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If you are in any doubt as to any aspect of this circular, you should consult a licensed securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities of ITC Corporation Limited, you should at once hand this circular to the purchaser or the transferee or to the bank manager, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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ITC CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code: 372)

VERY SUBSTANTIAL DISPOSAL RESULTING FROM POSSIBLE DISPOSAL OF SHARES IN PAUL Y. - ITC CONSTRUCTION HOLDINGS LIMITED SO THAT IT BECOMES AN ASSOCIATED COMPANY

CONVERSION OF EXISTING CONVERTIBLE PREFERENCE SHARES INTO REDEEMABLE CONVERTIBLE PREFERENCE SHARES AND VARIATION OF TERMS

Financial Adviser

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

A notice convening a special general meeting of the holders of ordinary shares of ITC Corporation Limited to be held at Conference Room, 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong at **11:30 a.m. on Wednesday, 6th October, 2004** is set out on page 103 of this circular. If holders of ordinary shares are not able to attend the meeting, they are requested to complete and return the enclosed **white** form of proxy accompanying this circular in accordance with the instructions printed thereon to the principal place of business of ITC Corporation Limited 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 the holding of the meeting. Completion and return of the **white** form of proxy will not preclude holders of ordinary shares from attending and voting in person at the meeting or any adjournment thereof should they so wish.

A notice convening a meeting of the preference shareholders of ITC Corporation Limited to be held at Conference Room, 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong at **11:30 a.m. on Wednesday, 13th October, 2004** is set out on page 104 of this circular. If holders of the existing convertible preference shares are not able to attend the meeting, they are requested to complete and return the enclosed **blue** form of proxy to the principal place of business of ITC Corporation Limited 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 the meeting. Completion and return of the **blue** form of proxy will not preclude holders of the existing convertible preference shares from attending and voting at the meeting or any adjournment thereof should they so wish.

A notice convening a special general meeting of the holders of ordinary shares and the holders of the existing convertible preference shares of ITC Corporation Limited to be held at Conference Room, 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong at **11:35 a.m. on Wednesday, 13th October, 2004** (or, if later, immediately following the conclusion or adjournment of the meeting of the holders of the existing convertible preference shares of ITC Corporation Limited to be held at the same place at 11:30 a.m. on Wednesday, 13th October, 2004) is set out on pages 105 to 111 of this circular. If holders of shares are not able to attend the meeting, they are requested to complete and return the enclosed **yellow** form of proxy to the principal place of business of ITC Corporation Limited 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 the holding of the meeting. Completion and return of the **yellow** form of proxy will not preclude holders of shares from attending and voting in person at the meeting or any adjournment thereof should they so wish. **Holders of the existing convertible preference shares of ITC Corporation Limited who intend to vote in favour of the special resolution should also complete and return the enclosed written consent for converting the existing convertible preference shares into redeemable convertible preference shares to the principal place of business of ITC Corporation Limited in Hong Kong at 33rd Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong as soon as possible but in any event before the resolution for the aforesaid conversion is passed at the special general meeting.**

21st September, 2004

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DEFINITIONS

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

“Announcement”	the announcement dated 18th August, 2004 made by ITC
“associate(s)”	the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“Company” or “ITC”	ITC Corporation Limited, a company whose securities are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“existing convertible preference share(s)”	preference share(s) of HK\$0.10 each in the Company which are convertible into ordinary shares in the Company at any time at a conversion price of HK\$21.20 per ordinary share, subject to adjustment, which preference shares are listed on the Stock Exchange
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Latest Practicable Date”	16th September, 2004, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mainland”	the People’s Republic of China, excluding Hong Kong and Macau
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules
“ordinary share(s)”	ordinary share(s) of HK\$0.10 each in the Company
“Paul Y. - ITC”	Paul Y. - ITC Construction Holdings Limited, a company whose shares are listed on the Stock Exchange
“Paul Y. - ITC group”	Paul Y. - ITC and its subsidiaries
“Paul Y. - ITC share(s)”	share(s) of HK\$0.10 each in the share capital of Paul Y. - ITC
“Preference Shareholder Meeting”	the meeting of the holders of the existing convertible preference shares of the Company to be held for the purposes of seeking the sanction of the conversion of the existing convertible preference shares into the redeemable convertible preference shares and the variation of their terms as detailed in this circular
“Remaining Group”	the Group excluding the Paul Y. - ITC group

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the holders of ordinary shares and the holders of the existing convertible preference shares of the Company to be held to consider a resolution for the conversion of the existing convertible preference shares into redeemable convertible preference shares and the variation of their terms as detailed in this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial holder of ordinary shares”	a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power of the total issued ordinary shares at any general meeting of the Company
“VSD SGM”	the special general meeting of the holders of ordinary shares of the Company to be held for purposes of seeking their approval of the very substantial disposal resulting from the possible disposal of Paul Y. - ITC shares as detailed in this circular
“HK\$”	Hong Kong dollars

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
Cheung Hon Kit

Independent Non-executive Directors:

Chuck, Winston Calptor
Lee Kit Wah

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

21st September, 2004

*To the holders of ordinary shares and the holders of
the existing convertible preference shares and, for information only,
holders of convertible notes issued by the Company*

Dear Sir and Madam,

**VERY SUBSTANTIAL DISPOSAL RESULTING FROM
POSSIBLE DISPOSAL OF SHARES IN
PAUL Y. - ITC CONSTRUCTION HOLDINGS LIMITED SO THAT
IT BECOMES AN ASSOCIATED COMPANY**

**CONVERSION OF EXISTING CONVERTIBLE PREFERENCE SHARES
INTO REDEEMABLE CONVERTIBLE PREFERENCE SHARES AND
VARIATION OF TERMS**

INTRODUCTION

On 18th August, 2004, the Directors announced that the Group intended to place out sufficient shares in its listed subsidiary, Paul Y. - ITC, so that on completion of the placement it will become an associated company of the Company. Presently the Company has an indirectly held shareholding in Paul Y. - ITC representing approximately 55.1% of the existing issued share capital of Paul Y. - ITC. No contractual arrangements have been entered into in connection with this placement but, as a necessary preliminary to being able to effect it, the Directors are seeking the requisite approval of holders of ordinary shares as any placement which results in Paul Y. - ITC ceasing to be a subsidiary will constitute a very substantial disposal for the Company under the Listing Rules.

The Directors also propose to seek approval by the holders of ordinary shares and holders of the existing convertible preference shares to convert the Company's existing convertible preference shares into redeemable convertible preference shares and to vary a number of the terms of the existing convertible preference shares. In particular, under the proposed changes the redeemable convertible preference shares will be redeemed on the third anniversary of the date of their conversion into redeemable convertible preference shares; will have an annual cumulative dividend of HK\$0.04; and will be convertible into ordinary shares at the option of the holder at HK\$1.04 per ordinary share. The existing convertible preference shares are not redeemable, carry the right to an annual cumulative dividend of HK\$0.069 per share, and are convertible into ordinary shares at a conversion price of HK\$21.20 per ordinary share.

LETTER FROM THE BOARD

THE POSSIBLE DISPOSAL OF PAUL Y. - ITC SHARES

The Directors intend to place out sufficient existing shares in the Company's listed subsidiary, Paul Y. - ITC, so that on completion of the placement it will become an associated company of the Company. The placement may be effected directly by the Company or through one or more agents, in one or more transactions, as the Directors may consider desirable at the time when a decision for such placement(s) is to be made. Presently the Company through a wholly-owned subsidiary, Hollyfield Group Limited, holds 740,668,056 Paul Y. - ITC shares representing some 55.1% of the existing issued share capital of Paul Y. - ITC of 1,345,249,019 shares.

No contractual arrangements have been entered into by the Company in relation to the possible placing of shares as the Directors consider that the Company should first obtain its shareholders' approval for the placement so that a placement can be effected expeditiously when market conditions are favourable. Any placement of shares in Paul Y. - ITC which results in Paul Y. - ITC ceasing to be a subsidiary will constitute a very substantial disposal for the Company under the Listing Rules, for which approval of holders of ordinary shares is required. There are presently no holders of ordinary shares required to abstain from voting on the approval of the placement as the interests in the possible disposal of Paul Y. - ITC shares of all the holders of ordinary shares are equal.

The placement for which advance approval by holders of ordinary shares is being sought will only be effected if:

- the placing price equals or exceeds HK\$0.512 per Paul Y. - ITC share, being the five day average closing price prior to the publication of the Announcement;
- the maximum number of Paul Y. - ITC shares being placed under the mandate granted by the holders of ordinary shares does not exceed 134,500,000 Paul Y. - ITC shares, being approximately 10% of the existing issued share capital of Paul Y. - ITC;
- all the Paul Y. - ITC shares to be placed are placed, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, with parties who are independent of the Company and any director, chief executive or substantial shareholder of any member of the Group or any associate of any of them; and
- the placement is completed within twelve months of the approval of holders of ordinary shares being given, which the Directors consider to be a reasonable period to conduct such a placement of Paul Y. - ITC shares after having taken into account the current market situation.

Were the maximum number of Paul Y. - ITC shares to be placed, the Company would retain an indirect interest in Paul Y. - ITC representing approximately 45.1% of its existing issued share capital. Paul Y. - ITC would then be an associated company of ITC and its results would be reflected in the consolidated accounts of the Company on an equity accounting basis.

Since the actual placing price has not been determined, it is not yet possible to calculate the profit or loss that will arise on implementation of the placement. On the basis of the minimum price of HK\$0.512 per Paul Y. - ITC share and approximately 68.04 million Paul Y. - ITC shares (being the minimum number which needs to be sold for ITC to reduce its shareholding in Paul Y. - ITC to just below 50% thereby changing Paul Y. - ITC's status from a subsidiary to an associated company of ITC), ITC would realise gross proceeds of approximately HK\$34.8 million which would result in the Group reporting an estimated loss of approximately HK\$65.4 million as compared to the book costs for those shares of approximately HK\$100.2 million. If 134,500,000 Paul Y. - ITC shares, being approximately 10% of the existing issued share capital of Paul Y. - ITC and the maximum number of Paul Y. - ITC shares under the general mandate were to be placed at that minimum price, ITC would realise gross proceeds of approximately HK\$68.9 million which would result in the Group reporting an estimated loss of approximately HK\$129.3 million as compared to the book costs for those shares of approximately HK\$198.2 million.

The minimum price of HK\$0.512 per Paul Y. - ITC share when compared with the audited net asset value per Paul Y. - ITC share of HK\$2.06 as at 31st March, 2004, represents a price-to-book ratio of approximately 0.25 times and compares favourably to the average price-to-book ratio which Paul Y. - ITC shares have been traded over the last 5 years of some 0.17 times.

The minimum price of HK\$0.512 per Paul Y. - ITC share when compared with the earning per Paul Y. - ITC share of HK\$0.146 for the year ended 31st March, 2004, represents a price earning ratio of approximately 3.5 times.

If the Company proceeds with the placement, upon the entering into of a placing agreement a further announcement will be made and a circular will be sent to shareholders giving the exact terms of the placement, its financial effect on the Group and the use to which the proceeds of the sale of Paul Y. - ITC shares will be put.

LETTER FROM THE BOARD

Comparisons of value

The minimum placing price of HK\$0.512 per Paul Y. - ITC share:

- represents a discount of approximately 2.3% to the average closing price of approximately HK\$0.524 per Paul Y. - ITC share for the last ten trading days up to and including the date of the Announcement;
- represents a discount of approximately 32.6% to the closing price of approximately HK\$0.76 per Paul Y. - ITC share for the Latest Practicable Date; and
- represents a discount of approximately 25.8% to the average closing price of approximately HK\$0.69 per Paul Y. - ITC share for the last ten trading days up to and including the Latest Practicable Date;

The highest and lowest closing prices at which the shares of Paul Y. - ITC were traded on the Stock Exchange during the twelve months period up to and including the Latest Practicable Date, were HK\$0.97 on 22nd December, 2003 and HK\$0.39 on 23rd September, 2003. The aggregate monthly turnover of Paul Y. - ITC shares for each of the twelve months up to and including August 2004 is as follows:

Aggregate monthly turnover Paul Y. - ITC shares (in million)	
2004	
August	17.3
July	13
June	7.84
May	15.9
April	3.8
March	31.4
February	15.8
January	303
2003	
December	135
November	49.8
October	30.2
September	26.3

The 68.04 million Paul Y. - ITC shares, being the minimum number which needs to be sold for ITC to reduce its shareholding in Paul Y. - ITC to just below 50% thereby changing Paul Y. - ITC's status from a subsidiary to an associated company of ITC, represents approximately 26.1 times the average daily turnover of Paul Y. - ITC shares during the twelve months period up to and including the Latest Practicable Date and 1.3 times of the average monthly turnover of Paul Y. - ITC for the past twelve months. In light of this and the current market situation, the Directors consider twelve months to be a reasonable period to conduct the placement of Paul Y. - ITC shares.

Reasons for proposing the placement of shares in Paul Y. - ITC

The principal reason for proposing the placement is to reduce the Company's indirect interest in Paul Y. - ITC so that on the completion of the placement Paul Y. - ITC will cease to be a subsidiary.

Paul Y. - ITC is a considerably larger company than ITC in terms of net assets, profit before tax and market capitalisation attributable to holders of its ordinary shares and there is no group of closely allied shareholders of ITC holding more than 50% of the ordinary shares in ITC. Consequently, transactions which Paul Y. - ITC is permitted to conclude without the requirement under the Listing Rules to obtain its shareholders' approval or obtain such approval by the written consent of a majority of its shareholders may require, depending on the size and nature of the relevant transaction, the approval of holders of ordinary shares of ITC and such approval can only be obtained in general meeting pursuant to the Listing Rules.

These additional approvals by holders of ordinary shares of ITC have reduced and are expected to continue to reduce the flexibility of Paul Y. - ITC in entering into and concluding transactions, particularly transactions where the speed of execution is essential if assets are to be acquired or disposed of advantageously.

These additional approvals required allow the holders of ordinary shares of ITC to vote for or against such a transaction entered into by Paul Y. - ITC as Paul Y. - ITC is a subsidiary of ITC. After the placement, the holders of ordinary shares of ITC should note that they will not be entitled through their shareholding in ITC to vote for or against those future transactions of Paul Y. - ITC which, if Paul Y. - ITC were still to be a subsidiary of ITC, would require approval of holders of ordinary shares.

It is not expected that there will be any change in the composition of the board of Paul Y. - ITC following the placement. As at the Latest Practicable Date, the board of directors of Paul Y. - ITC comprises ten directors of which five are also Directors. These five Directors are common directors of

LETTER FROM THE BOARD

ITC and Paul Y. - ITC. Immediately after the proposed placement, the Company will remain the single largest shareholder of Paul Y. - ITC. As the largest shareholder, the Company will have a degree of influence over Paul Y. - ITC (through the exercise of its voting rights at general meetings). After the proposed placement, Paul Y. - ITC will be equity accounted for as an associated company of the Company but will no longer be its subsidiary.

Given the consolidated total asset size of Paul Y. - ITC and ITC of approximately HK\$4,862.3 million and approximately HK\$4,982.5 million respectively and the consolidated net asset value of Paul Y. - ITC and ITC of approximately HK\$2,770.9 million and approximately HK\$1,353.2 million respectively as at 31st March, 2004 (based on their annual reports), following the placement, the value of the approximately 50% consolidated net asset value of Paul Y. - ITC would still represent a substantial portion of the total assets of ITC, therefore the Company will continue to benefit from that investment by equity accounting its results as an associated company and sharing in any dividends that it may declare. Based on the pro forma financial information in Appendix II to this circular, which was prepared for illustrative purposes only, as if 134,500,000 Paul Y. - ITC shares at HK\$0.512 per Paul Y. - ITC share had been disposed of as at 31st March, 2004, the value of interest in Paul Y. - ITC of approximately HK\$930.7 million represented over 76% of the net asset value of approximately HK\$1,215.5 million as reflected in the pro forma consolidated balance sheet. In the Directors' view, although Paul Y. - ITC will cease to be a subsidiary of ITC, ITC will remain the single largest shareholder of Paul Y. - ITC and therefore can look after its interests while Paul Y. - ITC, on the other hand, can enter into and conclude transactions more promptly. Accordingly, the Directors consider that the proposed placement is in the interest of ITC and its shareholders and Paul Y. - ITC.

Based on the assumption of a minimum price of HK\$0.512 per Paul Y. - ITC share and approximately 68.04 million Paul Y. - ITC shares being sufficient for ITC to reduce its shareholding in Paul Y. - ITC to below 50%, thereby changing Paul Y. - ITC's status from a subsidiary to an associated company of ITC, the placement will result in an estimated book loss of approximately HK\$65.4 million for the Group, and if 134,500,000 Paul Y. - ITC shares, being approximately 10% of the existing issued share capital of Paul Y. - ITC were placed, the Group would report an estimated book loss of approximately HK\$129.3 million. Despite the book loss, the placement will improve the cash flow of the Company by an amount of approximately HK\$34.8 million to approximately HK\$68.9 million. Although no firm statement can be made as to the use of the proceeds from the possible placement, it is anticipated that the proceeds will be used to reduce borrowings of and for general working capital purposes for the Remaining Group.

According to the annual reports of ITC and Paul Y. - ITC, the cash, bank balances and bank deposits of the Group and the Paul Y. - ITC group were approximately HK\$303.1 million and approximately HK\$250.3 million respectively, and the gearing ratio of the Group was approximately 42.8% as at 31st March, 2004 which was calculated using the net borrowings of approximately HK\$578.5 million as at 31st March, 2004 and the shareholders' funds of approximately HK\$1,353.2 million as at 31st March, 2004. Based on the pro forma financial information in Appendix II to this circular, which was prepared for illustrative purposes only, as if 134,500,000 Paul Y. - ITC shares at HK\$0.512 per Paul Y. - ITC share had been disposed of as at 31st March, 2004, the cash, bank balances and bank deposits of the Group was reduced to approximately HK\$121.7 million and the gearing ratio, which was calculated using the net borrowings of approximately HK\$198.9 million and the shareholders' funds of approximately HK\$1,215.5 million as reflected in the pro forma consolidated balance sheet, would be reduced to 16.4% while the current ratios would be increased from 1.58 (being current assets of approximately HK\$2,486.8 million over current liabilities of approximately HK\$1,573.3 million) to 2.36 (being current assets of approximately HK\$151.2 million over current liabilities of approximately HK\$64.1 million) as if 134,500,000 Paul Y. - ITC shares at HK\$0.512 per Paul Y. - ITC share had been disposed of as at 31st March, 2004. As shown in the pro forma consolidated income statement, the profit of the Group would be reduced from approximately HK\$28.9 million to HK\$5.2 million. Please refer to Appendix II to this circular for the pro forma financial information of the Group regarding the possible disposal of shares in Paul Y. - ITC.

Information on ITC Corporation

The Company is an investment holding company which directly and indirectly holds strategic investments in a number of listed companies.

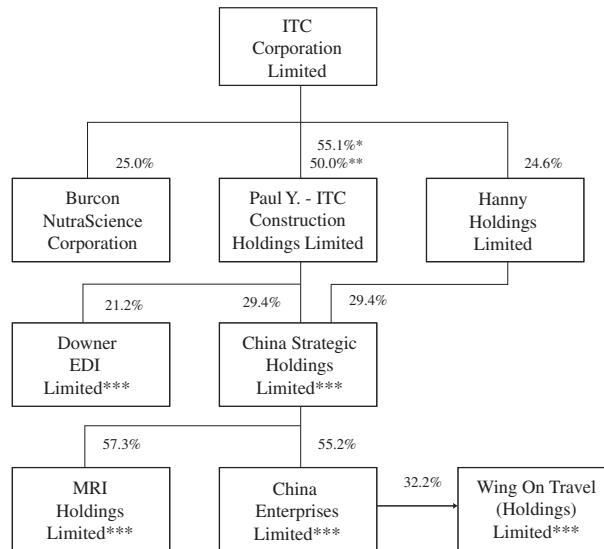
In addition to its interest in Paul Y. - ITC, the Group holds interests in a number of listed associated companies, namely, Hanny Holdings Limited and Burcon NutraScience Corporation, and also China Strategic Holdings Limited and Downer EDI Limited, which are held through Paul Y. - ITC. Through its listed associated companies, the Group has indirect interests in Wing On Travel (Holdings) Limited, China Enterprises Limited and MRI Holdings Limited.

In addition to the businesses carried out through Paul Y. - ITC, the principal activities of the Group comprise investment holding of listed and unlisted companies, the provision of finance, the provision of management services, leasing of property and trading of building materials and machinery. After the

LETTER FROM THE BOARD

placement, the Group will continue investment holding and providing management services to its investments (including associated companies) in return for management fees; providing financing to its associated companies, related companies and third parties in return for interest income; leasing of property for rental income and trading of building materials and machinery with mainly independent third parties.

The following is the simplified version of the Group before and after the placement



Notes:

* Before the placement of Paul Y. - ITC shares by ITC

** After the placement of the minimum number of Paul Y. - ITC shares by ITC

*** These companies will not be associated companies of the Group after the placement of Paul Y. - ITC shares.

The following is a summary of the audited consolidated results of the Group for the three years ended 31st March, 2004, 31st March, 2003 and 31st March, 2002 respectively:

		Year ended 31st March,		
		2004	2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover				
Building construction	<i>Note 1</i>	2,418,339	407,653	–
Civil engineering	<i>Note 1</i>	463,440	123,048	–
Specialist works	<i>Note 1</i>	448,849	189,672	–
Construction materials	<i>Note 1</i>	3,448	6,192	–
Property leasing	<i>Note 1</i>	48,269	13,735	1,721
Investment	<i>Note 1</i>	2,163	265	965
Provision of finance	<i>Note 2</i>	40,741	19,347	25,577
Management services	<i>Note 3</i>	3,238	2,734	4,570
Sale of building materials and machinery		6,179	6,051	7,314
		<u>3,434,666</u>	<u>768,697</u>	<u>40,147</u>
Profit (loss) before share of results of associates and jointly controlled entities				
		18,472	9,780	(240,136)
Share of results of associates		156,400	(344,404)	(33,314)
Share of results of jointly controlled entities		9,074	1,895	–
		<u>183,946</u>	<u>(332,729)</u>	<u>(273,450)</u>
Profit (loss) before taxation		183,946	(332,729)	(273,450)
Taxation		(53,719)	(28,019)	(27,186)
		<u>130,227</u>	<u>(360,748)</u>	<u>(300,636)</u>
Profit (loss) before minority interests		130,227	(360,748)	(300,636)
Minority interests		(101,295)	2,224	–
		<u>28,932</u>	<u>(358,524)</u>	<u>(300,636)</u>
Profit (loss) for the year		<u>28,932</u>	<u>(358,524)</u>	<u>(300,636)</u>

LETTER FROM THE BOARD

Paul Y. - ITC became a subsidiary of the Company after December 2002. The increase in turnover was mainly due to the consolidation of Paul Y. - ITC as a subsidiary for only three months in the year ended 31st March, 2003. The improvement in profit for the year ended 31st March, 2004 was mainly due to the gain on disposal of interests in Downer EDI Limited by Paul Y. - ITC and the improvement in the results of associated companies.

During the year ended 31st March, 2002, as Paul Y. - ITC was an associated company of the Group, the Group did not consolidate its turnover. The increase in turnover in the year ended 31st March, 2003 as compared to the year ended 31st March, 2002 was mainly due to the consolidation of Paul Y. - ITC as a subsidiary for three months in the year ended 31st March, 2003 while the increase in loss for the year ended 31st March, 2003 as compared to the year ended 31st March, 2002 was due to the increase in share of losses of associated companies.

Notes:

1. Except for the property leasing of approximately HK\$0.7 million and HK\$0.5 million and investment of approximately HK\$0.1 million and HK\$0.1 million for the year ended 31st March, 2004 and 2003 respectively, all the turnover from building construction, civil engineering, specialist works, construction materials, property leasing and investment was from Paul Y. - ITC.
2. For the financial years ended 31st March, 2004 and 2003, the Group, excluding Paul Y. - ITC, provided financing to its associated companies and related companies, those companies in which the Group has either indirect beneficial interests or with which it has common directors, which principally included China Strategic Holdings Limited, Wing On Travel (Holdings) Limited, SMI Corporation Limited and M Channel Corporation Limited, in addition to several independent third parties in return for interest income amounting in total to approximately HK\$5.6 million and approximately HK\$12.5 million respectively. The decrease was due to the decrease in the loan receivable and the decrease in prime rate on 8th November, 2002. For the financial years ended 31st March, 2004 and 2003, the turnover from provision of finance included approximately HK\$35.2 million and approximately HK\$6.9 million of interest income earned by Paul Y. - ITC respectively.
3. For the years ended 31st March, 2004 and 2003, the management services income of the Group represented management fees received from Hanny Holdings Limited ("Hanny") and Burcon NutraScience Corporation ("Burcon") which were approximately HK\$0.6 million and approximately HK\$0.4 million, respectively and approximately HK\$2.6 million and approximately HK\$2.3 million, respectively. The amount of the management fees is principally based on the time involved the provision of management, accounting, taxation, general corporate and legal services by ITC's staff and at such rates which were mutually agreed between the parties.

The Hanny group is principally engaged in trading of computer related products and consumer electronic products which comprise the manufacture, distribution and marketing of data storage media (primarily floppy disks, CD-R, CD-RW and DVD); the distribution and marketing of computer accessories, storage media drives, scanners, audio and video cassettes, minidisks; household electronic products and telecommunication accessories; securities trading and property investment. The Hanny group also makes strategic investments in information technology, internet, internet-related, supply of household consumer products and other businesses.

Burcon is a research and development company developing a portfolio of composition, application and process patents around its plant protein extraction and purification technology. The goal of Burcon's research is to develop its patented process to utilize inexpensive oilseed meals for the production of purified plant proteins that exhibit valuable nutritional, functional or nutraceutical profiles. Burcon is currently focusing its efforts on developing the world's first commercial canola proteins, namely Puratein[®] and Supertein[™] (the "Products"). Canola, recognised for its nutritional qualities, is Canada's largest oilseed crop and the second-largest oilseed crop in the world after soybeans. Burcon's goal is to develop the Products to participate with soy, dairy and egg proteins in the expanding multi-billion-dollar protein ingredient market, with potential uses in prepared foods, nutritional supplements and personal care products.

The audited consolidated total assets and net asset value of the Group as at 31st March, 2004 were approximately HK\$4,982.5 million and approximately HK\$1,353.2 million respectively.

As at the Latest Practicable Date, the disclosed shareholdings of substantial shareholders of the Company were as follows:

	Number of ordinary shares	Approximate shareholding %
Dr. Chan Kwok Keung, Charles	219,681,911	33.6

Note: These 219,681,911 ordinary shares of the Company are held through Galaxyway Investments Limited which is a wholly-owned subsidiary of Chinaview International Limited which, in turn, is wholly owned by Dr. Chan Kwok Keung, Charles, the chairman of the Company and an executive Director, and the chairman and an executive director of Paul Y. - ITC.

LETTER FROM THE BOARD

Information on Paul Y. - ITC

The principal activities of the Paul Y. - ITC group are building construction including hotel, commercial and residential buildings; civil engineering such as road and highway construction and maintenance; specialist works including demolition, foundation and interior decoration work; property development and investment in residential, commercial and industrial/office properties; development and investment in infrastructure projects such as port facilities; and manufacturing and trading of construction materials. In addition, it holds investments in two major associated companies, Downer EDI Limited and China Strategic Holdings Limited.

