on acquisition on or after 1st April, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate and the jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

On disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of unamortised goodwill/goodwill previously eliminated against reserves is included in the determination of the profit or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31ST MARCH, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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, an associate or a jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill will be released to income statement 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 as income immediately.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying amount of that associate and jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

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 results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any identified impairment in the value of individual investments.

Interests in jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the relevant jointly controlled entities, less any identified impairment loss. The Group's share of the post-acquisition results of jointly controlled entities is included in the consolidated income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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. An 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, but so 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.

Investments in securities

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

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Inventories

Inventories represent finished goods which are stated at the lower of cost and net realisable value. Cost is calculated on first-in, first-out method.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
FOR THE YEAR ENDED 31ST MARCH, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred. Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profit less recognised loss exceed progress billings, the excess is shown as amount due from a customer for contract work. Where progress billings exceed contract costs incurred to date plus recognised profit less recognised loss, the excess is shown as amount due to a customer for contract work.

Convertible notes

Convertible notes are separately disclosed and regarded as debts unless conversion actually occurs. The finance costs recognised in the income statement in respect of the convertible notes are calculated so as to produce a constant periodic rate of charge on the remaining balances of the convertible notes for each accounting period.

The costs incurred in connection with the issue of convertible notes are deferred and amortised on a straight-line basis over the term of the convertible notes, that is from the dates of issue of the notes to their final redemption dates. If any of the notes are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised cost will be charged immediately to the income statement.

Revenue recognition

Revenue from a fixed price construction contract is recognised on the percentage of completion method, measured by reference to the value of work certified during the year.

Sales of goods are recognised when goods are delivered and title has passed.

Service revenue is recognised when services are rendered.

Sales of securities are recognised when the sale agreement becomes unconditional.

Dividend income from investments is recognised when the Group's or the Company's right to receive payment has been established.

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

Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs 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.

Foreign currencies

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

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
FOR THE YEAR ENDED 31ST MARCH, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Taxation

The charge for taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of 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.

Retirement benefit scheme

The retirement benefit scheme contributions relating to the defined contribution scheme charged to the income statement represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the terms of the relevant leases.

4. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the net amounts received and receivable from outside customers for the year and is analysed as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Building construction	407,653	–
Civil engineering	123,048	–
Specialist works	189,672	–
Construction materials	6,192	–
Property leasing	13,735	1,721
Investment and finance	22,346	31,112
Others	6,051	7,314
	<u>768,697</u>	<u>40,147</u>

During the year, the Group increased its equity interest in Paul Y. - ITC Construction Holdings Limited ("Paul Y. - ITC") from 42.59% to 64.46%. Accordingly, Paul Y. - ITC became a subsidiary of the Company in December 2002 and since then the segment information of Paul Y. - ITC was included.

Business segments

For management purposes, the Group's operations are currently organised into seven operating divisions namely building construction, civil engineering, specialist works, construction materials, engineering and infrastructure services, property leasing, and investment and finance. These divisions are the basis on which the Group reports its primary segment information.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

4. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

Business segment information for the year ended 31st March, 2003 is presented below:

	Building construction HK\$'000	Civil engineering HK\$'000	Specialist works HK\$'000	Construction materials HK\$'000	Engineering and infrastructure services HK\$'000	Property leasing HK\$'000	Investment and finance HK\$'000	Others HK\$'000	Eliminations HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
TURNOVER											
External sales	407,653	123,048	189,672	6,192	-	13,735	22,346	6,051	-	-	768,697
Inter-segment sales	543	-	39,807	23,136	-	4,428	829	29	(68,772)	-	-
Total	<u>408,196</u>	<u>123,048</u>	<u>229,479</u>	<u>29,328</u>	<u>-</u>	<u>18,163</u>	<u>23,175</u>	<u>6,080</u>	<u>(68,772)</u>	<u>-</u>	<u>768,697</u>
RESULT											
Segment result	<u>19,956</u>	<u>(40,519)</u>	<u>14,573</u>	<u>(7,244)</u>	<u>-</u>	<u>5,988</u>	<u>69,111</u>	<u>604</u>	<u>-</u>	<u>-</u>	<u>62,469</u>
Amortisation of negative goodwill											18,895
Unallocated corporate expenses											(11,632)
Profit from operations											69,732
Finance costs											(36,680)
Investment expenses – net											(22,789)
Share of results of associates	2,004	(9)	-	114	(530)	-	-	-	-	(346,013)	(344,434)
Share of results of jointly controlled entities	-	1,895	-	-	-	-	-	-	-	-	1,895
Loss before taxation											(332,276)
Taxation											(24,835)
Loss before minority interests											(357,111)
Minority interests											1,703
Loss for the year											<u>(355,408)</u>

Inter-segment sales are charged at market price or, where no market price was available, at terms determined and agreed by both parties.

	Building construction HK\$'000	Civil engineering HK\$'000	Specialist works HK\$'000	Construction materials HK\$'000	Engineering and infrastructure services HK\$'000	Property leasing HK\$'000	Investment and finance HK\$'000	Others HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
BALANCE SHEET										
ASSETS										
Segment assets	1,053,076	368,008	193,942	96,312	-	622,262	1,256,831	773	315,939	3,907,143
Interests in associates	43,231	293	-	3,093	649,099	-	-	-	657,116	1,352,832
Interests in jointly controlled entities	-	8,743	-	-	-	-	-	-	-	8,743
Negative goodwill	-	-	-	-	-	-	-	-	(434,580)	(434,580)
Total assets	<u>1,096,307</u>	<u>377,044</u>	<u>193,942</u>	<u>99,405</u>	<u>649,099</u>	<u>622,262</u>	<u>1,256,831</u>	<u>773</u>	<u>538,475</u>	<u>4,834,138</u>
LIABILITIES										
Segment liabilities	871,883	298,347	95,744	47,353	-	22,789	1,486	660	46,428	1,384,690
Convertible notes, bank borrowings and other loans	-	-	-	-	-	-	-	-	1,340,644	1,340,644
Total liabilities	<u>871,883</u>	<u>298,347</u>	<u>95,744</u>	<u>47,353</u>	<u>-</u>	<u>22,789</u>	<u>1,486</u>	<u>660</u>	<u>1,387,072</u>	<u>2,725,334</u>
OTHER INFORMATION										
Capital additions	769	70	182	8,667	-	88	80	-	2,167	12,023
Depreciation and amortisation of property, plant and equipment	4,096	1,605	5,532	1,733	-	3,044	340	6	2,569	18,925
Amortisation of deferred expenditure on issuance of convertible notes	-	-	-	-	-	-	-	-	2,385	2,385
Amortisation of negative goodwill	-	-	-	-	-	-	-	-	18,895	18,895

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

4. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

Business segment information for the year ended 31st March, 2002 is presented below:

	Property leasing HK\$'000	Investment and finance HK\$'000	Others HK\$'000	Eliminations HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
TURNOVER						
External sales	1,721	31,112	7,314	-	-	40,147
Inter-segment sales	294	986	-	(1,280)	-	-
Total	<u>2,015</u>	<u>32,098</u>	<u>7,314</u>	<u>(1,280)</u>	<u>-</u>	<u>40,147</u>
RESULT						
Segment result	<u>103</u>	<u>13,721</u>	<u>393</u>	<u>-</u>	<u>-</u>	14,217
Unallocated corporate expenses						(11,157)
Profit from operations						3,060
Finance costs						(49,446)
Investment income – net						573
Gain on disposal and dilution of interests in subsidiaries and associates	-	-	-	-	2,128	2,128
Impairment loss in respect of goodwill	-	-	-	-	(195,466)	(195,466)
Share of results of associates	-	-	-	-	(33,306)	(33,306)
Loss before taxation						(272,457)
Taxation						(16,853)
Loss before minority interests						(289,310)
Minority interests						-
Loss for the year						<u>(289,310)</u>

Inter-segment sales are charged at market price or, where no market price was available, at terms determined and agreed by both parties.

	Property leasing HK\$'000	Investment and finance HK\$'000	Others HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
BALANCE SHEET					
ASSETS					
Segment assets	3,550	274,911	2,354	37,709	318,524
Interests in associates	-	-	-	1,797,104	1,797,104
Total assets	<u>3,550</u>	<u>274,911</u>	<u>2,354</u>	<u>1,834,813</u>	<u>2,115,628</u>
LIABILITIES					
Segment liabilities	44	1,502	853	19,720	22,119
Convertible notes, bank borrowings and other loans	-	-	-	604,075	604,075
Total liabilities	<u>44</u>	<u>1,502</u>	<u>853</u>	<u>623,795</u>	<u>626,194</u>
OTHER INFORMATION					
Capital additions	-	27	8	724	759
Depreciation and amortisation of property, plant and equipment	371	354	25	1,015	1,765
Amortisation of deferred expenditure on issuance of convertible notes	-	-	-	3,114	3,114

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

4. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Geographical segments

The following table provides an analysis of the Group's turnover and profit from operations by geographical market, irrespective of the origin of the goods/services:

	Turnover		Profit from operations	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	760,602	35,346	70,454	4,464
The People's Republic of China other than Hong Kong (the "PRC")	4,943	63	113	(173)
Others	3,152	4,738	(835)	(1,231)
	<u>768,697</u>	<u>40,147</u>	<u>69,732</u>	<u>3,060</u>

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

	Carrying amount of segment assets		Capital additions	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	4,019,265	2,084,705	3,303	732
PRC	116,290	3,506	8,640	–
Others	698,583	27,417	80	27
	<u>4,834,138</u>	<u>2,115,628</u>	<u>12,023</u>	<u>759</u>

5. OTHER OPERATING INCOME

	2003	2002
	HK\$'000	HK\$'000
Surplus arising from revaluation of land and buildings	242	250
Amortisation of negative goodwill	18,895	–
Bad debts recovered	10,503	3,580
Compensation recovered from a default purchaser in respect of disposal of property in previous year	57,917	–
	<u>87,557</u>	<u>3,830</u>

6. PROFIT FROM OPERATIONS

	2003	2002
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,081	435
Allowances for doubtful debts	4,276	4,914
Depreciation and amortisation of property, plant and equipment (note (a) below)	18,756	1,765
Loss on disposal of property, plant and equipment	2,746	62
Minimum lease payments under operating leases in respect of:		
Premises	1,743	539
Plant and machinery	262	–
Staff costs, including directors' emoluments (note (b) below)	48,004	16,126
and after crediting:		
Interest income	19,612	26,542
Rental income under operating leases in respect of:		
Premises, net of outgoings of HK\$2,512,000 (2002: HK\$32,000)	9,052	1,688
Plant and machinery	94	–
	<u>94</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
FOR THE YEAR ENDED 31ST MARCH, 2003

6. PROFIT FROM OPERATIONS (*Continued*)

Notes:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
(a) Depreciation and amortisation of property, plant and equipment:		
Owned assets	18,925	1,765
Less: Amount capitalised in respect of contracts in progress	(169)	–
	<u>18,756</u>	<u>1,765</u>
(b) Staff costs:		
Salaries and other benefits	110,697	15,589
Retirement benefit scheme contributions, net of forfeited contributions of approximately HK\$2,241,000 (2002: HK\$39,000)	1,366	537
	<u>112,063</u>	<u>16,126</u>
Less: Amount capitalised in respect of contracts in progress	(64,059)	–
	<u>48,004</u>	<u>16,126</u>

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of the directors and the five highest paid individuals for the year are as follows:

(a) Directors' emoluments

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Directors' fees:		
– executive	84	90
– independent non-executive	240	220
	<u>324</u>	<u>310</u>
Other emoluments (executive directors):		
– salaries and other benefits	11,824	12,052
– retirement benefit scheme contributions	829	543
	<u>12,653</u>	<u>12,595</u>
	<u>12,977</u>	<u>12,905</u>

Emoluments of the directors were within the following bands:

	2003 <i>Number of directors</i>	2002 <i>Number of directors</i>
Nil to HK\$1,000,000	5	5
HK\$1,000,001 to HK\$1,500,000	–	3
HK\$1,500,001 to HK\$2,000,000	4	1
HK\$2,000,001 to HK\$2,500,000	–	2
HK\$2,500,001 to HK\$3,000,000	<u>2</u>	<u>1</u>

(b) Employees' emoluments

The five highest paid individuals in the Group for each of the two years ended 31st March, 2003 were all directors and information regarding their emoluments has been included in the disclosures in paragraph (a) above.

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors has waived any emoluments during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

8. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Amortisation of deferred expenditure on issuance of convertible notes	2,385	3,114
Interest payable on:		
Bank borrowings wholly repayable within five years	4,394	646
Bank borrowings not wholly repayable within five years	276	–
Convertible notes	27,247	43,685
Other borrowings wholly repayable within five years	2,817	2,001
Other finance charges	274	–
	<u>37,393</u>	<u>49,446</u>
Less: Amount capitalised in respect of contracts in progress	(713)	–
	<u><u>36,680</u></u>	<u><u>49,446</u></u>

9. INVESTMENT (EXPENSES) INCOME – NET

	2003 HK\$'000	2002 HK\$'000
Surplus arising from revaluation of investment properties	–	125
Gain on disposal of investment properties	1	216
Gain on disposal of listed other investments	669	–
Net unrealised holding (loss) gain on listed other investments	(3,049)	232
Impairment loss on investment securities	(20,410)	–
	<u>(22,789)</u>	<u>573</u>

10. GAIN ON DISPOSAL AND DILUTION OF INTERESTS IN SUBSIDIARIES AND ASSOCIATES

	2003 HK\$'000	2002 HK\$'000
Gain on disposal of interests in subsidiaries	–	6
Gain on dilution of interests in associates	–	2,122
	<u>–</u>	<u>2,128</u>

11. IMPAIRMENT LOSS IN RESPECT OF GOODWILL

At 31st March, 2002, the directors estimated that the recoverable amount of the interest in an associate was net market selling price and an impairment loss on goodwill arising from acquisition of that associate of HK\$195,466,000 had been recognised in the financial statements for the year ended 31st March, 2002 in consideration of the operating results of that associate.

12. TAXATION

	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	176	–
Overseas taxation	1	–
Share of tax on results of associates	23,839	16,853
	<u>24,016</u>	<u>16,853</u>
Deferred taxation (note 34)		
Effect on change in tax rate	3,483	–
Credit for the year	(2,664)	–
	<u>819</u>	<u>–</u>
	<u><u>24,835</u></u>	<u><u>16,853</u></u>

Hong Kong Profits Tax is calculated at the rate of 16% (2002: 16%) of the estimated assessable profits derived from Hong Kong for the year.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
FOR THE YEAR ENDED 31ST MARCH, 2003

13. DIVIDENDS

The directors do not recommend the payment of a dividend to ordinary shareholders for the year ended 31st March, 2003.

Preference share dividend on the 267,980,000 compulsorily convertible cumulative preference shares at HK\$0.069 per share per annum has not been accrued for the year in the financial statements.

14. LOSS PER SHARE

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Loss for the year	(355,408)	(289,310)
Dividend for preference shares	(18,491)	(18,491)
	<hr/>	<hr/>
Loss for the purposes of basic loss per share	(373,899)	(307,801)
Effect of dilutive potential ordinary shares:		
Adjustment to the share of results of subsidiaries based on dilution of their earnings per share	(1,370)	–
Adjustment to the share of results of associates based on dilution of their earnings per share	–	(1,324)
	<hr/>	<hr/>
Loss for the purposes of diluted loss per share	<u>(375,269)</u>	<u>(309,125)</u>
	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u>630,960,774</u>	<u>607,659,374</u>

The convertible notes are anti-dilutive as the exercise of these convertible notes would result in a decrease in loss per share for both years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Plant, machinery and office equipment HK\$'000	Motor vehicles and yachts HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
THE GROUP					
COST OR VALUATION					
At 1st April, 2002	19,068	946	10,779	2,207	33,000
Translation adjustments	1,456	20	53	71	1,600
On acquisition of subsidiaries	235,409	468,646	62,370	132,340	898,765
Additions	–	2,439	1,989	7,595	12,023
Disposals	–	(30,726)	(2,501)	(137)	(33,364)
Written back on revaluation	(19)	–	–	–	(19)
At 31st March, 2003	255,914	441,325	72,690	142,076	912,005
Comprising:					
At cost	–	441,325	72,690	142,076	656,091
At directors' valuation	16,227	–	–	–	16,227
At valuation – 2003	239,687	–	–	–	239,687
	255,914	441,325	72,690	142,076	912,005
DEPRECIATION AND AMORTISATION					
At 1st April, 2002	–	526	5,870	993	7,389
Translation adjustments	–	17	39	61	117
On acquisition of subsidiaries	–	315,397	35,951	63,440	414,788
Provided for the year	1,509	10,763	2,696	3,957	18,925
Eliminated on disposals	–	(15,877)	(1,049)	(110)	(17,036)
Written back on revaluation	(1,509)	–	–	–	(1,509)
At 31st March, 2003	–	310,826	43,507	68,341	422,674
NET BOOK VALUES					
At 31st March, 2003	255,914	130,499	29,183	73,735	489,331
At 31st March, 2002	19,068	420	4,909	1,214	25,611

Land and buildings of the Group were revalued either by RHL Appraisal Ltd., an independent professional property valuer on an open market value basis or by the directors of the Group on an existing use basis as at 31st March, 2003. This revaluation gave rise to a surplus on revaluation of HK\$1,490,000 (2002: HK\$250,000) of which HK\$242,000 (2002: HK\$250,000), HK\$805,000 (2002: nil) and HK\$443,000 (2002: nil) has been credited to the income statement, properties revaluation reserve and shared by the minority shareholders of a subsidiary of the Company respectively.