The following is a summary of the audited consolidated results of the Paul Y. - ITC group for the two years ended 31st March, 2004 and 31st March, 2003 respectively:

	Year ended 31st March,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Building construction	2,418,339	2,232,876
Civil engineering	463,440	555,794
Specialist works	448,849	720,304
Construction materials	3,448	14,488
Property leasing	48,390	55,733
Sale of property	–	8,340
Hotel and catering	–	48,647
	<u>3,382,466</u>	<u>3,636,182</u>
Profit (loss) before taxation	208,566	(316,718)
Taxation	(45,678)	(37,809)
Profit (loss) before minority interests	162,888	(354,527)
Minority interests	739	498
Profit (loss) for the year	<u>163,627</u>	<u>(354,029)</u>

The improvement in profit for the year ended 31st March, 2004 was mainly due to the gain on disposal of interests in Downer EDI Limited while an impairment loss of approximately HK\$110 million on property, plant and equipment was recognized in the year ended 31st March, 2003.

The audited consolidated total assets and net asset value of the Paul Y. - ITC group as at 31st March, 2004 was approximately HK\$4,862.3 million and approximately HK\$2,770.9 million respectively.

As at the Latest Practicable Date, the disclosed shareholdings of substantial shareholders of Paul Y. - ITC were as follows:

	Number of Paul Y. - ITC shares	Approximate shareholding %
Dr. Chan Kwok Keung, Charles (<i>Note 1</i>)	11,603,952	0.9
Hollyfield Group Limited (<i>Note 2</i>)	740,668,056	55.1
Aeneas Capital Management LP as Investment Manager (<i>Note 3</i>)	191,404,000	14.2

Notes:

1. Dr. Chan Kwok Keung, Charles beneficially held 11,603,952 Paul Y. - ITC shares and was deemed to be interested in the 740,668,056 Paul Y. - ITC shares held by Hollyfield Group Limited by virtue of his deemed interests in approximately 33.6% of the issued ordinary share capital of the Company.
2. Hollyfield Group Limited is an indirect wholly-owned subsidiary of the Company.

LETTER FROM THE BOARD

3. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Aeneas Capital Management LP as Investment Manager does not have any relationship with the Company or its connected persons other than the shareholding interests in its subsidiary, Paul Y. - ITC.

On 4th June, 2004, 25th June, 2004 and 13th August, 2004, joint announcements were made by ITC together with Paul Y. - ITC and Skynet (International Group) Holdings Limited ("Skynet"), a company with its shares listed on the Stock Exchange where the transactions contemplated, including among others, the disposal by Paul Y. - ITC of its entire interests in Paul Y. - ITC Construction Holdings (B.V.I.) Limited, one of the major subsidiaries of Paul Y. - ITC, which carried out all the engineering and construction activities to Skynet, resulting in Skynet becoming a subsidiary of Paul Y. - ITC, constituted a discloseable transaction for the Company. Subsequently, the three companies also made a joint announcement dated 3rd September, 2004 in respect of, among others, a change in the terms of the restructuring proposal to be conducted by Skynet. The Company will despatch the discloseable transaction circular in relation to those transactions set out in the joint announcements, as required.

CONVERSION OF EXISTING CONVERTIBLE PREFERENCE SHARES INTO REDEEMABLE CONVERTIBLE PREFERENCE SHARES AND VARIATION OF TERMS

Terms of the conversion

The Company has in issue existing convertible preference shares which were placed privately in early 1997 and are listed on the Stock Exchange. These existing convertible preference shares are not redeemable and are presently convertible into ordinary shares of the Company at a price of HK\$21.20 per ordinary share. This conversion price is substantially higher than the last traded price of the ordinary shares of HK\$0.27, prior to the publication of the Announcement. Furthermore, no dividends have been declared and paid on the existing convertible preference shares since the financial year ended 31st March, 1999 as the Company did not have sufficient profits to make such payments. The dividend on the existing convertible preference shares is HK\$0.069 per share per annum, representing a yield of 6.5% on their original issue price.

It is proposed to convert the existing convertible preference shares into redeemable convertible preference shares and to alter certain of their terms, being principally the dividend entitlement and conversion rights.

Following the conversion of the existing convertible preference shares into redeemable convertible preference shares and the amendment of certain of their terms, the principal terms of the redeemable convertible preference shares will be as follows:

Number of redeemable convertible preference shares in issue:	267,980,000*
Nominal value:	HK\$0.10*
Redemption value:	HK\$1.06. The existing convertible preference shares are not redeemable.
Dividend:	HK\$0.04, annual cumulative dividend per redeemable convertible preference share. The previous annual cumulative dividend was HK\$0.069 per existing convertible preference share.
Yield on the redeemable convertible preference shares:	3.8% on the issue price of HK\$1.06 per existing convertible preference share. The previous yield on the issue price was 6.5%.
Life of the redeemable convertible preference shares:	Three years. The existing convertible preference shares are not redeemable; consequently they have no fixed life.
Redemption date:	On the third anniversary of the effective date of the conversion. The existing convertible preference shares are not redeemable.

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Conversion right:	Holders will be entitled to convert their redeemable convertible preference shares at any time into ordinary shares at an initial conversion price of HK\$1.04, subject to adjustments in the case of consolidation or subdivision and for any rights issue, an issue of ordinary shares for cash at less than 90% of their prevailing market price, as defined, or distributions in excess of the profits available for distribution and in certain other events. The previous conversion price was HK\$21.20 per ordinary share.
Compulsory conversion:	The redeemable convertible preference shares will be converted compulsorily in the event the ordinary shares trade at or above 125% of the conversion price for twenty consecutive trading days or there are less than 50 million redeemable convertible preference shares in issue.*
Listing:	The listing on the Stock Exchange will be maintained.*
Voting:	Holders have limited voting rights and can only vote on a winding-up, a capital reduction and matters that may vary or affect their rights.*
Ranking:	The redeemable convertible preference shares rank in priority to the ordinary shares as to dividends and a return of capital.*
Further issues:	The Company will be permitted to issue shares ranking equally with, and in priority to, the redeemable convertible preference shares.*

* This asterisk denotes that the term has not been altered when compared to the original terms of the existing convertible preference shares.

Conditions of the conversion of the existing convertible preference shares into redeemable convertible preference shares and variation of terms of preference shares

The conversion of the existing convertible preference shares and the variation of certain of their terms is conditional upon:

- the passing of a special resolution in general meeting of holders of ordinary shares and the holders of existing convertible preference shares to convert of the existing convertible preference shares into the redeemable convertible preference shares and to amend the terms of the existing convertible preference shares on which resolution no substantial holder of ordinary shares or Director or their respective associates who is also an existing convertible preference shareholder is permitted to vote;
- the passing by the holders of the existing convertible preference shares of a special resolution to sanction the conversion of the existing convertible preference shares into the redeemable convertible preference shares and amendment of the terms of the existing convertible preference shares on which no substantial holder of ordinary shares or Director or their respective associates who is also a holder of the existing convertible preference share is permitted to vote;
- the consent in writing to the conversion of the existing convertible preference shares into redeemable convertible preference shares of holders of three-fourths of the existing convertible preference shares;
- the Listing Committee of the Stock Exchange granting a listing of, and permission to deal in, the ordinary shares to be issued upon conversion of the redeemable convertible preference shares;
- a notice of intention to convert being published in Bermuda within the statutory prescribed period; and
- the swearing of an affidavit by two Directors declaring the solvency of the Company on the effective date of the conversion.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save for approximately 12,000 existing convertible preference shares held by holders of ordinary shares who are independent and not connected with the Company or directors, chief executive or substantial

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shareholders of any member of the Group or any associate, of any of them there are no holders of the existing convertible preference shares who are also connected persons of the Company or who also held ordinary shares as at the Latest Practicable Date.

Each substantial holder of ordinary shares, Director and their respective associates who is also an existing convertible preference shareholder will abstain from voting in the Preference Shareholder Meeting and the SGM.

Application for listing and eligibility for CCASS

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the ordinary shares to be issued upon conversion of the redeemable convertible preference shares.

Subject to the granting of listing of, and permission to deal in, the ordinary shares to be issued upon conversion of the redeemable convertible preference shares on the Stock Exchange and compliance with the stock admission requirements of Hongkong Clearing, these shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the respective dates of commencement of dealings of these shares on the Stock Exchange or such other dates as determined by Hongkong Clearing.

All necessary arrangements will be made for the ordinary shares to be issued upon conversion of the redeemable convertible preference shares to be admitted into CCASS.

Reasons and benefits of the conversion

At present, existing convertible preference shareholders hold a security which is not redeemable and is most unlikely to be converted into ordinary shares, given that the conversion price of HK\$21.20 per ordinary share is over 81 times the traded price of HK\$0.26 per ordinary share as at the Latest Practicable Date. Furthermore, such holders have received no income on these securities for many years because dividends have not been declared and paid since the financial year ended 31st March, 1999. In return for agreeing to vary the terms of the existing convertible preference shares such that the holders of existing convertible preference shares will no longer be entitled to receive any unpaid preferential dividends in respect of the existing convertible preference shares since the financial year ended 31st March, 1999 up to the effective date of the conversion, the existing convertible preference shareholders will hold, on conversion from the existing convertible preference shares into redeemable convertible preference shares, a security which will be redeemed in three years. Although the redeemable convertible preference shares will carry a lower dividend, they will be convertible into ordinary shares at a conversion price of HK\$1.04 per ordinary share (subject to adjustment). The conversion price of HK\$1.04 is equal to the fully diluted net asset value per ordinary share of HK\$1.04 as at 31st March, 2004. The conversion price was determined by the management of the Company by adjusting the consolidated net asset value of ITC of approximately HK\$1,353.2 million as at 31st March, 2004 by goodwill of approximately HK\$0.5 million and negative goodwill of approximately HK\$332.4 million, other than those attributed to associated companies of Paul Y. - ITC and also adjusting the outstanding existing convertible preference shares of approximately HK\$284.1 million and the convertible notes of outstanding amount of approximately HK\$289.5 million and divided by the fully diluted ordinary shares of approximately 1,619.3 million shares (being approximately 654.3 million existing issued ordinary shares together with approximately 965 million ordinary shares, which may be issued upon conversion of the convertible notes in the outstanding principal amount of approximately HK\$289.5 million), based on the Company's audited accounts as at that date.

The amount of unpaid preferential dividends in respect of the existing convertible preference shares since the financial year ended 31st March, 1999 up to 31st March, 2004 was approximately HK\$110.9 million. As the unpaid preferential dividends have not been declared, such amount is not a liability of the Company and has not been debited to the profit and loss account or any reserve of the Company. The audited accumulated losses of the Company as at 31st March, 2004 was approximately HK\$983.3 million. The aggregate redemption value of all the redeemable convertible preference shares is approximately HK\$284.1 million.

Approximately 13,399,000 ordinary shares, representing approximately 2.0% of the existing or enlarged issued ordinary share capital, and approximately 273,133,461 ordinary shares (subject to adjustment), representing approximately 41.7% of the existing issued ordinary share capital and approximately 29.5% of the enlarged issued ordinary share capital, would be issued upon full conversion of the existing convertible preference shares and the redeemable convertible preference shares, respectively.

The conversion price of HK\$21.20 of the existing convertible preference shares represents over 81 times the closing price of approximately HK\$0.26 per ordinary share at the Latest Practicable Date and over 20 times fully diluted net asset value per ordinary share of HK\$1.04 as at 31st March, 2004 respectively. The conversion price of HK\$1.04 (subject to adjustment) of the redeemable convertible preference shares represents is 4 times the closing price of approximately HK\$0.26 per ordinary share at the Latest Practicable Date and is equal to the fully diluted net asset value per ordinary share of HK\$1.04 as at 31st March, 2004.

For holders of ordinary shares, the proposal eliminates a large and growing amount of undeclared and unpaid accumulated dividends, which would otherwise have to be paid before any dividends are paid to holders of ordinary shares. This will greatly improve the prospect of dividend distributions to holders

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of ordinary shares in the future. The redemption or conversion of the redeemable convertible preference shares will simplify the share capital structure of the Company which, in the absence of the issue of any other class of shares, will then have only one class of shares in issue. This will make a reorganisation of the Company's capital or the Group's structure easier to implement. There is no definite plan to implement any reorganisation of the Company's capital. In return for this, holders of ordinary shares will accept that a significant portion of the Company's resources, through outside borrowing or the proceeds from the issue of securities will be required to finance the redemption of the redeemable convertible preference shares. The gearing of the Group is expected to increase if the redemption is financed through outside borrowing.

Set out below is the shareholding table of ITC showing the existing shareholding structure of ITC and its shareholding structure assuming full conversion of the redeemable convertible preference shares into ordinary shares:

	Number of ordinary shares held as at the Latest Practicable Date	Approximate shareholding %	Number of ordinary shares held after the full conversion of the redeemable convertible preference shares into ordinary shares	Approximate shareholding %
Dr. Chan Kwok Keung, Charles (<i>Note</i>)	219,681,911	33.6	219,681,911	23.7
Public	434,612,196	66.4	707,745,657	76.3
Total	654,294,107	100.0	927,427,568	100.0

Note: These 219,681,911 ordinary shares of the Company are held through Galaxyway Investments Limited which is a wholly-owned subsidiary of Chinaview International Limited which is, in turn, wholly owned by Dr. Chan Kwok Keung, Charles.

The conversion of existing convertible preference shares into redeemable convertible preference shares and variation of terms has no impact on the conversion price of the outstanding convertible notes and the Company has no outstanding share options.

ACTION TO BE TAKEN BY THE HOLDERS OF THE EXISTING CONVERTIBLE PREFERENCE SHARES PRIOR TO THE SGM

One of the conditions of the conversion into redeemable convertible preference shares is to obtain the consent in writing to the conversion of the existing convertible preference shares into redeemable convertible preference shares by holders of three-fourths of the existing convertible preference shares as required by Section 43 of the Companies Act 1981 of Bermuda. A form of consent is enclosed with this circular. **Holders of the existing convertible preference shares who intend to vote in favour of the conversion should complete and sign the enclosed form of consent in accordance with the instructions printed thereon, and return it to the Company at 33rd Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong as soon as possible but in any event before the resolution for the conversion is passed at the SGM.**

The returning or the non-returning of the form of consent will not affect the right of the holders of the existing convertible preference shares to attend and vote at the Preference Shareholder Meeting and the SGM. The attention of the holders of the existing convertible preference shares is directed to the footnotes on the form of consent. In the event that a form of consent is returned without indicating the number of existing convertible preference shares to which the consent relates, the consent will be deemed to relate to all the existing convertible preference shares held by the relevant holder.

EXPECTED TIMETABLE FOR EXCHANGE OF CERTIFICATES

Subject to satisfaction of the conditions to which the conversion of the existing convertible preference shares into redeemable convertible preference shares, it is expected that the holders of existing convertible preference shares will be invited in early November 2004 to submit share certificates for the existing convertible preference shares to the Hong Kong branch share registrar of the Company, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for exchange, at the expense of the Company, for share certificates for the redeemable convertible preference shares. An announcement will be made when the conditions are satisfied, setting out the period for free exchange of certificates. Thereafter, share certificates for the existing convertible preference

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shares will be accepted for exchange for share certificates for the redeemable convertible preference shares only on payment of a fee of HK\$2.50, or such higher amount as may be stipulated in the Listing Rules from time to time, for each new share certificate for the redeemable convertible preference share to be issued or each old share certificate for the existing convertible preference shares submitted.

In order to distinguish between the share certificate for the existing convertible preference share and the new share certificate for the redeemable convertible preference share, the new share certificate for the redeemable convertible preference share will be purple in colour. The share certificates for the existing convertible preference share are pink in colour.

It is expected that the new share certificates for the redeemable convertible preference share will be available for collection on or after the tenth business day from the date of submission of the share certificate for the existing convertible preference share to the Hong Kong branch share registrar of the Company at the above address.

The certificates for the existing convertible preference shares will continue to be evidence of title (except that the terms of the existing convertible preference shares endorsed thereon shall cease to have effect and shall be deemed to be replaced by those set out in the special resolution set out in the SGM notice upon the conversion into redeemable convertible preference shares becoming effective). However, certificates of existing convertible preference shares will cease to be acceptable for trading and settlement on the Stock Exchange after the last day of the free exchange period for the new share certificate for the redeemable convertible preference shares. Further announcement on the trading arrangement will be issued.

VSD SGM, PREFERENCE SHAREHOLDER MEETING AND SGM

Under the Listing Rules, any placement of shares in Paul Y. - ITC which results in Paul Y. - ITC ceasing to be a subsidiary of the Company will constitute a very substantial disposal for the Company and is therefore subject to the approval of the holders of ordinary shares. As at the Latest Practicable Date, there were no holders of ordinary shares required to abstain from voting on the approval of the placement.

A notice convening the VSD SGM to be held at Conference Room, 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong at **11:30 a.m. on Wednesday, 6th October, 2004** is set out on page 103 of this circular. An ordinary resolution will be proposed at that meeting to approve the very substantial disposal resulting from disposal of Paul Y. - ITC shares.

Whether or not holders of ordinary shares are able to attend the VSD SGM, they are requested to complete and return the white form of proxy accompanying this circular in accordance with the instructions printed thereon to the principal place of business of the Company 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 the holding of the meeting. Completion and return of the white form of proxy will not preclude holders of ordinary shares from attending and voting in person at the meeting or any adjournment thereof should they so wish.

A notice convening the Preference Shareholder Meeting to be held at Conference Room, 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong at **11:30 a.m. on Wednesday, 13th October, 2004** is set out on page 104 of this circular. A special resolution will be proposed at that meeting to sanction the conversion of the existing convertible preference shares into redeemable convertible preference shares and variation of their terms. No substantial holder of ordinary shares of the Company or Director or their respective associates who is also an existing convertible preference shareholder is permitted to vote on the special resolution.

Whether or not holders of existing convertible preference shares are able to attend the Preference Shareholder Meeting, they are requested to complete and return the enclosed blue form of proxy to the principal place of business of the Company 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 the meeting. Completion and return of the blue form of proxy will not preclude the holders of the existing convertible preference shares from attending and voting in person at the meeting or any adjournment thereof should they so wish.

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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 at **11:35 a.m. on Wednesday, 13th October, 2004** (or, if later, immediately following the conclusion or adjournment of the Preference Shareholder Meeting to be held at the same place at 11:30 a.m. on Wednesday, 13th October, 2004) is set out on pages 105 to 111 of this circular. A special resolution will be proposed at that meeting to sanction the conversion of the existing convertible preference shares into redeemable convertible preference shares and the variation of their terms. No substantial holder of ordinary shares of the Company or Director or their respective associates who is also an existing convertible preference shareholder is permitted to vote on the special resolution.

Whether or not holders of ordinary shares or holders of existing convertible preference shares are able to attend the SGM, they are requested to complete and return the enclosed yellow form of proxy to the principal place of business of the Company 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 the meeting. Completion and return of the yellow form of proxy will not preclude the holders of the ordinary shares and the holders of existing convertible preference shares from attending and voting in person at the meeting or any adjournment thereof should they so wish.

Holders of the existing convertible preference shares who intend to vote in favour of the special resolution should also complete and return the enclosed written consent for converting the existing convertible preference shares into redeemable convertible preference shares to the principal place of business of the Company in Hong Kong at 33rd Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong as soon as possible but in any event before the resolution approving the aforesaid conversion is passed at the SGM.

RECOMMENDATION

The Board considers that the proposed placing of Paul Y. - ITC shares by the Group and the conversion of the existing convertible preference shares into redeemable convertible preference shares and the variation of their terms are in the interests of the Company and its shareholders as a whole. Accordingly, the Board recommends the holders of ordinary shares to vote in favour of the resolutions to be proposed at the VSD SGM and the SGM respectively, and the holders of the existing convertible preference shares to vote in favour of the resolutions to be proposed at the Preference Shareholder Meeting and the SGM and return their written consent to the conversion of the existing convertible preference shares into redeemable convertible preference shares.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

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

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the auditors and the independent reporting accountants, Deloitte Touche Tohmatsu, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix IV, a copy of the following accountants' report is available for inspection.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

21st September, 2004

The Directors
ITC Corporation Limited

Dear Sirs,

We set out below our report on the financial information regarding ITC Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31st March, 2002, 2003 and 2004 (the "Relevant Periods"), prepared on the basis set out in Section (I) below, for inclusion in the circular of the Company dated 21st September, 2004 in connection with a very substantial disposal resulting from possible disposal of shares in Paul Y. - ITC Construction Holdings Limited ("Paul Y. - ITC") so that it becomes an associated company (the "Circular").

The Company was incorporated in Bermuda with limited liability on 17th December, 1991 and is engaged in investment holding. As at the date of this report, the Company had direct and indirect interests in the principal subsidiaries set out in Section (I) below.

We have acted as auditors of the Group for the Relevant Periods.

We have audited the financial statements of the Group for each of the three years ended 31st March, 2002, 2003 and 2004 in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), issued on 18th July, 2002, 21st July, 2003 and 23rd July, 2004 respectively (the "Relevant Audited Financial Statements"). For the purpose of this report, we have carried out additional procedures in accordance with Statements of Auditing Standards issued by HKICPA in respect of the separately disclosed financial information attributable to the discontinuing operations resulting from the possible disposal of Paul Y. - ITC and its subsidiaries ("Paul Y. - ITC Group"). We have examined the Relevant Audited Financial Statements and the separately disclosed financial information of Paul Y. - ITC Group in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" recommended by the HKICPA.

The consolidated results, statements of changes in equity and cash flows of the Group for the Relevant Periods and of the consolidated balance sheets of the Group as at 31st March, 2002, 2003 and 2004 together with the notes thereon set out in this report (collectively the "Financial Information") have been prepared based on the Relevant Audited Financial Statements and on the basis set out in Section (I) below.

The Relevant Audited Financial Statements are the responsibility of the Directors of the Company who approved their issue. It is our responsibility to compile the Financial Information set out in this report from the Relevant Audited Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information prepared on the basis as explained above gives, for the purpose of this report, a true and fair view of the consolidated results and cash flows of the Group for the Relevant Periods and of the consolidated balance sheets of the Group as at 31st March, 2002, 2003 and 2004.

I. BASIS OF PRESENTATION

The Financial Information, which is based on the Relevant Audited Financial Statements, includes the consolidated results, statements of changes in equity and cash flows for the Relevant Periods and the consolidated balance sheets of the Group as at 31st March, 2002, 2003 and 2004. All material intra-group transactions and balances have been eliminated on consolidation.

As at the date of this report, the Company had direct and indirect interests in the principal subsidiaries set out below:

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 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	55.06	Investment holding
Century Harbour Limited #	British Virgin Islands	US\$1 ordinary share	100	55.06	Investment holding
Corless Limited #	British Virgin Islands	US\$2 ordinary shares	100	55.06	Investment holding
Cycle Company Limited #	Hong Kong	HK\$2 ordinary shares	100	55.06	Property investment and holding
		HK\$2 non-voting deferred shares (Note (i) below)	–	–	
DH Holdings Limited #	British Virgin Islands	US\$1 ordinary share	100	55.06	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	55.06	Property sale and holding
Great Intelligence Limited	British Virgin Islands	US\$1 ordinary share	100*	100	Investment holding
Gunnell Properties Limited #	British Virgin Islands	US\$1 ordinary share	100	55.06	Property investment and holding
Hamker Concrete Products Limited (“Hamker”) #	Hong Kong	HK\$10,000,000 ordinary shares	85	46.8	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 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
Jiangsu Yangtong Investment and Development Co., Ltd. #	The People’s Republic of China (the “PRC”)	US\$13,332,000 registered capital (note (v) below)	60	29.8	Build and operate a bulk handling sea port at Yangkou Port, PRC

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
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	55.06	Securities investment and trading
Paul Y. - CREC Engineering Co., Limited #	Hong Kong	HK\$10 ordinary shares	70	38.5	Civil engineering
Paul Y. - CREC Joint Venture #	Hong Kong	– (Note (ii) below)	70	38.5	Civil engineering
Paul Y. - ITC (E & M) Contractors Limited #	Hong Kong	HK\$20,000,000 ordinary shares	99.9998	55.06	Provision of electrical, mechanical and building services
Paul Y. - ITC Construction Group Limited #	Hong Kong	HK\$2 ordinary shares	100	55.06	Investment holding
		HK\$1,000,000 non-voting deferred shares (Note (iii) below)	–	–	
Paul Y. - ITC	Bermuda	HK\$134,524,901.9 ordinary shares	55.06	55.06	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	55.06	Building construction
Paul Y. - ITC Construction & Engineering Co. Limited #	Hong Kong	HK\$42,000,000 ordinary shares	100	55.06	Building construction and specialist works
Paul Y. - ITC General Contractors Limited #	Hong Kong	HK\$36,000,000 ordinary shares	100	55.06	Civil engineering and building construction
Paul Y. - ITC Interior Contractors Limited #	Hong Kong	HK\$2 ordinary shares	100	55.06	Interior decoration works
Paul Y. - ITC Investments Group Limited #	British Virgin Islands	US\$1 ordinary share	100	55.06	Investment holding
Paul Y. - ITC Management Limited #	Hong Kong	HK\$2 ordinary shares	100	55.06	Management services

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	55.06	Hire of motor vehicles and plant and machinery
Paul Y. Building Management Limited #	Hong Kong	HK\$2 ordinary shares	100	55.06	Property management services
Paul Y. Construction Company, Limited #	Hong Kong	HK\$2 ordinary shares	100	55.06	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	55.06	Investment holding
Paul Y. Foundation Limited #	Hong Kong	HK\$10,000,000 ordinary shares	100	55.06	Civil engineering and foundation works
Paul Y. Properties Group Limited #	British Virgin Islands	US\$1 ordinary share	100	55.06	Investment holding
Paul Y. Tunnel Engineering Co. Limited #	Hong Kong	HK\$2 ordinary shares	100	55.06	Civil engineering
Tai Shan Paul Y. Construction Co., Ltd. #	PRC	US\$5,005,340 registered capital (Note (v) below)	100	55.06	Civil engineering and building construction
Tung Fong Hung Finance (HK) Company Limited	Hong Kong	HK\$2 ordinary share	100	100	Provision of finance
Unicon Concrete Products (HK) Limited #	Hong Kong	HK\$12,000,002 ordinary shares	100	55.06	Manufacturing and trading of concrete products
Unistress Concrete Products (H.K.) Limited #	Hong Kong	HK\$200 ordinary shares	100	55.06	Manufacturing and trading of concrete products
		HK\$1,000,000 non-voting deferred shares (Note (iii) below)	100	55.06	
Unistress Group Limited #	British Virgin Islands	US\$1 ordinary share	100	55.06	Investment holding
Winstate Limited #	British Virgin Islands	US\$1 ordinary share	100	55.06	Vessel holding

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.

All of the above subsidiaries operate in Hong Kong except Hamker and Tai Shan Paul Y. Construction Co., Ltd. which operate in the 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.

a subsidiary of Paul Y. - ITC

II. FINANCIAL INFORMATION

Consolidated Income Statements

The following is the consolidated results of the Group for the Relevant Periods prepared on the basis set out in Section (I) above:

	<i>Notes</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover	2	40,147	768,697	3,434,666
Cost of sales		<u>(5,164)</u>	<u>(709,563)</u>	<u>(3,288,566)</u>
Gross profit		34,983	59,134	146,100
Other operating income	3	4,062	84,694	80,091
Administrative expenses		<u>(35,753)</u>	<u>(76,959)</u>	<u>(154,429)</u>
Profit from operations	4	3,292	66,869	71,762
Finance costs	7	(49,446)	(36,680)	(38,722)
Net investment income (expenses)	8	341	(20,409)	(43,183)
Deficit arising from revaluation of investment properties		–	–	(14,000)
Allowance for amounts due from associates and a related company		–	–	(40,985)
Net gain on disposal and dilution of interests in subsidiaries and associates	9	2,128	–	83,600
Impairment loss in respect of goodwill arising on acquisition of associates	10	(196,451)	–	–
Share of results of associates		(33,314)	(344,404)	156,400
Share of results of jointly controlled entities		–	1,895	9,074
(Loss) profit before taxation		<u>(273,450)</u>	<u>(332,729)</u>	<u>183,946</u>
Taxation	11	<u>(27,186)</u>	<u>(28,019)</u>	<u>(53,719)</u>
(Loss) profit before minority interests		<u>(300,636)</u>	<u>(360,748)</u>	<u>130,227</u>
Minority interests		–	2,224	(101,295)
(Loss) profit for the year		<u><u>(300,636)</u></u>	<u><u>(358,524)</u></u>	<u><u>28,932</u></u>
(Loss) earnings per share	13			
Basic		<u><u>(HK\$0.53)</u></u>	<u><u>(HK\$0.60)</u></u>	<u><u>HK\$0.02</u></u>
Diluted		<u><u>(HK\$0.53)</u></u>	<u><u>(HK\$0.60)</u></u>	<u><u>HK\$0.01</u></u>

Consolidated Balance Sheets

The following is the consolidated balance sheets of the Group as at the end of each of the Relevant Periods prepared on the basis set out in Section (I) above:

	<i>Notes</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Non-current assets				
Property, plant and equipment	14	25,611	489,331	452,374
Investment properties	15	1,125	572,608	515,000
Negative goodwill	16	–	(423,474)	(314,540)
Interests in associates	18	1,778,913	1,354,627	1,750,489
Interests in jointly controlled entities	19	–	8,743	14,817
Investments in securities	20	4,008	676,092	24,894
Loans receivable	27	–	–	50,000
Convertible notes receivable	21	–	17,500	–
Deferred tax assets	34	–	4,165	2,714
		<u>1,809,657</u>	<u>2,699,592</u>	<u>2,495,748</u>
Current assets				
Inventories		210	251	138
Amounts due from customers for contract works	22	–	200,934	273,210
Debtors, deposits and prepayments	23	2,575	1,079,351	1,214,942
Amounts due from associates	24	148,528	137,253	327,650
Amounts due from jointly controlled entities	25	–	207	871
Amounts due from related companies	26	45,746	299,848	90,224
Loans receivable	27	4,724	159,595	221,474
Investments in securities	20	–	26,527	39,374
Tax recoverable		–	6,457	15,831
Bank deposits		82,218	214,963	24,824
Bank balances and cash		3,779	26,226	278,227
		<u>287,780</u>	<u>2,151,612</u>	<u>2,486,765</u>
Current liabilities				
Amounts due to customers for contract works	22	–	494,855	456,140
Creditors and accrued expenses	28	22,008	797,355	888,474
Amounts due to associates	29	111	12,772	96,273
Amounts due to jointly controlled entities	29	–	69,343	55,584
Amounts due to related companies	29	–	205	216
Convertible notes	30	577,635	–	–
Tax payable		–	4,503	1,056
Bank borrowings – due within one year	31	9,123	167,853	58,247
Other loans – due within one year	32	17,317	77,317	17,317
		<u>626,194</u>	<u>1,624,203</u>	<u>1,573,307</u>
Net current (liabilities) assets		<u>(338,414)</u>	<u>527,409</u>	<u>913,458</u>
Total assets less current liabilities		<u>1,471,243</u>	<u>3,227,001</u>	<u>3,409,206</u>
Minority interests		<u>–</u>	<u>863,395</u>	<u>1,195,365</u>

	<i>Notes</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Non-current liabilities				
Convertible notes	30	–	391,799	289,050
Bank borrowings – due after one year	31	–	637,175	517,000
Other loans – due after one year	32	–	66,500	–
Provision for long service payments	33	–	1,727	1,727
Deferred tax liabilities	34	–	61,165	52,882
		<u>–</u>	<u>1,158,366</u>	<u>860,659</u>
Net assets		<u><u>1,471,243</u></u>	<u><u>1,205,240</u></u>	<u><u>1,353,182</u></u>
Capital and reserves				
Share capital				
Ordinary shares	35	63,096	63,096	65,429
Compulsorily convertible cumulative preference shares	35	<u>26,798</u>	<u>26,798</u>	<u>26,798</u>
		89,894	89,894	92,227
Reserves		<u>1,381,349</u>	<u>1,115,346</u>	<u>1,260,955</u>
Shareholders' funds		<u><u>1,471,243</u></u>	<u><u>1,205,240</u></u>	<u><u>1,353,182</u></u>

Balance Sheets of the Company

	<i>Notes</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Non-current asset				
Interests in subsidiaries	17	<u>2,012,030</u>	<u>1,949,961</u>	<u>1,719,250</u>
Current assets				
Debtors, deposits and prepayments		275	3,282	238
Loan receivable	27	–	1,898	–
Bank deposits		81,316	4,000	–
Bank balances and cash		39	43	47,205
		<u>81,630</u>	<u>9,223</u>	<u>47,443</u>
Current liabilities				
Creditors and accrued expenses		18,090	16,895	22,616
Convertible notes	30	577,635	–	–
Bank borrowings – due within one year	31	–	9,936	–
Other loans – due within one year	32	17,317	17,317	17,317
		<u>613,042</u>	<u>44,148</u>	<u>39,933</u>
Net current (liabilities) assets		<u>(531,412)</u>	<u>(34,925)</u>	<u>7,510</u>
Total assets less current liabilities		<u>1,480,618</u>	<u>1,915,036</u>	<u>1,726,760</u>
Non-current liabilities				
Convertible notes	30	–	391,799	289,050
Other loans – due after one year	32	–	66,500	–
		<u>–</u>	<u>458,299</u>	<u>289,050</u>
Net assets		<u>1,480,618</u>	<u>1,456,737</u>	<u>1,437,710</u>
Capital and reserves				
Share capital				
Ordinary shares	35	63,096	63,096	65,429
Compulsorily convertible cumulative preference shares	35	26,798	26,798	26,798
		<u>89,894</u>	<u>89,894</u>	<u>92,227</u>
Reserves	37	<u>1,390,724</u>	<u>1,366,843</u>	<u>1,345,483</u>
Shareholders' funds		<u>1,480,618</u>	<u>1,456,737</u>	<u>1,437,710</u>

Consolidated Statements of Changes in Equity

The following is the consolidated statements of changes in equity of the Group for the Relevant Periods prepared on the basis set out in Section (I) above:

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Other 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)	(203,941)	(454,878)	1,604,067
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
Share 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)
Impairment loss in respect of goodwill	-	-	-	-	-	-	-	-	985	-	985
Loss for the year	-	-	-	-	-	-	-	-	-	(300,636)	(300,636)
At 31st March, 2002	89,894	205,222	2,092,234	908	-	-	-	(21,851)	(139,650)	(755,514)	1,471,243
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 in associates	-	-	-	-	-	-	-	-	41,119	-	41,119
Loss for the year	-	-	-	-	-	-	-	-	-	(358,524)	(358,524)
At 31st March, 2003	89,894	205,222	2,092,234	908	-	-	805	28,746	(98,531)	(1,114,038)	1,205,240
Exchange differences arising from translation of overseas operations	-	-	-	-	-	-	-	60,884	-	-	60,884
Share of post-acquisition reserve movements of associates	-	-	-	-	7,130	-	-	4,274	-	-	11,404
Surplus arising on revaluation of land and buildings	-	-	-	-	-	-	2,731	-	-	-	2,731
Released on disposal of land and buildings	-	-	-	-	-	-	(5)	-	-	5	-
Net gain not recognised in the income statement	-	-	-	-	7,130	-	2,726	65,158	-	5	75,019
Issue of ordinary shares	2,333	4,667	-	-	-	-	-	-	-	-	7,000
Share of post-acquisition reserve movements of associates	-	-	-	-	-	-	-	-	3,433	-	3,433
Released on disposal and dilution of interests in subsidiaries	-	-	-	-	-	-	(117)	(12,522)	-	-	(12,639)
Released on disposal and dilution of interests in associates	-	-	-	-	-	-	-	166	46,031	-	46,197
Profit for the year	-	-	-	-	-	-	-	-	-	28,932	28,932
At 31st March, 2004	92,227	209,889	2,092,234	908	7,130	-	3,414	81,548	(49,067)	(1,085,101)	1,353,182

The accumulated losses of the Group as at 31st March, 2002, 2003 and 2004 include accumulated losses of approximately HK\$730,246,000, HK\$652,040,000 and HK\$514,187,000, respectively, and accumulated profits of approximately nil, HK\$1,895,000 and HK\$10,969,000, respectively, 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 reorganisations.

Consolidated Cash Flow Statements

The following is the consolidated cash flow statements of the Group for the Relevant Periods prepared on the basis set out in Section (I) above:

	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
OPERATING ACTIVITIES			
(Loss) profit before taxation	(273,450)	(332,729)	183,946
Adjustments for:			
Share of results of associates	33,314	344,404	(156,400)
Share of results of jointly controlled entities	–	(1,895)	(9,074)
Release of negative goodwill	–	(18,412)	(53,139)
Interest income	(26,542)	(19,612)	(42,904)
Interest expenses	46,332	34,295	38,237
Amortisation of deferred expenditure on issuance of convertible notes	3,114	2,385	485
Depreciation and amortisation of property, plant and equipment	1,765	18,756	74,969
Impairment loss on property interests	–	–	1,496
Impairment loss recognised in respect of goodwill arising on acquisition of associates	196,451	–	–
Allowance for amounts due from associates and a related company	–	–	40,985
Net gain on disposal and dilution of interests in subsidiaries and associates	(2,128)	–	(83,600)
Impairment loss on investment securities	–	20,410	5,340
Loss on option agreement	–	–	52,871
(Surplus) deficit arising from revaluation of investment properties	(125)	–	14,000
Surplus arising from revaluation of land and buildings	(250)	(242)	(273)
Net unrealised holding (gain) loss on listed other investments	(232)	3,049	(36)
Gain on disposal of investment securities	–	–	(17,180)
Net gain on disposal of listed other investments	–	(669)	(26,643)
Loss (gain) on disposal of property, plant and equipment	62	2,746	(3,875)
(Gain) loss on disposal of investment properties	(216)	(1)	2,152
Operating cash flows before movements in working capital	(21,905)	52,485	21,357
Decrease in property held for resale	–	–	2,342
(Increase) decrease in inventories	(34)	(38)	118
Increase in amounts due from (to) customers for contract works, net of attributable interest expenses and depreciation and amortisation	–	(26,763)	(101,929)
(Increase) decrease in debtors, deposits and prepayments	(137)	28,716	(17,709)
Decrease in amounts due from associates	4,784	73	4,955
Increase in amounts due from jointly controlled entities	–	–	(664)
(Increase) decrease in amounts due from related companies	(3,746)	(4,846)	7,344
Decrease in loans receivable	9,276	826	69,249
(Decrease) increase in creditors and accrued expenses	(2,936)	(82,186)	13,564
(Decrease) increase in amounts due to associates	(6,687)	4,889	(25,751)
(Decrease) increase in amounts due to related companies	–	(1,569)	11
Cash used in operations	(21,385)	(28,413)	(27,113)
Interest received	26,542	19,612	42,904
Dividends received from associates	11,017	8,973	55,844
Dividends received from a jointly controlled entity	–	5,000	–
Overseas tax refunded (paid)	–	7	(4,487)
Hong Kong Profits Tax refunded	–	12	–
Hong Kong Profits Tax paid	–	(513)	(11,822)
NET CASH FROM OPERATING ACTIVITIES	16,174	4,678	55,326

APPENDIX I
ACCOUNTANTS' REPORT

	<i>Note</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
INVESTING ACTIVITIES				
Acquisition of additional interests in subsidiaries		–	–	(27,059)
Acquisition of interests in associates		(12,193)	(27,370)	(124,137)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	38	–	81,286	(59,742)
Additions to investment securities		(14,463)	(1,286)	(40,144)
Additions to property, plant and equipment		(759)	(12,023)	(10,979)
Amounts advanced to related companies		(42,000)	(37,043)	(94,681)
Amounts advanced to associates		(314,700)	(109,326)	(76,431)
Investment in convertible notes receivable		–	(17,500)	–
Proceeds from disposal of interests in associates		–	27	565,568
Proceeds from disposal of investments in securities		–	–	48,319
Proceeds from disposal of investment properties		22,566	1,126	47,056
Proceeds from disposal of listed other investments		–	3,561	71,476
Proceeds from disposal of property, plant and equipment		–	13,582	33,429
Proceeds from partial disposal of interests in subsidiaries		–	–	128,913
Redemption of convertible notes receivable from an associate		385,900	–	–
Repayments from associates		181,700	134,129	49,759
Repayments from jointly controlled entities		–	–	3,000
Repayments from related companies		–	36,663	74,874
NET CASH FROM INVESTING ACTIVITIES		206,051	65,826	589,221
FINANCING ACTIVITIES				
Amount advanced from jointly controlled entities		–	21,883	–
Capital contributed by minority shareholders		–	–	3,750
Dividend paid to minority shareholders of a subsidiary		–	(1,350)	(76,219)
Expenditure incurred for issuance of convertible notes		–	(721)	(234)
Interest paid		(49,195)	(36,712)	(38,237)
Loan advanced from (repaid to) minority shareholders of a subsidiary		–	1,560	(4,373)
New bank loans raised		–	218,190	–
Other loans raised		15,000	146,500	–
Proceeds from issue of convertible notes		–	392,500	–
Proceeds from issue of new shares		63,000	–	–
Redemption of convertible notes		(150,000)	(580,000)	(96,000)
Repayment of advance from a jointly controlled entity		–	–	(13,759)
Repayments of amounts payable on margin account		(9,531)	–	–
Repayments of bank borrowings		–	(92,815)	(215,493)
Repayments of other loans		(15,000)	(20,000)	(126,500)
Share issue expenses		(1,121)	–	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(146,847)	49,035	(567,065)
NET INCREASE IN CASH AND CASH EQUIVALENTS		75,378	119,539	77,482
CASH AND CASH EQUIVALENTS BROUGHT FORWARD		1,357	76,874	195,654
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		139	(759)	(1,332)
CASH AND CASH EQUIVALENTS CARRIED FORWARD		76,874	195,654	271,804
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS				
Bank deposits		82,218	214,963	24,824
Bank balances and cash		3,779	26,226	278,227
Bank overdrafts		(9,123)	(45,535)	(31,247)
		76,874	195,654	271,804

Notes to the Financial Information**1. 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.

Property, plant and equipment

Property, plant and equipment and freehold land, are stated at cost or valuation less accumulated 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 items of other property, plant and equipment over their estimated useful lives, using the straight-line method, at rates ranging from 10% to 33 $\frac{1}{3}$ % per annum.

Prior to 1st April, 2003, motor vehicles, and furniture and fixtures were depreciated at 10% per annum. With effect from 1st April, 2003, they are depreciated at 20% per annum which reflects the Group's previous experience of the useful lives of its assets. The change in depreciation rate has increased the depreciation charge for the year ended 31st March, 2004 by approximately HK\$15,769,000.

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.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Investment properties**

Investment properties are completed properties which are held for their investment potential, any 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 twenty 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.

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 the 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 in 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

An associate, as defined in Statement of Standard Accounting Practice 10 "Accounting for investments in associates" issued by the HKICPA and for the purpose of this report, is an enterprise in which the investor has significant influence over the financial and operating policy decisions of the investee and which is neither a subsidiary nor a joint venture of the investor.

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.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***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.

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.

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.

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 terms 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.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***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 foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies 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.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense or capitalised in contracts in progress, where appropriate, as they fall due.

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.

2. TURNOVER AND SEGMENTAL INFORMATION

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

	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Building construction	–	407,653	2,418,339
Civil engineering	–	123,048	463,440
Specialist works	–	189,672	448,849
Construction materials	–	6,192	3,448
Property leasing	1,721	13,735	48,269
Investment	965	265	2,163
Provision of finance	25,577	19,347	40,741
Management services	4,570	2,734	3,238
Sale of building materials and machinery	7,314	6,051	6,179
	<u>40,147</u>	<u>768,697</u>	<u>3,434,666</u>

2. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Business segments

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

The operations of building construction, civil engineering specialist works, construction materials and engineering and infrastructure services will be discontinued on the possible disposal of Paul Y. - ITC.

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

	Continuing operations							Consolidated HK\$'000
	Property leasing HK\$'000	Investment HK\$'000	Provision of finance HK\$'000	Management services HK\$'000	Sale of building materials and machinery HK\$'000	Corporate HK\$'000	Eliminations HK\$'000	
TURNOVER								
External sales								
– Paul Y. - ITC Group	–	–	–	–	–	–	–	–
– the Group excluding Paul Y. - ITC Group (the "Remaining Group")	1,721	965	25,577	4,570	7,314	–	–	40,147
Inter-segment sales	294	–	986	–	–	–	(1,280)	–
Total	2,015	965	26,563	4,570	7,314	–	(1,280)	40,147
RESULT								
Segment result								
– Paul Y. - ITC Group	–	–	–	–	–	–	–	–
– The Remaining Group	103	1,447	13,438	(932)	393	–	–	14,449
	103	1,447	13,438	(932)	393	–	–	14,449
Unallocated corporate expenses								(11,157)
Profit from operations								3,292
Finance costs								(49,446)
Net investment income	341	–	–	–	–	–	–	341
Net gain on disposal and dilution of interests in subsidiaries and associates	–	–	–	–	–	2,128	–	2,128
Impairment loss in respect of goodwill	–	–	–	–	–	(196,451)	–	(196,451)
Share of results of associates	–	–	–	–	–	(33,314)	–	(33,314)
Loss before taxation								(273,450)
Taxation								(27,186)
Loss before minority interests								(300,636)
Minority interests								–
Loss for the year								(300,636)

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

2. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

	Continuing operations						Consolidated HK\$'000
	Property leasing HK\$'000	Investment HK\$'000	Provision of finance HK\$'000	Management services HK\$'000	Sale of building materials and machinery HK\$'000	Corporate HK\$'000	
BALANCE SHEET							
ASSETS							
Segment assets	3,550	105,189	165,390	4,332	2,354	37,709	318,524
Interests in associates	–	–	–	–	–	1,778,913	1,778,913
Total assets	<u>3,550</u>	<u>105,189</u>	<u>165,390</u>	<u>4,332</u>	<u>2,354</u>	<u>1,816,622</u>	<u>2,097,437</u>
Paul Y. - ITC Group	–	–	–	–	–	–	–
The Remaining Group	<u>3,550</u>	<u>105,189</u>	<u>165,390</u>	<u>4,332</u>	<u>2,354</u>	<u>1,816,622</u>	<u>2,097,437</u>
Total assets	<u>3,550</u>	<u>105,189</u>	<u>165,390</u>	<u>4,332</u>	<u>2,354</u>	<u>1,816,622</u>	<u>2,097,437</u>
LIABILITIES							
Segment liabilities	44	29	–	1,473	853	19,720	22,119
Convertible notes, bank borrowings and other loans	–	–	–	–	–	604,075	604,075
Total liabilities	<u>44</u>	<u>29</u>	<u>–</u>	<u>1,473</u>	<u>853</u>	<u>623,795</u>	<u>626,194</u>
Paul Y. - ITC Group	–	–	–	–	–	–	–
The Remaining Group	<u>44</u>	<u>29</u>	<u>–</u>	<u>1,473</u>	<u>853</u>	<u>623,795</u>	<u>626,194</u>
Total liabilities	<u>44</u>	<u>29</u>	<u>–</u>	<u>1,473</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	39	–	315	25	1,015	1,765

2. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

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

	Discontinuing operations					Continuing operations							Consolidated HK\$'000
	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 HK\$'000	Provision of finance HK\$'000	Management services HK\$'000	Sale of building materials and machinery HK\$'000	Corporate HK\$'000	Eliminations HK\$'000	
TURNOVER													
External sales													
- Paul Y - ITC Group	407,653	123,048	189,672	6,192	-	13,253	144	6,906	-	-	-	-	746,868
- The Remaining Group	-	-	-	-	-	482	121	12,441	2,734	6,051	-	-	21,829
Inter-segment sales	543	-	39,807	23,136	-	4,428	-	829	-	29	-	(68,772)	-
Total	408,196	123,048	229,479	29,328	-	18,163	265	20,176	2,734	6,080	-	(68,772)	768,697
RESULT													
Segment result													
- Paul Y - ITC Group	19,956	(40,519)	14,573	(7,244)	-	6,646	(2,875)	6,906	-	-	-	-	(2,557)
- The Remaining Group	-	-	-	-	-	(658)	58,919	5,144	(1,363)	604	-	-	62,646
	19,956	(40,519)	14,573	(7,244)	-	5,988	56,044	12,050	(1,363)	604	-	-	60,089
Release of negative goodwill													
Unallocated corporate expenses													
Profit from operations													
Finance costs													
Net investment expenses	-	-	-	-	-	-	(20,409)	-	-	-	-	-	(20,409)
Share of results of associates	2,004	(9)	-	114	(541)	-	-	-	-	-	(345,972)	-	(344,404)
Share of results of jointly controlled entities	-	1,895	-	-	-	-	-	-	-	-	-	-	1,895
Loss before taxation													
Taxation													
Loss before minority interests													
Minority interests													
Loss for the year													

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

2. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

	Discontinuing operations					Continuing operations						
	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 HK\$'000	Provision of finance HK\$'000	Management services HK\$'000	Sale of building materials and machinery HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
BALANCE SHEET												
ASSETS												
Segment assets	1,053,076	368,008	193,942	96,312	-	622,262	722,158	533,713	960	773	309,482	3,900,686
Interests in associates	43,231	293	-	3,093	649,099	-	-	-	-	-	658,911	1,354,627
Interests in jointly controlled entities	-	8,743	-	-	-	-	-	-	-	-	-	8,743
Negative goodwill	-	-	-	-	-	-	-	-	-	-	(423,474)	(423,474)
Other assets	-	-	-	-	-	-	-	-	-	-	10,622	10,622
Total assets	1,096,307	377,044	193,942	99,405	649,099	622,262	722,158	533,713	960	773	555,541	4,851,204
Paul Y. - ITC Group	1,096,307	377,044	193,942	99,405	649,099	619,654	680,214	416,686	-	-	467,852	4,600,203
The Remaining Group	-	-	-	-	-	2,608	41,944	117,027	960	773	87,689	251,001
Total assets	1,096,307	377,044	193,942	99,405	649,099	622,262	722,158	533,713	960	773	555,541	4,851,204
LIABILITIES												
Segment liabilities	871,883	298,347	95,744	47,353	-	22,789	566	-	920	660	37,995	1,376,257
Convertible notes, bank borrowings and other loans	-	-	-	-	-	-	-	-	-	-	1,340,644	1,340,644
Other liabilities	-	-	-	-	-	-	-	-	-	-	65,668	65,668
Total liabilities	871,883	298,347	95,744	47,353	-	22,789	566	-	920	660	1,444,307	2,782,569
Paul Y. - ITC Group	871,883	298,347	95,744	47,353	-	22,770	-	-	-	-	862,968	2,199,065
The Remaining Group	-	-	-	-	-	19	566	-	920	660	581,339	583,504
Total liabilities	871,883	298,347	95,744	47,353	-	22,789	566	-	920	660	1,444,307	2,782,569
OTHER INFORMATION												
Capital additions	73,639	31,144	56,831	76,348	-	33,163	-	-	80	-	224,795	496,000
Depreciation and amortisation of property, plant and equipment	4,096	1,605	5,532	1,733	-	3,044	-	-	340	6	2,569	18,925
Release of negative goodwill	-	-	-	-	-	-	-	-	-	-	18,412	18,412

2. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

Business segment information for the year ended 31st March, 2004 is presented below:

	Discontinuing operations					Continuing operations							Consolidated HK\$'000
	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 HK\$'000	Provision of finance HK\$'000	Management services HK\$'000	Sale of building materials and machinery HK\$'000	Corporate HK\$'000	Eliminations HK\$'000	
TURNOVER													
External sales													
- Paul Y - ITC Group	2,418,339	463,440	448,849	3,448	-	47,663	2,136	35,164	-	-	-	-	3,419,039
- The Remaining Group	-	-	-	-	-	606	27	5,577	3,238	6,179	-	-	15,627
Inter-segment sales	28,713	-	76,384	71,029	-	17,022	-	800	-	88	-	(194,036)	-
Total	2,447,052	463,440	525,233	74,477	-	65,291	2,163	41,541	3,238	6,267	-	(194,036)	3,434,666
RESULT													
Segment result													
- Paul Y - ITC Group	(8,633)	(5,632)	(4)	(24,923)	-	15,344	6,064	35,164	-	-	-	-	17,380
- The Remaining Group	-	-	-	-	-	(409)	23,051	(6,458)	(693)	802	-	-	16,293
	(8,633)	(5,632)	(4)	(24,923)	-	14,935	29,115	28,706	(693)	802	-	-	33,673
Release of negative goodwill													
Unallocated corporate expenses													
Profit from operations													
Finance costs													
Net investment expenses	-	-	-	-	-	(2,152)	11,840	-	-	-	(52,871)	-	(43,183)
Deficit arising from revaluation of investment properties	-	-	-	-	-	(14,000)	-	-	-	-	-	-	(14,000)
Allowance for amounts due from associates and a related company													
Net gain on disposal and dilution of interests in subsidiaries and associates	-	-	-	-	246,653	-	-	-	-	-	(163,053)	-	83,600
Share of results of associates	334	(16)	-	1,793	191,879	-	-	-	-	-	(37,590)	-	156,400
Share of results of jointly controlled entities	-	9,074	-	-	-	-	-	-	-	-	-	-	9,074
Profit before taxation													
Taxation													
Profit before minority interests													
Minority interests													
Profit for the year													

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

2. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

	Discontinuing operations					Continuing operations						Consolidated HK\$'000
	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 HK\$'000	Provision of finance HK\$'000	Management services HK\$'000	Sale of building materials and machinery HK\$'000	Corporate HK\$'000	
BALANCE SHEET												
ASSETS												
Segment assets	924,550	450,958	179,949	64,738	-	568,057	136,885	660,037	1,324	1,169	525,535	3,513,202
Interests in associates	21,019	249	-	4,582	634,941	-	-	-	-	-	1,089,698	1,750,489
Interests in jointly controlled entities	-	14,817	-	-	-	-	-	-	-	-	-	14,817
Negative goodwill	-	-	-	-	-	-	-	-	-	-	(314,540)	(314,540)
Other assets	-	-	-	-	-	-	-	-	-	-	18,545	18,545
Total assets	945,569	466,024	179,949	69,320	634,941	568,057	136,885	660,037	1,324	1,169	1,319,238	4,982,513
Paul Y. - ITC Group	945,569	466,024	179,949	69,320	634,941	565,141	65,233	634,778	-	-	1,167,166	4,728,121
The Remaining Group	-	-	-	-	-	2,916	71,652	25,259	1,324	1,169	152,072	254,392
Total assets	945,569	466,024	179,949	69,320	634,941	568,057	136,885	660,037	1,324	1,169	1,319,238	4,982,513
LIABILITIES												
Segment liabilities	775,262	297,904	99,633	31,295	-	22,676	58	-	1,823	810	268,953	1,498,414
Convertible notes, bank borrowings and other loans	-	-	-	-	-	-	-	-	-	-	881,614	881,614
Other liabilities	-	-	-	-	-	-	-	-	-	-	53,938	53,938
Total liabilities	775,262	297,904	99,633	31,295	-	22,676	58	-	1,823	810	1,204,505	2,433,966
Paul Y. - ITC Group	775,262	297,904	99,633	31,295	-	22,636	-	-	-	-	854,278	2,081,008
The Remaining Group	-	-	-	-	-	40	58	-	1,823	810	350,227	352,958
Total liabilities	775,262	297,904	99,633	31,295	-	22,676	58	-	1,823	810	1,204,505	2,433,966
OTHER INFORMATION												
Capital additions	2,374	992	2,975	1,999	-	351	74	-	16	-	56,030	64,811
Depreciation and amortisation of property, plant and equipment	22,039	6,415	21,072	6,544	-	11,694	6	-	292	3	10,912	78,977
Release of negative goodwill	-	-	-	-	-	-	-	-	-	-	53,139	53,139
Impairment loss on property interests	-	-	-	-	-	1,496	-	-	-	-	-	1,496
Loss on option agreement	-	-	-	-	-	-	-	-	-	-	52,871	52,871