The net book values of land and buildings held by the Group as at the balance sheet date comprised:

	2003 HK\$'000	2002 HK\$'000
Freehold properties in Canada	19,087	17,618
Long term leasehold properties in PRC	2,623	1,450
Medium term leasehold properties in:		
Hong Kong	233,600	–
PRC	604	–
	255,914	19,068

As at 31st March, 2003, had the Group's land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value would have been approximately HK\$258,155,000 (2002: HK\$22,508,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

16. INVESTMENT PROPERTIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
VALUATION		
At 1st April	1,125	23,800
Disposals	(1,125)	(22,800)
On acquisition of subsidiaries	572,608	–
Surplus arising on revaluation	–	125
	<u>572,608</u>	<u>1,125</u>
At 31st March	<u>572,608</u>	<u>1,125</u>

The Group's investment properties are held for rental purposes under operating leases. The investment properties situated in Hong Kong were revalued on 31st March, 2003, on an open market value basis, by RHL Appraisal Ltd., an independent professional valuer. The valuation attributable to these investment properties amounted to approximately HK\$529,000,000 (2002: Nil) and no surplus or deficit arose on revaluation of these properties.

The Group's investment properties situated in PRC were revalued on 31st March, 2003 by the directors at HK\$43,608,000 (2002: HK\$1,125,000) with reference to the value as quoted in a sale and purchase agreement entered into by the Group in April 2003. No surplus or deficit arose on revaluation of these properties. (2002: surplus of HK\$125,000 credited to the income statement).

The carrying amount of investment properties held by the Group as at the balance sheet date comprises the following:

	2003 HK\$'000	2002 HK\$'000
Long term leasehold properties in Hong Kong	74,000	–
Medium term leasehold properties in:		
Hong Kong	455,000	–
PRC	43,608	1,125
	<u>572,608</u>	<u>1,125</u>

17. NEGATIVE GOODWILL

	THE GROUP HK\$'000
NEGATIVE GOODWILL	
On acquisition of subsidiaries	415,230
Transferred from negative goodwill on associates (note 19(b))	40,305
At 31st March, 2003	<u>455,535</u>
AMORTISATION	
Transferred from negative goodwill on associates (note 19(b))	2,060
Provided for the year	18,895
At 31st March, 2003	<u>20,955</u>
CARRYING VALUE	
At 31st March, 2003	<u>434,580</u>

The negative goodwill is amortised over a period of 8 years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

18. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	2,910,837	2,972,906
	<u>2,910,838</u>	<u>2,972,907</u>
Less: Allowances for amounts due from subsidiaries	(960,877)	(960,877)
	<u>1,949,961</u>	<u>2,012,030</u>

Details of the Company's principal subsidiaries as at 31st March, 2003 are set out in note 49.

The amounts due from subsidiaries are unsecured. Of these amounts, an amount of approximately HK\$2,651,577,000 (2002: Nil) bears interest at commercial rates and the remaining balance is interest-free. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.

19. INTERESTS IN ASSOCIATES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets of associates:		
Listed in Hong Kong	501,992	1,837,156
Listed overseas	652,590	3,418
Unlisted	(2,986)	4,329
Goodwill (note a)	554	–
Negative goodwill (note b)	(17,229)	(47,799)
	<u>1,134,921</u>	<u>1,797,104</u>
Amounts due from associates (note f)	217,911	–
	<u>1,352,832</u>	<u>1,797,104</u>
Market value of listed securities:		
Hong Kong	42,075	335,523
Overseas	964,965	33,945
	<u>1,007,040</u>	<u>369,468</u>

Notes:

(a) Included in interests in associates is goodwill arising from acquisition of an associate:

	HK\$'000
Goodwill	
Balance at 1st April, 2002	195,466
Arising from additional interests in an associate	573
	<u>196,039</u>
Amortisation and impairment loss	
Balance at 1st April, 2002	195,466
Provided for the year	19
	<u>195,485</u>
Carrying value	
At 31st March, 2003	<u>554</u>
At 31st March, 2002	<u>–</u>

The goodwill is amortised over a period of 20 years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

19. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

- (b) Included in interests in associates is negative goodwill arising from acquisition of associates:

	HK\$'000
Goodwill	
Balance at 1st April, 2002	48,724
Arising from additional interests in associates	9,798
Transferred to negative goodwill of subsidiaries (note d)	<u>(40,305)</u>
Balance at 31st March, 2003	<u>18,217</u>
Amortisation	
Balance at 1st April, 2002	925
Provided for the year	2,123
Transferred to negative goodwill of subsidiaries (note d)	<u>(2,060)</u>
Balance at 31st March, 2003	<u>988</u>
Carrying value	
At 31st March, 2003	<u><u>17,229</u></u>
At 31st March, 2002	<u><u>47,799</u></u>

The negative goodwill is amortised over a period of 20 years.

- (c) The Group increased its equity interest in Hanny Holdings Limited (“Hanny”) from 27.73% at the beginning of the year to 28.26% at the end of the year and increased its equity interest in Star East Holdings Limited (“Star East”) from 21.11% at the beginning of the year to 25.91% at the end of the year. Extracts of the consolidated results and financial position of Hanny and Star East from their respective audited financial statements for the year ended 31st March, 2003 are set out in note 50.
- (d) On 25th October, 2002, the Company announced that its indirect wholly-owned subsidiary, Hollyfield Group Limited (“Hollyfield”) will make voluntary conditional cash offers (the “Offers”) at the price of HK\$0.30 for each share and HK\$0.01 for each warrant in Paul Y. - ITC, other than those shares and warrants presently owned by the Company or its wholly-owned subsidiaries. When the Offers closed in December 2002, Hollyfield held more than 50% of the voting rights in Paul Y. - ITC and, accordingly, Paul Y. - ITC was classified as a subsidiary of the Company. The Group increased its equity interest in Paul Y. - ITC from 42.59% at the beginning of the year to 64.46% at the end of the year.
- Paul Y. - ITC has not accounted for its share of losses of an associate amounting to HK\$123,711,000 as those losses arise on a contract are recoverable in full under guarantees provided by an ex-shareholder of the associate. Paul Y. - ITC proceeded a court action against the ex-shareholder to recover the losses together with interest and other expenses incurred. The directors of Paul Y. - ITC, having taken legal advice, believe that the suit is valid and the losses can be fully recovered from the ex-shareholder.
- (e) Downer EDI Limited (“Downer”), Paul Y. - ITC’s major associate, became an associate of the Group upon consolidation of Paul Y. - ITC in December 2002. Downer is a company listed in Australia and New Zealand and its financial year end date is 30th June. Only published financial information of Downer will be available and used by the Group in applying the equity method. Accordingly, the Group’s share of interest in Downer at 31st March, 2003 is calculated based on the net assets of Downer at 31st December, 2002. Extracts from the published financial information of Downer as at 31st December, 2002 are set out in note 50.
- (f) The amounts due from associates are unsecured. Of these amounts, an amount of approximately HK\$214,603,000 bears interest at commercial rates and the remaining balance is interest-free. In the opinion of the directors, the amount will not be repayable within twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.

Details of the Group’s principal associates at 31st March, 2003 are set out in note 49.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	3,743	–
Amount due from a jointly controlled entity	5,000	–
	<u>8,743</u>	<u>–</u>

The amount due from a jointly controlled entity is unsecured and interest-free. In the opinion of the directors, the amount will not be repayable within twelve months from the balance sheet date. Accordingly, the amount is shown as non-current.

Details of the Group's jointly controlled entities as at 31st March, 2003 are set out in note 49.

21. INVESTMENTS IN SECURITIES

THE GROUP

	Investment securities		Other investments		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Listed equity securities:						
– Hong Kong	658,457	–	26,527	2	684,984	2
– Elsewhere	3,623	–	–	2,417	3,623	2,417
	<u>662,080</u>	<u>–</u>	<u>26,527</u>	<u>2,419</u>	<u>688,607</u>	<u>2,419</u>
Other unlisted investments	–	–	5,035	–	5,035	–
Unlisted club debentures	–	–	8,977	1,589	8,977	1,589
Total	<u>662,080</u>	<u>–</u>	<u>40,539</u>	<u>4,008</u>	<u>702,619</u>	<u>4,008</u>
Market value of listed securities	<u>22,877</u>	<u>–</u>	<u>26,527</u>	<u>2,419</u>	<u>49,404</u>	<u>2,419</u>
Carrying amount analysed for reporting purposes as:						
Current	–	–	26,527	–	26,527	–
Non-current	662,080	–	14,012	4,008	676,092	4,008
	<u>662,080</u>	<u>–</u>	<u>40,539</u>	<u>4,008</u>	<u>702,619</u>	<u>4,008</u>

Particulars of the equity securities held by the Group as at 31st March, 2003 disclosed in accordance with Section 129(2) of the Companies Ordinance are as follows:

Name of company	Place of incorporation	Type of investment	Proportion of nominal value of issued share capital indirectly held by the Company
China Strategic Holdings Limited (“China Strategic”)	Hong Kong	Ordinary shares	14.55%

China Strategic is a company with its shares and warrants listed on the Hong Kong Stock Exchange. China Strategic is an investment holding company and its subsidiaries are principally engaged in the business of the tire manufacturing; manufacturing, retailing and distribution of Chinese medicine, western pharmaceuticals and health food; and investment in infrastructure projects. The directors are of the opinion that the recoverable amount of the investment securities, estimated by reference to the cash flows from the investment projects discounted at the prevailing interest rates, are worth at least their carrying value.

22. CONVERTIBLE NOTES RECEIVABLE

The convertible notes are guaranteed by a company with its shares listed on the Hong Kong Stock Exchange (the “Guarantor”), bear interest at 5% per annum and will be matured on 28th August, 2005. The convertible notes can be converted by the Group into shares of the Guarantor at the specified price (subject to adjustment) on or before 28th August, 2005.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
FOR THE YEAR ENDED 31ST MARCH, 2003

23. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORKS

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracts in progress at the balance sheet date:		
Contract costs incurred to date	32,580,432	–
Recognised profits less recognised losses	865,832	–
	<u>33,446,264</u>	<u>–</u>
Less: Progress billings	(33,740,185)	–
	<u>(293,921)</u>	<u>–</u>
Represented by:		
Amounts due from customers for contract works	200,934	–
Amounts due to customers for contract works	(494,855)	–
	<u>(293,921)</u>	<u>–</u>

At 31st March, 2003, retentions held by customers for contract works included in debtors, deposits and prepayments amounted to approximately HK\$367,453,000 (2002: Nil). There was no advances received from customers for contract works.

24. DEBTORS, DEPOSITS AND PREPAYMENTS

The following is an aged analysis of trade debtors:

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade debtors		
0 – 30 days	400,424	1,312
31 – 60 days	5,724	98
61 – 90 days	5,224	16
Over 90 days	70,739	123
	<u>482,111</u>	<u>1,549</u>
Other debtors, deposits and prepayments	597,240	1,026
	<u>1,079,351</u>	<u>2,575</u>

The Group's credit terms for its contracting business are negotiated with, and entered into under, normal commercial terms with its trade customers. Trade debtors arise from property leasing business are payable monthly in advance and the credit terms granted by the Group to other trade debtors normally range from 30 days to 90 days.

25. AMOUNTS DUE FROM ASSOCIATES

The amounts due from associates of the Group are unsecured and repayable within one year. Of these amounts, an amount of approximately HK\$86,851,000 (2002: HK\$114,600,000) bears interest at commercial rates and the remaining balance is interest-free.

26. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

The amounts due from jointly controlled entities of the Group are unsecured, interest-free and repayable within one year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

27. AMOUNTS DUE FROM RELATED COMPANIES

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rosedale Hotel Group Limited and its subsidiaries	131,546	1,333
China Strategic and its subsidiaries	158,093	26,769
M Channel Corporation Limited ("M Channel") and its subsidiaries	10,181	–
Sing Pao Media Group Limited (now known as Leadership Publishing Group Limited) and its subsidiaries	–	17,644
Other related companies	28	–
	<u>299,848</u>	<u>45,746</u>

The Group has either indirect beneficial interests or has common directors in the above related companies.

The amounts are unsecured and repayable within one year. Of the amounts, an amount of approximately HK\$278,380,000 (2002: HK\$42,000,000) bears interest at commercial rates and the remaining balance is interest-free. Details of the transactions and balances with related companies are set out in note 48.

28. LOANS RECEIVABLE

The amounts are receivable within one year. Of these amounts, amounts of approximately HK\$20,898,000 (2002: HK\$4,724,000) and HK\$1,898,000 (2002: Nil) for the Group and the Company, respectively, bear interest at commercial rates and the remaining balance is interest-free.

29. CREDITORS AND ACCRUED EXPENSES

The following is an aged analysis of trade creditors:

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade creditors		
0 – 30 days	273,309	11,592
31 – 60 days	24,780	81
61 – 90 days	9,342	1
Over 90 days	19,556	47
	<u>326,987</u>	<u>11,721</u>
Other creditors and accrued expenses	470,368	10,287
	<u>797,355</u>	<u>22,008</u>

30. AMOUNTS DUE TO ASSOCIATES/JOINTLY CONTROLLED ENTITIES/RELATED COMPANIES

The balances of the Group are unsecured, interest-free and repayable within one year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

31. CONVERTIBLE NOTES

	THE GROUP AND THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
HK\$392,500,000 convertible notes due 2006 (note a)	392,500	–
Less: Unamortised deferred expenditure	(701)	–
	<u>391,799</u>	<u>–</u>
HK\$120,000,000 convertible notes due 2002 (note b)	–	120,000
Less: Unamortised deferred expenditure	–	(344)
	<u>–</u>	<u>119,656</u>
HK\$460,000,000 convertible notes due 2003 (note b)	–	460,000
Less: Unamortised deferred expenditure	–	(2,021)
	<u>–</u>	<u>457,979</u>
	<u>391,799</u>	<u>577,635</u>
The convertible notes are repayable as follows:		
Within one year	–	577,635
More than two years, but not exceeding five years	391,799	–
	<u>391,799</u>	<u>577,635</u>
Less: Amount due after one year and shown under non-current liabilities	(391,799)	–
Amount due within one year	<u>–</u>	<u>577,635</u>

Notes:

- (a) Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 9th October, 2002, the Company issued on 3rd March, 2003 HK\$250,000,000 and HK\$142,500,000 convertible notes to Dr. Chan Kwok Keung, Charles, a director and a substantial shareholder of the Company, and independent investors by way of subscription and placement, respectively.

The notes bear interest at the best lending rate of Hong Kong Dollar quoted by The Hongkong and Shanghai Banking Corporation Limited (the “Best Lending Rate”) and payable semi-annually in arrears.

All the noteholders have an option to convert the convertible notes into ordinary shares of the Company at an initial conversion price of HK\$0.30 per share, subject to adjustment, on or before 3rd March, 2006. The ordinary shares to be issued upon such conversion are to rank pari passu in all respects with the ordinary shares of the Company in issue on the relevant conversion date.

- (b) The convertible notes bore interest at the Best Lending Rate and were redeemed during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

32. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank borrowings comprise:				
Mortgage loans	446,135	–	–	–
Bank loans	290,000	–	–	–
Trust receipt loans	23,358	–	–	–
Bank overdrafts	45,535	9,123	9,936	–
	<u>805,028</u>	<u>9,123</u>	<u>9,936</u>	<u>–</u>
Analysed as:				
Secured	736,354	9,109	–	–
Unsecured	68,674	14	9,936	–
	<u>805,028</u>	<u>9,123</u>	<u>9,936</u>	<u>–</u>
The bank borrowings are repayable as follows:				
Within one year or on demand	167,853	9,123	9,936	–
More than one year, but not exceeding two years	30,900	–	–	–
More than two years, but not exceeding five years	578,700	–	–	–
More than five years	27,575	–	–	–
	<u>805,028</u>	<u>9,123</u>	<u>9,936</u>	<u>–</u>
Less: Amount due within one year or on demand shown under current liabilities	<u>(167,853)</u>	<u>(9,123)</u>	<u>(9,936)</u>	<u>–</u>
Amount due after one year	<u>637,175</u>	<u>–</u>	<u>–</u>	<u>–</u>

33. OTHER LOANS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Secured loans	60,000	–	–	–
Unsecured loans	83,817	17,317	83,817	17,317
	<u>143,817</u>	<u>17,317</u>	<u>83,817</u>	<u>17,317</u>
The other loans are repayable as follows:				
Within one year or on demand	77,317	17,317	17,317	17,317
More than one year, but not exceeding two years	66,500	–	66,500	–
	<u>143,817</u>	<u>17,317</u>	<u>83,817</u>	<u>17,317</u>
Less: Amount due within one year or on demand shown under current liabilities	<u>(77,317)</u>	<u>(17,317)</u>	<u>(17,317)</u>	<u>(17,317)</u>
Amount due after one year	<u>66,500</u>	<u>–</u>	<u>66,500</u>	<u>–</u>

The loans bore interest at commercial rates.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

34. DEFERRED TAXATION

THE GROUP

	Recognised		Unrecognised	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance brought forward	–	–	(57,759)	(52,284)
On acquisition of subsidiaries	3,111	–	(105,950)	–
Movement for the year	819	–	(36,327)	(5,475)
	<u>3,930</u>	<u>–</u>	<u>(200,036)</u>	<u>(57,759)</u>

At the balance sheet date, the major components of the net deferred taxation liabilities (assets) of the Group, recognised and unrecognised, are as follows:

	Recognised		Unrecognised	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:				
Excess (shortfall) of tax allowances over depreciation	14,294	–	(5,949)	660
Different method in recognition of contract income for accounting and taxation purposes	(3,169)	–	(3,508)	–
Unutilised tax losses	(7,195)	–	(190,579)	(58,419)
	<u>3,930</u>	<u>–</u>	<u>(200,036)</u>	<u>(57,759)</u>

The net deferred taxation asset has not been recognised in the financial statements as realisation of this asset in the foreseeable future is uncertain.

The major components of net deferred taxation credit of the Group not recognised in the financial statements for the year are as follows:

	2003	2002
	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:		
Shortfall of tax allowances over depreciation	4,992	197
Effect on change in tax rate	6,175	–
Tax losses arising	25,160	5,278
	<u>36,327</u>	<u>5,475</u>

The Company did not have any significant unrecognised deferred taxation for the year or at the balance sheet date.

35. PROVISION FOR LONG SERVICE PAYMENTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Balance brought forward	–	–
On acquisition of subsidiaries	1,727	–
	<u>1,727</u>	<u>–</u>

The provision represents long service payments made in respect of qualified employees of the Group pursuant to the requirements under the Employment Ordinance.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

36. SHARE CAPITAL

	Number of shares	Value HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1st April, 2001 and 31st March, 2002	2,000,000,000	200,000
Increase during the year (note a)	1,000,000,000	100,000
At 31st March, 2003	<u>3,000,000,000</u>	<u>300,000</u>
Compulsorily convertible cumulative preference shares of HK\$0.10 each		
At 1st April, 2001, 31st March, 2002 and 31st March, 2003	<u>280,000,000</u>	<u>28,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1st April, 2001	525,960,774	52,596
Placing of new shares (note b)	105,000,000	10,500
At 31st March, 2002 and 31st March, 2003	<u>630,960,774</u>	<u>63,096</u>
Compulsorily convertible cumulative preference shares of HK\$0.10 each		
At 1st April, 2001, 31st March, 2002 and 31st March, 2003	<u>267,980,000</u>	<u>26,798</u>

Notes:

- (a) On 9th October, 2002, the authorised ordinary share capital of the Company was increased from HK\$200,000,000 to HK\$300,000,000 by the creation of 1,000,000,000 ordinary shares of HK\$0.10 each.
- (b) On 21st June, 2001, the Company allotted 105,000,000 new ordinary shares of HK\$0.10 each at an issue price of HK\$0.60 per share to Galaxyway. The placing price of HK\$0.60 per share represented a discount of approximately 18.1% to the average closing price of approximately HK\$0.733 per ordinary share over the last 10 trading days, up to and including 18th June, 2001 on the Hong Kong Stock Exchange and also represented a discount of approximately 14.3% to the closing price of the ordinary shares of HK\$0.70 quoted on the Hong Kong Stock Exchange on 18th June, 2001. The proceeds of the subscription were used as additional working capital of the Group, apart from HK\$12.4 million which were used to subscribe for the shares in Star East pursuant to a conditional agreement as announced by Star East on 12th June, 2001.

All the new ordinary shares issued by the Company ranked pari passu with the then existing ordinary shares of the Company in all respects.

The preference shares are non-voting, non-redeemable and are entitled to a cumulative dividend of HK\$0.069 per share per annum. The preference shares rank in priority to the ordinary shares in the Company as to dividends and return of capital. The preference shares are convertible into ordinary shares of the Company at the option of the holders at any time. However, the preference shares are subject to compulsory conversion at the option of the Company in any of the following cases:

- the closing price of the ordinary shares in the Company on the Hong Kong Stock Exchange is 125% or more of the adjusted conversion value of HK\$21.20, subject to further adjustments, for twenty consecutive trading days; or
- there are less than 50,000,000 preference shares in issue.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
FOR THE YEAR ENDED 31ST MARCH, 2003

37. SHARE OPTIONS

(a) Share options of the Company

The Company adopted a share option scheme (the "ITC Scheme") on 16th January, 2002 (the "Adoption Date") for the purpose of providing incentive or reward to eligible persons for their contribution to, and continuing efforts to promote the interests of, the Company. The board of directors of the Company may in its absolute discretion, subject to the terms of the ITC Scheme, grant options to any employees (including directors) of the Company and its subsidiaries to subscribe for ordinary shares of the Company.

The maximum number of ordinary shares which may be issued upon the exercise of all options to be granted under the ITC Scheme and any other share option scheme(s) adopted by the Company must not in aggregate exceed 10% of the total number of issued ordinary shares of the Company as at the Adoption Date. The total number of ordinary shares available for issue under the ITC Scheme was 63,096,077 representing 10% of the aggregate number of issued ordinary shares of the Company as at the date of this report.

Unless approved by the shareholders of the Company in general meeting, the total number of ordinary shares of the Company issued and to be issued upon exercise of the options granted and to be granted (whether exercised, cancelled or outstanding) under the ITC Scheme and any other share option scheme(s) of the Company to any eligible person in any 12-month period expiring on the date of offer shall not exceed 1% of the total number of the Company's ordinary shares in issue from time to time.

The period within which the options may be exercised will be determined by the Company at the time of grant. This period must expire in any event not later than the last day of the 10 year period after the Adoption Date. The ITC Scheme does not provide for any minimum period for which an option must be held before it can be exercised. Options may be granted at an initial payment of HK\$1.00 for each acceptance of grant of option(s). The directors of the Company shall specify a date, being a date not later than 30 days after (i) the date on which the offer of the options is issued, or (ii) the date on which the conditions for the offer are satisfied, by which the eligible person must accept the offer or be deemed to have declined it.

The exercise price of the options will be determined by the directors of the Company (subject to adjustments as provided in the rules of the ITC Scheme) which shall be at least the higher of (i) the nominal value of the ordinary shares of the Company; (ii) the closing price of the ordinary shares of the Company as stated in the Hong Kong Stock Exchange's daily quotations sheet on the date of the offer, which must be a business day; and (iii) the average of the closing price of the ordinary shares of the Company as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the offer.

The ITC Scheme shall be valid and effective for a period of 10 years commencing after the Adoption Date, after which period no further options shall be granted.

As at 31st March, 2003, there were no outstanding share options granted by the Company pursuant to the ITC Scheme. No share options were granted, exercised, cancelled or lapsed during the year.

(b) Share options of Paul Y. - ITC

(i) Initial Share Option Scheme of Paul Y. - ITC

In accordance with the Paul Y. - ITC's share option scheme (the "Paul Y. - ITC Initial Scheme") which was adopted on 1st September, 1993 for recognition of past services contributed by the eligible directors and employees, and will expire on 31st August, 2003, the directors of Paul Y. - ITC may at their discretion grant options to any directors or full time employees of Paul Y. - ITC or any of its subsidiaries ("Paul Y. - ITC Group") to subscribe for shares in Paul Y. - ITC.

At 31st March, 2003, the number of shares in respect of which options had been granted and remained outstanding under the Paul Y. - ITC Initial Scheme was 16,100,000 (2002: 54,449,206), representing 1.51% (2002: 5.25%) of the then issued shares of Paul Y. - ITC. The maximum number of shares in respect of which options may be granted under the Paul Y. - ITC Initial Scheme is not permitted to exceed 10% of the issued share capital of Paul Y. - ITC from time to time.

No option may be granted to any individual under the Paul Y. - ITC Initial Scheme which, if exercised in full, would result in the total number of shares of Paul Y. - ITC already issued and issuable under all the options previously granted and to be granted to him which are for the time being subsisting and unexercised exceed 25% of the aggregate number of shares of Paul Y. - ITC for the time being issued and issuable under the Paul Y. - ITC Initial Scheme.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

37. SHARE OPTIONS (Continued)

(b) Share options of Paul Y. - ITC (Continued)

(i) Initial Share Option Scheme of Paul Y. - ITC (Continued)

The offer of a grant of options may be accepted within 28 days from the date of offer of options, upon payment of a consideration of HK\$1.00 by the grantee. In each grant of options, the directors of Paul Y. - ITC may at their discretion determine the specific exercise period and in any event such period of time shall not exceed a period of three years commencing on the expiry of six months after the date of acceptance of options. The exercise price is determined by the directors of Paul Y. - ITC, and will not be less than the higher of the nominal value of the shares of Paul Y. - ITC, and 80% of the average closing prices of the shares of Paul Y. - ITC on the five trading days immediately preceding the date of offer of options.

The following table discloses details of Paul Y. - ITC's share options under the Paul Y. - ITC Initial Scheme and movements in such holdings during the year:

Date of grant	Exercise price per share HK\$	Number of shares of Paul Y. - ITC to be issued upon exercise of the share options		
		At 1.4.2001 & 1.4.2002	Lapsed during the year	At 31.3.2003
18th December, 1998	0.6048	38,349,206	(38,349,206)	–
17th December, 1999	0.5552	16,100,000	–	16,100,000
		<u>54,449,206</u>	<u>(38,349,206)</u>	<u>16,100,000</u>

The outstanding options can be exercised at any time during a period of three years commencing on the expiry of six months after the date of acceptance of the options. During the year, no options have been granted under the Paul Y. - ITC Initial Scheme.

Pursuant to a special general meeting held by the shareholders of Paul Y. - ITC on 27th August, 2002, Paul Y. - ITC has terminated the Paul Y. - ITC Initial Scheme and adopted a new share option scheme in order to comply with the amended rules of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Consequently, Paul Y. - ITC can no longer grant any further options under the Paul Y. - ITC Initial Scheme on its termination. However, all outstanding share options granted under the Paul Y. - ITC Initial Scheme remain in full force and effect.

(ii) New Share Option Scheme of Paul Y. - ITC

On 27th August, 2002, Paul Y. - ITC adopted a new share option scheme (the "Paul Y. - ITC New Scheme") for the purpose of providing incentive or reward to any employees, executives or officers, directors of the Paul Y. - ITC Group or any invested entity and any celebrity, consultant, adviser or agent of any member of the Paul Y. - ITC Group or any invested entity, who have contributed or will contribute to the growth and development of the Paul Y. - ITC Group or any invested entity ("Eligible Person"). The Paul Y. - ITC New Scheme will remain in force for a period of 10 years from that date.

Under the Paul Y. - ITC New Scheme, the directors of Paul Y. - ITC may at their discretion grant options to any Eligible Person to subscribe for shares in Paul Y. - ITC without consideration. The directors of Paul Y. - ITC may at their discretion determine the specific exercise period which should expire in any event no later than ten years from date of adoption of the Paul Y. - ITC New Scheme. The exercise price is determined by the directors of Paul Y. - ITC and will be at least the higher of: (i) the subscription price as is permissible under the Listing Rules from time to time and (ii) the nominal value of Paul Y. - ITC's shares.

The total number of shares of Paul Y. - ITC in respect of which options may be granted under the Paul Y. - ITC New Scheme and any other share option scheme(s) of Paul Y. - ITC shall not exceed 103,674,492 shares, representing 9.75% of the issued share capital of Paul Y. - ITC as at the date of this report. Subject to the approval of the shareholders of the Paul Y. - ITC in general meeting, the limit may be refreshed to 10% of the total number of shares in issue as at the date of approval by the shareholders of Paul Y. - ITC in general meeting. Notwithstanding the foregoing, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Paul Y. - ITC New Scheme and any other share option scheme(s) of Paul Y. - ITC must not in aggregate exceed 30% of the total number of shares in issue from time to time.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

37. SHARE OPTIONS (Continued)

(b) Share options of Paul Y. - ITC (Continued)

(ii) New Share Option Scheme of Paul Y. - ITC (Continued)

The maximum number of shares of Paul Y. - ITC in respect of which options may be granted to each Eligible Person under the Paul Y. - ITC New Scheme and any other share option scheme(s) of Paul Y. - ITC (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue from time to time unless such grant has been duly approved by shareholders of Paul Y. - ITC at general meeting at which the Eligible Person and his associates (as defined in the Listing Rules) abstained from voting. Options granted to a substantial shareholder and/or an independent non-executive director or any of their respective associates (as defined in the Listing Rules) in any 12-month period in excess of 0.10% of total number of shares in issue and have an aggregate value exceeding HK\$5,000,000 must be approved by the shareholders of Paul Y. - ITC in general meeting in advance.

No options have been granted under the Paul Y. - ITC New Scheme since its adoption.

38. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY					
At 1st April, 2001	153,843	2,117,993	908	(208,116)	2,064,628
Issue of ordinary shares	52,500	-	-	-	52,500
Shares issue expenses	(1,121)	-	-	-	(1,121)
Loss for the year	-	-	-	(725,283)	(725,283)
At 31st March, 2002	205,222	2,117,993	908	(933,399)	1,390,724
Loss for the year	-	-	-	(23,881)	(23,881)
At 31st March, 2003	<u>205,222</u>	<u>2,117,993</u>	<u>908</u>	<u>(957,280)</u>	<u>1,366,843</u>

Notes:

The contributed surplus of the Company comprises the difference between the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the Company's ordinary share capital issued as consideration for the acquisition and the credits arising from the changes in the capital and reserves of the Company and the transfers to the accumulated losses arising from capital reorganisation.

Under the Companies Act 1981 of Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- it is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, subject to the restrictions as stipulated in the Companies Act 1981 of Bermuda as described above, the Company's reserves available for distribution to shareholders were as follows:

	2003 HK\$'000	2002 HK\$'000
Contributed surplus	2,117,993	2,117,993
Accumulated losses	(957,280)	(933,399)
	<u>1,160,713</u>	<u>1,184,594</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

39. PURCHASE OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
NET ASSETS PURCHASED		
Property, plant and equipment	483,977	–
Investment properties	572,608	–
Interests in associates	661,008	–
Interests in jointly controlled entities	11,848	–
Investments in securities	695,676	–
Amounts due from customers for contract works	218,650	–
Debtors, deposits and prepayments	1,103,763	–
Amounts due from associates	191,906	–
Amounts due from jointly controlled entities	207	–
Amounts due from related companies	248,876	–
Loans receivable	155,697	–
Taxation recoverable	5,412	–
Bank deposits	99,881	–
Bank balances and cash	56,548	–
Amounts due to customers for contract works	(540,579)	–
Creditors and accrued expenses	(858,727)	–
Amounts due to associates	(7,772)	–
Amounts due to jointly controlled entities	(47,460)	–
Amounts due to related companies	(1,774)	–
Taxation payable	(3,775)	–
Bank overdrafts	(3,647)	–
Bank borrowings	(634,118)	–
Minority interests	(864,617)	–
Deferred taxation	(3,111)	–
Provision for long service payments	(1,727)	–
	1,538,750	–
Negative goodwill arising on acquisition of subsidiaries	(415,230)	–
	<u>1,123,520</u>	<u>–</u>
Satisfied by:		
Cash	71,496	–
Reclassification from interests in associates	1,052,024	–
	<u>1,123,520</u>	<u>–</u>

The subsidiaries acquired during the year contributed to the Group's turnover and loss of HK\$746,868,000 and HK\$1,516,000, respectively.

	2003 HK\$'000	2002 HK\$'000
PURCHASE OF SUBSIDIARIES		
Cash consideration paid	(71,496)	–
Bank deposits, bank balances and cash acquired less bank overdrafts acquired	152,782	–
Net inflow of cash and cash equivalents in respect of the purchase of subsidiaries	<u>81,286</u>	<u>–</u>

40. MAJOR NON-CASH TRANSACTION

During the year ended 31st March, 2003, an amount due from an associate of HK\$28,000,000 was settled by distribution of 3,996,812,500 shares of 36.com Holdings Limited (now known as M Channel), representing 18.8% of its issued share capital.

During the year ended 31st March, 2002, an amount due from an associate of HK\$22,500,000 was settled by distribution of 121,621,622 shares of Star East by the associate through the exercise of the conversion right in a convertible note.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
FOR THE YEAR ENDED 31ST MARCH, 2003

41. RETIREMENT BENEFIT SCHEMES

The Group operates defined contribution retirement benefit schemes for qualifying employees. The assets of the schemes are separately held in funds under the control of trustees.

The cost charged to the income statement represents contributions payable to the funds by the Group at rates specified in the rules of the schemes. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet date, there were no significant forfeited contributions which arose upon employees leaving the schemes prior to their interests in the Group's contributions becoming fully vested and which are available to reduce the contributions payable by the Group in future years.

The Group has also joined a Mandatory Provident Fund Scheme ("MPF Scheme"). The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contributions payable in future years.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to funds by the Group at the rates specified in the rules of the MPF Scheme.

42. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Outstanding performance bonds in respect of construction contracts	740,529	–	–	–
Guarantees given to banks and financial institutions in respect of general facilities granted to:				
Subsidiaries	–	–	62,899	–
Associates	2,419	–	–	–
Financial support given to an investee company	4,355	–	4,355	–
	<u>747,303</u>	<u>–</u>	<u>67,254</u>	<u>–</u>

In addition to the above, the Group has received claims for damages and injuries relating to its construction business. No provision has been made for these claims as they are either covered by insurance or will be indemnified by other parties.