Geographical segments

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

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Hong Kong	35,346	760,602	3,341,252
The PRC other than Hong Kong	63	4,943	89,611
Others	4,738	3,152	3,803
	40,147	768,697	3,434,666

2. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Geographical segments (Continued)

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		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Hong Kong	2,066,514	4,036,331	4,205,209	732	487,280	62,677
The PRC	3,506	116,290	109,087	–	8,640	2,118
Pacific region and South East Asia	–	674,946	636,435	–	–	–
Others	27,417	23,637	31,782	27	80	16
	<u>2,097,437</u>	<u>4,851,204</u>	<u>4,982,513</u>	<u>759</u>	<u>496,000</u>	<u>64,811</u>

3. OTHER OPERATING INCOME

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Surplus arising from revaluation of land and buildings	250	242	273
Release of negative goodwill	–	18,412	53,139
Net gain on disposal of listed other investments	–	669	26,643
Net unrealised holding gain (loss) on listed other investments	232	(3,049)	36
Bad debts recovered	3,580	10,503	–
Compensation recovered from a default purchaser in respect of disposal of property in previous year	–	57,917	–
	<u>4,062</u>	<u>84,694</u>	<u>80,091</u>

4. PROFIT FROM OPERATIONS

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Profit from operations has been arrived at after charging:			
Auditors' remuneration	435	1,081	2,544
Cost of inventories recognised as expenses	4,357	3,718	3,733
Depreciation and amortisation of property, plant and equipment (note (a) below)	1,765	18,756	74,969
Impairment loss on property interests	–	–	1,496
Loss on disposal of property, plant and equipment	62	2,746	–
Minimum lease payments under operating leases in respect of:			
Premises	539	1,743	4,096
Plant and machinery	–	262	3,616
Staff costs, including directors' emoluments (note (b) below)	16,126	48,004	128,115
and after crediting:			
Gain on disposal of property, plant and equipment	–	–	3,875
Interest income	26,542	19,612	42,904
Rental income under operating leases in respect of:			
Premises, net of outgoings of 2002: HK\$32,000; 2003: HK\$2,512,000 and 2004: HK\$20,171,000	1,688	9,052	19,474
Plant and machinery	–	94	385
	<u>–</u>	<u>94</u>	<u>385</u>

4. PROFIT FROM OPERATIONS (Continued)

Notes:

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
(a) Depreciation and amortisation of property, plant and equipment:			
Owned assets	1,765	18,925	78,977
Less: Amount capitalised in respect of contracts in progress	–	(169)	(4,008)
	<u>1,765</u>	<u>18,756</u>	<u>74,969</u>
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
(b) Staff costs, including directors' emoluments:			
Salaries and other benefits	15,589	110,697	333,511
Retirement benefit scheme contributions, net of forfeited contributions of approximately 2002: HK\$39,000; 2003: HK\$2,241,000 and 2004: HK\$1,536,000	537	1,366	8,794
	<u>16,126</u>	<u>112,063</u>	<u>342,305</u>
Less: Amount capitalised in respect of contracts in progress	–	(64,059)	(214,190)
	<u>16,126</u>	<u>48,004</u>	<u>128,115</u>

5. DISCONTINUING OPERATIONS

The Group's operations in building construction, civil engineering, specialist works, construction materials and engineering and infrastructure services are solely attributable to Paul Y. - ITC Group and they will be discontinued after the proposed disposal of the shares in Paul Y. - ITC.

Other than these operations, Paul Y. - ITC Group and the Remaining Group also operate in property leasing, investment and provision of finance. These operations will still be carried on by the Remaining Group subsequent to the disposal of shares in Paul Y. - ITC. Accordingly, these operations are disclosed as continuing operations in this report.

The results of the discontinuing operations for the Relevant Periods were as follows:

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Turnover			
Building construction	–	407,653	2,418,339
Civil engineering	–	123,048	463,440
Specialist works	–	189,672	448,849
Construction materials	–	6,192	3,448
	<u>–</u>	<u>726,565</u>	<u>3,334,076</u>
Cost of Sales	–	(702,629)	(3,277,824)
	<u>–</u>	<u>23,936</u>	<u>56,252</u>
Gross profit	–	23,936	56,252
Administrative expenses	–	(37,170)	(95,444)
	<u>–</u>	<u>(13,234)</u>	<u>(39,192)</u>
Loss from operations	–	(13,234)	(39,192)
Finance costs	–	(230)	(402)
Net gain on disposal and dilution of interests in subsidiaries and associates	–	–	246,653
Share of results of associates	–	1,568	193,990
Share of results of jointly controlled entities	–	1,895	9,074
	<u>–</u>	<u>(10,001)</u>	<u>410,123</u>
(Loss) profit before taxation	–	(10,001)	410,123
Taxation	–	(1,228)	(45,483)
	<u>–</u>	<u>(11,229)</u>	<u>364,640</u>
(Loss) profit after taxation	–	(11,229)	364,640

The carrying amounts of the assets and liabilities of the discontinuing operations were as follows:

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Total assets	–	2,415,797	2,295,803
Total liabilities	–	1,313,327	1,204,094
	<u>–</u>	<u>1,102,470</u>	<u>1,091,709</u>

5. DISCONTINUING OPERATIONS (Continued)

The cash flows of the discontinuing operations for the Relevant Periods were as follows:

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Net cash used in operating activities	–	(64,269)	(42,124)
Net cash (used in) from investing activities	–	(5,550)	563,679
Net cash from (used in) financing activities	–	155,152	(123,589)
	<u>–</u>	<u>88,333</u>	<u>497,966</u>

The financial information of the Group attributable to Paul Y. - ITC Group for the Relevant Periods was set out below.

The results attributable to Paul Y. - ITC Group for the Relevant Periods were as follows:

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Turnover			
Building construction	–	407,653	2,418,339
Civil engineering	–	123,048	463,440
Specialist works	–	189,672	448,849
Construction materials	–	6,192	3,448
Property leasing	–	13,253	47,663
Investment	–	144	2,136
Provision of finance	–	6,906	35,164
	<u>–</u>	<u>746,868</u>	<u>3,419,039</u>
Cost of sales	–	(705,525)	(3,284,456)
	<u>–</u>	<u>41,343</u>	<u>134,583</u>
Gross profit	–	41,343	134,583
Other operating (expenses) income	–	(3,019)	3,928
Administrative expenses	–	(40,881)	(121,131)
	<u>–</u>	<u>(2,557)</u>	<u>17,380</u>
(Loss) profit from operations	–	(2,557)	17,380
Finance costs	–	(3,304)	(9,829)
Net investment expenses	–	–	(57,165)
Deficit arising from revaluation of investment properties	–	–	(14,000)
Allowance for amounts due from associates	–	–	(21,526)
Net gain on disposal and dilution of interests in subsidiaries and associates	–	–	228,235
Share of results of associates	–	1,579	151,344
Share of results of jointly controlled entities	–	1,895	9,074
	<u>–</u>	<u>(2,387)</u>	<u>303,513</u>
(Loss) profit before taxation	–	(2,387)	303,513
Taxation	–	(2,298)	(45,678)
	<u>–</u>	<u>(4,685)</u>	<u>257,835</u>
(Loss) profit after taxation	–	(4,685)	257,835

5. DISCONTINUING OPERATIONS (Continued)

The carrying amounts of the assets and liabilities attributable to Paul Y. - ITC Group at the end of each of the Relevant Periods were as follows:

	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	–	461,932	426,187
Investment properties	–	572,608	515,000
Interests in associates	–	864,024	1,300,836
Interests in jointly controlled entities	–	8,743	14,817
Investments in securities	–	653,686	13,904
Loans receivable	–	12,423	50,000
Deferred tax assets	–	4,165	2,714
	–	<u>2,577,581</u>	<u>2,323,458</u>
Current assets			
Amounts due from customers for contract works	–	200,934	273,210
Debtors, deposits and prepayments	–	1,073,857	1,212,340
Amounts due from associates	–	75,915	327,158
Amounts due from jointly controlled entities	–	207	871
Amounts due from related companies	–	246,932	89,409
Loans receivable	–	155,697	196,215
Investments in securities	–	26,527	39,374
Tax recoverable	–	6,457	15,831
Bank deposits	–	210,963	24,824
Bank balances and cash	–	25,133	225,431
	–	<u>2,022,622</u>	<u>2,404,663</u>
Current liabilities			
Amounts due to customers for contract works	–	494,855	456,140
Creditors and accrued expenses	–	775,761	856,298
Amounts due to associates	–	10,113	96,273
Amounts due to jointly controlled entities	–	69,343	55,584
Tax payable	–	4,503	1,056
Bank borrowings – due within one year	–	144,423	44,048
	–	<u>1,498,998</u>	<u>1,509,399</u>
Net current assets	–	<u>523,624</u>	<u>895,264</u>
Total assets less current liabilities	–	<u>3,101,205</u>	<u>3,218,722</u>
Minority interests	–	<u>863,395</u>	<u>1,195,365</u>
Non-current liabilities			
Bank borrowings - due after one year	–	637,175	517,000
Provision for long service payments	–	1,727	1,727
Deferred tax liabilities	–	61,165	52,882
	–	<u>700,067</u>	<u>571,609</u>
Net assets	–	<u><u>1,537,743</u></u>	<u><u>1,451,748</u></u>

5. DISCONTINUING OPERATIONS (Continued)

The cash flows attributable to Paul Y. - ITC Group for the Relevant Periods were as follows:

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
OPERATING ACTIVITIES			
(Loss) profit before taxation	–	(2,387)	303,513
Adjustments for:			
Share of results of associates	–	(1,579)	(151,344)
Share of results of jointly controlled entities	–	(1,895)	(9,074)
Interest income	–	(7,050)	(37,300)
Interest expenses	–	3,304	9,829
Depreciation and amortisation of property, plant and equipment	–	16,905	72,294
Impairment loss on property interests	–	–	1,496
Allowance for amounts due from associates	–	–	21,526
Net gain on disposal and dilution of interests in subsidiaries and associates	–	–	(228,199)
Impairment loss of investment securities	–	–	2,142
Loss on option agreement	–	–	52,871
Deficit arising from revaluation of investment properties	–	–	14,000
Net unrealised holding loss (gain) on listed other investments	–	3,049	(36)
Net gain on disposal of listed other investments	–	(30)	(3,892)
Loss (gain) on disposal of property, plant and equipment	–	2,611	(3,758)
Loss on disposal of investment properties	–	–	2,152
	<u>–</u>	<u>12,928</u>	<u>46,220</u>
Operating cash flows before movements in working capital	–	12,928	46,220
Increase in amounts due from (to) customers for contract works, net of attributable interest expenses and depreciation and amortisation	–	(26,763)	(101,929)
Decrease (increase) in debtors, deposits and prepayments	–	31,529	(21,233)
(Increase) decrease in amounts due from associates	–	(6,317)	8,420
Increase in amounts due from jointly controlled entities	–	–	(664)
(Increase) decrease in amounts due from related companies	–	(4,719)	12,444
Decrease in loans receivable	–	–	55,628
(Decrease) increase in creditors and accrued expenses	–	(81,640)	8,351
Increase (decrease) in amounts due to associates	–	2,341	(23,092)
Decrease in amounts due to related companies	–	(1,774)	–
	<u>–</u>	<u>(74,415)</u>	<u>(15,855)</u>
Cash used in operations	–	(74,415)	(15,855)
Interest received	–	7,050	37,300
Dividends received from associates	–	–	52,648
Dividends received from jointly controlled entities	–	5,000	–
Overseas tax refunded (paid)	–	7	(4,487)
Hong Kong Profits Tax refunded	–	12	–
Hong Kong Profits Tax paid	–	(513)	(11,822)
	<u>–</u>	<u>(62,859)</u>	<u>57,784</u>
NET CASH (USED IN) FROM OPERATING ACTIVITIES	<u>–</u>	<u>(62,859)</u>	<u>57,784</u>

5. DISCONTINUING OPERATIONS (Continued)

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
INVESTING ACTIVITIES			
Acquisition of interests in associates	–	–	(96,559)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	–	–	(57,343)
Additions to investment securities	–	–	(40,021)
Additions to property, plant and equipment	–	(10,094)	(9,859)
Amount advances to related companies	–	(7,000)	(86,881)
Amount advances to associates	–	(46,000)	(72,681)
Proceeds from disposal of interests in associates	–	–	565,568
Proceeds from disposal of investment properties	–	–	47,056
Proceeds on disposal of listed other investments	–	21	31,102
Proceeds from disposal of property, plant and equipment	–	12,895	30,798
Repayments from associates	–	18,000	7,729
Repayments from jointly controlled entities	–	–	3,000
Repayments from related companies	–	13,663	38,710
	<u>–</u>	<u>(18,515)</u>	<u>360,619</u>
NET CASH (USED IN) FROM INVESTING ACTIVITIES			
FINANCING ACTIVITIES			
Amount advanced from jointly controlled entities	–	21,883	–
Capital contributed by minority shareholders	–	–	3,750
Dividend paid to minority shareholders of a subsidiary	–	(1,350)	(154,429)
Interest paid	–	(4,885)	(14,883)
Loan advanced from (repaid to) minority shareholders of a subsidiary	–	1,560	(4,373)
New bank loans raised	–	218,190	–
Repayment of advance from a jointly controlled entity	–	–	(13,759)
Repayments of bank borrowings	–	(92,815)	(215,493)
	<u>–</u>	<u>142,583</u>	<u>(399,187)</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES			
NET INCREASE IN CASH AND CASH EQUIVALENTS	–	61,209	19,216
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	–	152,782	213,991
	<u>–</u>	<u>213,991</u>	<u>233,207</u>
CASH AND CASH EQUIVALENTS CARRIED FORWARD			
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank deposits	–	210,963	24,824
Bank balances and cash	–	25,133	225,431
Bank overdrafts	–	(22,105)	(17,048)
	<u>–</u>	<u>213,991</u>	<u>233,207</u>

Paul Y. - ITC was an associate of the Group as at 31st March, 2002 and became a subsidiary of the Group since 27th December, 2002.

6. 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

	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Directors' fees:			
– executive	90	84	72
– independent non-executive	220	240	240
	<u>310</u>	<u>324</u>	<u>312</u>
Other emoluments (executive directors):			
– salaries and other benefits	12,052	11,824	13,888
– discretionary bonus	–	–	16,400
– retirement benefit scheme contributions	543	829	1,139
	<u>12,595</u>	<u>12,653</u>	<u>31,427</u>
	<u><u>12,905</u></u>	<u><u>12,977</u></u>	<u><u>31,739</u></u>

Emoluments of the directors were within the following bands:

	2002 Number of directors	2003 Number of directors	2004 Number of directors
Nil to HK\$1,000,000	5	5	5
HK\$1,000,001 to HK\$1,500,000	3	–	–
HK\$1,500,001 to HK\$2,000,000	1	4	–
HK\$2,000,001 to HK\$2,500,000	2	–	–
HK\$2,500,001 to HK\$3,000,000	1	2	1
HK\$3,000,001 to HK\$3,500,000	–	–	1
HK\$8,000,001 to HK\$8,500,000	–	–	3
	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

The five highest paid individuals in the Group were all directors for each of the two years ended 31st March, 2002 and 2003 and included four directors and one employee for the year ended 31st March, 2004. The information regarding their emoluments are as follows:

	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Fees	96	50	40
Salaries and other benefits	9,504	10,173	13,787
Discretionary bonus	–	–	16,200
Retirement benefit scheme contributions	462	730	1,144
	<u>10,062</u>	<u>10,953</u>	<u>31,171</u>

Emoluments of the five highest paid individuals were within the following bands:

	2002 Number of employees	2003 Number of employees	2004 Number of employees
HK\$1,000,001 to HK\$1,500,000	1	–	–
HK\$1,500,001 to HK\$2,000,000	1	3	–
HK\$2,000,001 to HK\$2,500,000	2	–	–
HK\$2,500,001 to HK\$3,000,000	1	2	–
HK\$3,000,001 to HK\$3,500,000	–	–	2
HK\$8,000,001 to HK\$8,500,000	–	–	3
	<u>–</u>	<u>–</u>	<u>3</u>

During each of the three years ended 31st March, 2002, 2003 and 2004, 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 each of the three years ended 31st March, 2002, 2003 and 2004.

7. FINANCE COSTS

	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Amortisation of deferred expenditure on issuance of convertible notes	3,114	2,385	485
Interest payable on:			
Bank borrowings wholly repayable within five years	646	4,394	14,467
Bank borrowings not wholly repayable within five years	–	276	–
Convertible notes	43,685	27,247	19,152
Other borrowings wholly repayable within five years	2,001	2,817	8,454
Other finance charges	–	274	1,218
	<u>49,446</u>	<u>37,393</u>	<u>43,776</u>
<i>Less:</i> Amount capitalised in respect of contracts in progress	–	(713)	(5,054)
	<u>49,446</u>	<u>36,680</u>	<u>38,722</u>

8. NET INVESTMENT INCOME (EXPENSES)

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Surplus arising from revaluation of investment properties	125	–	–
Gain on disposal of investment securities	–	–	17,180
Impairment loss on investment securities	–	(20,410)	(5,340)
Gain (loss) on disposal of investment properties	216	1	(2,152)
Loss on option agreement	–	–	(52,871)
	<u>341</u>	<u>(20,409)</u>	<u>(43,183)</u>

9. NET GAIN ON DISPOSAL AND DILUTION OF INTERESTS IN SUBSIDIARIES AND ASSOCIATES

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Gain (loss) on disposal and dilution of interests in subsidiaries	6	–	(104,961)
Gain on disposal of interests in associates	–	–	221,355
Gain (loss) on dilution of interests in associates	2,122	–	(32,794)
	<u>2,128</u>	<u>–</u>	<u>83,600</u>

10. IMPAIRMENT LOSS IN RESPECT OF GOODWILL ARISING ON ACQUISITION OF ASSOCIATES

At 31st March, 2002, the directors estimated that the recoverable amount of the interest in associates was net market selling price and an impairment loss on goodwill (note 18) and goodwill reserve arising from acquisition of the associates of HK\$196,451,000 had been recognised in the financial statements for the year ended 31st March, 2002 in consideration of the operating results of the associates.

11. TAXATION

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Hong Kong Profits Tax			
Current year	–	176	–
Underprovision in previous years	–	–	166
	<u>–</u>	<u>176</u>	<u>166</u>
Overseas taxation	–	1	3,322
	<u>–</u>	<u>177</u>	<u>3,488</u>
Deferred tax (note 34)			
Effect on change in tax rate	–	3,483	–
Credit for the year	–	(1,199)	(6,832)
	<u>–</u>	<u>2,284</u>	<u>(6,832)</u>
Taxation attributable to the Company and its subsidiaries	–	2,461	(3,344)
Share of taxation attributable to associates	27,186	25,558	57,063
	<u>27,186</u>	<u>28,019</u>	<u>53,719</u>

Hong Kong Profits Tax is calculated at the rate of 16% for each of the two years ended 31st March, 2002 and 2003 and 17.5% for the year ended 31st March, 2004 of the estimated assessable profit for respective years. The Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment.

No provision of Hong Kong Profits Tax was made for the year ended 31st March, 2002 as the Group incurred tax loss for that year.

No tax is payable on the profit for the year ended 31st March, 2004 arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

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

11. TAXATION (Continued)

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

	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
(Loss) profit before taxation	<u>(273,450)</u>	<u>(332,729)</u>	<u>183,946</u>
Tax at the Hong Kong Profits Tax rate of 2002 and 2003: 16%; 2004: 17.5%	(43,752)	(53,237)	32,190
Tax effect of expenses not deductible for tax purposes	33,835	10,626	41,308
Tax effect of income not taxable for tax purposes	(1,168)	(14,409)	(59,856)
Tax effect of deductible temporary differences not recognised	–	347	245
Tax effect of utilisation of deductible temporary differences previously not recognised	–	–	(8,219)
Tax effect of tax losses not recognised	5,791	6,240	39,757
Tax effect of utilisation of tax losses previously not recognised	(36)	(10,528)	(19,981)
Tax effect of different tax rates of associates and jointly controlled entities operating in other jurisdictions	32,516	85,497	28,109
Increase in opening deferred tax liabilities resulting from an increase in applicable tax rate	–	3,483	–
Underprovision in prior year	<u>–</u>	<u>–</u>	<u>166</u>
Tax charge for the year	<u>27,186</u>	<u>28,019</u>	<u>53,719</u>

Details of the deferred tax are set out in note 34.

12. DIVIDENDS

The directors did not recommend the payment of a dividend to ordinary shareholders for each of the three years ended 31st March, 2002, 2003 and 2004.

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 each of the three years ended 31st March, 2002, 2003 and 2004 in this report.

13. (LOSS) EARNINGS PER SHARE

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

	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
(Loss) profit for the year	(300,636)	(358,524)	28,932
Dividend for preference shares	<u>(18,491)</u>	<u>(18,491)</u>	<u>(18,491)</u>
(Loss) profit for the purposes of basic (loss) earnings per share	(319,127)	(377,015)	10,441
Adjustment to the share of results of subsidiaries based on dilution of their earnings per share	–	(1,370)	(2,963)
Adjustment to the share of results of associates based on dilution of their earnings per share	<u>(1,324)</u>	<u>–</u>	<u>–</u>
(Loss) profit for the purposes of diluted (loss) earnings per share	<u>(320,451)</u>	<u>(378,385)</u>	<u>7,478</u>
	2002	2003	2004
	Number	Number	Number
	of shares	of shares	of shares
Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	<u>607,659,374</u>	<u>630,960,774</u>	<u>636,379,717</u>

For each of the three years ended 31st March, 2002, 2003 and 2004, the convertible notes and compulsorily convertible cumulative preference shares are anti-dilutive as the exercise of these convertible notes and compulsorily convertible cumulative preference shares resulted in a decrease in loss per share for each of the two years ended 31st March, 2002 and 2003 and an increase in earnings per share for the year ended 31st March, 2004.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Plant, machinery and office equipment <i>HK\$'000</i>	Motor vehicles and vessels <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP					
COST OR VALUATION					
At 1st April, 2001	19,338	704	10,303	2,306	32,651
Translation adjustments	(270)	(3)	(10)	(13)	(296)
Additions	–	259	486	14	759
Disposals	–	(14)	–	(100)	(114)
At 31st March, 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
Translation adjustments	2,478	37	90	128	2,733
On acquisition of subsidiaries	–	–	53,758	74	53,832
Additions	141	3,926	3,385	3,527	10,979
Disposals	(15,622)	(30,872)	(29,781)	(6,932)	(83,207)
Written back on revaluation	(10)	–	–	–	(10)
At 31st March, 2004	242,901	414,416	100,142	138,873	896,332
Comprising:					
At 31st March, 2002					
At cost	–	946	10,779	2,207	13,932
At valuation – 2002	19,068	–	–	–	19,068
	19,068	946	10,779	2,207	33,000
At 31st March, 2003					
At cost	–	441,325	72,690	142,076	656,091
At directors' valuation – 2003	16,227	–	–	–	16,227
At valuation – 2003	239,687	–	–	–	239,687
	255,914	441,325	72,690	142,076	912,005
At 31st March, 2004					
At cost	–	414,416	100,142	138,873	653,431
At directors' valuation – 2004	727	–	–	–	727
At valuation – 2004	242,174	–	–	–	242,174
	242,901	414,416	100,142	138,873	896,332

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land and buildings HK\$'000	Plant, machinery and office equipment HK\$'000	Motor vehicles and vessels HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
DEPRECIATION AND AMORTISATION					
At 1st April, 2001	–	395	4,760	784	5,939
Translation adjustments	–	(2)	(3)	(8)	(13)
Provided for the year	250	147	1,113	255	1,765
Eliminated on disposals	–	(14)	–	(38)	(52)
Written back on revaluation	(250)	–	–	–	(250)
At 31st March, 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
Translation adjustments	–	32	79	112	223
Provided for the year	5,263	39,407	11,557	22,750	78,977
Eliminated on disposals	(20)	(26,262)	(21,516)	(4,875)	(52,673)
Written back on revaluation	(5,243)	–	–	–	(5,243)
At 31st March, 2004	–	324,003	33,627	86,328	443,958
NET BOOK VALUES					
At 31st March, 2002	19,068	420	4,909	1,214	25,611
At 31st March, 2003	255,914	130,499	29,183	73,735	489,331
At 31st March, 2004	242,901	90,413	66,515	52,545	452,374

Land and buildings of the Group were revalued as at 31st March, 2002 on an open market value basis by B.I. Appraisals Ltd., an independent professional property valuer. This revaluation gave rise to a surplus on revaluation of HK\$250,000 which has been credited to the income statement.

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 of which HK\$242,000, HK\$805,000 and HK\$443,000 have been credited to the income statement, properties revaluation reserve and shared by the minority shareholders of a subsidiary of the Company respectively.

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, 2004. This revaluation gave rise to a surplus on revaluation of HK\$5,233,000 of which HK\$273,000, HK\$2,731,000 and HK\$2,229,000 have been credited to the income statement, properties revaluation reserve and shared by the minority shareholders of a subsidiary of the Company respectively.

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

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

	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Freehold properties in Canada	17,618	19,087	21,574
Long-term leasehold properties in the PRC	1,450	2,623	141
Medium-term leasehold properties in:			
Hong Kong	–	233,600	220,600
The PRC	–	604	586
	<u>19,068</u>	<u>255,914</u>	<u>242,901</u>

Had the Group's land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value would have been approximately HK\$22,508,000, HK\$258,155,000 and HK\$240,407,000, respectively, as at 31st March, 2002, 2003 and 2004.

15. INVESTMENT PROPERTIES

	THE GROUP		
	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
VALUATION			
At 1st April	23,800	1,125	572,608
Transfer from deposits and prepayments	–	–	5,600
On acquisition of subsidiaries	–	572,608	–
Disposals	(22,800)	(1,125)	(49,208)
Surplus (deficit) arising on revaluation	<u>125</u>	<u>–</u>	<u>(14,000)</u>
At 31st March	<u>1,125</u>	<u>572,608</u>	<u>515,000</u>

The Group's investment properties are held for rental purposes under operating leases.