43. MATERIAL LITIGATION

The liquidators of Hoi Sing Construction Company Limited ("Hoi Sing"), a former wholly-owned subsidiary of the Company, instituted proceedings against the Company on 10th July, 1998 claiming approximately HK\$297,441,000 plus interest pursuant to an alleged guarantee by the Company for debt owed by Hoi Sing Builders Limited to Hoi Sing. The Company does not admit the existence of the guarantee, and has put Hoi Sing to strict proof of its terms and the amounts claimed under it. Even if the Court upholds the alleged guarantee, the Company has a defence of "set off" arising from a claim against Hoi Sing for approximately HK\$308,207,000. As at 31st March, 2003, the Company is a principal unsecured creditor of Hoi Sing and the liquidators of Hoi Sing have admitted a substantial portion of the Company's claim. The balance is being adjudicated by the liquidators of Hoi Sing.

The directors of the Company have taken legal advice and consider that the Company's defence is valid and that no obligation exists for the Company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

44. OPERATING LEASE ARRANGEMENTS

(a) The Group as a lessee:

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	1,201	172
In the second to fifth year inclusive	2,392	28
After five years	1,026	–
	<u>4,619</u>	<u>200</u>

Leases are negotiated, and monthly rentals are fixed, for an average term of two years.

(b) The Group as a lessor:

At the balance sheet date, the Group had contracted with tenants for future minimum lease payments which fall due as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	26,571	269
In the second to fifth year inclusive	10,665	361
	<u>37,236</u>	<u>630</u>

The properties held have committed tenants for the next two years.

The Company did not have any significant operating lease arrangements as at the balance sheet date.

45. 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:				
– subscription of new shares of Star East	20,000	–	20,000	–
– acquisition of an associate	36,660	–	–	–
	<u>56,660</u>	<u>–</u>	<u>20,000</u>	<u>–</u>

46. PLEDGE OF ASSETS

As at 31st March, 2003, certain of the Group's properties and debtors with an aggregate value of approximately HK\$911,086,000 (2002: HK\$17,618,000) and its benefits under certain construction contracts and the interests in certain issued shares of subsidiaries of the Company have been pledged to banks and financial institutions to secure general credit facilities granted to the Group. Facilities amounting to approximately HK\$796,354,000 (2002: HK\$9,109,000) were utilised as at 31st March, 2003.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

47. POST BALANCE SHEET EVENT

On 8th July, 2003, Paul Y. - ITC, Hanny, China Strategic and the Company jointly announced that Calisan Developments Limited and Well Orient Limited (the "Offerors"), each being wholly-owned subsidiary of Paul Y. - ITC and Hanny, respectively, through Kingsway SW Securities Limited, will make voluntary conditional cash offers at the price of HK\$0.10 for each share and HK\$0.001 for each warrant of China Strategic respectively, other than those owned by the Offerors and parties acting in concert with them, and to cancel all outstanding share options of China Strategic at HK\$0.001 each. Paul Y. - ITC, Hanny, China Strategic and the Company further jointly announced on 21st July, 2003 that after the purchase at the open market on 9th July, 2003, the Offerors and their concert parties are interested in 291,675,000 shares of China Strategic, representing approximately 35.16% of the issued share capital of China Strategic, thus triggering a mandatory offer during the offer period of a voluntary offer under Rule 26 of the Hong Kong Code on Takeovers and Mergers. The Offerors have notified China Strategic that, to make the offer price more attractive to the shareholders of China Strategic, the offer price per share of China Strategic is to be increased from HK\$0.10 to HK\$0.139, representing an increase of 39%. The shares and warrants to be acquired by Kingsway SW Securities Limited will be distributed to the Offerors in the same proportion. As the Company has 64.5% interest in Paul Y. - ITC, the offer may constitute a possible discloseable transaction for the Company. Following the close of the offers, the Offerors intend to take appropriate steps to ensure that not less than 25% of the shares of China Strategic will be held by the public. A circular containing, among other things, details of the offer will be despatched to shareholders of the Company as soon as practicable.

48. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

During the year or at the balance sheet date, the Group had transactions/balances with the following related parties, details of which are as follows:

Class of related party	Nature of transactions/balances	2003 HK\$'000	2002 HK\$'000	
Associates of the Group	Sales of building materials (note a)	511	1,404	
	Dividend income (including scrip dividend)	11,178	11,017	
	Rentals and related building management fee charged by the Group (notes b and c)	2,395	-	
	Rentals and related building management fee charged to the Group (notes b and c)	500	247	
	Subcontracting fees charged to the Group (note d)	393	-	
	Sales of motor car registration marks to the Group (note d)	790	-	
	Interest income received (note e)	10,471	21,519	
	Interest paid (note e)	-	27	
	Amounts advanced and fully repaid during the year (note f)	-	181,700	
	Balance due by the Group (note 30)	12,772	111	
	Balance due to the Group (notes 19(f) and 25)	<u>355,164</u>	<u>148,528</u>	
	Jointly controlled entities of the Group	Dividend income	5,000	-
		Project management fees charged by the Group (note c)	3,000	-
Subcontracting fees charged to the Group (note d)		40,249	-	
Service fees charged by the Group (note c)		60	-	
Balance due by the Group (note 30)		69,343	-	
Balance due to the Group (notes 20 and 26)	<u>5,207</u>	<u>-</u>		
Directors or company controlled by director	Interest paid by the Group (note g)	900	173	
	Interest payable on convertible notes issued by the Group (note h)	12,655	15,287	
	Balance due by the Group (notes g and i)	<u>66,500</u>	<u>-</u>	
Related companies	Rental and related building management fee charged by the Group (notes b and c)	1,592	-	
	Project management fees charged by the Group (note c)	549	-	
	Interest income received (note e)	6,044	658	
	Balance due by the Group (note 30)	205	-	
	Balance due to the Group (note 27)	<u>299,848</u>	<u>45,746</u>	

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
FOR THE YEAR ENDED 31ST MARCH, 2003

48. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (*Continued*)

During the year, the Company issued an aggregate principal amount of HK\$250,000,000 convertible notes to Dr. Chan Kwok Keung, Charles for redemption of the convertible notes issued by the Company in an aggregate principal amount of HK\$250,000,000 held by Galaxyway Investments Limited ("Galaxyway"), a company in which Dr. Chan Kwok Keung, Charles, has a beneficial interests, pursuant to a conditional agreement entered on 16th September, 2002 (as amended by a supplemental agreement dated 4th October, 2002) by the Company and Galaxyway.

During the year ended 31st March, 2002, the Company issued 105,000,000 new ordinary shares of HK\$0.10 each at an issue price of HK\$0.60 per share to Galaxyway. Details of the transaction are set out in note 36(b).

On 25th October, 2002, the Company announced that Hollyfield will make the Offers at the price of HK\$0.30 for each share and HK\$0.01 for each warrant in Paul Y. - ITC, other than those shares and warrants presently owned by the Company or its wholly-owned subsidiaries. Dr. Chan Kwok Keung, Charles, on the same date, has undertaken to the Company that he will (i) reimburse all expenses incurred by the Company in connection with the Offers in the event that the preconditions to which they are subject are not fulfilled; (ii) provide the Company with the finance to enable it to satisfy full acceptance of the Offers; and (iii) make the Offers in the event the Company fails to obtain the approval from its independent shareholders to permit it to make the Offers, through Hollyfield. The Offers were approved by independent shareholders at a special general meeting of the Company on 6th December, 2002. Dr. Chan Kwok Keung, Charles has agreed to finance the Offers in full by granting to the Company on 28th October, 2002, a term loan facility of up to HK\$180,000,000 on an unsecured basis and on normal commercial terms of which HK\$66,500,000 was utilised as at 31st March, 2003.

As at 31st March, 2003, a subsidiary of Paul Y. - ITC advanced approximately HK\$43,786,000 to Hamker Concrete Products Limited ("Hamker") which is 70% indirectly owned by Paul Y. - ITC for financing its operations. Such advance was the only financial assistance given by Hamker's shareholders to Hamker, and is unsecured, has no fixed terms of repayment and bears interest at commercial rate.

Notes:

- (a) The transactions were carried out by reference to the prevailing market price for comparable transactions.
- (b) Rentals were charged at the pre-agreed fixed monthly amounts.
- (c) Building management fee, service fee and project management fee were charged at the pre-agreed rates.
- (d) Subcontracting fees and sales of motor car registration marks were charged at market price or, where no market price was available, at terms determined and agreed by both parties.
- (e) Interest was charged at commercial rates.
- (f) Interest was charged at the Best Lending Rate less 2.5%.
- (g) Interest was charged at the Best Lending Rate (2002: 1% over the Best Lending Rate).
- (h) Interest was charged at the Best Lending Rate.
- (i) The amount was unsecured and due after one year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

(a) Details of the Company's principal subsidiaries as at 31st March, 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Percentage of issued share capital/ registered capital held by the Company*/ subsidiaries %	attributable to the Group %	Principal activities
Burcon Group Limited	Canada	CAD1,000 class A common share	100	100	Investment and property holding
Calisan Developments Limited	British Virgin Islands	US\$1 ordinary share	100	64.5	Investment holding
Corless Limited	British Virgin Islands	US\$2 ordinary shares	100	64.5	Investment holding
Cycle Company Limited	Hong Kong	HK\$2 ordinary shares	100	64.5	Property investment and holding
		HK\$2 non-voting deferred shares (note (i) below)	–	–	
DH Holdings Limited	British Virgin Islands	US\$1 ordinary share	100	64.5	Investment holding
Dreyer and Company Limited	Hong Kong	HK\$6,424,000 ordinary shares	99	99	Trading of building materials and machinery
Full Winners Limited	Hong Kong	HK\$2 ordinary shares	100	64.5	Property sale and holding
Great Intelligence Limited	British Virgin Islands	US\$1 ordinary share	100*	100	Investment holding
Great Intelligence Limited	Hong Kong	HK\$2 ordinary shares	100	100	Investment holding
Gunnell Properties Limited	British Virgin Islands	US\$1 ordinary share	100	64.5	Property investment and holding
Hamker Concrete Products Limited ("Hamker")	Hong Kong	HK\$5,000,000 ordinary shares	70	45.1	Manufacturing and trading of concrete products
ITC Development Co. Limited	British Virgin Islands	US\$15,000 ordinary shares	100*	100	Investment holding
ITC Investment Group Limited	British Virgin Islands	US\$1 ordinary share	100*	100	Investment holding
ITC Investment Holdings Limited	British Virgin Islands	US\$1 ordinary share	100*	100	Investment holding
ITC Management Group Limited	British Virgin Islands	US\$2 ordinary shares	100*	100	Investment holding
ITC Management Limited	Hong Kong	HK\$2 ordinary shares	100	100	Provision of management and administrative services

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (Continued)

(a) Details of the Company's principal subsidiaries as at 31st March, 2003 are as follows: (Continued)

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Percentage of issued share capital/ registered capital held by the Company*/ subsidiaries %	Percentage of issued share capital/ registered capital attributable to the Group %	Principal activities
Landwin Properties Limited	Hong Kong	HK\$2 ordinary shares	100	100	Property holding in PRC
Large Scale Investments Limited	British Virgin Islands	US\$1 ordinary share	100*	100	Investment holding
Nation Cheer Investment Limited	Hong Kong	HK\$1,200,000 ordinary shares	100	64.5	Securities investment and trading
Paul Y. - CREC Engineering Co., Limited	Hong Kong	HK\$10 ordinary shares	70	45.1	Civil engineering
Paul Y. - CREC Joint Venture	Hong Kong	– (note (ii) below)	70	45.1	Civil engineering
Paul Y. - ITC (E & M) Contractors Limited	Hong Kong	HK\$20,000,000 ordinary shares	99.9998	64.5	Provision of electrical, mechanical and building services
Paul Y. - ITC Construction Group Limited	Hong Kong	HK\$2 ordinary shares	100	64.5	Investment holding
		HK\$1,000,000 non-voting deferred shares (note (iii) below)	–	–	
Paul Y. - ITC Construction Holdings Limited	Bermuda	HK\$106,301,604 ordinary shares	64.5	64.5	Investment holding in companies engaged in construction, engineering and infrastructure management services, property development and investment
Paul Y. - ITC Construction Limited	Hong Kong	HK\$102,000,000 ordinary shares	100	64.5	Building construction
Paul Y. - ITC Construction & Engineering Co. Limited	Hong Kong	HK\$42,000,000 ordinary shares	100	64.5	Building construction and specialist works
Paul Y. - ITC General Contractors Limited	Hong Kong	HK\$36,000,000 ordinary shares	100	64.5	Civil engineering and building construction
Paul Y. - ITC Interior Contractors Limited	Hong Kong	HK\$2 ordinary shares	100	64.5	Interior decoration works
Paul Y. - ITC Investments Group Limited	British Virgin Islands	US\$1 ordinary share	100	64.5	Investment holding
Paul Y. - ITC Management Limited	Hong Kong	HK\$2 ordinary shares	100	64.5	Management services

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
FOR THE YEAR ENDED 31ST MARCH, 2003

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (*Continued*)

(a) Details of the Company's principal subsidiaries as at 31st March, 2003 are as follows: (*Continued*)

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Percentage of issued share capital/ registered capital held by the Company*/ subsidiaries %	Percentage of issued share capital/ registered capital attributable to the Group %	Principal activities
Paul Y. - ITC Plant Hire Limited	Hong Kong	HK\$2 ordinary shares	100	64.5	Hire of motor vehicles and plant and machinery
Paul Y. Building Management Limited	Hong Kong	HK\$2 ordinary shares	100	64.5	Property management services
Paul Y. Construction Company, Limited	Hong Kong	HK\$2 ordinary shares	100	64.5	Civil engineering, building construction and investment holding
		HK\$50,000,000 non-voting preferred shares (note (iv) below)	–	–	
Paul Y. Foundation Holdings Limited	British Virgin Islands	US\$1 ordinary share	100	64.5	Investment holding
Paul Y. Foundation Limited	Hong Kong	HK\$10,000,000 ordinary shares	100	64.5	Civil engineering and foundation works
Paul Y. Properties Group Limited	British Virgin Islands	US\$1 ordinary share	100	64.5	Investment holding
Paul Y. Tunnel Engineering Co. Limited	Hong Kong	HK\$2 ordinary shares	100	64.5	Civil engineering
Skylink Enterprises Limited	Hong Kong	HK\$10 ordinary shares	100	64.5	Holding of land use right
Tai Shan Paul Y. Construction Co., Ltd.	PRC	US\$5,005,340 registered capital (note (v) below)	100	64.5	Civil engineering and building construction
Technico Investments Limited	Hong Kong	HK\$2 ordinary shares	100	64.5	Holding of land use right
Unicon Concrete Products (HK) Limited	Hong Kong	HK\$12,000,002 ordinary shares	100	64.5	Manufacturing and trading of concrete products
Unicon Industrial Limited	Hong Kong	HK\$2 ordinary shares	100	64.5	Property holding
Unistress Concrete Products (H.K.) Limited	Hong Kong	HK\$200 ordinary shares	100	64.5	Manufacturing and trading of concrete products
		HK\$1,000,000 non-voting deferred shares (note (iii) below)	100	64.5	
Unistress Group Limited	British Virgin Islands	US\$1 ordinary share	100	64.5	Investment holding

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (Continued)

Notes:

- (i) The holders of the non-voting deferred shares are not entitled to vote, are not entitled to any dividends unless the net profits of the company available for dividend exceed HK\$100,000,000,000,000 in which case they should be entitled to a fixed non-cumulative dividend at the rate of 5% per annum for any financial year and are, on winding up, only entitled out of the surplus assets of the company to a return of the capital after a total sum of HK\$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the company.
- (ii) No capital has been contributed by the joint venture partners of the joint venture.
- (iii) The holders of the non-voting deferred shares are not entitled to vote, are not entitled to any dividends for any financial year and are, on winding up or otherwise, only entitled out of the surplus assets of the company to a return of the capital after a total sum of HK\$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the company.
- (iv) The holders of the non-voting preferred shares are not entitled to vote, are not entitled to any dividends unless the net profits of the company available for dividend exceed HK\$100,000,000,000 in which case they should be entitled to a fixed non-cumulative dividend at the rate of 5% per annum for any financial year and are, on winding up, only entitled out of the surplus assets of the company to a return of the capital after a total sum of HK\$10,000,000,000 has been distributed to the holders of the ordinary shares of the company.
- (v) The company is a sino-foreign equity joint venture company.

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

All of the above subsidiaries operate in Hong Kong except Hamker and Tai Shan Paul Y. Construction Co., Ltd. which operate in PRC and Burcon Group Limited which operates in Canada.

All of the above subsidiaries are limited companies except Paul Y. – CREC Joint Venture, which is an unincorporated business.