The investment property of the Group was stated at open market value as at 31st March, 2002 estimated by the directors with reference to the sale and purchase agreement entered into by the Group in May 2002 for the sale of the property after 31st March, 2002.

The valuation as at 31st March, 2002 gave rise to a revaluation surplus of approximately HK\$125,000 which was credited to the income statement.

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 and no surplus or deficit arose on revaluation of these properties.

The Group's investment properties situated in the PRC were revalued on 31st March, 2003 by the directors at HK\$43,608,000 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.

The investment properties situated in Hong Kong held under medium-term leases were revalued on 31st March, 2004, on an open market value basis, by RHL Appraisal Ltd., an independent professional property valuer. The valuation attributable to these investment properties amounted to approximately HK\$455,000,000 and no surplus or deficit arose on revaluation of these properties.

The Group's investment properties situated in Hong Kong held under long lease were revalued by the directors at approximately HK\$60,000,000 with reference to the value as quoted in the sale and purchase agreement. The deficit arose on revaluation of these properties amounting to HK\$14,000,000 was charged to the income statement.

15. INVESTMENT PROPERTIES (Continued)

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

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Long-term leasehold properties in Hong Kong	–	74,000	60,000
Medium-term leasehold properties in:			
Hong Kong	–	455,000	455,000
The PRC	1,125	43,608	–
	<u>1,125</u>	<u>572,608</u>	<u>515,000</u>

16. NEGATIVE GOODWILL

	THE GROUP HK\$'000
GROSS AMOUNT	
At 1st April, 2001 and 31st March, 2002	–
On acquisition of subsidiaries	403,622
Transferred from negative goodwill on associates	<u>40,305</u>
At 31st March, 2003	443,927
Eliminated on disposal and dilution of interests in subsidiaries	<u>(64,736)</u>
At 31st March, 2004	<u>379,191</u>
RELEASED TO INCOME	
At 1st April, 2001 and 31st March, 2002	–
Transferred from negative goodwill on associates	2,041
Released in the year	<u>18,412</u>
At 31st March, 2003	20,453
Released on disposal and dilution of interests in subsidiaries	(8,941)
Released in the year	<u>53,139</u>
At 31st March, 2004	<u>64,651</u>
CARRYING AMOUNTS	
At 31st March, 2002	<u>–</u>
At 31st March, 2003	<u>423,474</u>
At 31st March, 2004	<u>314,540</u>

The negative goodwill is released to income statement over a period of eight years.

17. INTERESTS IN SUBSIDIARIES

	THE COMPANY		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	1	1	1
Amounts due from subsidiaries	2,972,906	2,910,837	2,677,178
	2,972,907	2,910,838	2,677,179
Less: Allowances for amounts due from subsidiaries	(960,877)	(960,877)	(957,929)
	2,012,030	1,949,961	1,719,250

The amounts due from subsidiaries are unsecured and have no fixed terms of repayment. As at 31st March, 2003 and 2004, of these amounts, an amount of approximately HK\$2,651,577,000 and HK\$2,420,866,000, respectively, bore interest at commercial rates and the remaining balance was interest-free. In the opinion of the directors, the amounts would not be repayable within twelve months from the balance sheet date. Accordingly, the amounts were shown as non-current.

18. INTERESTS IN ASSOCIATES

	THE GROUP		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Share of net assets of associates:			
Listed in Hong Kong	1,818,651	503,820	920,360
Listed overseas	3,418	652,590	552,433
Unlisted	4,329	(2,986)	23,828
Goodwill (<i>note a</i>)	–	554	245,323
Negative goodwill (<i>note b</i>)	(47,485)	(17,262)	(17,855)
	1,778,913	1,136,716	1,724,089
Amounts due from associates (<i>note h</i>)	–	217,911	26,400
	1,778,913	1,354,627	1,750,489
Market value of listed securities:			
Hong Kong	335,523	42,075	286,319
Overseas	33,945	964,965	1,158,296
	369,468	1,007,040	1,444,615

18. INTERESTS IN ASSOCIATES (Continued)

Notes:

(a) Movement of goodwill is analysed as follows:

	<i>HK\$'000</i>
Cost	
At 1st April, 2001	–
Arising from acquisition of an associate	195,466
	<hr/>
At 31st March, 2002	195,466
Arising from additional interests in an associate	573
	<hr/>
At 31st March, 2003	196,039
Arising from acquisition of additional interests in associates	313,131
Eliminated on disposal and dilution of interests in associates	(248,355)
	<hr/>
At 31st March, 2004	260,815
	<hr/>
Amortisation and impairment	
At 1st April, 2001	–
Impairment loss recognised for the year (note 10)	195,466
	<hr/>
At 31st March, 2002	195,466
Charge for the year	19
	<hr/>
At 31st March, 2003	195,485
Charge for the year	17,601
Eliminated on disposal and dilution of interests in associates	(197,594)
	<hr/>
At 31st March, 2004	15,492
	<hr/>
Net book values	
At 31st March, 2002	–
	<hr/> <hr/>
At 31st March, 2003	554
	<hr/> <hr/>
At 31st March, 2004	245,323
	<hr/> <hr/>

The goodwill is amortised over a period of ten to twenty years.

18. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

- (b) Movement of negative goodwill is analysed as follows:

	<i>HK\$'000</i>
Gross amount	
At 1st April, 2001	–
Arising from acquisition of associates	48,402
	48,402
At 31st March, 2002	48,402
Arising from additional interests in associates	10,155
Transferred to negative goodwill of subsidiaries	(40,305)
	18,252
At 31st March, 2003	18,252
Arising from acquisition of additional interests in associates	4,541
Eliminated on dilution of interests in associates	(3,206)
	19,587
At 31st March, 2004	19,587
Released to income	
At 1st April, 2001	–
Released in the year	917
	917
At 31st March, 2002	917
Released in the year	2,114
Transferred to negative goodwill of subsidiaries	(2,041)
	990
At 31st March, 2003	990
Released in the year	996
Released on dilution of interests in associates	(254)
	1,732
At 31st March, 2004	1,732
Carrying amounts	
At 31st March, 2002	47,485
	47,485
At 31st March, 2003	17,262
	17,262
At 31st March, 2004	17,855
	17,855

The negative goodwill is released to income statement over a period of twenty years.

- (c) During the year ended 31st March, 2002, the Group increased its equity interest in Hanny Holdings Limited (“Hanny”) from 27.24% at the beginning of the year to 27.73% at the end of the year.

During the year ended 31st March, 2003, the Group increased its equity interest in Hanny from 27.73% at the beginning of the year to 28.26% at the end of the year.

During the year ended 31st March, 2004, the Group’s equity interest in Hanny was diluted from 28.26% at the beginning of the year to 24.55% at the end of the year.

- (d) During the year ended 31st March, 2002, there was a transfer of approximately HK\$279,412,000 from investments in securities to interest in associates after the Group increased its equity interest in SMI Corporation Limited (“SMI”, formerly known as Star East Holdings Limited) to over 20%.

During the year ended 31st March, 2003, the Group increased its equity interest in SMI from 21.11% at the beginning of the year to 25.91% at the end of the year.

Following a placement of shares by SMI on 19th December, 2003, the Group’s equity interest in SMI was diluted to less than 20% and the Group is no longer in a position to exercise significant influence over SMI such that the carrying amount of the Group’s investment in SMI has been recorded as cost and dealt with in accordance with the Group’s accounting policy for investment securities.

18. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

- (e) During the year ended 31st March, 2002, the Group increased its equity interest in Paul Y. - ITC from 40.91% at the beginning of the year to 42.59% at the end of that year.

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 ended 31st March, 2003 to 64.46% at the end of that year.

- (f) 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, 2004 is calculated based on the net assets of Downer at 31st December, 2003 and the results from 1st January, 2003 to 31st December, 2003 whilst the Group's share of interest in Downer at 31st March, 2003 was calculated based on the net assets of Downer at 31st December, 2002.

Paul Y. - ITC has not accounted for its share of losses of Downer amounting to HK\$123,711,000 for the year ended 31st March, 2004 as those losses arising on a contract are recoverable in full under guarantees provided by an ex-shareholder of Downer. 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.

During the year ended 31st March, 2004, Paul Y. - ITC entered into a deed of settlement with Downer whereby Paul Y. - ITC agreed to settle the net amount, including those losses arising on the aforesaid contract, payable to Downer. Accordingly, the net amount payable to Downer has been included in amounts due to associates and an amount of approximately HK\$123,711,000 to be recovered from the ex-shareholder of Downer has been included in debtors, deposits and prepayments at 31st March, 2004.

- (g) During the year ended 31st March, 2004, the Group's equity interest through Paul Y. - ITC, a subsidiary of the Company, in China Strategic Holdings Limited ("China Strategic") increased from 14.55% to 29.36%. Accordingly, the investment has been reclassified from investments in securities to interests in associates during the year ended 31st March 2004.

China Strategic is a company listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and its financial year end date is 31st December. Since only published financial information of China Strategic was available and used by the Group in applying the equity method, the Group's share of interest in China Strategic at 31st March, 2004 is calculated based on the net assets of China Strategic at 31st December, 2003 and the results from the date China Strategic became an associate of the Group to 31st December, 2003.

- (h) The amounts due from associates are unsecured. Of these amounts, an amount of approximately HK\$214,603,000 and HK\$26,400,000, respectively, as at 31st March, 2003 and 2004 bore interest at commercial rate and the remaining balance was interest-free. In the opinion of the directors, the amount would not be repayable within twelve months from the balance sheet date. Accordingly, the amounts were shown as non-current.

Particulars of the Group's principal associates as at 31st March, 2004 are set out in note 47.

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP		
	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	–	3,743	12,817
Amount due from a jointly controlled entity	–	5,000	2,000
	<u>–</u>	<u>8,743</u>	<u>14,817</u>

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

Particulars of the Group's jointly controlled entities as at 31st March, 2004 are set out in note 47.

20. INVESTMENTS IN SECURITIES

THE GROUP

	Investment securities			Other investments			Total		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed equity securities:									
– Hong Kong	–	658,457	9,401	2	26,527	39,374	2	684,984	48,775
– Elsewhere	–	3,623	1,481	2,417	–	–	2,417	3,623	1,481
	–	662,080	10,882	2,419	26,527	39,374	2,419	688,607	50,256
Other unlisted investments	–	–	–	–	5,035	5,035	–	5,035	5,035
Unlisted club debentures	–	–	–	1,589	8,977	8,977	1,589	8,977	8,977
Total	–	662,080	10,882	4,008	40,539	53,386	4,008	702,619	64,268
Market value of listed securities	–	22,877	13,971	2,419	26,527	39,374	2,419	49,404	53,345
Carrying amount analysed for reporting purposes as:									
Current	–	–	–	–	26,527	39,374	–	26,527	39,374
Non-current	–	662,080	10,882	4,008	14,012	14,012	4,008	676,092	24,894
	–	662,080	10,882	4,008	40,539	53,386	4,008	702,619	64,268

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	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, during the year ended 31st March, 2003, its subsidiaries were 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 fair value of the investment securities, estimated by reference to the cash flows from the investment projects discounted at the prevailing interest rates, are approximate their carrying amount.

21. CONVERTIBLE NOTES RECEIVABLE

The convertible notes were guaranteed by a company with its shares listed on the Hong Kong Stock Exchange (the "Guarantor"), bore interest at 5% per annum and would be matured on 29th August, 2005. During the year ended 31st March, 2004, the convertible notes were converted by the Group into shares of the Guarantor at a specified price and were disposed of at market value.

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

	THE GROUP		
	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Contracts in progress at the balance sheet date:			
Contract costs incurred to date	–	32,580,432	35,203,304
Recognised profits less recognised losses	–	865,832	862,708
	<u>–</u>	<u>865,832</u>	<u>862,708</u>
Less: Progress billings	–	33,446,264	36,066,012
	–	(33,740,185)	(36,248,942)
	<u>–</u>	<u>(33,740,185)</u>	<u>(36,248,942)</u>
	<u>–</u>	<u>(293,921)</u>	<u>(182,930)</u>
	<u>–</u>	<u>(293,921)</u>	<u>(182,930)</u>
Analysed for reporting purposes are:			
Amounts due from customers for contract works included in current assets	–	200,934	273,210
Amounts due to customers for contract works included in current liabilities	–	(494,855)	(456,140)
	<u>–</u>	<u>(494,855)</u>	<u>(456,140)</u>
	<u>–</u>	<u>(293,921)</u>	<u>(182,930)</u>
	<u>–</u>	<u>(293,921)</u>	<u>(182,930)</u>

At 31st March, 2003 and 2004, retentions held by customers for contract works included in debtors, deposits and prepayments amounted to approximately HK\$367,453,000 and HK\$369,983,000, respectively.

23. DEBTORS, DEPOSITS AND PREPAYMENTS

As at 31st March, 2002, 2003 and 2004, included in debtors, deposits and prepayments are trade debtors of approximately HK\$1,549,000, HK\$482,111,000 and HK\$503,395,000, respectively, and their aged analysis at each of the balance sheet dates as follows:

	THE GROUP		
	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Trade debtors			
0-30 days	1,312	400,424	403,517
31-60 days	98	5,724	29,584
61-90 days	16	5,224	2,750
Over 90 days	123	70,739	67,544
	<u>1,549</u>	<u>482,111</u>	<u>503,395</u>
	<u>1,549</u>	<u>482,111</u>	<u>503,395</u>

The Group's credit terms for its contracting business are negotiated 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.

24. AMOUNTS DUE FROM ASSOCIATES

The amounts due from associates of the Group are unsecured and repayable within one year. As at 31st March, 2002, 2003 and 2004, of these amounts, an amount of approximately HK\$114,600,000, HK\$86,851,000 and HK\$324,028,000, respectively, bore interest at commercial rates and the remaining balance was interest-free.

25. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

The amounts due from jointly controlled entities of Group are unsecured, interest-free and have no fixed terms of repayment.

26. AMOUNTS DUE FROM RELATED COMPANIES

	THE GROUP		
	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
China Velocity Group Limited (formerly known as Rosedale Hotel Group Limited) and its subsidiaries	1,333	131,546	–
China Strategic and its subsidiaries	26,769	158,093	–
Associates of China Strategic	–	–	89,935
Leadership Publishing Group Limited (formerly known as Sing Pao Media Group Limited) and its subsidiaries	17,644	–	–
Other related companies	–	10,209	289
	<u>45,746</u>	<u>299,848</u>	<u>90,224</u>

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

The amounts are unsecured and repayable within one year. As at 31st March, 2002, 2003 and 2004, of the amounts, an amount of approximately HK\$42,000,000, HK\$278,380,000 and HK\$86,881,000, respectively, bore interest at commercial rates and the remaining balance was interest-free. Details of the transactions and balances with related companies are set out in note 46.

27. LOANS RECEIVABLE

The amounts are receivable within one year except for HK\$50,000,000 as at 31st March, 2004 which is receivable after one year. As at 31st March, 2002, 2003 and 2004, of the Group's amounts, amounts of approximately HK\$4,724,000, HK\$20,898,000 and HK\$246,215,000, respectively, bore interest at commercial rates and the remaining balance was interest-free.

As at 31st March, 2003, the Company's loan receivable bore interest at commercial rate.

28. CREDITORS AND ACCRUED EXPENSES

As at 31st March, 2002, 2003 and 2004, included in creditors and accrued expenses are trade payables of approximately HK\$11,721,000, HK\$326,987,000 and HK\$354,324,000, respectively, and their aged analysis at each of the balance sheet dates as follows:

	THE GROUP		
	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade creditors			
0-30 days	11,592	273,309	315,826
31-60 days	81	24,780	18,742
61-90 days	1	9,342	1,476
Over 90 days	47	19,556	18,280
	<u>11,721</u>	<u>326,987</u>	<u>354,324</u>

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

The balances of the Group are unsecured, interest-free and have no fixed terms of repayment, except for an amount due to an associate as at 31st March, 2004 of HK\$92,000,000 under a deed of settlement which is repayable in April 2004.

30. CONVERTIBLE NOTES

	THE GROUP AND THE COMPANY		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
HK\$120,000,000 convertible notes due 2002 (<i>note a</i>)	120,000	–	–
<i>Less:</i> Unamortised deferred expenditure	(344)	–	–
	<u>119,656</u>	<u>–</u>	<u>–</u>
HK\$460,000,000 convertible notes due 2003 (<i>note b</i>)	460,000	–	–
<i>Less:</i> Unamortised deferred expenditure	(2,021)	–	–
	<u>457,979</u>	<u>–</u>	<u>–</u>
Convertible notes due 2006 (<i>note c</i>)	–	392,500	289,500
<i>Less:</i> Unamortised deferred expenditure	–	(701)	(450)
	<u>–</u>	<u>391,799</u>	<u>289,050</u>
	<u>577,635</u>	<u>391,799</u>	<u>289,050</u>
The convertible notes are repayable as follows:			
Within one year	577,635	–	–
More than two years, but not exceeding five years	–	391,799	289,050
	<u>577,635</u>	<u>391,799</u>	<u>289,050</u>
<i>Less:</i> Amount due after one year and shown under non-current liabilities	–	(391,799)	(289,050)
Amount due within one year	<u>577,635</u>	<u>–</u>	<u>–</u>

Notes:

- (a) Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 30th September, 1999, the Company issued on 5th October, 1999 HK\$50,000,000 convertible notes to Galaxyway Investments Limited (“Galaxyway”) and HK\$50,000,000 convertible notes to independent investors by subscription and placement, respectively, with an over-allotment option granted to the independent investors of an amount up to HK\$20,000,000. The Company further issued HK\$20,000,000 convertible notes on 3rd November, 1999 pursuant to the over-allotment option exercised by the independent investors. Galaxyway was a wholly-owned subsidiary of Chinaview International Limited (“Chinaview”) which was, in turn, wholly owned by Dr. Chan Kwok Keung, Charles, a director and a substantial shareholder of the Company.

The notes bore 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 had an option to convert the convertible notes into ordinary shares of the Company at an initial conversion price of HK\$1.10 per share, subject to adjustment, on or before 5th October, 2002 (or the next following business day if it is not a business day). The conversion price was adjusted to HK\$1.06 per share pursuant to a placing and subscription of ordinary shares of the Company in June 2001. The ordinary shares to be issued upon such conversion were to rank *pari passu* in all respects with the ordinary shares of the Company in issue on the relevant conversion date.

The convertible notes were redeemed during the year ended 31st March, 2003.

- (b) Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 25th February, 2000, the Company issued on 29th February, 2000 HK\$200,000,000 convertible notes to Galaxyway and HK\$200,000,000 convertible notes to independent investors by subscription and placement, respectively, with an over-allotment option granted to the independent investors of an amount up to HK\$60,000,000. The Company further issued HK\$60,000,000 convertible notes on 30th March, 2000 pursuant to the over-allotment option exercised by the independent investors.

The notes bore interest at Best Lending Rate and payable semi-annually in arrears.

All the noteholders had an option to convert the convertible notes into ordinary shares of the Company at an initial conversion price of HK\$1.75 per share, subject to adjustment, on or before 1st March, 2003 (or the next following business day if it is not a business day). The conversion price was adjusted to HK\$1.68 per share pursuant to a placing and subscription of ordinary shares of the Company in June 2001. The ordinary shares to be issued upon such conversion were to rank *pari passu* in all respects with the ordinary shares of the Company in issue on the relevant conversion date.

The convertible notes were redeemed during the year ended 31st March, 2003.

30. CONVERTIBLE NOTES (Continued)

- (c) 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 bore interest at the Best Lending Rate and payable semi-annually in arrears.

All the noteholders had an option to convert the convertible notes into ordinary shares of the Company at an initial conversion price of HK\$0.30 per ordinary 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.

On 7th January, 2004, HK\$7,000,000 convertible notes were converted into 23,333,333 ordinary shares of the Company at HK\$0.30 per ordinary share. On 27th February, 2004, HK\$96,000,000 convertible notes were redeemed by the Company pursuant to redemption agreements dated 16th January, 2004 (the "Redemption") and the Redemption was approved by the disinterested shareholders at a special general meeting of the Company held on 25th February, 2004.

31. BANK BORROWINGS

	THE GROUP			THE COMPANY		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Bank borrowings comprise:						
Mortgage loans	–	446,135	364,000	–	–	–
Bank loans	–	290,000	180,000	–	–	–
Trust receipt loans	–	23,358	–	–	–	–
Bank overdrafts	9,123	45,535	31,247	–	9,936	–
	<u>9,123</u>	<u>805,028</u>	<u>575,247</u>	<u>–</u>	<u>9,936</u>	<u>–</u>
Analysed as:						
Secured	9,109	736,354	558,199	–	–	–
Unsecured	14	68,674	17,048	–	9,936	–
	<u>9,123</u>	<u>805,028</u>	<u>575,247</u>	<u>–</u>	<u>9,936</u>	<u>–</u>
The bank borrowings are repayable as follows:						
Within one year or on demand	9,123	167,853	58,247	–	9,936	–
More than one year, but not exceeding two years	–	30,900	217,000	–	–	–
More than two years, but not exceeding five years	–	578,700	300,000	–	–	–
More than five years	–	27,575	–	–	–	–
	<u>9,123</u>	<u>805,028</u>	<u>575,247</u>	<u>–</u>	<u>9,936</u>	<u>–</u>
Less: Amounts due within one year or on demand shown under current liabilities	<u>(9,123)</u>	<u>(167,853)</u>	<u>(58,247)</u>	<u>–</u>	<u>(9,936)</u>	<u>–</u>
Amounts due after one year	<u>–</u>	<u>637,175</u>	<u>517,000</u>	<u>–</u>	<u>–</u>	<u>–</u>

32. OTHER LOANS

	THE GROUP			THE COMPANY		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Secured loans	–	60,000	–	–	–	–
Unsecured loans	17,317	83,817	17,317	17,317	83,817	17,317
	<u>17,317</u>	<u>143,817</u>	<u>17,317</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	17,317	77,317	17,317	17,317	17,317	17,317
More than one year, but not exceeding two years	–	66,500	–	–	66,500	–
	17,317	143,817	17,317	17,317	83,817	17,317
<i>Less:</i> Amounts due within one year or on demand shown under current liabilities	<u>(17,317)</u>	<u>(77,317)</u>	<u>(17,317)</u>	<u>(17,317)</u>	<u>(17,317)</u>	<u>(17,317)</u>
Amounts due after one year	<u>–</u>	<u>66,500</u>	<u>–</u>	<u>–</u>	<u>66,500</u>	<u>–</u>

The loans bear interest at commercial rates.

33. PROVISION FOR LONG SERVICE PAYMENTS

	THE GROUP		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
At 1st April	–	–	1,727
On acquisition of subsidiaries	–	1,727	–
At 31st March	<u>–</u>	<u>1,727</u>	<u>1,727</u>

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

34. DEFERRED TAX

	THE GROUP		
	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Deferred tax liabilities	–	(61,165)	(52,882)
Deferred tax assets	–	4,165	2,714
	<u>–</u>	<u>4,165</u>	<u>2,714</u>
	<u>–</u>	<u>(57,000)</u>	<u>(50,168)</u>

The following are the Group's major deferred tax assets and liabilities recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation <i>HK\$'000</i>	Undistributed earnings of an associate <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Recognition of contracting income <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2001	609	–	(609)	–	–	–
(Credit) charge to income statement	(63)	–	63	–	–	–
At 31st March, 2002	546	–	(546)	–	–	–
Acquisition of subsidiaries	46,265	28,101	(14,306)	(3,135)	(2,210)	54,715
(Credit) charge to income statement	(7,724)	1,816	2,953	(424)	2,180	(1,199)
Effect on change in tax rate	3,035	–	(27)	226	249	3,483
Realised on dilution of interest in an associate	–	(204)	–	–	–	(204)
Exchange differences	–	205	–	–	–	205
At 31st March, 2003	42,122	29,918	(11,926)	(3,333)	219	57,000
(Credit) charge to income statement	(9,557)	11,056	3,075	(93)	(204)	4,277
Effect of change in tax rate	60	–	(60)	–	–	–
Realised on dilution of interest in an associate	–	(19,799)	–	–	–	(19,799)
Exchange differences	–	8,690	–	–	–	8,690
At 31st March, 2004	<u>32,625</u>	<u>29,865</u>	<u>(8,911)</u>	<u>(3,426)</u>	<u>15</u>	<u>50,168</u>

At 31st March, 2002, 2003 and 2004, the Group had unused tax losses of approximately HK\$394,000,000, HK\$1,307,000,000 and HK\$1,403,000,000, respectively, available for offset against future taxable profits. A deferred tax asset has been recognised in respect of approximately HK\$3,000,000, HK\$66,000,000 and HK\$49,000,000, respectively, as at 31st March, 2002, 2003 and 2004 of such losses. No deferred tax asset in respect of the remaining tax losses has been recognised due to the unpredictability of future profit streams.

THE COMPANY

At 31st March, 2002, 2003 and 2004, the Company had unused tax losses of approximately HK\$131,000,000, HK\$150,000,000 and HK\$161,000,000, respectively. No deferred tax asset has been recognised in relation to such assets due to the unpredictability of future profit streams.

35. 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 (<i>note a</i>)	<u>1,000,000,000</u>	<u>100,000</u>
At 31st March, 2003 and 2004	<u><u>3,000,000,000</u></u>	<u><u>300,000</u></u>
Compulsorily convertible cumulative preference shares of HK\$0.10 each		
At 1st April, 2001, 31st March, 2002, 31st March, 2003 and 31st March, 2004	<u><u>280,000,000</u></u>	<u><u>28,000</u></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 (<i>note b</i>)	<u>105,000,000</u>	<u>10,500</u>
At 31st March, 2002 and 31st March, 2003	630,960,774	63,096
Conversion of convertible notes (<i>note c</i>)	<u>23,333,333</u>	<u>2,333</u>
At 31st March, 2004	<u><u>654,294,107</u></u>	<u><u>65,429</u></u>
Compulsorily convertible cumulative preference shares of HK\$0.10 each		
At 1st April, 2001, 31st March, 2002, 31st March, 2003 and 31st March, 2004	<u><u>267,980,000</u></u>	<u><u>26,798</u></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 SMI pursuant to a conditional agreement as announced by SMI 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.
- (c) On 7th January, 2004, 23,333,333 ordinary shares of the Company of HK\$0.10 each were issued upon conversion of the convertible notes in the principal amount of HK\$7,000,000 at the conversion price of HK\$0.30 per ordinary share. The ordinary shares issued by the Company ranked *pari passu* with the then existing ordinary shares of the Company in all respects.

35. SHARE CAPITAL (Continued)

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.

36. 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 approximately 9.64% 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 ten 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 ten years commencing after the Adoption Date, after which period no further options shall be granted.

As at 31st March, 2002, 2003 and 2004, 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 each of the two years ended 31st March, 2003 and 2004.

The movements of share options granted by the Company to the directors and full time employees of the Company or any of its subsidiaries during the year ended 31st March, 2002 were as follows:

Date of grant	Exercise price per share HK\$	Number of ordinary shares of the Company to be issued upon exercise of the share options		
		At 1.4.2001	Lapsed during the year	At 31.3.2002
18th December, 1998	0.3792	6,600,000	(6,600,000)	–
17th December, 1999	1.0816	24,500,000	(24,500,000)	–
		31,100,000	(31,100,000)	–

36. SHARE OPTIONS (Continued)

(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 expired 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 Group to subscribe for shares in Paul Y. - ITC.

The maximum number of shares in respect of which options may be granted under the Paul Y. - ITC Initial Scheme was 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 were 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.

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 should not exceed a period of three years commencing on the expiry of six months after the date of acceptance of options. The exercise price was determined by the directors of Paul Y. - ITC, and would 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 three years ended 31st March, 2002, 2003 and 2004:

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 and 1.4.2002	Lapsed during the year	At 31.3.2003	Lapsed during the year	At 31.3.2004
		18th December, 1998	0.6048	38,349,206	(38,349,206)	-
17th December, 1999	0.5552	16,100,000	-	16,100,000	(16,100,000)	-
		54,449,206	(38,349,206)	16,100,000	(16,100,000)	-

All options granted under the Paul Y. - ITC Initial Scheme were lapsed during the year ended 31st March, 2004.

36. SHARE OPTIONS *(Continued)*(b) Share options of Paul Y. - ITC *(Continued)*(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 (the "Eligible Person"). The Paul Y. - ITC New Scheme will remain in force for a period of ten 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 share.

The maximum number of shares may be issued upon the exercise of all options to be granted under the Paul Y. - ITC New Scheme and any other share option scheme(s) adopted by Paul Y. - ITC must not in aggregate exceed 10% of the total number of issued shares of Paul Y. - ITC, i.e. 103,674,472 shares, as at its adoption date. An ordinary resolution relating to the refreshing of the scheme limit on grant of options under the Paul Y. - ITC New Scheme and any other share option scheme(s) of Paul Y. - ITC up to 10 per cent. of the shares of Paul Y. - ITC in issue as at the date of such general meeting, i.e. 107,266,479 shares, representing 7.97% of the issued share capital of Paul Y. - ITC as at the date of this report, was passed at the annual general meeting of shareholders of Paul Y. - ITC held on 8th September, 2003. 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 of Paul Y. - ITC must not in aggregate exceed 30% of the total number of shares in issue from time to time.

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 0.1% 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.

37. 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
Share issue expenses	(1,121)	–	–	–	(1,121)
Loss for the year	–	–	–	(725,283)	(725,283)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st March, 2002	205,222	2,117,993	908	(933,399)	1,390,724
Loss for the year	–	–	–	(23,881)	(23,881)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st March, 2003	205,222	2,117,993	908	(957,280)	1,366,843
Issue of ordinary shares	4,667	–	–	–	4,667
Loss for the year	–	–	–	(26,027)	(26,027)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st March, 2004	<u>209,889</u>	<u>2,117,993</u>	<u>908</u>	<u>(983,307)</u>	<u>1,345,483</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 another capital reorganisations.

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:

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Contributed surplus	2,117,993	2,117,993	2,117,993
Accumulated losses	(933,399)	(957,280)	(983,307)
	<u>1,184,594</u>	<u>1,160,713</u>	<u>1,134,686</u>

38. ACQUISITION OF SUBSIDIARIES

	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NET ASSETS ACQUIRED			
Property, plant and equipment	–	483,977	53,832
Properties held for resale	–	–	2,342
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	116
Amounts due from associates	–	191,906	–
Amounts due from jointly controlled entities	–	207	–
Amounts due from related companies	–	248,876	–
Loans receivable	–	155,697	3,585
Tax recoverable	–	5,412	–
Bank deposits	–	99,881	–
Bank balances and cash	–	56,548	1
Amounts due to customers for contract works	–	(540,579)	–
Creditors and accrued expenses	–	(858,727)	(133)
Amounts due to associates	–	(7,772)	–
Amounts due to jointly controlled entities	–	(47,460)	–
Amounts due to related companies	–	(1,774)	–
Tax payable	–	(3,775)	–
Bank overdrafts	–	(3,647)	–
Bank borrowings	–	(634,118)	–
Minority interests	–	(846,277)	–
Provision for long service payments	–	(1,727)	–
Deferred tax	–	(54,715)	–
	<u>–</u>	<u>1,505,486</u>	<u>59,743</u>
Negative goodwill	–	(403,622)	–
Reclassification from interests in associates	–	(1,030,368)	–
	<u>–</u>	<u>71,496</u>	<u>59,743</u>
SATISFIED BY:			
Cash	–	71,496	59,743
	<u>–</u>	<u>71,496</u>	<u>59,743</u>
Net cash inflow (outflow) arising on acquisition:			
	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	–	(71,496)	(59,743)
Bank deposits, bank balances and cash acquired less bank overdrafts acquired	–	152,782	1
	<u>–</u>	<u>81,286</u>	<u>(59,742)</u>
Net inflow (outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>–</u>	<u>81,286</u>	<u>(59,742)</u>

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

On 25th October, 2002, the Company announced that its indirect wholly-owned subsidiary, 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. 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. During the year ended 31st March 2003, 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.

In August 2003, the Group acquired Kan Hock Investment & Development Co. Limited, the entire issued share capital of, and shareholders' loan of that company at a cash consideration of HK\$2,400,000.

In March 2004, the Group acquired from an independent third party the entire issued share capital of, and shareholder's loan to, Winstate Limited, for a consideration of HK\$57,343,000, which is satisfied by cash. The principal asset of the company is a motor vessel.

The subsidiaries acquired in 2003 contributed to the Group's turnover of HK\$746,868,000 and a loss of HK\$4,592,000, respectively in that year.

The subsidiaries acquired in 2004 did not make any significant impact on the Group's results for that year.

39. MAJOR NON-CASH TRANSACTIONS

- (a) 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 SMI by the associate through the exercise of the conversion right in a convertible note.
- (b) 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 M Channel Corporation Limited (formerly known as 36.com Holdings Limited), representing 18.8% of its issued share capital.
- (c) During the year ended 31st March, 2004:
 - (i) HK\$7,000,000 convertible notes issued by the Company were converted into 23,333,333 ordinary shares of the Company at HK\$0.3 per share as set out in note 30.
 - (ii) HK\$17,500,000 convertible notes receivable were converted by the Group into shares of the Guarantor at a specified price as set out in note 21.

40. 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 Scheme 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 contributions are 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 rates specified in the rules of the MPF Scheme.

41. CONTINGENT LIABILITIES

	THE GROUP			THE COMPANY		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Outstanding performance bonds in respect of construction contracts	–	740,529	623,257	–	–	–
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>–</u>	<u>747,303</u>	<u>623,257</u>	<u>–</u>	<u>67,254</u>	<u>–</u>

42. 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 a recorded receivable of approximately HK\$308,207,000 which was fully provided for by the Company. At the balance sheet dates, the Company is a principal 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.

43. 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		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Within one year	172	1,201	1,060
In the second to fifth year inclusive	28	2,392	1,877
After five years	–	1,026	718
	<u>200</u>	<u>4,619</u>	<u>3,655</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		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Within one year	269	26,571	26,786
In the second to fifth year inclusive	361	10,665	13,901
	<u>630</u>	<u>37,236</u>	<u>40,687</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.

44. COMMITMENTS

	THE GROUP			THE COMPANY		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of equity investments	–	56,660	450,671	–	20,000	–

45. PLEDGE OF ASSETS

As at 31st March, 2002, 2003 and 2004, certain of the Group's properties and investment securities with an aggregate value of approximately HK\$17,618,000, HK\$911,086,000 and HK\$696,290,000, respectively, and the interests in certain issued shares of subsidiaries of the Company had been pledged to banks and financial institutions to secure general credit facilities granted to the Group. Facilities amounting to approximately HK\$9,109,000, HK\$796,354,000 and HK\$558,199,000, respectively, were utilised as at 31st March, 2002, 2003 and 2004.

46. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

Class of related party	Nature of transactions/balances	2002	2003	2004
		HK\$'000	HK\$'000	HK\$'000
Associates of the Group	Sales of building materials (<i>note a</i>)	1,404	511	–
	Dividend income			
	(including scrip dividend)	11,017	11,178	48,079
	Purchase of concrete products (<i>note a</i>)	–	–	104
	Rentals and related building management fee charged by the Group (<i>notes b and c</i>)	–	2,395	5,219
	Rentals and related building management fee charged to the Group (<i>notes b and c</i>)	247	500	–
	Service fees charged by the Group (<i>note c</i>)	–	–	406
	Service fees charged to the Group (<i>note c</i>)	–	–	308
	Construction works charged to the Group (<i>note d</i>)	–	–	182
	Subcontracting fees charged by the Group (<i>note d</i>)	–	393	5,437
	Sales of motor car registration marks to the Group (<i>note d</i>)	–	790	–
	Interest income received (<i>note e</i>)	21,519	10,471	23,219
	Interest paid (<i>note e</i>)	27	–	–
	Amounts advanced and fully repaid during the year (<i>note h</i>)	181,700	–	–
	Balances due by the Group (<i>note 29</i>)	111	12,772	96,273
	Balances due to the Group (<i>notes 18 and 24</i>)	148,528	355,164	354,050

46. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Class of related party	Nature of transactions/balances	2002	2003	2004
		HK\$'000	HK\$'000	HK\$'000
Jointly controlled entities of the Group	Dividend income	–	5,000	–
	Project management fees charged by the Group (note c)	–	3,000	–
	Rentals charged by the Group (note b)	–	–	102
	Construction works charged by the Group (note d)	–	–	268
	Subcontracting fees charged to the Group (note d)	–	40,249	104,734
	Service fees charged by the Group (note c)	–	60	144
	Balances due by the Group (note 29)	–	69,343	55,584
	Balances due to the Group (notes 19 and 25)	–	5,207	2,871
Directors of the Company or company controlled by director of the Company	Interest paid by the Group (note f)	173	900	2,700
	Interest payable on convertible notes issued by the Group (note f)	15,287	12,655	12,526
	Balance due by the Group (notes f and g)	–	66,500	–
	Convertible notes due by the Group (note 30)	–	250,000	250,000
Related companies*	Rental and related building management fee charged by the Group (notes b and c)	–	1,592	6,896
	Project management fees charged by the Group (note c)	–	549	–
	Purchase of medicine and health products by the Group (note d)	–	–	432
	Service fees charged to the Group (note c)	–	–	883
	Subcontracting fees charged by the Group (note d)	–	–	1,207
	Interest income received (note e)	658	6,044	12,027
	Balance due by the Group (note 29)	–	205	216
	Balances due to the Group (note 26)	45,746	299,848	90,224

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

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 35(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.

During the year ended 31st March, 2003, 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, 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.

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

As at 31st March, 2003, a subsidiary of Paul Y. - ITC advanced approximately HK\$43,786,000 to 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.
- (b) Rentals were charged at the pre-agreed fixed monthly amounts.
- (c) Building management fee, service fees and project management fees were charged at the pre-agreed rates.
- (d) Construction works, subcontracting fees, sales of motor car registration marks and purchase of medicine and health products 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.
- (g) The amount was unsecured and fully repaid during the year ended 31st March, 2004.
- (h) Interest was charged at the Best Lending Rate less 2.5%.

47. PARTICULARS OF PRINCIPAL ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

- (a) Particulars of the Group's principal associates as at 31st March, 2004 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	CAD15,724,484 common shares	25.1	Investment holding in company engaged in the development of commercial canola protein
China Strategic #	Hong Kong	HK\$88,159,508.70 ordinary shares	23.4	Investment holding
CSCEC - Paul Y. Construction Company Limited #	PRC	US\$10,000,000 registered capital <i>(Note below)</i>	17.2	Civil engineering and building construction
Domain - Paul Y. Sdn. Bhd. #	Malaysia	RM1,000,000 ordinary shares	27.0	Design and building construction
Downer #	Australia	A\$563,057,694 ordinary shares	11.7	Investment holding
Hanny	Bermuda	HK\$1,865,532.02 ordinary shares	24.55	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

47. PARTICULARS OF PRINCIPAL ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (Continued)

(a) Particulars of the Group's principal associates as at 31st March, 2004 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
Paul Y. - CREC Construction Co., Limited #	Hong Kong	HK\$100 ordinary shares	27.53	Civil engineering
Zhujiang Kwan On Concrete Products Co., Ltd. # ("Zhujiang Kwan On")	PRC	RMB6,320,000 registered capital (Note below)	27.53	Manufacturing and trading of concrete products

Note: 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 operate in Canada, Australia and the PRC respectively.

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

The above tables list the 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 associates would, in the opinion of the directors, result in particulars of excessive length.

(b) Particulars of the Group's jointly controlled entities as at 31st March, 2004 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	27.53	Civil engineering
Paul Y. - Penta-Ocean Joint Venture #	Hong Kong	– (Note below)	27.53	Civil engineering

Note: No capital has been contributed by the joint venture partners, although the Group has contributed working capital amounting to HK\$2,000,000 to this joint venture.

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

an associate or a jointly controlled entity of Paul Y. - ITC

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

Paul Y. - ITC

(a) Consolidated result for the year ended 31st March, 2002

	<i>HK\$'000</i>
Turnover	5,343,810
Profit before taxation	125,243
Profit for the year	69,618

(b) Financial Position

As at 31st March, 2002

	<i>HK\$'000</i>
Total assets	6,194,242
Total liabilities	(3,231,305)
Minority interests	(15,664)

Paul Y. - ITC was an associate of the Group as at 31st March, 2002 and became a subsidiary of the Group since 27th December, 2002.

Hanny

(a) Consolidated result for the years ended 31st March, 2002, 2003 and 2004

	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4,373,909	4,162,804	5,009,930
(Loss) profit before taxation	(75,044)	(570,474)	121,639
(Loss) profit for the year	(102,455)	(648,620)	13,300

(b) Financial Position

As at 31st March, 2002, 2003 and 2004

	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	1,671,193	1,604,463	1,643,529
Current assets	2,233,870	1,663,268	2,299,707
Current liabilities	(1,432,304)	(1,185,858)	(1,653,951)
Minority interests	(214,611)	(174,598)	(405,157)
Non-current liabilities	(10,980)	(177,708)	(10,947)

48. EXTRACTS OF THE CONSOLIDATED RESULTS AND FINANCIAL POSITION OF ASSOCIATES *(Continued)***Downer***(a) Consolidated result for the year ended 31st December, 2003*

	<i>HK\$'000</i>
Revenue from ordinary activities	16,380,841
Profit from ordinary activities before taxation	520,505
Profit from ordinary activities after taxation	380,746

(b) Financial position

As at 31st December, 2002 and 2003

	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets	4,141,241	5,501,196
Current assets	4,249,336	6,281,918
Current liabilities	(2,392,544)	(4,159,429)
Non-current liabilities	(2,506,737)	(3,057,649)
Preference share capital	(285,987)	–

Downer became an associate of the Group upon consolidation of Paul Y. - ITC in December 2002.

China Strategic*(a) Consolidated result for the year ended 31st December, 2003*

	<i>HK\$'000</i>
Turnover	2,884,493
Loss before taxation	(169,184)
Loss for the year	(189,528)

(b) Financial Position

As at 31st December, 2003

	<i>HK\$'000</i>
Non-current assets	1,124,597
Current assets	1,064,647
Current liabilities	(161,090)
Minority interests	(250,160)
Non-current liabilities	(244,614)

China Strategic became an associate of the Group during the year ended 31st March, 2004.

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

SMI

(a) *Consolidated result for the years ended 31st March, 2002 and 2003*

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

(b) *Financial Position*As at 31st *March*, 2002 and 2003

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

SMI ceased to be an associate of the Group during the year ended 31st March, 2004.

Full details of the results and financial position of Paul Y. - ITC, Hanny and SMI are set out in their annual reports dated 23rd July, 2004, 23rd July, 2004 and 17th July, 2003, respectively.

The results and financial position of Downer and China Strategic have been extracted from the published financial information as at 31st December, 2003.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31st March, 2004.

Yours faithfully,
DELOITTE TOUCHE TÔHMATSU
Certified Public Accountants
 Hong Kong

A. PRO FORMA FINANCIAL INFORMATION

I. Pro forma Consolidated Income Statement

The following is the pro forma consolidated income statement of the Group assuming that 134,500,000 shares of Paul Y. - ITC Construction Holdings Limited ("Paul Y. - ITC") had been disposed of at the commencement of the year ended 31st March, 2004 at the price of HK\$0.512 per Paul Y. - ITC shares. The pro forma consolidated income statement was prepared based on the audited consolidated income statement of the Group for the year ended 31st March, 2004 as set out in the accountants' report on the Group in Appendix I to this circular.

The pro forma consolidated income statement was prepared for illustrative purposes only and because of its nature, it may not give a true picture of the results of the Group for any future financial periods.

	2004 HK\$'000	Pro forma adjustments HK\$'000	Notes	Adjusted balances HK\$'000
Turnover				
Building construction	2,418,339	(2,418,339)	1	-
Civil engineering	463,440	(463,440)	1	-
Specialist works	448,849	(448,849)	1	-
Construction materials	3,448	(3,448)	1	-
Property leasing	48,269	(47,530)	1	739
Investment	2,163	(2,136)	1	27
Provision of finance	40,741	(35,164)	1	5,577
Management services	3,238	-	1	3,238
Sale of building materials and machinery	6,179	88	1	6,267
	<u>3,434,666</u>			<u>15,848</u>
Cost of sales	<u>(3,288,566)</u>	3,284,456	1	<u>(4,110)</u>
Gross profit	146,100			11,738
Other operating income	80,091	(57,067)	1	23,024
Administrative expenses	<u>(154,429)</u>	120,874	1	<u>(33,555)</u>
Profit from operations	71,762			1,207
Finance costs	(38,722)	9,829	1	(28,893)
Net investment (expenses) income	(43,183)	57,165	1	13,982
Deficit arising from revaluation of investment properties	(14,000)	14,000	1	-
Allowance for amounts due from associates and a related company	(40,985)	21,526	1	(19,459)
Net gain (loss) on disposal and dilution of interests in subsidiaries and associates	83,600	(228,199)	1	(144,599)
Share of results of associates	156,400	59,717	1, 2	216,117
Share of results of jointly controlled entities	<u>9,074</u>	(9,074)	1	<u>-</u>
Profit before taxation	183,946			38,355
Taxation	<u>(53,719)</u>	20,577	1, 2	<u>(33,142)</u>
Profit before minority interests	130,227			5,213
Minority interests	<u>(101,295)</u>	101,295	1	<u>-</u>
Profit for the year	<u><u>28,932</u></u>			<u><u>5,213</u></u>

A. PRO FORMA FINANCIAL INFORMATION (Continued)

II. Pro forma Consolidated Balance Sheet

The following is the pro forma consolidated balance sheet of the Group assuming that 134,500,000 shares of Paul Y. - ITC had been disposed of as at 31st March, 2004 at the price of HK\$0.512 per Paul Y. - ITC shares. The pro forma consolidated balance sheet was prepared based on the audited consolidated balance sheet of the Group as at 31st March, 2004 as set out in the accountants' report on the Group in Appendix I to this circular.

The pro forma consolidated balance sheet was prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group at any future date.

	2004 HK\$'000	Pro forma adjustments HK\$'000	Notes	Adjusted balances HK\$'000
Non-current assets				
Property, plant and equipment	452,374	(426,187)	1	26,187
Investment properties	515,000	(515,000)	1	–
Negative goodwill	(314,540)	314,540	1	–
Interests in associates	1,750,489	(370,168)	1, 2	1,380,321
Interests in jointly controlled entities	14,817	(14,817)	1	–
Investments in securities	24,894	(13,904)	1	10,990
Loans receivable	50,000	(50,000)	1	–
Deferred tax assets	2,714	(2,714)	1	–
	<u>2,495,748</u>			<u>1,417,498</u>
Current assets				
Inventories	138			138
Amounts due from customers for contract works	273,210	(273,210)	1	–
Debtors, deposits and prepayments	1,214,942	(1,212,316)	1	2,626
Amounts due from associates	327,650	(326,954)	1	696
Amounts due from jointly controlled entities	871	(871)	1	–
Amounts due from related companies	90,224	(89,409)	1	815
Loans receivable	221,474	(196,215)	1	25,259
Investments in securities	39,374	(39,374)	1	–
Tax recoverable	15,831	(15,831)	1	–
Bank deposits	24,824	(24,824)	1	–
Bank balances and cash	278,227	(156,567)	1, 3	121,660
	<u>2,486,765</u>			<u>151,194</u>
Current liabilities				
Amounts due to customers for contract works	456,140	(456,140)	1	–
Creditors and accrued expenses	888,474	(856,094)	1	32,380
Amounts due to associates	96,273	(96,249)	1	24
Amounts due to jointly controlled entities	55,584	(55,584)	1	–
Amounts due to related companies	216			216
Tax payable	1,056	(1,056)	1	–
Bank borrowings – due within one year	58,247	(44,048)	1	14,199
Other loans – due within one year	17,317			17,317
	<u>1,573,307</u>			<u>64,136</u>
Net current assets	<u>913,458</u>			<u>87,058</u>
Total assets less current liabilities	<u>3,409,206</u>			<u>1,504,556</u>
Minority interests	<u>1,195,365</u>	(1,195,365)	1	–
Non-current liabilities				
Convertible notes	289,050			289,050
Bank borrowings – due after one year	517,000	(517,000)	1	–
Provision for long service payments	1,727	(1,727)	1	–
Deferred tax liabilities	52,882	(52,882)	1	–
	<u>860,659</u>			<u>289,050</u>
Net assets	<u>1,353,182</u>			<u>1,215,506</u>
Shareholders' funds	<u>1,353,182</u>			<u>1,215,506</u>

A. PRO FORMA FINANCIAL INFORMATION (Continued)

III. Pro forma Consolidated Cash Flow Statement

The following is the pro forma consolidated cash flow statement of the Group assuming that 134,500,000 shares of Paul Y. - ITC had been disposed of at the commencement of the year ended 31st March, 2004 at the price of HK\$0.512 per Paul Y. - ITC shares. The pro forma consolidated cash flow statement was prepared based on the audited consolidated cash flow statement of the Group for the year ended 31st March, 2004 as set out in the accountants' report on the Group in Appendix I to this circular.

The pro forma consolidated cash flow statement was prepared for illustrative purposes only and because of its nature, it may not give a true picture of the cash flows of the Group for any future financial periods.

	2004 HK\$'000	Pro forma adjustments HK\$'000	Notes	Adjusted balances HK\$'000
OPERATING ACTIVITIES				
Profit before taxation	183,946	(145,591)	1	38,355
Adjustments for:				
Share of results of associates	(156,400)	(59,717)	1, 2	(216,117)
Share of results of jointly controlled entities	(9,074)	9,074	1	-
Release of negative goodwill	(53,139)	53,139	1	-
Interest income	(42,904)	37,300	1	(5,604)
Interest expenses	38,237	(9,829)	1	28,408
Amortisation of deferred expenditure on issuance of convertible notes	485			485
Depreciation and amortisation of property, plant and equipment	74,969	(72,294)	1	2,675
Impairment loss on property interests	1,496	(1,496)	1	-
Allowance for amounts due from associates and a related company	40,985	(21,526)	1	19,459
Net gain on disposal and dilution of interests in subsidiaries and associates	(83,600)	228,199	1	144,599
Impairment loss on investment securities	5,340	(2,142)	1	3,198
Loss on option agreement	52,871	(52,871)	1	-
Deficit arising from revaluation of investment properties	14,000	(14,000)	1	-
Surplus arising from revaluation of land and buildings	(273)			(273)
Net unrealised holding gain on listed other investments	(36)	36	1	-
Gain on disposal of investment securities	(17,180)			(17,180)
Net gain on disposal of listed other investments	(26,643)	3,892	1	(22,751)
Gain on disposal of property, plant and equipment	(3,875)	3,758	1	(117)
Loss on disposal of investment properties	2,152	(2,152)	1	-
Operating cash flows before movements in working capital	21,357			(24,863)
Decrease in property held for resale	2,342			2,342
Decrease in inventories	118			118
Increase in amounts due from (to) customers for contract works, net of attributable interest expenses and depreciation and amortisation	(101,929)	101,929	1	-
(Increase) decrease in debtors, deposits and prepayments	(17,709)	21,233	1	3,524
Decrease (increase) in amounts due from associates	4,955	(8,420)	1	(3,465)
Increase in amounts due from jointly controlled entities	(664)	664	1	-
Decrease (increase) in amounts due from related companies	7,344	(12,444)	1	(5,100)
Decrease in loans receivable	69,249	(55,628)	1	13,621
Increase in creditors and accrued expenses	13,564	(8,351)	1	5,213
Decrease in amounts due to associates	(25,751)	23,092	1	(2,659)
Increase in amounts due to related companies	11			11
Cash used in operations	(27,113)			(11,258)
Interest received	42,904	(37,300)	1	5,604
Dividends received from associates	55,844	25,562	1, 4	81,406
Overseas tax paid	(4,487)	4,487	1	-
Hong Kong Profits Tax paid	(11,822)	11,822	1	-
NET CASH FROM OPERATING ACTIVITIES	55,326			75,752

A. PRO FORMA FINANCIAL INFORMATION (Continued)

III. Pro forma Consolidated Cash Flow Statement (Continued)

For the year ended 31st March, 2004

	2004 HK\$'000	Pro forma adjustments HK\$'000	Notes	Adjusted balances HK\$'000
INVESTING ACTIVITIES				
Acquisition of additional interests in subsidiaries	(27,059)			(27,059)
Acquisition of interests in associates	(124,137)	96,559	1	(27,578)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(59,742)	57,343	1	(2,399)
Additions to investment securities	(40,144)	40,021	1	(123)
Additions to property, plant and equipment	(10,979)	9,859	1	(1,120)
Amounts advanced to related companies	(94,681)	86,881	1	(7,800)
Amounts advanced to associates	(76,431)	72,681	1	(3,750)
Proceeds from disposal of interests in associates	565,568	(565,568)	1	–
Proceeds from disposal of investments in securities	48,319			48,319
Proceeds from disposal of investment properties	47,056	(47,056)	1	–
Proceeds from disposal of listed other investments	71,476	(31,102)	1	40,374
Proceeds from disposal of property, plant and equipment	33,429	(30,798)	1	2,631
Proceeds from partial disposal of interests in subsidiaries	128,913			128,913
Repayments from associates	49,759	(7,729)	1	42,030
Repayments from jointly controlled entities	3,000	(3,000)	1	–
Repayments from related companies	74,874	(38,710)	1	36,164
NET CASH FROM INVESTING ACTIVITIES	589,221			228,602
FINANCING ACTIVITIES				
Capital contributed by minority shareholders	3,750	(3,750)	1	–
Dividend paid to minority shareholders of a subsidiary	(76,219)	76,219	1	–
Expenditure incurred for issuance of convertible notes	(234)			(234)
Interest paid	(38,237)	14,883	1	(23,354)
Loan repaid to minority shareholders of a subsidiary	(4,373)	4,373	1	–
Redemption of convertible notes	(96,000)			(96,000)
Repayment of advance from a jointly controlled entity	(13,759)	13,759	1	–
Repayments of bank borrowings	(215,493)	215,493	1	–
Repayments of other loans	(126,500)			(126,500)
NET CASH USED IN FINANCING ACTIVITIES	(567,065)			(246,088)
NET INCREASE IN CASH AND CASH EQUIVALENTS	77,482			58,266
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	195,654	(145,127)	1, 3	50,527
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(1,332)			(1,332)
CASH AND CASH EQUIVALENTS CARRIED FORWARD	271,804			107,461
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS				
Bank deposits	24,824	(24,824)	1	–
Bank balances and cash	278,227	(156,567)	1, 3	121,660
Bank overdrafts	(31,247)	17,048	1	(14,199)
	271,804			107,461

A. PRO FORMA FINANCIAL INFORMATION *(Continued)***IV. Notes to Pro forma Financial Information**

1. The adjustment which extracted from the consolidation schedules prepared based on the management accounts of the individual companies of the Group for the year ended 31st March, 2004 reflects the deconsolidation of Paul Y. - ITC from the Group.
2. The adjustment which produced from the consolidation schedules prepared based on the management accounts of the individual companies of the Group for the year ended 31st March, 2004 reflects the equity method of accounting of the results of Paul Y. - ITC due to the change in the Group's shareholding in Paul Y. - ITC from 55.1% to 45.1%. The pro forma interests in associates of the Group as at 31st March, 2004 includes an interest in Paul Y. - ITC of HK\$930,668,000 which represents the net amount of the share of net assets of Paul Y. - ITC and the negative goodwill arising on acquisition of HK\$1,188,081,000 and HK\$257,413,000, respectively.
3. The adjustment represents the estimated cash proceeds of HK\$68,864,000 (before expenses) from the proposed disposal of shares in Paul Y. - ITC.
4. The adjustment reflects the actual dividend of HK\$78,210,000 received during the year ended 31st March, 2004 from Paul Y. - ITC and accounting for as an associate of the Group.
5. No adjustment has been made to recognise any income that might have been generated from the proceeds of the disposal of shares in Paul Y. - ITC as such income is not considered to be directly attributable to the disposal.