- (b) Details of the Group's principal associates as at 31st March, 2003 are as follows:

Name of associate	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Percentage of issued share capital/registered capital attributable to the Group %	Principal activities
Burcon NutraScience Corporation ("Burcon")	Canada	CAD11,615,541 common shares	26.0	Investment holding in company engaged in the development of commercial canola protein
Downer EDI Limited ("Downer")	Australia	A\$484,870,365 ordinary shares	23.6	Investment holding
Hang Pak Engineering Limited	Hong Kong	HK\$100,000 ordinary shares	16.4	Elevators and escalators maintenance

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (Continued)

(b) Details of the Group's principal associates as at 31st March, 2003 are as follows: (Continued)

Name of associate	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Percentage of issued share capital/registered capital attributable to the Group %	Principal activities
Hanny Holdings Limited	Bermuda	HK\$1,603,014 ordinary shares	28.3	Investment holding in companies engaged in the manufacturing, distribution and marketing of data storage media, the distribution of related products, securities investments and strategic investments in information technology related businesses and other businesses
Paul Y. - CREC Construction Co., Limited	Hong Kong	HK\$100 ordinary shares	32.2	Civil engineering
Paul Y. - SELI Joint Venture	Hong Kong	– (note (i) below)	32.2	Civil engineering
Star East Holdings Limited	Bermuda	HK\$12,256,876 ordinary shares	25.9	Investment holding in companies engaged in entertainment-related business including production of movies, television drama series, documentary and infotainment programmes, the franchising and operation of theme restaurants under the brand names of "Planet Hollywood" and "Star East" in Asia Pacific, strategic investment in M Channel, talent management, music production, event production and marketing and property investment
ThyssenKrupp Elevator (HK) Limited (formerly Bongear Elevator (HK) Limited)	Hong Kong	HK\$116,800,000 ordinary shares	14.3	Elevators and escalators installation and maintenance
Zhujiang Kwan On Concrete Products Co., Ltd. ("Zhujiang Kwan On")	PRC	RMB6,320,000 registered capital (note (ii) below)	32.2	Manufacturing and trading of concrete products

Notes:

- (i) No capital has been contributed by the joint venture partners of this joint venture.
(ii) The company is a sino-foreign equity joint venture company.

All of the above associates operate in Hong Kong with the exception of Burcon, Downer and Zhujiang Kwan On, which operates in Canada, Australia and PRC respectively.

All of the above associates are limited companies except Paul Y. - SELI Joint Venture, which is an unincorporated business.

All of the above associates are held by the Company indirectly.

The above tables list the subsidiaries and associates of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries and associates would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (Continued)

(c) Details of the Group's jointly controlled entities as at 31st March, 2003 are as follows:

Name of jointly controlled entity	Place of incorporation	Issued and fully paid share capital	Percentage of issued share capital attributable to the Group %	Principal activities
DL & PY JV Limited	Hong Kong	HK\$2 ordinary shares	32.2	Civil engineering
Paul Y. - Penta-Ocean Joint Venture	Hong Kong	– (note below)	32.2	Civil engineering

Note: No capital has been contributed by the joint venture partners, although the Group has contributed working capital amounting to HK\$5,000,000 to this joint venture.

All of the above entities are held indirectly by the Company and operate in Hong Kong.

50. EXTRACTS OF THE CONSOLIDATED RESULTS AND FINANCIAL POSITION OF ASSOCIATES

Hanny

Results for the years ended 31st March, 2003 and 2002

	2003 HK\$'000	2002 HK\$'000
Turnover	<u>4,162,804</u>	<u>4,373,909</u>
Loss before taxation	<u>(570,474)</u>	<u>(75,044)</u>
Loss for the year	<u>(648,472)</u>	<u>(102,455)</u>

Financial position as at 31st March, 2003 and 2002

	2003 HK\$'000	2002 HK\$'000
Non-current assets	1,593,147	1,671,193
Current assets	1,663,268	2,233,870
Current liabilities	(1,185,858)	(1,432,304)
Minority interests	(170,500)	(214,611)
Non-current Liabilities	<u>(176,958)</u>	<u>(10,980)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31ST MARCH, 2003

50. EXTRACTS OF THE CONSOLIDATED RESULTS AND FINANCIAL POSITION OF ASSOCIATES
(Continued)

Star East

Results for the years ended 31st March, 2003 and 2002

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	<u>139,913</u>	<u>179,797</u>
Loss before taxation	<u>(129,154)</u>	<u>(479,736)</u>
Net loss for the year	<u>(130,409)</u>	<u>(461,690)</u>

Financial position as at 31st March, 2003 and 2002

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Non-current assets	234,602	418,227
Current assets	142,489	178,011
Current liabilities	(199,179)	(327,749)
Minority interests	(176)	(277)
Non-current liabilities	<u>(119,672)</u>	<u>(126,755)</u>

Downer

Financial position as at 31st December, 2002

	<i>HK\$'000</i>
Non-current assets	4,141,241
Current assets	4,249,336
Current liabilities	(2,392,544)
Non-current liabilities	(2,506,737)
Preference share capital	<u>(285,987)</u>

Full details of the results and financial position of Hanny and Star East can be found in their annual reports dated 21st July, 2003 and 17th July, 2003, respectively.

The financial position of Downer have been extracted from the published financial information as at 31st December, 2002.

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

The following is a summary of the unaudited consolidated financial statements of the Group for the six months ended 30th September, 2003 extracted from the unaudited financial statements of the Group.

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003**

		(Unaudited)	
		Six months ended	
		30th September,	
		2003	2002
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(As restated)
Turnover	3	1,698,387	13,725
Cost of sales		<u>(1,646,834)</u>	<u>(2,898)</u>
Gross profit		51,553	10,827
Other operating income		51,097	21,675
Administrative expenses		<u>(73,648)</u>	<u>(19,206)</u>
Profit from operations	4	29,002	13,296
Finance costs		(21,388)	(17,461)
Investment expenses – net	5	(4,123)	(16,812)
Impairment loss on investment properties		(15,700)	–
Allowance for amount due from an associate		(2,424)	–
Loss on dilution of interests in subsidiaries and associates		(3,134)	–
Share of results of associates		129,325	(67,863)
Share of results of jointly controlled entities		<u>7,974</u>	<u>–</u>
Profit (loss) before taxation		119,532	(88,840)
Taxation	6	<u>(56,691)</u>	<u>(12,533)</u>
Profit (loss) before minority interests		62,841	(101,373)
Minority interests		<u>(15,200)</u>	<u>–</u>
Profit (loss) for the period		<u>47,641</u>	<u>(101,373)</u>
Earnings (loss) per share	7		
Basic (cents)		<u>6.1</u>	<u>(17.5)</u>
Diluted (cents)		<u>2.3</u>	<u>(17.7)</u>

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30TH SEPTEMBER, 2003

	<i>Notes</i>	(Unaudited) 30th September, 2003 <i>HK\$'000</i>	(Audited) 31st March, 2003 <i>HK\$'000</i> (As restated)
Non-current assets			
Investment properties	8	536,304	572,608
Property, plant and equipment	8	454,022	489,331
Negative goodwill		(394,445)	(423,474)
Interests in associates and jointly controlled entities	9	2,165,422	1,363,370
Investments in securities		20,094	676,092
Convertible notes receivable	10	–	17,500
Deferred tax assets		2,132	4,165
		<u>2,783,529</u>	<u>2,699,592</u>
Current assets			
Amounts due from customers for contract works		244,778	200,934
Debtors, deposits and prepayments	11	1,192,074	1,079,351
Investments in securities		26,352	26,527
Short term bank deposits, bank balances and cash		284,124	241,189
Other current assets		575,021	603,611
		<u>2,322,349</u>	<u>2,151,612</u>
Current liabilities			
Amounts due to customers for contract works		557,989	494,855
Creditors and accrued expenses	12	857,458	797,355
Bank borrowings – due within one year		159,197	167,853
Other loans – due within one year		139,817	77,317
Other current liabilities		80,875	86,823
		<u>1,795,336</u>	<u>1,624,203</u>
Net current assets		<u>527,013</u>	<u>527,409</u>
Total assets less current liabilities		<u>3,310,542</u>	<u>3,227,001</u>
Minority interests		<u>905,119</u>	<u>863,395</u>
Non-current liabilities			
Convertible notes		391,731	391,799
Bank borrowings – due after one year		652,225	637,175
Other loans – due after one year		–	66,500
Provision for long service payments		1,727	1,727
Deferred tax liabilities		71,000	61,165
		<u>1,116,683</u>	<u>1,158,366</u>
		<u>1,288,740</u>	<u>1,205,240</u>
Capital and reserves			
Share capital		89,894	89,894
Reserves		1,198,846	1,115,346
		<u>1,288,740</u>	<u>1,205,240</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003

	(Unaudited)								
	Share capital	Share premium	Contributed surplus	Capital redemption reserve	Properties revaluation reserve	Translation reserve	Goodwill reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2002									
- as originally stated	89,894	205,222	2,092,234	908	-	(21,851)	(139,650)	(737,323)	1,489,434
- prior period adjustment (note 2)	-	-	-	-	-	-	-	(18,191)	(18,191)
At 1st April, 2002 (as restated)	<u>89,894</u>	<u>205,222</u>	<u>2,092,234</u>	<u>908</u>	<u>-</u>	<u>(21,851)</u>	<u>(139,650)</u>	<u>(755,514)</u>	<u>1,471,243</u>
Exchange differences arising from translation of overseas operations	-	-	-	-	-	84	-	-	84
Share of post-acquisition reserve movements of associates	-	-	-	-	-	(6,266)	-	-	(6,266)
Net loss not recognised in the condensed consolidated income statement	-	-	-	-	-	(6,182)	-	-	(6,182)
Share of post-acquisition reserve movements of associates	-	-	-	-	-	-	6,931	-	6,931
Loss for the period	-	-	-	-	-	-	-	(101,373)	(101,373)
At 30th September, 2002	<u>89,894</u>	<u>205,222</u>	<u>2,092,234</u>	<u>908</u>	<u>-</u>	<u>(28,033)</u>	<u>(132,719)</u>	<u>(856,887)</u>	<u>1,370,619</u>
Exchange differences arising from translation of overseas operations	-	-	-	-	-	34,503	-	-	34,503
Share of post-acquisition reserve movements of associates	-	-	-	-	-	22,276	-	-	22,276
Surplus arising on revaluation of land and buildings	-	-	-	-	805	-	-	-	805
Net gain not recognised in the condensed consolidated income statement	-	-	-	-	805	56,779	-	-	57,584
Share of post-acquisition reserve movements of associates	-	-	-	-	-	-	34,188	-	34,188
Loss for the period	-	-	-	-	-	-	-	(257,151)	(257,151)
At 31st March, 2003	<u>89,894</u>	<u>205,222</u>	<u>2,092,234</u>	<u>908</u>	<u>805</u>	<u>28,746</u>	<u>(98,531)</u>	<u>(1,114,038)</u>	<u>1,205,240</u>
Exchange differences arising from translation of overseas operations	-	-	-	-	-	33,065	-	-	33,065
Share of post-acquisition reserve movements of associates	-	-	-	-	-	1,948	-	-	1,948
Net gain not recognised in the condensed consolidated income statement	-	-	-	-	-	35,013	-	-	35,013
Reserve movements arising on reduction of interests in subsidiaries and associates	-	-	-	-	(3)	(204)	1,053	-	846
Profit for the period	-	-	-	-	-	-	-	47,641	47,641
At 30th September, 2003	<u>89,894</u>	<u>205,222</u>	<u>2,092,234</u>	<u>908</u>	<u>802</u>	<u>63,555</u>	<u>(97,478)</u>	<u>(1,066,397)</u>	<u>1,288,740</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003

	(Unaudited)	
	Six months ended	
	30th September,	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from (used in) operating activities	69,182	(44,078)
Net cash used in investing activities	(18,174)	(32,036)
Net cash used in financing activities	(31,763)	(15,392)
Net increase (decrease) in cash and cash equivalents	19,245	(91,506)
Cash and cash equivalents at beginning of the period	195,654	76,874
Effect of foreign exchange rate changes	(806)	(91)
Cash and cash equivalents at end of the period	<u>214,093</u>	<u>(14,723)</u>
Analysis of the balances of cash and cash equivalents		
Short term bank deposits, bank balances and cash	284,124	7,641
Bank overdrafts	(70,031)	(22,364)
	<u>214,093</u>	<u>(14,723)</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003

1. Basis of preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. Principal accounting policies

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

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March, 2003, except for the adoption of SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred taxation. In previous years, partial provision was made for deferred taxation using the income statement liability method, i.e. a liability was recognised in respect of all timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred taxation is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxation 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 2002 have been restated accordingly. As a result of this change in policy, the opening accumulated losses at 1st April, 2003 have been increased by HK\$21,307,000 (1st April, 2002: HK\$18,191,000). The profit for the six months ended 30th September, 2003 has been decreased by HK\$9,130,000 (the loss for the six months ended 30th September, 2002 has been increased by HK\$2,167,000).

3. Turnover and segmental information

The segment information of Paul Y. - ITC Construction Holdings Limited ("Paul Y. - ITC") has been included after Paul Y. - ITC became a subsidiary of the Company in December 2002.

Business segments

For management purposes, the Group's operations are currently organised into six operating divisions namely building construction, civil engineering, specialist works, construction materials, property leasing, and investment and finance. These divisions are the basis on which the Group reports its primary segment information.

Analyses of the Group's turnover and contribution to profit from operations by business segments are as follows:

	Six months ended 30th September,					
	2003			2002		
	External	Inter-	Total	External	Inter-	Total
	HK\$'000	segment	HK\$'000	HK\$'000	segment	HK\$'000
Turnover						
Construction and other contracting businesses:						
Building construction	1,191,411	–	1,191,411	–	–	–
Civil engineering	195,893	–	195,893	–	–	–
Specialist works	259,023	18,932	277,955	–	–	–
Construction materials	2,985	44,620	47,605	–	–	–
	1,649,312	63,552	1,712,864	–	–	–
Investment and finance	21,793	400	22,193	9,107	418	9,525
Property leasing	25,046	8,533	33,579	241	151	392
Others	2,236	49	2,285	4,377	–	4,377
Elimination	–	(72,534)	(72,534)	–	(569)	(569)
	<u>1,698,387</u>	<u>–</u>	<u>1,698,387</u>	<u>13,725</u>	<u>–</u>	<u>13,725</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003

3. Turnover and segmental information (Continued)

Business segments (Continued)

	Six months ended 30th September,	
	2003 HK\$'000	2002 HK\$'000
Contribution to profit from operations		
Construction and other contracting businesses:		
Building construction	168	–
Civil engineering	(8,537)	–
Specialist works	(21,477)	–
Construction materials	(14,184)	–
	<u>(44,030)</u>	<u>–</u>
Investment and finance	39,017	18,270
Property leasing	11,086	(274)
Others	60	699
	<u>6,133</u>	<u>18,695</u>
Amortisation of negative goodwill	27,584	–
Unallocated corporate expenses	(4,715)	(5,399)
	<u>29,002</u>	<u>13,296</u>

Inter-segment sales are charged at prevailing market rate or, where no market price was available, at terms determined and agreed by both parties.

4. PROFIT FROM OPERATIONS

	Six months ended 30th September,	
	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment	32,229	947
Less: Amount capitalised in respect of contracts in progress	(956)	–
	<u>31,273</u>	<u>947</u>
and after crediting:		
Gain on disposal of property, plant and equipment	2,805	–
Gain on disposal of listed investments	23,088	617
Amortisation of negative goodwill (included in other operating income)	27,584	–
	<u>27,584</u>	<u>–</u>

5. INVESTMENT EXPENSES – NET

	Six months ended 30th September,	
	2003 HK\$'000	2002 HK\$'000
(Loss) gain on disposal of investment properties	(526)	1
Impairment loss on investment securities	(3,597)	(16,813)
	<u>(4,123)</u>	<u>(16,812)</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003

6. TAXATION

	Six months ended 30th September,	
	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Overprovision in previous periods	(11)	–
Overseas taxation	3,322	–
Share of tax on results of associates	41,511	12,533
	<u>44,822</u>	<u>12,533</u>
Deferred taxation	11,869	–
	<u>56,691</u>	<u>12,533</u>

Hong Kong Profits Tax is calculated at the rate of 17.5% (2002: 16%) of the estimated assessable profits derived from Hong Kong for the period.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

Deferred taxation has been provided for on temporary differences arising during the period.

7. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30th September,	
	2003 HK\$'000	2002 HK\$'000 (As restated)
Profit (loss) for the period	47,641	(101,373)
Dividend for preference shares	(9,245)	(9,245)
	<u>38,396</u>	<u>(110,618)</u>
Profit (loss) for the purposes of basic earnings (loss) per share	38,396	(110,618)
Effect of dilutive potential ordinary shares:		
Adjustment to the share of results of subsidiaries based on dilution of their earnings per share	(3,426)	–
Adjustment to the share of results of associates based on dilution of their earnings per share	–	(1,325)
Interest on convertible notes	9,839	–
Unamortised deferred expenditure on issuance of convertible notes	(769)	–
	<u>44,040</u>	<u>(111,943)</u>
Profit (loss) for the purposes of diluted earnings (loss) per share	44,040	(111,943)
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	630,960,774	630,960,774
Effect of dilutive potential ordinary shares: Convertible notes	1,308,333,333	–
	<u>1,939,294,107</u>	<u>630,960,774</u>
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	1,939,294,107	630,960,774

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (*Continued*)
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003

8. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$5,311,000 (2002: HK\$1,908,000) on property, plant and equipment to expand and upgrade its operating capacity. The Group also disposed of investment properties and property, plant and equipment with an aggregate carrying value of approximately HK\$21,804,000 (2002: HK\$1,125,000) and HK\$9,992,000 (2002: HK\$575,000) respectively.

Certain investment properties at 30th September, 2003 were revalued by the directors by reference to the valuations made by an independent professional valuer.

9. INTERESTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

During the six months ended 30th September, 2003, the Group's equity interest through Paul Y. - ITC in China Strategic Holdings Limited, which is listed in Hong Kong, increased from 14.55% to 31.20%. Accordingly, the investment has been reclassified from investments in securities to interests in associates during the period.

Downer EDI Limited ("Downer"), one of the principal associates of Paul Y. - ITC, became an associate of the Group upon consolidation of Paul Y. - ITC since December 2002. Downer is listed in Australia and New Zealand and its financial year end date is 30th June. Only published financial information of Downer will be available and used by the Group in applying the equity method. Accordingly, the Group's share of results of Downer for the current period is calculated based on the results of Downer for the six months from 1st January, 2003 to 30th June, 2003.

Paul Y. - ITC has not accounted for its share of losses of an associate amounting to approximately HK\$123,711,000 (31st March, 2003: HK\$123,711,000) as those losses, which arise on a contract, are recoverable in full under guarantees provided by an ex-shareholder of the associate. Paul Y. - ITC instigated a court action against the ex-shareholder to recover the losses together with interest and other expenses incurred. The directors of Paul Y. - ITC, having taken legal advice, believe that the suit is valid and the losses can be fully recovered from the ex-shareholder.

10. CONVERTIBLE NOTES RECEIVABLE

During the period, the convertible notes were converted at the specified price into shares of a company whose shares are listed in Hong Kong.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

The following is an aged analysis of trade debtors:

	30th September, 2003	31st March, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade debtors		
0 – 30 days	447,637	400,424
31 – 60 days	12,930	5,724
61 – 90 days	206	5,224
Over 90 days	72,601	70,739
	<hr/>	<hr/>
	533,374	482,111
Other debtors, deposits and prepayments	658,700	597,240
	<hr/>	<hr/>
	1,192,074	1,079,351
	<hr/> <hr/>	<hr/> <hr/>

The Group's credit terms for contracting business are negotiated with, and entered into under, normal commercial terms with its trade customers. Trade debtors arising from property leasing business are payable monthly in advance and the credit terms granted by the Group to other trade debtors normally range from 30 days to 90 days.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (*Continued*)
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003

12. CREDITORS AND ACCRUED EXPENSES

The following is an aged analysis of trade creditors:

	30th September, 2003	31st March, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade creditors		
0 – 30 days	302,921	273,309
31 – 60 days	35,701	24,780
61 – 90 days	3,855	9,342
Over 90 days	26,321	19,556
	<hr/>	<hr/>
	368,798	326,987
Other creditors and accrued expenses	488,660	470,368
	<hr/>	<hr/>
	857,458	797,355
	<hr/> <hr/>	<hr/> <hr/>

13. CONTINGENT LIABILITIES

	30th September, 2003	31st March, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding performance bonds in respect of construction contracts	769,183	740,529
Guarantees given to banks and financial institutions in respect of general banking facilities granted to an associate	–	2,419
Financial support given to an investee company	1,200	4,355
	<hr/>	<hr/>
	770,383	747,303
	<hr/> <hr/>	<hr/> <hr/>

In addition to the above, and in the normal course of business, the Group has received claims for damages and injuries relating to its contracting business. No provision has been made for these claims as they are either covered by insurance or will be indemnified by other parties.

14. COMMITMENTS

	30th September, 2003	31st March, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– subscription of new shares of an associate	–	20,000
– acquisition of an associate	24,429	36,660
	<hr/>	<hr/>
	24,429	56,660
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003

15. TRANSACTIONS WITH RELATED PARTIES

During the period, the Group had transactions with the following related parties, details of which are as follows:

	Six months ended 30th September,	
	2003 HK\$'000	2002 HK\$'000
Associates and jointly controlled entities:		
Sales of building materials by the Group (note a)	–	499
Purchase of concrete products by the Group (note a)	70	–
Dividend income	44,883	–
Rentals and related building management fee charged by the Group (notes b & c)	3,068	–
Service fees charged by the Group (note c)	601	373
Subcontracting fees charged to the Group (note d)	52,385	–
Construction works charged by the Group (note d)	449	–
Interest income received (note e)	10,308	4,252
Consulting and handling fees charged by the Group (note c)	72	–
	<u> </u>	<u> </u>
Directors or companies controlled by directors:		
Interest payable on convertible notes issued by the Group (note f)	6,267	6,424
Interest paid by the Group (note f)	1,651	–
	<u> </u>	<u> </u>
Related companies:		
Rentals and related building management fee charged by the Group (notes b & c)	3,716	–
Interest income received (note e)	8,448	1,433
Subcontracting fees charged by the Group (note d)	1,611	–
Purchase of medicine and health products by the Group (note a)	455	85
Service fees charged to the Group (note c)	59	129
	<u> </u>	<u> </u>

Notes:

- (a) The transactions were carried out by reference to the prevailing market price for comparable transactions or were carried out in accordance with the negotiated parties.
- (b) Rentals were charged at the pre-agreed fixed monthly amounts.
- (c) Building management fee, service fee, consulting and handling fees were charged at the pre-agreed rates.
- (d) Construction works and subcontracting fees were charged at market price or, where no market price was available, at terms determined and agreed by both parties.
- (e) Interest was charged at commercial rates.
- (f) Interest was charged at the best lending rate of Hong Kong Dollar quoted by The Hongkong and Shanghai Banking Corporation Limited.

Related companies are companies in which the Group has either indirect beneficial interests or has common directors.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (*Continued*)
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003

16. POST BALANCE SHEET EVENT

- (a) Subsequent to the balance sheet date, Paul Y. - ITC group disposed of an aggregate of approximately 29 million Downer ordinary shares (adjusted from 115 million ordinary shares in Downer as a result of consolidation of 4 ordinary shares in Downer into 1 Downer ordinary share in November 2003) to independent third parties for a total consideration of approximately A\$104 million (equivalent to approximately HK\$588 million). As a result of the disposal, Paul Y. - ITC group's shareholding in Downer decreased to 21.3%.
- (b) On 6th November, 2003, Star East Holdings Limited ("Star East") entered into a subscription agreement with one of its substantial shareholder for the subscription of 1,575,000,000 shares of Star East at a price of HK\$0.04 per share. Upon the completion of the subscription agreement on 19th December, 2003, the Group's interests in Star East has been decreased from 26.1% to 19.2%.

STATEMENT OF THE UNAUDITED ADJUSTED CONSOLIDATED NET ASSETS OF THE GROUP

The following is a statement of the unaudited adjusted consolidated net assets of the Group, based on the Interim Report of the Group as at 30th September, 2003 and adjusted as follows:

	<i>HK\$'000</i>
Unaudited consolidated net assets of the Group as at 30th September, 2003	1,288,740
Surplus arising from the valuation of property interests of the Group on 31st December, 2003	2,321
Unaudited adjusted consolidated net assets of the Group	<u>1,291,061</u>

The following is the text of the letter, summary of valuation and valuation certificates received from RHL Appraisal Ltd., an independent valuer, prepared for the purpose of inclusion in this circular.



Member of RHL International Property Consultants
永利行國際物業顧問集團成員

RHL Appraisal Ltd.
永利行評值顧問有限公司

Surveyors, Valuers, Land & Property Consultants

9th February, 2004

The Directors

ITC Corporation Limited

33rd Floor, Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

Dear Sirs,

Re: Valuation of Various Properties in Hong Kong, the People's Republic of China ("the PRC") and Canada

1. INSTRUCTION

In accordance with the instructions for us to value certain property interests of ITC Corporation Limited (referred to as the "Company") or its subsidiaries (the Company and its subsidiaries are altogether referred to as the "Group") in Hong Kong, the PRC and Canada, we confirm that we have carried out property inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of the open market values of such property interests as at 31st December, 2003 (referred to as the "date of valuation").

2. BASIS OF VALUATION

The valuation is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (i) a willing seller;
- (ii) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (iii) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (iv) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (v) that both parties to the transaction had acted knowledgeably, prudently and without compulsion."

3. VALUATION METHODOLOGY

For those properties which are being occupied by the Group or left vacant, they have been valued on an open market basis assuming sale with the benefit of immediate vacant possession and by reference to comparable sales evidence as available on the market.

For those properties or portions of those properties which are let to parties outside the Group, they have been valued on the basis of capitalization of the net rental income with due allowance for reversionary income potential. We have also made reference to comparable sale to arrive at the values of the reversionary interests.

4. ASSUMPTION

Our valuation has been made on the assumption that the owner sells the property interests on the open market in their existing states without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the value of the property interests.

As the property interests are held by the Group on long term Government Leases or Land Use Right Contracts, we have assumed that the Group has free and uninterrupted rights to use the properties for the whole of the unexpired terms of their respective Government leases or land use right contracts subject to payment of annual land use fee, if any, to the government.

Other special assumptions in relation to each property, if any, have been stated in the footnotes to the valuation certificate for each corresponding property.

5. TITLE INVESTIGATION

We have been, in some instances, provided with extracts of title documents relating to the properties. In addition, we have caused searches to be made at the appropriate Land Registry for the properties in Hong Kong. However, we have not searched the original documents to verify ownership or to verify the existence of any amendments which do not appear on the copies handed to us. All documents have been used for reference only.

As far as the properties situated in the PRC are concerned, we have also relied on the legal opinion prepared by the PRC legal adviser, namely Jin & Partners Law Firm (廣東東方金源律師事務所), on the title to and the nature of land use rights in those properties.

Any information regarding property title is disclosed herein for reference only and no responsibility on this aspect is assumed in this valuation report.

6. LIMITING CONDITIONS

We have inspected the properties, but no structural survey has been made. In the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services. All dimensions, measurements and areas are approximations.

We must point out that we have not carried out site investigations to determine the suitability of the ground conditions or the services of the development sites of the subject property portfolio. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us by the Group on such matters as statutory notices, easements, tenure, occupation, tenancy details, floor areas and in the identification of those properties in which the Group has a valid interest.

We have no reason to doubt the truth and accuracy of the information as provided to us by the Group. We have relied on the Group's confirmation that no material facts have been omitted from the information supplied.

No allowance has been made in our valuations for any charges, mortgages, outstanding land premium or amounts owing on any property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, we have assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values. With reference to the information provided by the Group, we are of the opinion that there would be no tax liability (other than the transaction levy such as, but not limited to, stamp duty and registration fees, which, in aggregate, would not represent a material amount in view of the valuation of the property interests of the Group) if the properties were to be sold at respective valuation figures stated therein.

7. REMARKS

We have valued the properties in Hong Kong Dollars. The translation of Renminbi (RMB) into Hong Kong Dollars (HK\$) and Canadian Dollars (CAD) into HK\$ are based on the factors of HK\$1.00 = RMB1.06 and CAD1 = HK\$6 with reference to the approximate exchange rates prevailing on the date of valuation.

Our valuations have been prepared in accordance with the Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors and compiled with all the requirements contained in Chapter 5 of the Listing Rules and the Practice Notes 12 issued by The Stock Exchange of Hong Kong Limited.

We enclose herewith the summary of valuation and the valuation certificates.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Wayne W.K. Lee
MRICS MHKIS RPS(GP)
Director

Tse Wai Leung
BSc MRICS MHKIS RPS(GP)
Director

Wayne W.K. Lee is a member of the Royal Institution of Chartered Surveyors, an Associate of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor in General Practice. Tse Wai Leung, who is a member of the Royal Institution of Chartered Surveyors, an Associate of the Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. Both of them have over eight years' experience in valuation of properties in Hong Kong and in the PRC.

SUMMARY OF VALUATION

Property	Capital value in existing states as at 31st December, 2003
1. Paul Y. Centre 51 Hung To Road Kwun Tong Kowloon Hong Kong	HK\$650,000,000
2. In-Zone Ground Floor to 3rd Floor Cathay Lodge No. 125 Wanchai Road Wanchai Hong Kong	HK\$60,000,000
3. Lot Nos. 9, 10A and 12 in Demarcation District No. 95 Ho Sheung Heung Sheung Shui New Territories Hong Kong	HK\$25,600,000
4. A parcel of land (Lot No. 02-03) at the junction of Huan Cheng Nan Road and Huan Cheng Xi Road (previously occupied by Culture Palace) Taicheng, Taishan City Guangdong Province the PRC	HK\$28,000,000
5. A parcel of land (Lot No. 02-04) at Tong Ji Road (previously occupied by Youth Palace) Taicheng, Taishan City Guangdong Province the PRC	HK\$13,200,000
6. Unit 206, No. 41 Huanshi Zhong Road Ning Feng Yuen Taicheng, Taishan City Guangdong Province the PRC	HK\$140,000
7. 4818 Fannin Avenue, Vancouver, B.C., Canada	HK\$15,000,000
8. 1946 West Broadway, Vancouver, B.C., Canada	HK\$6,600,000
Total:	HK\$798,540,000

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st December, 2003																											
1. Paul Y. Centre 51 Hung To Road Kwun Tong Kowloon Hong Kong	The property comprises a 29-storey industrial/office building, including 6-storey car parking floors for private cars, trucks and containers. The building was completed in 1996.	As at the valuation date, some of the industrial/office units on ground floor and the upper floors having a total gross floor area of approximately 262,000 square feet were subject to various tenancy agreements with the latest one expiring on 28th February, 2007 at a total monthly rent of approximately HK\$2,717,000.	HK\$650,000,000																											
Kwun Tong Inland Lot 734	The total gross floor area of the property is approximately 377,443 square feet. A schedule of use and gross floor area of the subject building is set out as follows:	In addition, the carparking spaces were subject to various monthly tenancies/licences. For the year between 1st January, 2003 and 31st December, 2003, a total revenue of approximately HK\$5,300,000 was generated from the carparking spaces.																												
	<table border="1"> <thead> <tr> <th>Floor</th> <th>Uses</th> <th>Gross Floor Area (sq.ft)</th> </tr> </thead> <tbody> <tr> <td>G/F</td> <td>C.P.& I/O</td> <td>7,325</td> </tr> <tr> <td>7/F-12/F</td> <td>I/O</td> <td>95,880</td> </tr> <tr> <td>15/F-22/F</td> <td>I/O</td> <td>127,840</td> </tr> <tr> <td>23/F</td> <td>I/O</td> <td>15,718</td> </tr> <tr> <td>25/F</td> <td>I/O</td> <td>16,335</td> </tr> <tr> <td>26/F-31/F</td> <td>I/O</td> <td>98,010</td> </tr> <tr> <td>33/F</td> <td>I/O</td> <td>16,335</td> </tr> <tr> <td colspan="2" style="text-align: right;">Total:</td> <td><u>377,443</u></td> </tr> </tbody> </table>	Floor	Uses	Gross Floor Area (sq.ft)	G/F	C.P.& I/O	7,325	7/F-12/F	I/O	95,880	15/F-22/F	I/O	127,840	23/F	I/O	15,718	25/F	I/O	16,335	26/F-31/F	I/O	98,010	33/F	I/O	16,335	Total:		<u>377,443</u>	The remaining portion of the property is either vacant or occupied by the owners as offices.	
Floor	Uses	Gross Floor Area (sq.ft)																												
G/F	C.P.& I/O	7,325																												
7/F-12/F	I/O	95,880																												
15/F-22/F	I/O	127,840																												
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26/F-31/F	I/O	98,010																												
33/F	I/O	16,335																												
Total:		<u>377,443</u>																												
	* (No 4/F, 13/F, 14/F, 24/F and 32/F) C.P. – Car Park I/O – Industrial/Office																													
	The property provides a total of 262 car parking spaces on G/F to 6/F.																													
	The property is held under Conditions of Exchange No. 12413 commenced on 9th October, 1996 and expired on 30th June, 2047.																													