B. LETTER FROM DELOITTE TOUCHE TOHMATSU

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

21st September, 2004

The Directors
ITC Corporation Limited

Dear Sirs,

We report on the pro forma financial information of ITC Corporation Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) (“Pro forma Financial Information”) set out on in Section A of Appendix II to the circular dated 21st September, 2004 issued by the Company in connection with a very substantial disposal resulting from possible disposal of shares in Paul Y. - ITC Construction Holdings Limited so that it becomes an associated company (the “Circular”), which has been prepared for illustrative purpose only to provide information about how the proposed disposal might have affected the financial information presented.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the Pro forma Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion on the Pro forma Financial Information, as required by the Listing Rules, and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the listing rules” issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma Financial Information with the directors of the Company.

Because the above work does not constitute an audit or a review performed in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, we do not express any such assurance on the Pro forma Financial Information.

The Pro forma Financial Information has been prepared in accordance with the basis set out in Section A of Appendix II to the Circular for illustrative purposes only and, because of its nature, it may not give an indicative financial position of the Group as at 31st March, 2004 or at any future date or the results and cash flows of the Group for the year then ended or any future period.

OPINION

In our opinion:

- a. the Pro forma Financial Information has been properly compiled on the basis set out in Section A in Appendix II of the Circular;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the Pro forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
Hong Kong

A. INDEBTEDNESS

At the close of business on 31st July, 2004 (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\$295,340,000 (of which HK\$281,285,000 attributable to Paul Y. - ITC group) and HK\$531,000,000 (all attributable to Paul Y. - ITC group) respectively (of which approximately HK\$545,043,000 was secured by charges over certain of the Group's investment securities and properties). The Group had outstanding at that date other loan of approximately HK\$17,317,000 and convertible notes of approximately HK\$289,500,000 (both of the other loan and convertible notes are attributable to the members of the Group other than Paul Y. - ITC group).

In addition, as at 31st July, 2004, the Group had contingent liabilities in respect of outstanding performance bonds on construction contracts of approximately HK\$429,903,000 attributable to Paul Y. - ITC group and the litigation referred to in the section headed "Litigation".

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 July, 2004.

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 July, 2004.

There has been no material change in the indebtedness or contingent liabilities of the Group since 31st July, 2004.

B. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the internal resources available to the Remaining Group and in the absence of unforeseen circumstances, the Remaining Group has sufficient working capital for its present requirements.

C. MATERIAL ADVERSE CHANGE

Up to the Latest Practicable Date, the Board is not aware of any material adverse change in the financial or trading position of the Group since 31st March, 2004, the date to which the latest audited consolidated financial statements of the Group were made up.

D. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

The Remaining Group continues to hold significant interests, both directly or indirectly, in a number of companies listed in Hong Kong, Canada, Australia, New Zealand, Singapore, Germany and the United States ("U.S.A.") and also high potential unlisted investments pursuant to its long term strategy of exploring potential investments and enhancing the value of its strategic investments by active participation in or close liaisons with the management of the companies invested by the Remaining Group. During the year ended 31st March, 2004, SMI Corporation Limited ("SMI", formerly known as Star East Holdings Limited) ceased to be an associated company of the Remaining Group on 19th December, 2003 due to the dilution of interest and disposal of shares in SMI. Just before SMI ceased to be an associated company of the Remaining Group, the Remaining Group held 26.1% interest in SMI. As at 31st March, 2004, the Group had the following strategic investments:

Listed strategic investments directly held*Paul Y. - ITC*

The principal activities of the Paul Y. - ITC group include building construction, civil engineering, specialist works, property development and investment, development and investment in infrastructure projects, and manufacturing and trading of construction materials. In addition, Paul Y. - ITC holds approximately 21.3% interest in Downer EDI Limited ("Downer") and approximately 29.4% interest in China Strategic Holdings Limited ("China Strategic") as at 31st March, 2004.

For the year ended 31st March, 2004, Paul Y. - ITC reported a consolidated profit for the year of HK\$163.6 million. The Remaining Group has reported a loss of approximately HK\$105.0 million due to the dilution of its interest in Paul Y. - ITC during the year ended 31st March, 2004.

Hanny Holdings Limited (“Hanny”)

The Hanny group is principally engaged in trading of computer related products and consumer electronic products which comprise the manufacture, distribution and marketing of data storage media (primarily floppy disks, CD-R, CD-RW and DVD); the distribution and marketing of computer accessories, storage media drives, scanners, audio and video cassettes, minidisks; household electronic products and telecommunication accessories; securities trading and property investment. The Hanny group also makes strategic investments in information technology, internet, internet related, supply of household consumer products and other businesses. For the year ended 31st March, 2004, Hanny reported a consolidated profit for the year of HK\$13.3 million and its after tax contribution to the Remaining Group was a profit of HK\$3.7 million.

Burcon NutraScience Corporation (“Burcon”)

Burcon is a research and development company developing a portfolio of composition, application and process patents around its plant protein extraction and purification technology. The goal of Burcon’s research is to develop its patented process to utilize inexpensive oilseed meals for the production of purified plant proteins that exhibit valuable nutritional, functional or nutraceutical profiles. Burcon is currently focusing its efforts on developing the world’s first commercial canola proteins, namely Puratein® and Supertein™ (the “Products”). Canola, recognised for its nutritional qualities, is Canada’s largest oilseed crop and the second-largest oilseed crop in the world after soybeans. Burcon’s goal is to develop the Products to participate with soy, dairy and egg proteins in the expanding multi-billion-dollar protein ingredient market, with potential uses in prepared foods, nutritional supplements and personal care products. For the year ended 31st March, 2004, Burcon’s after tax contribution to the Remaining Group was a loss of HK\$3.8 million.

Listed strategic investments indirectly held*Downer*

Downer provides comprehensive engineering and infrastructure management services to the public and private power, rail, road, telecommunications, mining and minerals processing sectors in Australia, New Zealand, Asia and the Pacific. Its business is organized through four main divisions namely Downer Engineering (engineering division), Works Infrastructure (infrastructure division), Roche Mining (mining division), and EDI Rail (rail division) that have common core competencies. These core competencies include value-adding skills in design, project and facilities management, operations and maintenance to provide clients with single source solutions.

China Strategic

China Strategic is an investment holding company. Through its subsidiaries and associates, China Strategic is engaged in the manufacturing of batteries; property investment; the manufacturing and marketing of tires; the business of providing package tour, travel, hotel operation and other related services.

China Enterprises Limited (“China Enterprises”)

China Enterprises is an investment holding company and has substantial interests in investment companies, the subsidiaries of which are principally engaged in the manufacturing and marketing of tires in the Mainland and other countries abroad and the business of providing package tours, travel, hotel operation and other related services.

MRI Holdings Limited (“MRI”)

MRI’s business is now focused on investment opportunities and has continued to seek actively for suitable investment opportunities to maximize returns to its shareholders within a clear investment mandate in terms of investment criteria.

Wing On Travel (Holdings) Limited (“Wing On Travel”)

Wing On Travel group is principally engaged in the provision of package tours, and travel and other related services and also has a substantial interest in a hotel chain branded under the name of “Rosedale” in the Mainland and Hong Kong. Wing On Travel is one of the most experienced and largest local travel agencies, and is a well-known expert in the travel industry having extensive experience in marketing and promoting tour business with a far-reaching global network and connections in tour operation.

The Remaining Group’s interests in listed strategic investments are summarised below:

Listed strategic investments directly held

Name of investee company	Place of listing	Shareholding percentage	
		As at 31st March, 2004	As at the Latest Practicable Date
Paul Y. - ITC	the Stock Exchange	55.1%	55.1%
Hanny	the Stock Exchange	24.6%	24.6%
Burcon	TSX Venture Exchange and Frankfurt Stock Exchange	25.1%	25.0%

Listed strategic investments indirectly held

Name of investee company	Place of listing	Effective interest	
		As at 31st March, 2004	As at the Latest Practicable Date
Downer	Australian Stock Exchange and New Zealand Stock Exchange	11.7% (Note a)	11.7% (Note a)
China Strategic	the Stock Exchange	23.4% (Note b)	23.4% (Note b)
China Enterprises	OTC Bulletin Board, U.S.A.	12.9% (Note c)	12.9% (Note c)
MRI	Australian Stock Exchange	13.4% (Note c)	13.4% (Note c)
Wing On Travel	the Stock Exchange	4.2% (Note d)	4.2% (Note d)

Notes:

- (a) The Remaining Group’s interest is held through its direct interest in Paul Y. - ITC.
- (b) The Remaining Group’s interest is held through its direct interests in Paul Y. - ITC and Hanny. Each of Paul Y. - ITC and Hanny held 29.4% interest in China Strategic.
- (c) The Remaining Group’s interest is held through its effective interest in China Strategic.
- (d) The Remaining Group’s interest is held through its indirect interest in China Enterprises.

Regarding the other segments, except for the provision of management services that reported a loss, the provision of finance and the trading of building materials and machinery had made contribution to profit from operations. As at 31st March, 2004, the value of orders on hand in relation to the trading of building materials and machinery was approximately HK\$0.8 million. Subsequently, the Remaining Group obtained further new orders with an aggregate value of approximately HK\$2.4 million.

Financial and trading prospects

Building on its existing platform with stringent cost control measures to maintain a sound financial management, and under a prudent investment and development policy, the Remaining Group continues to pursue its long term strategy of exploring high potential investments and attractive business opportunities and receive contributions and dividends from its investments. On the other hand, the segments of provision of finance, the trading of building materials and machinery, and the provision of management services are relatively stable in respect of the contribution to the results and the cashflow of the Remaining Group.

Liquidity and financial resources

The Remaining Group adopts a prudent funding and treasury policy with regard to its overall business operations. Credit facilities are maintained to meet its working capital requirements. Cash, bank balances and deposits as at 31st March, 2004, as adjusted by the estimated proceeds from possible disposal of 134,500,000 Paul Y. - ITC shares at the minimum price of HK\$0.512 per Paul Y. - ITC share (the "Possible Disposal"), amounted to approximately HK\$121.7 million. As at 31st March, 2004, the Group had bank borrowings of approximately HK\$14.2 million and other loans of approximately HK\$17.3 million which are repayable within one year or on demand.

During the year, convertible notes in an aggregate principal amounts of HK\$96 million and HK\$7 million were redeemed and converted into ordinary shares at the conversion price of HK\$0.3 per ordinary share, respectively. The balance in an aggregate principal amount of HK\$289.5 million will be redeemed on 3rd March, 2006 (or the next following business day if it is not a business day) unless they are previously converted, redeemed or purchased and cancelled.

As at 31st March, 2004, all the Remaining Group's borrowings are at floating interest rates and the Remaining Group's current ratio was 2.36 after taking into account the impact of the Possible Disposal.

Exchange rate exposure

As at 31st March, 2004, approximately 3.1% of the above cash, bank balances and deposits were in Canadian dollars, US dollars and Renminbi and only 4.4% of the Group's total borrowings of HK\$320.6 million was denominated in Canadian dollars. The Canadian dollars denominated borrowings are directly tied in with the Remaining Group's business in Canada and hence the exposure to fluctuation in exchange rates is minimal.

Gearing ratio

As at 31st March, 2004, the Remaining Group's gearing ratio, which was calculated using the Remaining Group's net borrowings of HK\$198.9 million and the shareholders' funds of HK\$1,215.5 million, was 16.4% after taking into account the impact of the Possible Disposal.

Pledge of assets

As at 31st March, 2004, certain of the Remaining Group's properties with an aggregate carrying value of approximately HK\$21.6 million were pledged to banks and financial institutions to secure general facilities granted to the Remaining Group.

Contingent liabilities

As at 31st March, 2004, the Remaining Group did not have any significant contingent liabilities.

Employee and remuneration policy

As at 31st March, 2004, the Remaining Group employed a total of approximately 40 employees. The Remaining Group's remuneration package is structured with reference to the individual performance and the prevailing salary levels in the market. The Remaining Group also offers other benefits to employees including discretionary bonus, training, provident funds and medical coverage. Share option schemes are established for the eligible employees but no share option was granted during the year.

E. DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF THE COMPANY ACQUIRED DURING THE PERIOD COVERED BY THE ACCOUNTANTS' REPORT IN APPENDIX I

During the year ended 31st March, 2003, the Group's interest in Paul Y. - ITC was increased from 42.6% to 64.5% and Paul Y. - ITC became a subsidiary of the Company.

During the year ended 31st March, 2003, the gross value of construction work in Hong Kong continued to shrink. With its well-established credibility, experience and technical capabilities, the Paul Y. - ITC group managed to secure additional new building construction contracts from private sector to compensate for the loss in revenue from public sector. Nevertheless, the severe competition in the market due to the drastic decrease in available works had inevitably lowered its average margin from the contracting business. As a result, the contracting business reported a loss.

As at 31st March, 2003, contracts on hand and the value of work remaining of the Paul Y. - ITC group were HK\$10,358 million and HK\$4,935 million, respectively.

For property operation, although the overall rental rates of the investment properties had been reduced, the occupancy rate was maintained at a level of around 92% and 75% for Paul Y. Centre and In-Zone, respectively, at 31st March, 2003.

During the year ended 31st March, 2004, construction sector output continued to decline due to the reduction of capital expenditures by both public and private sectors. This had led to severe competition and the overall construction division experienced a loss in operation. However, due to the persistent effort in implementing risk management and cost saving measures, improvement in gross margin was achieved

As at 31st March, 2004, contracts on hand and the value of work remaining of the Paul Y. - ITC group were HK\$11,211 million and HK\$4,928 million, respectively.

For property operation, although the overall rental rates of the investment properties had been reduced during the year ended 31st March, 2004, the occupancy rate for Paul Y. Centre was maintained at a level of around 94% at 31st March, 2004.

Liquidity and capital resources

The Paul Y. - ITC group adopts a prudent funding and treasury policy with regard to its overall business operations. A variety of credit facilities is maintained to meet its working capital requirements. During the year ended 31st March, 2004, in view of the strong cash inflow generated from partial disposal of interests in Downer, the Paul Y. - ITC group repaid and reduced its bank borrowing by HK\$215 million. The remaining loans bear interest at market rates and are with terms of repayment ranging from one year to three years. As at 31st March, 2004, the Paul Y. - ITC group's total borrowings amounted to HK\$561 million with HK\$44 million repayable within one year and HK\$517 million repayable after one year. Cash balances at 31st March, 2004 amounted to HK\$250 million.

As at 31st March, 2004, all of the Paul Y. - ITC group's borrowings bear interest at floating rates and are denominated in Hong Kong dollars. Its gearing ratio decreased from 0.29 at 31st March, 2003 to 0.20 at 31st March, 2004, which is calculated based on the total borrowings of HK\$561 million and its shareholders' funds of HK\$2,771 million.

Pledge of assets

As at 31st March, 2004, certain of the properties and investment in securities of the Paul Y. - ITC group with an aggregate value of approximately HK\$669 million and the issued shares of certain of its subsidiaries had been pledged to banks and financial institutions to secure general credit facilities granted to the Paul Y. - ITC group.

Contingent liabilities

As at 31st March, 2004, the Paul Y. - ITC group had contingent liabilities in respect of outstanding performance bonds on construction contracts of HK\$623 million.

Employee and remuneration

The Paul Y. - ITC group employed a total of approximately 1,230 full time employees during the period. Remuneration packages comprised of salary and year-end bonuses based on individual merits.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually 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 there are no other facts, the omission of which would make any statement herein misleading.

The information in this circular relating to the Paul Y. - ITC group has been extracted or summarized from information provided by Paul Y. - ITC at the request of the Company or from publicly available information. The Directors have made all reasonable enquiries and collectively and individually accept responsibility for the accuracy of extracts or summaries of such information.

DISCLOSURE OF INTERESTS**(A) Directors' interests and short positions in shares, underlying shares and debentures**

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) and the Model Code and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO were as follows:

(a) Interests and short positions in shares, underlying shares and debentures of the Company

Name of Director	Capacity	Long position/ Short position	No. of ordinary shares of the Company held	No. of underlying shares (in respect of convertible notes (unlisted equity derivatives)) of the Company held	Approximate % of the existing issued ordinary share capital of the Company
Chan Kwok Keung, Charles	Interest of controlled corporation (Note 1)	Long position	219,681,911	–	33.58%
Chan Kwok Keung, Charles	Beneficial owner	Long position	–	833,333,333 (Note 2)	127.36%

Notes:

- Galaxyway Investments Limited is a wholly-owned subsidiary of Chinaview International Limited which is, in turn, wholly owned by Dr. Chan Kwok Keung, Charles. Dr. Chan Kwok Keung, Charles was deemed to be interested in 219,681,911 ordinary shares held by Galaxyway Investments Limited.
- Dr. Chan Kwok Keung, Charles owned convertible notes issued by the Company in an aggregate principal amount of HK\$250,000,000 carrying rights to convert into 833,333,333 ordinary shares at an initial conversion price of HK\$0.30 per ordinary share, subject to adjustment.

(b) *Interests and short positions in shares, underlying shares and debentures of the following associated corporations*(i) **Paul Y. - ITC**

Name of Director	Capacity	Long position/ Short position	No. of shares of Paul Y. - ITC held	Approximate % of the existing issued share capital of Paul Y. - ITC
Chan Kwok Keung, Charles	Interest of controlled corporation (Note)	Long position	740,668,056	55.06%
Chan Kwok Keung, Charles	Beneficial owner	Long position	11,603,952	0.86%
Cheung Hon Kit	Beneficial owner	Long position	400	0.00%

Note: The shares were held by a wholly-owned subsidiary of the Company. By virtue of his deemed interests in approximately 33.58% of the issued ordinary share capital of the Company, Dr. Chan Kwok Keung, Charles was deemed to be interested in these shares.

(ii) **Hanny Holdings Limited (“Hanny”)**

Name of Director	Capacity	Long position/ Short position	No. of shares of Hanny held	No. of underlying shares (in respect of the share options (unlisted equity derivatives)) of Hanny held	Approximate % of the existing issued share capital of Hanny
Chan Kwok Keung, Charles	Interest of controlled corporation (Note)	Long position	45,798,813	–	24.55%
Chan Kwok Keung, Charles	Beneficial owner	Long position	–	5,600,000	3.00%
Chan Kwok Hung	Beneficial owner	Long position	–	3,350,000	1.80%

Note: The shares were held by a wholly-owned subsidiary of the Company. By virtue of his deemed interests in approximately 33.58% of the issued ordinary share capital of the Company, Dr. Chan Kwok Keung, Charles was deemed to be interested in these shares.

(iii) **Burcon NutraScience Corporation (“Burcon”)**

Name of Director	Capacity	Long position/ Short position	No. of shares of Burcon held	No. of underlying shares (in respect of the share options (unlisted equity derivatives)) of Burcon held	Approximate % of the existing issued share capital of Burcon
Chau Mei Wah, Rosanna	Beneficial owner	Long position	280,000	-	1.55%
Chau Mei Wah, Rosanna	Beneficial owner	Long position	-	65,000	0.36%

(iv) **China Strategic Holdings Limited (“China Strategic”)**

Name of Director	Capacity	Long position/ Short position	No. of shares of China Strategic held	Approximate % of the existing issued share capital of China Strategic
Chan Kwok Keung, Charles	Interest of controlled corporation (Note)	Long position	258,819,795	29.36%

Note: The shares were held by a wholly-owned subsidiary of Paul Y. - ITC, of which a wholly-owned subsidiary of the Company owns approximately 55.06% of the issued share capital of Paul Y. - ITC. By virtue of his deemed interests in approximately 33.58% of the issued ordinary share capital of the Company, Dr. Chan Kwok Keung, Charles was deemed to be interested in these shares.

Paul Y. - ITC, Hanny, Burcon and China Strategic are associated corporations, within the meaning of Part XV of the SFO, of the Company.

Dr. Chan Kwok Keung, Charles was, by virtue of his deemed interest in approximately 33.58% of the issued ordinary share capital of the Company, deemed to be interested in the shares and underlying shares (in respect of equity derivatives), if any, of associated corporations (within the meaning of Part XV of the SFO) of the Company held by the Group under Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

None of the directors had any interest, direct or indirect, in any asset which have since 31st March, 2004, being the date to which the latest published accounts of the Company were made up, up to the Latest Practicable Date, been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by, or leased to any member of the Group.

As at the Latest Practicable Date, save as disclosed in item 1, in the section headed “Material Contracts”, none of the Directors was materially interested in any contract or arrangement subsisting which is significant in relation to the business of the Group.

(B) Interests and short positions of substantial shareholders/other persons recorded in the register kept under the SFO

As at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, the following parties had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

(a) Interests and short positions of substantial shareholders in shares and underlying shares of the Company

Name		Capacity	Long position/ Short position	No. of ordinary shares of the Company held	No. of underlying shares (in respect of unlisted equity derivatives) of the Company held	Approximate % of the existing issued ordinary share capital of the Company
Chan Kwok Keung, Charles	<i>Note</i>	Interest of controlled corporation	Long position	219,681,911	–	33.58%
Chan Kwok Keung, Charles	<i>Note</i>	Beneficial owner	Long position	–	833,333,333	127.36%
Chinaview International Limited	<i>Note</i>	Interest of controlled corporation	Long position	219,681,911	–	33.58%
Galaxyway Investments Limited	<i>Note</i>	Beneficial owner	Long position	219,681,911	–	33.58%
Ng Yuen Lan, Macy	<i>Note</i>	Interest of spouse	Long position	219,681,911	–	33.58%
Ng Yuen Lan, Macy	<i>Note</i>	Interest of spouse	Long position	–	833,333,333	127.36%

Note: Galaxyway Investments Limited is a wholly-owned subsidiary of Chinaview International Limited which is in turn wholly owned by Dr. Chan Kwok Keung, Charles. Ms. Ng Yuen Lan, Macy is the spouse of Dr. Chan Kwok Keung, Charles. Chinaview International Limited, Dr. Chan Kwok Keung, Charles and Ms. Ng Yuen Lan, Macy are deemed to be interested in the ordinary shares held by Galaxyway Investments Limited.

Dr. Chan Kwok Keung, Charles owned convertible notes issued by the Company in an aggregate principal amount of HK\$250,000,000 carrying rights to convert into 833,333,333 ordinary shares at an initial conversion price of HK\$0.30 per ordinary share, subject to adjustment. Ms. Ng Yuen Lan, Macy, being the spouse of Dr. Chan Kwok Keung, Charles, is deemed to be interested in the underlying shares (in respect of the convertible notes (unlisted equity derivatives)) held by Dr. Chan Kwok Keung, Charles.

(b) Interests and short positions of other persons in shares and underlying shares of the Company

Name	Capacity	Long position/ Short position	No. of ordinary shares of the Company held	No. of underlying shares (in respect of unlisted equity derivatives) of the Company held	Approximate % of the existing issued ordinary share capital of the Company
Leung Choi Yin	Beneficial owner	Long position	32,053,333	–	4.90%
Leung Choi Yin	Beneficial owner	Long position	–	26,666,667	4.08%
Gold Device Ltd.	Beneficial owner	Long position	–	40,000,000	6.11%
Wang Yung-tyng	<i>Note</i> Interest of controlled corporation	Long position	–	40,000,000	6.11%

Note: Gold Device Ltd. is wholly owned by Mr. Wang Yung-tyng. Mr. Wang Yung-tyng is deemed to be interested in the underlying shares (in respect of the unlisted equity derivatives) held by Gold Device Ltd..

(C) Substantial shareholding in other members of the Group

As at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, the following parties, other than a Director or chief executive of the Company, are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of subsidiary	Name of shareholder	Approximate % of the existing issued share capital
D & C Engineering (H.K.) Limited	Artery Construction Management Limited	45.0%
Hamker Concrete Products Limited	Lau Kwok Cheung	15.0%
Jiangsu Yangtong Investment Development Co., Ltd.	Jiangsu Yangkou Port Investment and Development Co., Ltd.	40.0%
Paul Y. - CREC Engineering Co., Limited	China Railway Engineering Corporation	30.0%
Paul Y. - ITC	Aeneas Capital Management LP as Investment Manager	14.2%
Paul Y. Seli Limited	Societa Esecuzione Lavori Idraulici S.p.A.	49.0%

Save as disclosed above, the Directors and the chief executives of the Company are not aware that there is any party who, as at the Latest Practicable Date, had an interest or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such shares.