Notes:

- The registered owner of the property is Cycle Company Limited and Gunnell Properties Limited which are non-wholly owned subsidiaries of the Company.
- The property is subject to a Debenture and a Supplement to Debenture both in favour of Bank of China (Hong Kong) Limited via memorial nos. 6938478 dated 23rd January, 1997 and memorial no. 8595309 dated 17th January, 2002 respectively.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st December, 2003
2.	In-Zone Ground Floor to 3rd Floor Cathay Lodge No. 125 Wanchai Road Wanchai Hong Kong 15,542/82,700th share of and in Inland Lot Nos. 611 and 662	<p>The property comprises all the retail shop spaces of Ground Floor, 1st, 2nd and 3rd Floor of a 28-storey commercial/residential building completed in 2001.</p> <p>The property has a gross floor area of approximately 14,667 square feet.</p> <p>The property is held under two Government leases both for a term of 999 years commencing on 11th October, 1859 and 26th December, 1860 respectively.</p>	As at the valuation date, portion of the property with a total gross floor area of approximately 10,932 square feet is subject to various individual tenancies expiring on between 17th December, 2003 and 30th November, 2004 at a total monthly rent of approximately HK\$331,000 inclusive of rates and management fee.	HK\$60,000,000

Notes:

1. The registered owner of the property is Full Winner Limited (a non-wholly owned subsidiary of the Company) via memorial no. 7405047 dated 7th January, 1998.
2. The Property is subject to a mortgage and rent assignment both in favour of The Hongkong and Shanghai Banking Corporation Limited via memorial no. 8675105 dated 19th April, 2002 and memorial no. 8675106 dated 19th April, 2002 respectively.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st December, 2003															
3. Lot Nos. 9, 10A and 12 in Demarcation District No. 95, Ho Sheung Heung, Sheung Shui, New Territories, Hong Kong	<p>The property comprises a roughly level site of irregular shape having an area of approximately 142,002 square feet (13,192 square metres) on which some temporary structures were built.</p> <p>The registered lot areas and land uses of the subject property are set out as follows:</p> <table border="1"> <thead> <tr> <th>Lot No.</th> <th>Area</th> <th>Land Use</th> </tr> </thead> <tbody> <tr> <td>9</td> <td>114,563 sq. ft</td> <td>Padi</td> </tr> <tr> <td>10A</td> <td>18,247 sq. ft</td> <td>Padi</td> </tr> <tr> <td>12</td> <td>9,192 sq. ft</td> <td>Padi</td> </tr> <tr> <td>Total:</td> <td><u>142,002 sq. ft</u></td> <td></td> </tr> </tbody> </table> <p>The lease terms of the subject property are expiring on 30th June, 2047 by virtue of Section 6 of the New Territories Lease (Extension) Ordinance.</p>	Lot No.	Area	Land Use	9	114,563 sq. ft	Padi	10A	18,247 sq. ft	Padi	12	9,192 sq. ft	Padi	Total:	<u>142,002 sq. ft</u>		The property is owner-occupied and is being used as a concrete casting yard with ancillary offices.	HK\$25,600,000
Lot No.	Area	Land Use																
9	114,563 sq. ft	Padi																
10A	18,247 sq. ft	Padi																
12	9,192 sq. ft	Padi																
Total:	<u>142,002 sq. ft</u>																	

Notes:

- The registered owner of the property is Unistress Concrete Products (H.K.) Limited which is a non-wholly owned subsidiary of the Company.
- Lot No. 9 is granted with a Short Term Waiver registered vide Memorial No. 264048 dated 16th August, 1991. Section A of Lot No. 10 and Lot No. 12 is granted with another Short Term Waiver registered vide Memorial No. 263992 dated 16th September, 1991. By virtue of these Waivers, the subject property is permitted to be used for the purpose of a precast and prestressed concrete casting yard. The total site coverage of the structures erected thereon cannot be more than 7.89 percent of the registered area of the subject property. The maximum height of the structures erected on the subject property is 5.18 metres.
- The current total waiver fee payable for the subject property is HK\$49,480 per quarter and it may be revised from time to time by Government with not less than six months notice.
- The Waivers are determinable by either party via 3 months' prior written notice. As confirmed by the Group, the Waivers was still in force as at the valuation date.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st December, 2003
4.	A parcel of land (Lot No. 02-03) at the junction of Huan Cheng Nan Road and Huan Cheng Xi Road (previously occupied by Culture Palace) Taicheng, Taishan City Guangdong Province the PRC	<p>The property comprises a parcel of land with an area of approximately 8,873.3 square metres (approximately 95,512.20 square feet) on which two 2-storey buildings, a single-storey steel frame structure and some squatters are erected. These buildings will be demolished by the Government in due course.</p> <p>The property is held for a term of 70 years from the date when the subject property in vacant possession is delivered by the Government to the Group.</p>	The property is currently under evacuation.	HK\$28,000,000

Notes:

1. Pursuant to a Land Use Right Grant Contract dated 30th August, 2002 entered into between Land Resource Bureau of Taishan City (the "Grantor") and Skylink Enterprises Limited (the "Grantee") which is a non-wholly owned subsidiary of the Company, the Grantor agreed to grant the land use rights in the subject land namely Lot No. 02-03 to the Grantee for a term of 70 years from the date when the Grantor deliver vacant possession of the property to the Grantee. As stated in the said Land Use Right Grant Contract, the Grantor shall deliver the property in vacant possession and cleared site state to the Grantee not later than 30th April, 2003. The handover date was subsequently extended to 30th April, 2004.
2. As provided in the said Land Use Right Grant Contract, the land premium in relation to the property at a total amount of RMB30,090,000. By virtue of a Loan Repayment Agreement entered into among the People's Government of Taishan, 茂勁發展有限公司 (Mao Jin Development Co., Ltd.) and Paul Y. - ITC Management Limited, which is a non-wholly owned subsidiary of the Company, the land premium shall be settled by the People's Government of Taishan for partly discharging a loan in favour of Paul Y. - ITC Management Limited.
3. The property is subject to the following material development conditions as stipulated in the said Land Use Right Grant Contract:

3.1	Use	:	Commercial, Finance and Residential
3.2	Plot Ratio	:	not greater than 8 (based on total land area of 8,873.3 square metres)
3.3	Site Coverage	:	not greater than 50% of the land area of 8,873.3 square metres
3.4	Building Height	:	not higher than 101 metres
3.5	Greenery Area	:	not less than 10%
3.6	Work Commencement	:	construction work shall commence on or before 30th April, 2004
4. It is intended that the property is held for sale.
5. PRC legal opinion in relation to the property is summarized as follows:
 - 5.1 The aforesaid Land Use Right Grant Contract and the Loan Repayment Agreement are legal and valid.
 - 5.2 The land use rights in the property are held by Skylink Enterprises Limited for a term of 70 years from the date when the property in vacant possession is delivered to Skylink Enterprises Limited.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st December, 2003
5.	A parcel of land (Lot No. 02-04) at Tong Ji Road (previously occupied by Youth Palace) Taicheng, Taishan City Guangdong Province the PRC	<p>The property comprises a parcel of land with an area of approximately 3,711.2 square metres (approximately 39,947.36 square feet) on which a 4-storey building, a 3-storey building and some steel frame structures are erected. These buildings will be demolished by the Government in due course.</p> <p>The property is held for a term of 70 years from the date when the subject property in vacant possession is delivered by the Government to the Group.</p>	The property is currently under evacuation.	HK\$13,200,000

Notes:

1. Pursuant to a Land Use Right Grant Contract dated 30th August, 2002 entered into between Land Resource Bureau of Taishan City (the "Grantor") and Technico Investments Limited (the "Grantee") which is a non-wholly owned subsidiary of the Company, the Grantor agreed to grant the land use rights in the subject land namely Lot No. 02-04 to the Grantee for a term of 70 years from the date when the Grantor delivers vacant possession of the property to the Grantee. As stated in the said Land Use Right Grant Contract, the Grantor shall deliver the property in vacant possession and cleared site state to the Grantee not later than 30th November, 2003. The handover date was subsequently extended to 30th April, 2004.
2. As provided in the said Land Use Right Grant Contract, the land premium in relation to the property at a total amount of RMB15,020,000. By virtue of a Loan Repayment Agreement entered into among the People's Government of Taishan, 茂勁發展有限公司 (Mao Jin Development Co., Ltd.) and Paul Y. - ITC Management Limited, which is a non-wholly owned subsidiary of the Company, the land premium shall be settled by the People's Government of Taishan for partly discharging a loan in favour of Paul Y. - ITC Management Limited.
3. The property is subject to the following material development conditions as stipulated in the said Land Use Right Grant Contract:

3.1	Use	:	Commercial, Finance and Residential
3.2	Plot Ratio	:	not greater than 4 (based on total land area of 3,711.2 square metres)
3.3	Site Coverage	:	not greater than 65% of the land area of 3,711.2 square metres
3.4	Building Height	:	not higher than 24 metres
3.5	Greenery Area	:	not less than 8%
3.6	Work Commencement	:	construction work shall commence on or before 30th November, 2004
4. It is intended that the property is held for sale.
5. PRC legal opinion in relation to the property is summarized as follows:
 - 5.1 The aforesaid Land Use Right Grant Contract and the Loan Repayment Agreement are legal and valid.
 - 5.2 The land use rights in the property are held by Technico Investments Limited for a term of 70 years from the date when the property in vacant possession is delivered to Technico Investments Limited.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st December, 2003
6.	Unit 206 No. 41 Huanshi Zhong Road Ning Feng Yuen Taicheng, Taishan City Guangdong Province the PRC	<p>The property comprises a residential unit within an 8-storey residential building completed in 1994.</p> <p>The gross floor area of the property is approximately 112.67 square metres (approximately 1,212.78 square feet).</p> <p>The property is held for a term of 70 years commencing from 1993 and expiring in 2063.</p>	As at the valuation date, the property was occupied by the owner as staff quarters.	HK\$140,000

Notes:

1. As revealed by a Building and Land Ownership Certificate (ref no. Yue Fang Di Zheng Zhi Di C2115913), the property is held by Fargood Limited which is a non-wholly owned subsidiary of the Company. The property was acquired by Fargood Limited on 3rd December, 2003 at a consideration of RMB150,000.
2. PRC legal opinion in relation to the property is summarized as follows:
 - 2.1 Fargood Limited holds the building and land use rights in the property; and
 - 2.2 Fargood Limited has the rights to lease, transfer and charge the property.

7.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st December, 2003
	<p>4818 Fannin Avenue, Vancouver, B.C., Canada</p> <p>Legal Description: Lot 12, Block 3, District Lot 140, Land District 36, Plan 6583 Parcel Identifier: 010-865-098</p>	<p>The subject property is located in the "Point Grey" area within the westside of the City of Vancouver. The subject neighbourhood is adjacent to the University of British Columbia and comprises mostly superior quality dwellings on large view lots.</p> <p>The subject property is a fan-shaped lot with an arc frontage of approximately 380 feet along the south side of Fannin Avenue and a frontage of approximately 204 feet onto Drummond Drive. The resulting overall area of the site is approximately 37,026 square feet.</p> <p>The subject main building is a totally updated two storeys plus basement dwelling in good condition. It has a total floor area of approximately 4,991 square feet comprising 1,649 square feet on the main floor, 1,350 square feet on the upper floor and 1,992 square feet in the basement. The building comprises a living room with a fireplace, dining room, kitchen with eating area, den, laundry, family room, four bedrooms, five full bathrooms and a two-piece washroom. Heating is supplied by a gas fired forced air furnace and a central air-conditioning system.</p> <p>Other special features include separate indoor pool facility with whirlpool and sauna, tennis court, putting green and a single storey plus attic level coach house.</p>	<p>As of the date of valuation, the subject property is was occupied by the owner as staff quarters.</p>	<p>HK\$15,000,000</p>

Notes:

1. The registered owner of the subject property is Burcon Group Ltd which is a wholly-owned subsidiary of the Company.
2. The subject property is zoned RS-1 for single family residential use. The subject property appears in conforming to the zoning by-laws and surrounding developments. The highest and best use as if vacant is that of luxury house development and the highest and best use as improved in the existing use.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st December, 2003
8.	1946 West Broadway, Vancouver, B.C., Canada Legal Description: Lot 6, Block 346, Plan 590, District Lot 526. Parcel Identifier: 015-187-748	<p>The subject property is situated on the south side of West Broadway between Cypress Street and Maple Street, within the Kitsilano area of the City of Vancouver. The immediate area is devoted to secondary retail/office uses within the West Broadway Business Corridor.</p> <p>The site is rectangular in shape with a frontage of approximately 50 feet by a depth of approximately 125 feet forming a total site area of approximately 6,250 square feet.</p> <p>The subject site is improved with a seven year old two storey retail/office building of concrete block construction. It comprises a total leasable area of approximately 4,862 square feet providing approximately 2,080 square feet on the ground floor and approximately 2,782 square feet (including approximately 242 square feet of stairwell space) on the upper floor.</p>	As of the date of valuation, the subject ground floor was leased to "Copies Plus Copy Imaging Centre" for a term of years expiring on 13th November, 2004 at a current monthly rent of CA\$3,813.33. The monthly rent is exclusive of operating costs and taxes. The upper floor was partially leased to two related parties, at gross monthly rents of CA\$1,534.34 and CA\$1,564.79, expiring on 8th October, 2004 and 30th November, 2005, respectively. The unleased portion of the upper floor was occupied by the owner as offices.	HK\$6,600,000

Notes:

1. The registered owner of the subject property is Burcon Group Ltd which is a wholly-owned subsidiary of the Company.
2. The subject property is zoned C3A District Schedule. The intent of this Schedule is to provide for a wide range of goods and services, to maintain commercial activities, specialized services and some light manufacturing enterprises while preserving the character and general amenity of the area and its immediate surroundings, and to provide for dwelling uses designed compatibly with commercial uses. The subject property is conforming to the existing zoning by-laws and surrounding uses. The highest and best use as if vacant is that of retail/office development and the highest and best use as improved is the existing use.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Share Repurchase Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, Dr. Chan Kwok Keung, Charles indirectly held 219,681,911 Shares, representing approximately 33.58% of the issued ordinary share capital of the Company and owned Convertible Notes in an aggregate principal amount of HK\$250,000,000 carrying rights to convert into 833,333,333 Shares at an initial conversion price of HK\$0.30 per Share, subject to adjustment. Save as stated above, the Directors and parties acting in concert with them are not interested in any securities of the Company as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date and to the best knowledge of the Directors, none of the Shareholders held 5% or more of the voting rights of the Company. Other than the Shares, the Company did not have any outstanding securities carrying voting rights of the Company as at the Latest Practicable Date.

None of the Directors and parties acting in concert with any of them and, to the best knowledge of the Directors, none of the Shareholders held 5% or more of the voting rights of the Company as at the Latest Practicable Date dealt for value in the securities of the Company during the period commencing on the date falling six months prior to the date of the Announcement and ended on the Latest Practicable Date.

3. PARTICULARS OF REDEEMED NOTEHOLDERS

(A) Identities and details of business activities/executive of each of the Redeemed Noteholders

Name of Redeemed Noteholders	Business activities/executive
Tang Cheuk Chee	Professional investor
Leung Choi Yin	Garment merchandiser
Gold Device Ltd.	Investment holding
Bookman Properties Limited	Investment holding
Million Dollar Trading Limited	Investment holding
Halluck Limited	Investment holding
Grand Ocean Investments Limited	Stocks and properties investment
Attractive Future Limited	Investment holding
Gladstone Rise Limited	Investment holding

Save that Tang Cheuk Chee, Leung Choi Yin and Attractive Future Limited are also Shareholders, there are no relationship between the Company and the Redeemed Noteholders.

To the best knowledge of the Directors and based on information recorded on the register kept by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, as at the Latest Practicable Date, the Redeemed Noteholders and any person who is deemed to have an interest in securities of the Company by virtue of its interest in the Redeemed Noteholders is independent of and not connected with (within the meaning of the Listing Rules) the directors or substantial shareholders of the Company.

(B) Details of the interests in the securities of the Company held by each of the Redeemed Noteholders and their respective concert parties as at the Latest Practicable Date

Securities of the Company held by Redeemed Noteholders and their respective concert parties

Name of Redeemed Noteholders	No. of Shares held	Principal amount of Convertible Notes held		
		Principal amount held as at the Latest Practicable Date HK\$	Principal amount proposed to be redeemed under the respective Redemption Agreements HK\$	Principal amount held following completion of the Redemption Agreements HK\$
Tang Cheuk Chee	406,584	9,000,000	9,000,000	-
Leung Choi Yin	32,053,333	13,000,000	5,000,000	8,000,000
Gold Device Ltd.	-	24,000,000	12,000,000	12,000,000
Bookman Properties Limited	-	20,000,000	20,000,000	-
Million Dollar Trading Limited	-	10,000,000	10,000,000	-
Halluck Limited	-	10,000,000	10,000,000	-
Grand Ocean Investments Limited	200,000*	20,000,000	20,000,000	-
Attractive Future Limited	1,000,000	5,000,000	5,000,000	-
Gladstone Rise Limited	-	5,000,000	5,000,000	-

* held by an owner of Grand Ocean Investments Limited

Save as disclosed above and to the best knowledge of the Directors based on the confirmations received, none of the Redeemed Noteholders and parties acting in concert with any of them had any other interests in the securities of the Company as at the Latest Practicable Date.

(C) Details of dealings in the securities of the Company by the Redeemed Noteholders and their respective concert parties during the period of six months prior to the date of the Announcement and ended on the Latest Practicable Date

Ms. Leung Choi Yin acquired 200,000 Shares at HK\$0.38 per Share on 3rd October, 2003 and acquired 800,000 Shares at prices ranged from HK\$0.38 to HK\$0.40 per Share on 6th October, 2003. She also converted the Convertible Notes in the principal amount of HK\$7,000,000 at conversion price of HK\$0.30 per Share on 7th January, 2004.

Save as disclosed above and to the best knowledge of the Directors based on the confirmations received, none of the Redeemed Noteholders and parties acting in concert with any of them dealt for value in the securities of the Company during the period commencing on the date falling six months prior to the date of the Announcement and ended on the Latest Practicable Date.

4. SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$328,000,000 comprising 3,000,000,000 Shares and 280,000,000 Preference Shares, of which 654,294,107 Shares and 267,980,000 Preference Shares were in issue.

All the Shares in issue are fully paid up and rank pari passu in respect of dividend, capital and voting rights.

The Preference Shares are fully paid up and are non-voting and non-redeemable and are entitled to a cumulative dividend of HK\$0.069 per share per annum. The Preference Shares rank in priority to the Shares as to dividends and return of capital. The Preference Shares are convertible into Shares at the option of the holders at any time. However, the Preference Shares are subject to compulsory conversion at the option of the Company in the following cases:

- the closing price of the Shares on the Stock Exchange is 125% or more of HK\$21.20, subject to adjustments, for twenty consecutive trading days; or
- there are less than 50,000,000 Preference Shares in issue.

Save for the Preference Shares and the Convertible Notes, there were no share options, warrants and conversion rights affecting Shares as at the Latest Practicable Date.

5. MARKET PRICES

- (a) The table below sets out the closing prices of the Shares and the Preference Shares as quoted on the Stock Exchange on the last business day of each of the six calendar months, the last business day immediately preceding the date of the Announcement and on the Latest Practicable Date:

	Closing Price of	
	Shares	Preference Shares
	HK\$	HK\$
31st July, 2003	0.180	0.660
29th August, 2003	0.300	0.660
30th September, 2003	0.370	0.660
31st October, 2003	0.380	0.660
28th November, 2003	0.390	0.660
31st December, 2003	0.520	0.660
15th January, 2004, being the last business day immediately preceding the date of the Announcement	0.550	0.660
Latest Practicable Date	0.630	0.660

- (b) The table below sets out the highest and lowest closing prices of the Shares and the Preference Shares recorded on the Stock Exchange during the period of six months preceding the date of the Announcement up to the Latest Practicable Date:

	Closing Price of			
	Shares		Preference Shares	
	Highest	Lowest	Highest	Lowest
	HK\$	HK\$	HK\$	HK\$
July 2003	0.199	0.180	0.660	0.660
August 2003	0.360	0.160	0.660	0.660
September 2003	0.400	0.300	0.660	0.660
October 2003	0.400	0.375	0.660	0.660
November 2003	0.390	0.330	0.660	0.660
December 2003	0.520	0.330	0.660	0.660
1st January, 2004 up to 15th January, 2004	0.610	0.500	0.660	0.660
16th January, 2004 up to the Latest Practicable Date	0.730	0.560	0.660	0.660

The highest and lowest closing prices of the Shares recorded on the Stock Exchange during the period of six months preceding the date of the Announcement up to the Latest Practicable Date were HK\$0.730 on 21st January, 2004, and HK\$0.160 on 4th August, 2003 respectively.

The closing prices of the Preference Shares remained unchanged during the period of six months preceding the date of the Announcement up to the Latest Practicable Date.

6. MATERIAL CONTRACTS

The following contracts are all the contracts (not being contracts entered into in the ordinary course of business) entered into by the Company or its subsidiaries within the two years preceding the date of the Announcement up to the Latest Practicable Date which are or may be material:

- Underwriting agreement dated 8th March, 2002 entered into between Calisan Developments Limited (“Calisan”), a wholly-owned subsidiary of Paul Y. - ITC, Well Orient Limited (“Well Orient”) and China Strategic Holdings Limited (“China Strategic”), a company listed on the Stock Exchange, in relation to the rights issue of not less than 921,957,884 new shares of HK\$0.10 each in the capital of China Strategic at a price of HK\$0.15 per rights share with bonus issue of warrants at commission fee of 1% of the aggregate subscription price of the rights shares to be underwritten.
- Deed of termination dated 14th March, 2002 entered into between Calisan, Well Orient and China Strategic in relation to the termination of the underwriting agreement dated 8th March, 2002 as described in sub-paragraph (1) above.
- Underwriting agreement dated 14th March, 2002 entered into between Calisan and China Strategic in relation to the rights issue of not less than 921,957,884 new shares of HK\$0.10 each in the capital of China Strategic at a price of HK\$0.15 per rights share with bonus issue of warrants at commission fee of 1% of the aggregate subscription price of the rights shares to be underwritten.
- Placing and subscription agreement dated 3rd May, 2002 entered into between the Company, Star East Holdings Limited (“Star East”), a company listed on the Stock Exchange, and Peace Town Securities Limited (“Peace Town”) under which Peace Town agreed to place, as an agent of the Company, 276,200,000 shares of HK\$0.005 each in Star East held by the Company at a price of HK\$0.08 per share at commission fee of 1.5% of the aggregate price of the placed shares and subscription of 350,000,000 new shares of HK\$0.005 each in Star East by the Company at a price of HK\$0.08 per share.

5. Placing agreement dated 6th June, 2002 entered into between Calisan, Well Orient and Tai Fook Securities Company Limited in relation to the placing by each of Calisan and Well Orient of 46,000,000 shares in the capital of China Strategic to independent places in cash at a price of HK\$0.20 each at placing commission of 2% on the proceeds of the placing.
6. Subscription agreement dated 6th June, 2002 entered into between Calisan, Well Orient and China Strategic in relation to the subscription of 46,000,000 shares in the capital of China Strategic by each of Calisan and Well Orient in cash at a price of HK\$0.20 each.
7. Underwriting agreement dated 15th July, 2002 entered into between China Strategic, BNP Paribas Peregrine Securities Limited (“BNP Peregrine Securities”), Kingston Securities Limited, Well Orient, Calisan and Mr. Lien Kait Long in relation to the rights issue of not less than 276,489,471 new shares and not more than 276,677,846 new shares of China Strategic at a price of HK\$0.15 per rights share with bonus issue of warrants at commission fee of 2.5% of the total issue price of the rights shares to be underwritten.
8. Sale and purchase agreement dated 22nd July, 2002 entered into between Paul Y. - ITC as vendor and China Land Group Limited (now known as China Velocity Group Limited (“China Velocity”)), a company listed on the Stock Exchange, as purchaser in relation to the sale and purchase of the entire issued share capital of and shareholder’s loan to Rosedale Hotel Group Limited for a cash consideration of HK\$250,000,000, together with supplemental agreements dated 31st October, 2002, 15th November, 2002 and 30th November, 2002 between Paul Y. - ITC and China Velocity in relation to the amendments to the sale and purchase agreement.
9. Redemption and subscription agreement dated 16th September, 2002 entered into between Galaxyway Investments Limited (“Galaxyway”) and the Company in relation to the redemption of (i) notes issued by the Company to Galaxyway in 1999 in an aggregate principal amount of HK\$50,000,000 and (ii) convertible notes issued by the Company to Galaxyway in 2000 in an aggregate principal amount of HK\$200,000,000 and the subscription of new convertible notes by Galaxyway in the principal amount of up to HK\$250,000,000 at face value, together with a supplemental agreement dated 4th October, 2002 between Galaxyway and the Company relating to the completion arrangements of the issue of the new convertible notes.
10. Conditional placing agreement dated 20th September, 2002 entered into between BNP Peregrine Securities and the Company whereby BNP Peregrine Securities agreed to place as an agent of the Company new convertible notes in an aggregate principal amount of up to HK\$330,000,000 on a best endeavours basis to the existing holders of the notes issued by the Company (except Galaxyway) and/or other independent investors at a commission fee of 0.5% of the aggregate placed price of the convertible notes, together with a supplemental agreement dated 4th October, 2002 between BNP Peregrine Securities and the Company relating to the completion arrangements of the issue of the new convertible notes.
11. Loan agreement dated 28th October, 2002 entered into between Dr. Chan Kwok Keung, Charles and the Company whereby Dr. Chan Kwok Keung, Charles has granted a HK\$180 million loan facility to the Company on an unsecured basis to finance the Paul Y. - ITC General Offers (as defined below).
12. Mandate letter dated 30th October, 2002 entered into between Anglo Chinese Corporate Finance, Limited and the Company, 40 forms of acceptance and transfer of a total of 122,546,710 shares in the capital of Paul Y. - ITC at the offer price of HK\$0.30 each entered into between Hollyfield Group Limited (“Hollyfield”), a wholly-owned subsidiary of the Company, and various accepting shareholders and 32 forms of acceptance and transfer of a total 28,620,115 warrants of Paul Y. - ITC at the offer price of HK\$0.01 each entered into between Hollyfield and various accepting warrant holders in relation to the conditional cash offers by Anglo Chinese Corporate Finance, Limited on behalf of Hollyfield to acquire all the issued shares in, and warrants of, Paul Y. - ITC, other than those shares in and warrants of Paul Y. - ITC then owned by the Company and its wholly owned subsidiaries (the “Paul Y. - ITC General Offers”).
13. Subscription agreement dated 28th March, 2003 entered into between the Company and Star East relating to subscription of 500,000,000 new shares in Star East at a price of HK\$0.04 per share, together with supplemental agreement dated 30th June, 2003 between the Company and Star East in relation to the amendment of the subscription agreement.

14. Call option agreement dated 28th April, 2003 entered into between Pembinaan DGL Holdings Sdn. Bhd. (“Pembinaan”), a wholly-owned subsidiary of Paul Y. - ITC, as grantor and Tarrow Pty Ltd as grantee and Paul Y. - ITC in relation to the grant by Pembinaan to Tarrow Pty Ltd of an option to purchase 8.75 million consolidated shares (“Consolidated Downer Shares”) in Downer EDI Limited (“Downer”) (adjusted from 35 million shares in Downer as a result of consolidation of 4 shares in Downer into 1 Consolidated Downer Share on 28th November, 2003) from Pembinaan at A\$2.2 per Consolidated Downer Share.
15. Mandate letter dated 24th June, 2003 entered into between the Company, Paul Y. - ITC, Hanny Holdings Limited (“Hanny”) and Kingsway Capital Limited, 28 forms of acceptance and transfer of a total of 64,592,089 shares in the capital of China Strategic at the offer price of HK\$0.139 each entered into between Calisan, Well Orient and various accepting shareholders and 3 forms of acceptance and transfer of a total of 21,900 warrants of China Strategic at the offer price of HK\$0.001 each entered into between Calisan, Well Orient and various accepting warrant holders in relation to the mandatory conditional cash offer by Kingsway SW Securities Limited on behalf of Calisan and Well Orient to acquire all the issued shares of China Strategic and outstanding warrants of China Strategic, other than those shares in and warrants of China Strategic then owned by Calisan and Well Orient and parties acting in concert with them, and to cancel all outstanding options of China Strategic.
16. Contract note for disposal by Pembinaan of 8.75 million Consolidated Downer Shares (adjusted from 35 million shares in Downer as a result of consolidation of 4 shares in Downer into 1 Consolidated Downer Share on 28th November, 2003) at A\$3.48 per Consolidated Downer Share on 4th November, 2003.
17. Contract note for disposal by Pembinaan of 20 million Consolidated Downer Shares at A\$3.68 per Consolidated Downer Share on 8th December, 2003.
18. Redemption Agreements.
19. Contract note for disposal by Hollyfield of 190 million shares of Paul Y. - ITC at HK\$0.70 per share on 21st January, 2004.
20. Placing and subscription agreement dated 28th January, 2004 between the Company, Hanny and Young Champion Securities Limited (“Young Champion”) under which Young Champion agreed to place, as an agent of the Company, 21,500,000 existing shares in Hanny held by the Company at a price of HK\$4.00 per share at a placing commission of 0.75% of the aggregate price of the placing shares and the subscription of 21,500,000 new shares in Hanny by the Company at a price of HK\$4.00 per share.

7. MATERIAL CHANGE

Save as disclosed in the Interim Report of the Group for the six months ended 30th September, 2003, the Directors are not aware of any material change in the financial or trading position or prospects of the Group since 31st March, 2003, being the date to which the latest published audited consolidated accounts of the Group were made up.

8. INDEBTEDNESS

At the close of business on 31st December, 2003 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular), the Group had outstanding bank overdrafts and bank loans of approximately HK\$51,813,000 and HK\$662,150,000 respectively (of which approximately HK\$675,922,000 was secured by charges over certain of the Group’s bank deposits and properties). The Group had outstanding at that date other loans of approximately HK\$77,317,000 (of which approximately HK\$60,000,000 was secured by a charge over certain issued shares of a subsidiary of the Company), unsecured loan from a director of approximately HK\$60,500,000, Convertible Notes of approximately HK\$392,500,000 and a margin loan of approximately HK\$6,158,000.

In addition, as at 31st December, 2003, the Group had contingent liabilities in respect of outstanding performance bonds on construction contracts and financial support given to an investee company of approximately HK\$678,812,000 and HK\$1,200,000 respectively.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital and overdrafts or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 31st December, 2003.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 31st December, 2003.

There has been no material change in the indebtedness or contingent liabilities of the Group since 31st December, 2003.

9. LITIGATION

The liquidators of Hoi Sing Construction Company Limited (“Hoi Sing”), a former wholly-owned subsidiary of the Company, instituted proceedings against the Company on 10th July, 1998 claiming approximately HK\$297,441,000 plus interest pursuant to an alleged guarantee by the Company for debt owed by Hoi Sing Builders Limited, a former subsidiary of the Company, to Hoi Sing. The Company does not admit the existence of the guarantee, and has put Hoi Sing to strict proof of its terms and the amounts claimed under it. Even if the Court upholds the alleged guarantee, the Company has a defence of set off arising from a claim against Hoi Sing for approximately HK\$308,207,000. As at 31st December, 2003, the Company was a principal unsecured creditor of Hoi Sing and the liquidators of Hoi Sing have admitted a substantial portion of the Company’s claim. The balance is being adjudicated by the liquidators of Hoi Sing. The Directors have taken legal advice and consider that the Company’s defence is valid and that no obligation exists for the Company.

Save as set out in the preceding paragraph, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or claim of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

10. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the experts which have given opinion or advice which is contained in this circular:

Name	Qualifications
First Shanghai	a deemed licensed corporation to conduct type 6 (advising on corporate finance) regulated activity under the SFO
RHL Appraisal Ltd.	professional property valuer

Neither First Shanghai nor RHL Appraisal Ltd. has any interest in any Shares or shares in any member of the Group nor does any of them have any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares or shares in any member of the Group.

Each of First Shanghai and RHL Appraisal Ltd. has given and has not withdrawn its consent to the issue of this circular with the inclusion herein of its letter, statement and references to its name in the form and context in which they are included.

11. GENERAL

- (a) There was no re-organisation of capital of the Company during the two financial years preceding the date of the Announcement and up to the Latest Practicable Date.
- (b) Save for the issue of an aggregate of 23,333,333 Shares at a conversion price of HK\$0.30 per Share as a result of the conversion of the Convertible Notes with a principal amount of HK\$7,000,000, the Company has not issued or repurchased any of its securities during the 12-month period immediately preceding the date of this circular.
- (c) The Convertible Notes were issued by the Company on 3rd March, 2003 with an aggregate principal amount of HK\$392,500,000 at face value and as at the Latest Practicable Date, the Convertible Notes of an aggregate principal amount of HK\$385,500,000 were outstanding.
- (d) The Convertible Notes only entitle their holder(s) to receive interest on the outstanding principal amount of the Convertible Notes and prior to conversion of the Convertible Notes, the holders of the Convertible Notes are not entitled to any dividends to be paid out by the Company.

- (e) The Secretary of the Company is Mr. Law Hon Wa, William, AHKSA, FCCA.
- (f) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business in Hong Kong of the Company is at 33rd Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.
- (g) The principal share registrars and transfer office of the Company is Butterfield Fund Services (Bermuda) Limited of Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda and the branch share registrars and transfer office of the Company is Secretaries Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (h) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at Richards Butler at 20th Floor, Alexandra House, 16-20 Chater Road, Hong Kong up to and including 25th February, 2004:

- (a) the memorandum of association and Bye-laws of the Company;
- (b) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;
- (c) the letter of advice from First Shanghai as set out in this circular and the consent letter referred to in the paragraph headed "Qualification of Experts" in this Appendix;
- (d) the Annual Report of the Group for each of the two years ended 31st March, 2003 and 31st March, 2002;
- (e) the Interim Report of the Group for the six months ended 30th September, 2003; and
- (f) the property valuation report and certificate by RHL Appraisal Ltd., the text of which is set out in Appendix II to this circular and the letter of consent from RHL Appraisal Ltd. referred to in the paragraph headed "Qualifications of Experts" in this Appendix.

NOTICE OF SPECIAL GENERAL MEETING



ITC CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN THAT a special general meeting of ITC Corporation Limited (the "Company") will be held at Conference Room, 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Wednesday, 25th February, 2004 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution, which will be proposed, as an ordinary resolution and shall be voted on by way of poll:

ORDINARY RESOLUTION

"THAT the redemption agreements dated 16th January, 2004 entered into between the Company and certain holders of convertible notes issued by the Company in relation to the redemption of convertible notes issued by the Company for an aggregate principal amount of HK\$96,000,000 (the "Redemption Agreements", a copy of each of which has been produced to the meeting marked "A" and initialled by the Chairman for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified and the directors of the Company are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable or expedient in connection with the Redemption Agreements, including without limitation, signing and/or witnessing any document and/or agreement to which the common seal of the Company is to be affixed and approving any public or other documents or announcements and generally to exercise all the powers of the board of directors of the Company as they deem necessary or expedient for the foregoing purposes."

By order of the Board
ITC Corporation Limited
Law Hon Wa, William
Company Secretary

Hong Kong, 9th February, 2004

Principal place of business in Hong Kong:
33rd Floor, Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. On a poll, votes may be given either personally or by proxy. A member entitled to more than one vote may appoint a proxy in respect of part only of his holding of ordinary shares in the Company and need not cast all the votes in the same way. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.
2. A form of proxy for use at the meeting is enclosed. In order to be valid, a form of proxy together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's principal place of business in Hong Kong at 33rd Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof, as the case may be.