Directors' interests in competing business

Interests of Directors in competing businesses as at the Latest Practicable Date required to be disclosed pursuant to rule 8.10 of the Listing Rules were as follows:

Name of director	Name of company	Nature of competing business	Nature of interest	Notes
Chan Kwok Keung, Charles	China Strategic and its subsidiaries	Property business in the Mainland	As the chairman, chief executive officer and substantial shareholder of China Strategic	1, 3
	Hanny and its subsidiaries	Property business in the Mainland	As the chairman, an executive director and substantial shareholder of Hanny	2, 4
	Wing On Travel (Holdings) Limited ("Wing On Travel") and its subsidiaries	Property business in Hong Kong	As an executive director of Wing On Travel	5
Chau Mei Wah, Rosanna	China Strategic and its subsidiaries	Property business in the Mainland	As an executive director of China Strategic	3
Chan Kwok Hung	China Strategic and its subsidiaries	Property business in the Mainland	As an alternate director to Dr. Chan Kwok Keung, Charles, the chairman and chief executive officer of China Strategic	3
	Hanny and its subsidiaries	Property business in the Mainland	As an executive director of Hanny	4
Cheung Hon Kit	Wing On Travel and its subsidiaries	Property business in Hong Kong	As the managing director of Wing On Travel	5
	Universal Engineering & Construction Ltd ("UECL")	Construction	Holds indirect shareholding interest in UECL	6
	Silver City Limited ("Silver City")	Property business in Hong Kong	As a director and shareholder of Silver City	7
	Hanny and its subsidiaries	Property business in the Mainland	As a non-executive director of Hanny	4
	Co-Forward Development Limited ("Co-Forward")	Property business in Hong Kong	As a director and shareholder of Co-Forward	8
	China Development Limited ("China Development")	Property business in Hong Kong	As a director and shareholder of China Development	9

Notes:

- The Company indirectly, through a wholly-owned subsidiary of Paul Y. - ITC, a subsidiary of the Company, holds approximately 29.36% of the issued share capital of China Strategic. Dr. Chan Kwok Keung, Charles is deemed to be a substantial shareholder of China Strategic by virtue of his deemed interests in approximately 33.58% of the issued ordinary share capital of the Company.
- The Company indirectly, through its wholly-owned subsidiary of the Company, holds approximately 24.55% of the issued share capital of Hanny. Dr. Chan Kwok Keung, Charles is deemed to be a substantial shareholder of Hanny by virtue of his deemed interests in approximately 33.58% of the issued ordinary share capital of the Company.
- China Strategic has a land development project in the Mainland, China Strategic is entitled to the exclusive development right to the project and also the right to obtain the land for development. The site area is approximately 7 million square meters. By virtue of China Strategic's interest in its land development right, the directors of China Strategic who are also the Directors are considered to have interest in businesses which compete or are likely to compete with directly or indirectly with the property business of the Group. However given that the property that is the subject of the land development right held by China Strategic is not in the proximity of the

- properties owned by the Group, the Board considers the competition between property business of China Strategic and that of the Company is minimal. The board of directors of China Strategic are Dr. Chan Kwok Keung, Charles, Ms. Chau Mei Wah, Rosanna, Dr. Yap, Allan, Mr. Li Wa Kin, Ms. Chan Ling, Eva, Mr. Lui Siu Tsuen, Richard (alternate to Dr. Yap, Allan), Mr. Chan Kwok Hung (alternate to Dr. Chan Kwok Keung, Charles), Mr. David Edwin Bussmann and Mr. Fung Wan Yiu, Agnes. China Strategic's issued share capital is approximately HK\$88 million.
4. Hanny has a land development project in the Mainland. Hanny is entitled to the exclusive development right to the project and also the right to obtain the land for development. The site area of the land is approximately 3.3 million square metres. By virtue of Hanny's land development right in the Mainland, the directors of Hanny who are also Directors are considered to have interests in businesses which are or are likely to compete directly or indirectly with the property business of the Group. However given that the land development rights held by Hanny is not in the proximity of the properties owned by the Group, the Board considers the competition between property business of Hanny and that of the Group is minimal. The board of directors of Hanny are Dr. Chan Kwok Keung, Charles, Dr. Yap, Allan, Mr. Chan Kwok Hung, Mr. Lui Siu Tsuen, Richard, Mr. Fok Kin Ning, Canning, Mr. Edith Shih (alternate to Fok Kin Ning, Canning), Mr. Ip Tak Chuen, Edmond, Mr. Cheung Hon Kit, Mr. Tsang Link Carl, Brian, Mr. Yuen Tin Fan, Francis and Mr. Kwok Ka Lap, Alva. Hanny's issued share capital is approximately HK\$1.9 million.
 5. Wing On Travel has a parcel of land with buildings and structures erected thereon in Guangxi Zhuang Nationality Autonomous Region, the Mainland for which a hotel development is planned including a hotel building, a staff-quarter building and a boiler room with an area of approximately 15,557.8 square metres. By virtue of Wing On Travel's interest in the parcel of land in Guangxi Zhuang Nationality Autonomous Region, the Mainland, the directors of Wing On Travel who are also Directors are considered to have interests in businesses which are or are likely to compete either directly or indirectly with property business of the Group. However, given the parcel of the land held by Wing On Travel is not in the proximity of the properties owned by the Company, the Board considers the competition between the property business of Wing On Travel and that of the Company is minimal. The board of directors of Wing On Travel are Mr. Yu Kam Kee, Lawrence, Mr. Cheung Hon Kit, Dr. Chan Kwok Keung, Charles, Dr. Yap, Allan, Mr. Chan Pak Cheung, Natalis, Mr. Lui Siu Tsuen, Richard, Ms. Luk Yee Lin, Ellen, Mr. Chan Yeuk Wai, Mr. Fok Kin-ning, Canning, Ms. Shih, Edith (alternate to Mr. Fok Kin-ning, Canning), Mr. Kwok Ka Lap, Alva and Mr. Sin Chi Fai. The issued share capital of Wing On Travel is approximately HK\$183 million.
 6. The board of directors of UECL consists of five directors. Mr. Cheung Hon Kit is not a director of UECL. UECL's issued share capital is HK\$18,000,000.
 7. Silver City owns a shop in Hong Kong for sale or lease with a gross floor area of approximately 660 square feet with cockloft. By virtue of Silver City's interest in the shop, Mr. Cheung Hon Kit, a director of Silver City who is also a Director is considered to have interests in the businesses which compete or are likely to compete directly or indirectly with the property business of the Group. However given the shop held by Silver City is not in the proximity of the properties owned by the Group, the Board considers the competition between the property business of Silver City and that of the Company is minimal. The board of directors of Silver City consists of two directors being Mr. Cheung Hon Kit and a private limited company. Silver City's issued share capital is HK\$2.00.
 8. Co-Forward owns a property in Hong Kong for sale with a gross floor area of approximately 5,000 square feet. By virtue of Co-Forward's interests in the property, Mr. Cheung Hon Kit, a director of Co-Forward who is also a Director is considered to have interests in businesses which compete or are likely to compete directly or indirectly with the property business of the Group. However given the property held by Co-Forward is not in the proximity of the properties owned by the Group, the Board considers the competition between property business of Co-Forward and that of the Company is minimal. The board of directors of Co-Forward consists of two directors being Mr. Cheung Hon Kit and a private limited company. Co-Forward's issued share capital is HK\$2.00.
 9. China Development owns a shop in Hong Kong for lease with a gross floor area of approximately 1,080 square feet. By virtue of China Development's interest in the shop, Mr. Cheung Hon Kit, a director of China Development who is also a Director is considered to have interests in businesses which compete or are likely to compete with directly or indirectly with the property business of the Group. However given the shop held by China Development is not a the proximity of the properties owned by the Group, the Board considers the competition between property business of China Development and that of the Company is minimal. The board of directors of China Development consists of two directors being Mr. Cheung Hon Kit and a private limited company. Co-Forward's issued share capital is HK\$2.00.

Dr. Chan Kwok Keung, Charles, Ms. Chau Mei Wah, Rosanna, Mr. Chan Kwok Hung and Mr. Cheung Hon Kit are regarded as being interested in these competing businesses as mentioned above. The directors of the subsidiaries of the Company having interests in businesses that potentially compete with the businesses mentioned above make decisions collectively at board meetings. If a conflict of interest

arises, Dr. Chan Kwok Keung, Charles, Ms. Chau Mei Wah, Rosanna, Mr. Chan Kwok Hung and Mr. Cheung Hon Kit will abstain from participating in making the relevant decisions for the Group. Each Director is also conscious of his duties and obligations to each company and that while he is acting in the capacity as a director of a particular company, he must take into account only the interests of that company. Therefore, the Group is capable of carrying on its business independently of, and at arm's length from, the competing businesses and it intends to do so.

Save as disclosed above, none of the Directors or their respective associates are interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with any member of the Group which is not terminable by the Group within one year without any payment of compensation, other than statutory compensation.

LITIGATION

As at the Latest Practicable Date, the Group was involved in the following material litigation:

- a. 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 July, 2004, 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.
- b. Paul Y. - ITC has claimed against an ex-shareholder under a guarantee to recover losses incurred by an associated company amounting to approximately HK\$123.7 million. Paul Y. - ITC has commenced court proceedings on 9th June, 2000 against the ex-shareholder to recover these 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 losses can be fully recovered from the ex-shareholder.

The ex-shareholder has commenced proceedings on 4th March, 2004 against Paul Y. - ITC alleging that Paul Y. - ITC failed to minimize the losses of the associated company and claiming damages to the extent of that failure together with interest and other expenses. Pursuant to the judgement of the Court of First Instance delivered on 3rd September, 2004, Paul Y. - ITC has successfully struck out the Statement of Claim filed by the ex-shareholder in the aforesaid proceedings which have now been dismissed.

Save as disclosed above, there is no other member of the Group as at the Latest Practicable Date engaged in any litigation or claim of material importance to the Group and no litigation or claim of material importance to the Group is known to the Directors to be pending or threatened against any member of the Group.

QUALIFICATION OF EXPERT

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

Deloitte Touche Tohmatsu ("Deloitte")

Certified Public Accountants

As at the Latest Practicable Date, Deloitte was not interested beneficially in the securities of the Company or its subsidiaries and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company or its subsidiaries.

As at the Latest Practicable Date, Deloitte did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to the Company or its subsidiaries or are proposed to be acquired or disposed of by or leased to the Company or its subsidiaries since 31st March, 2004, being the date up to which the latest published audited consolidated accounts of the Company were made.

Deloitte has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of copies of its report, letter and/or references to its name, in the form and context in which they respectively appear.

MATERIAL CONTRACTS

The following 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 this circular up to the Latest Practicable Date and which are or may be material:

1. 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;
2. Conditional placing agreement dated 20th September, 2002 entered into between BNP Paribas Peregrine Securities Limited (“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;
3. 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);
4. 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”);
5. Subscription agreement dated 28th March, 2003 entered into between the Company and SMI Corporation Limited (“SMI”) (formerly known as Star East Holdings Limited) relating to subscription of 500,000,000 new shares in SMI at a price of HK\$0.04 per share, together with supplemental agreement dated 30th June, 2003 between the Company and SMI in relation to the amendment of the subscription agreement;
6. 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 every 4 shares in Downer into 1 Consolidated Downer Share on 28th November, 2003) from Pembinaan at A\$2.2 per Consolidated Downer Share;

7. Mandate letter dated 24th June, 2003 entered into between the Company, Paul Y. - ITC, 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 Developments Limited (“Calisan”), a wholly owned subsidiary of Paul Y. - ITC, Well Orient Limited (“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 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;
8. 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;
9. Contract note for disposal by Pembinaan of 20 million Consolidated Downer Shares at A\$3.68 per Consolidated Downer Share on 8th December, 2003;
10. Redemption agreements dated 16th January, 2004 entered into between the Company and certain registered holders of convertible notes issued by the Company in March 2003 and due in 2006 (the “Convertible Notes”) relating to the redemption of certain Convertible Notes in an aggregate principal amount of HK\$96,000,000 on face value;
11. Contract note for disposal by Hollyfield of 190 million shares of Paul Y. - ITC at HK\$0.70 per share on 21st January, 2004;
12. 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 Company agreed to subscribe 21,500,000 new shares in Hanny at a price of HK\$4.00 per share;
13. Sale and purchase agreement dated 30th March, 2004 entered into between Century Harbour Limited (“Century Harbour”, a wholly-owned subsidiary of Paul Y. - ITC) and Steady Forth Limited (“Steady Forth”) in relation to the acquisition by Century Harbour from Steady Forth of 90.1% of the issued share capital of, and all shareholders’ loan to, Global Achiever Limited (“Global Achiever”), which holds indirectly a 60% interests in Jiangsu Yangtong Investment and Development Co., Ltd. (“Jiangsu Yangtong Investment”) for a consideration of HK\$396 million. Century Harbour also undertook to advance to Global Achiever an amount up to US\$16 million (equivalent to approximately HK\$124.8 million) to enable it or its subsidiary to pay up its proportion of the registered capital of Jiangsu Yangtong Investment;
14. Sale and purchase agreement dated 27th March, 2004 entered into between Wellington Equities Inc. (“Wellington”) as vendor and Growing Success Limited (“Growing Success”, a wholly-owned subsidiary of Paul Y. - ITC) as purchaser (as amended and supplemented by supplemental agreements dated 29th March, 2004 and 21st June, 2004) in relation to the acquisition by Growing Success from Wellington of the entire issued share capital of Hidden Advantage Investments Limited (“Hidden”) together with the outstanding shareholder’s loans of HK\$72.8 million due by Hidden to Wellington for a total consideration of HK\$30,000,000, of which HK\$10,000,000 will be paid in cash and the remaining HK\$20,000,000 will be satisfied by the issue of 20,000,000 consolidation shares of HK\$0.50 each in Skynet (International Group) Holdings Limited (“Skynet”) (“Consolidated Shares”, which are shares of Skynet upon completion of capital reorganisation) out of the Hidden Consideration Shares (as defined below) to Wellington;
15. Sale and purchase agreement dated 29th March, 2004 entered into between Skynet and Paul Y. - ITC (as amended and supplemented by supplemental agreements dated 25th June, 2004 and 30th August, 2004) in relation to the acquisition by Skynet from Paul Y. - ITC of the entire issued share capital of, and shareholder’s loan owing by, Paul Y. - ITC Construction Holdings (B.V.I.) Limited at a consideration of HK\$400,000,000, which will be satisfied by the issue and allotment of 400,000,000 Consolidated Shares by Skynet;

16. Underwriting agreement dated 29th March, 2004 entered into between Skynet and Paul Y. - ITC (as amended and supplemented by supplemental agreements dated 25th June, 2004 and 30th August, 2004) in relation to the underwriting by Paul Y. - ITC of the proposed open offer of 45,070,995 new Consolidated Shares (“Offer Shares”) on the basis of 5 Offer Shares for every 2 Consolidated Shares on an assured basis at HK\$1.00 per Offer Share for a commission of 2% of the aggregate subscription price of the actual number of Offer Shares underwritten by Paul Y. - ITC, which will be a maximum of about HK\$901,420; and
17. Sale and purchase agreement dated 29th March, 2004 entered into between Skynet and Paul Y. - ITC (as amended and supplemented by supplemental agreements dated 25th June, 2004 and 30th August, 2004) in relation to the acquisition by Skynet from Paul Y. - ITC of the entire issued share capital of Hidden and shareholder’s loan due by Hidden to Growing Success for a consideration of HK\$113.6 million, which will be satisfied by the issue and allotment of 113,600,000 Consolidated Shares (“Hidden Consideration Shares”) by Skynet.

PROCEDURE TO DEMAND A POLL AT THE VSD SGM, PREFERENCE SHAREHOLDER MEETING AND SGM

Pursuant to bye-law 79 of the bye-laws of the Company, at any general meeting a resolution put to the vote at the meeting shall be determined on a show of hands of members present in person or by a duly authorised corporate representative or by proxy entitled to vote unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the chairman of the meeting; or
- (ii) by at least three members present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person or by a duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by any member or members present in person or by a duly authorised corporate representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A demand by a person as proxy for a member or in case of a duly authorised corporate representative shall be deemed to be the same as a demand by a member.

In accordance with the requirements of the Listing Rules, the results of the polls will be published by way of an announcement in the local newspapers on the business day following the meeting.

GENERAL

- a. The secretary and the qualified accountant of the Company is Law Hon Wa, William, CPA, FCCA.
- b. The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business of the Company in Hong Kong is at 33rd Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.
- c. 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.
- d. The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of Richards Butler at 20th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including the dates of the VSD SGM, Preference Shareholder Meeting and SGM whichever is the latest:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the audited consolidated financial statements of the Company for each of the years ended 31st March, 2003 and 2004;
- (c) the Accountants' Report on the Company set out in Appendix I to this circular;
- (d) the letter from Deloitte in respect of the pro forma financial information on the Company set out in Appendix II to this circular;
- (e) the material contracts referred to in this appendix;
- (f) the following circular issued by the Company pursuant to the requirements set out under Chapter 14 of the Listing Rules since 31st March, 2004, being the date to which the latest published audited consolidated financial statements of the Group were made up:
 - a circular dated 5th May, 2004 containing, inter alia, certain information regarding acquisition of an approximately 54.06% indirect interest in a joint venture company to build and operate a bulk handling sea port at Yangkou Port, Nantong City, Jiangsu, China;
- (g) the letter of consent from Deloitte referred to in this Appendix IV;
- (h) the specimen convertible preference share certificate which sets out all the terms and conditions of the existing convertible preference shares; and
- (i) this circular together with the notice of SGM which sets out all the terms and conditions of the redeemable convertible preference shares.

NOTICE OF VSD SGM



ITC CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code: 372)

NOTICE IS HEREBY GIVEN that a special general meeting of the holders of ordinary shares of HK\$0.10 each in the share capital 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, 6th October, 2004 at 11:30 a.m.** for the purpose of considering and, if thought fit, passing the following resolution, which will be proposed as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"THAT the disposal of up to 134,500,000 shares of HK\$0.10 each (each a "Paul Y. - ITC Share") in Paul Y. - ITC Construction Holdings Limited at a placing price per Paul Y. - ITC Share of not less than HK\$0.512 at any time before the first anniversary of the date on which this resolution is passed to persons who are not connected persons of the Company (as defined in The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) be and is hereby approved and authorised, and the directors of the Company (the "Directors") be and are hereby authorised to exercise all the powers of the Company and take all other steps as might in the opinion of the Directors be desirable or necessary in connection with the disposal including without limitation, settling, approving and executing one or more agreements in connection with the disposal and generally to exercise all the powers of the Company as they deem desirable or necessary for the foregoing purposes."

By Order of the Board
Law Hon Wa, William
Company Secretary

Hong Kong, 21st September, 2004

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

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Notes:

1. Holders of ordinary shares of the Company entitled to attend and vote at the meeting convened by this notice are entitled to appoint one or more proxies to attend and vote instead of them. A proxy need not be a member of the Company but must be present in person at the meeting to represent the member.
2. A white form of proxy for the meeting is enclosed. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority notarially certified, must be deposited at the office of 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 not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting, as the case may be. Completion and return of the white form of proxy will not preclude holders of ordinary shares of the Company from attending and voting in person at the meeting if they so desire.
3. As at the date of this notice, the board of directors comprises eight directors, of which (i) six are executive directors, namely Dr. Chan Kwok Keung, Charles, Mr. Lau Ko Yuen, Tom, Ms. Chau Mei Wah, Rosanna, Mr. Chan Kwok Hung, Mr. Chan Fut Yan and Mr. Cheung Hon Kit; and (ii) two are independent non-executive directors, namely Mr. Chuck Winston Calptor and Mr. Lee Kit Wah.

NOTICE OF PREFERENCE SHAREHOLDER MEETING



ITC CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code: 372)

NOTICE IS HEREBY GIVEN that a meeting of the holders of the convertible preference shares of HK\$0.10 each in the share capital 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, 13th October, 2004 at 11:30 a.m.** for the purpose of considering and, if thought fit, passing the following resolution, which will be proposed as a special resolution of the Company:

SPECIAL RESOLUTION

"**THAT**, the variation or abrogation of the rights and restrictions of the convertible preference shares of HK\$0.10 each in the share capital of the Company in the manner set forth in the form of special resolution, set out in the notice of special general meeting of the holders of ordinary shares and the holders of convertible preference shares of the Company dated 21st September, 2004, and the passing of that resolution be and are hereby sanctioned for all purposes of Bermuda law and of the Company's by-laws."

By Order of the Board
Law Hon Wa, William
Company Secretary

Hong Kong, 21st September, 2004

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

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Notes:

1. Holders of the convertible preference shares of the Company entitled to attend and vote at the meeting convened by this notice are entitled to appoint one or more proxies to attend and vote instead of them. A proxy need not be a member of the Company but must be present in person at the meeting to represent the member.
2. A blue form of proxy for the meeting is enclosed. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority notarially certified, must be deposited at the office of 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 not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting, as the case may be. Completion and return of the blue form of proxy will not preclude holders of the convertible preference shares of the Company from attending and voting in person at the meeting if they so desire.
3. As at the date of this notice, the board of directors comprises eight directors, of which (i) six are executive directors, namely Dr. Chan Kwok Keung, Charles, Mr. Lau Ko Yuen, Tom, Ms. Chau Mei Wah, Rosanna, Mr. Chan Kwok Hung, Mr. Chan Fut Yan and Mr. Cheung Hon Kit; and (ii) two are independent non-executive directors, namely Mr. Chuck Winston Calptor and Mr. Lee Kit Wah.

NOTICE OF SGM



ITC CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 372)

NOTICE IS HEREBY GIVEN that a special general meeting of the holders of ordinary shares of HK\$0.10 each in the share capital of ITC Corporation Limited (the "Company") and the holders of the convertible preference shares of HK\$0.10 each in the share capital of the Company will be held at Conference Room, 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on **Wednesday, 13th October, 2004 at 11:35 a.m.** (or, if later, immediately following the conclusion or adjournment of the meeting of the holders of convertible preference shares of the Company to be held at the same place at 11:30 a.m. on the same date) for the purpose of considering and, if thought fit, passing the following resolution, which will be proposed as a special resolution of the Company:

SPECIAL RESOLUTION

"THAT, conditional upon (i) the passing of, or there having been passed, by the holders of the existing convertible preference shares of HK\$0.10 each in the share capital of the Company (the "Convertible Preference Shares") a special resolution to sanction the variation or abrogation of the rights and restrictions of the Convertible Preference Shares so as to convert them into redeemable convertible preference shares ("Redeemable Convertible Preference Share(s)") of HK\$0.10 each in the manner set forth in this resolution (the "Amendment"), (ii) Section 43 of the Companies Act 1981 of Bermuda being complied with and (iii) the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") granting a listing of, and permission to deal in the ordinary shares to be issued upon conversion of the Redeemable Convertible Preference Shares, the Amendment be and is hereby approved and the rights and restrictions of the Convertible Preference Shares be and are hereby varied and amended such that every Redeemable Convertible Preference Share shall carry the following rights and restrictions to the exclusion of all rights and restrictions attaching thereto immediately prior to the passing of this resolution:

- (1) As regards dividends
 - (a) Each Redeemable Convertible Preference Share shall confer on the holder thereof the right to receive, out of the profits of the Company available for distribution and resolved by the Directors to be distributed, a fixed cumulative preferential dividend of HK\$0.04 for every HK\$0.10 nominal value of Redeemable Convertible Preference Share capital per annum.
 - (b) Subject to section 54 of the Companies Act 1981 of Bermuda and to the Company having sufficient distributable profits out of which to pay the fixed cumulative preferential dividend, such dividend shall be paid on or before the anniversary (each a "Dividend Date") of the date on which the conditions referred to above have been satisfied (the date of such satisfaction being the "Effective Date") to persons registered as the holders of Redeemable Convertible Preference Shares on the 14th business day (as defined in paragraph (1)(d) below) before the Dividend Date in the relevant year in respect of the twelve month period ending on but excluding the Dividend Date in the relevant year, provided that subject to satisfaction of the conditions referred to above, the Company shall not be required to pay any fixed cumulative preferential dividend for the period from (and including) 1st April, 1998 to (and excluding) the Effective Date. In the event that the Company does not pay the fixed cumulative preferential dividend for the Redeemable Convertible Preference Share that is payable in any year after the Effective Date, the dividend not paid shall be carried forward and paid as and when the Company is able to do so. If a Dividend Date does not fall on a business day, then the dividend in question shall instead be paid on or before the next following business day and no additional sum shall be payable in respect of such delay.

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- (c) The Redeemable Convertible Preference Shares shall rank for dividend in priority to the ordinary shares of the Company and the Company shall not pay any dividends to the holders of shares in the capital of the Company which do not rank in priority to the Redeemable Convertible Preference Shares as regards dividends unless all accrued dividends on the Redeemable Convertible Preference Shares have been paid.
 - (d) For the purpose of this resolution “business day” shall mean any day on which banks are open for business in Hong Kong, excluding Saturdays.
- (2) As regards capital
- Each Redeemable Convertible Preference Share shall confer on the holder thereof the right on a winding-up, or other return of capital to receive in the following order of priority:
- (i) repayment in full of the capital paid up on such Redeemable Convertible Preference Share; and
 - (ii) payment of a sum equal to any arrears or accruals of the fixed cumulative preferential dividend on such Redeemable Convertible Preference Share, whether or not declared or earned, calculated down to the date of such repayment of capital.
- (3) As regards conversion
- (a) Any holder of Redeemable Convertible Preference Shares shall be entitled, subject to paragraph (3)(b) below, at any time to convert the Redeemable Convertible Preference Shares held by him into such number of fully paid ordinary shares in the capital of the Company as is calculated by multiplying the number of Redeemable Convertible Preference Shares being converted by HK\$1.06 and dividing the product by HK\$1.04 subject to adjustment as provided in paragraph (3)(e) below (the “conversion price”), rounded down to the nearest integral number of ordinary shares. For the avoidance of doubt, no fraction of an ordinary share shall be allotted and no compensating payment shall be made in respect thereof. In the event of any fraction of a whole number of ordinary shares arising on conversion, such fraction shall be rounded down to the nearest whole number of the ordinary share.
 - (b) The right to convert may be exercised at any time before the issue of a compulsory conversion notice (referred to in paragraph (3)(i) below) and before the redemption date in respect only of whole numbers of Redeemable Convertible Preference Shares, by the holder of those Redeemable Convertible Preference Shares delivering the certificate for such Redeemable Convertible Preference Shares to the Company at the office of its registrars for the time being with the conversion notice on the reverse of such certificate (the “conversion notice”) duly completed in respect of such number of Redeemable Convertible Preference Shares comprised therein as he may in the conversion notice specify, together with such other evidence, if any, as the directors of the Company may reasonably require to prove the title of the person exercising such right (or in the absence of such evidence, an indemnity to the satisfaction of the directors of the Company). The conversion notice duly completed in accordance with the instructions thereon shall be irrevocable after receipt thereof by the Company at the office of its registrars, except with the consent in writing of the Company. The date of receipt by the Company of a conversion notice is hereinafter referred to as the “conversion date” but if the date of receipt is not a business day, the “conversion date” shall be the first business day thereafter.
 - (c) Conversion of the Redeemable Convertible Preference Shares may be effected in such manner as the directors of the Company shall from time to time determine.
 - (d) (i) conversion shall take effect from the relevant conversion date and the Company not later than fourteen days next following that conversion date shall allot the relevant ordinary shares arising from the conversion and not later than ten business days next following that allotment shall despatch a certificate for such ordinary shares and, if appropriate, a certificate for the balance of the Redeemable Convertible Preference Shares remaining unconverted. All certificates despatched pursuant to this sub-paragraph shall be at the risk of the shareholder entitled thereto;

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- (ii) any arrears of fixed cumulative preferential dividend on the Redeemable Convertible Preference Shares so converted shall cease to be payable on the relevant conversion date. Upon conversion of any Redeemable Convertible Preference Shares by the holder delivering a conversion notice, but not, for the avoidance of doubt, upon any compulsory conversion pursuant to these terms, the holder's right to receive any accrued but unpaid dividend shall be forfeited. The ordinary shares which arise on conversion shall be credited as fully paid and rank *pari passu* and form one class in all respects with the ordinary shares then in issue save that they shall not entitle the holders to any dividend or other distribution declared, paid or made upon the ordinary shares prior to the relevant date of allotment of such ordinary shares;
 - (iii) the Company shall ensure that it will have sufficient authorised but unissued ordinary shares for the time being outstanding available to satisfy in full the aforesaid conversion rights; and
 - (iv) the Company shall not do any act or thing that would entail the issue of ordinary shares at a discount to their par value on the exercise of conversion rights and no conversion rights shall be exercisable if and for so long as the conversion price is below that par value.
- (e) The conversion price shall be adjusted from time to time in accordance with the following:
- (i) if and whenever the nominal value of the ordinary shares is altered by reason of any consolidation or sub-division, the conversion price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount. Each such adjustment shall be effective from the close of business in Hong Kong on the business day last preceding the date on which the consolidation or sub-division becomes effective;
 - (ii) if and whenever the Company shall issue (other than in lieu of a cash dividend) any ordinary shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or contributed surplus account or capital redemption reserve fund) then the conversion price in force immediately prior to such issue shall be adjusted by multiplying it by the aggregate nominal amount of the issued ordinary shares immediately before such issue and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the ordinary shares issued in such capitalisation. Each such adjustment shall be effective (if appropriate, retrospectively) from the commencement of the day next following the record date for such issue;
 - (iii) if and whenever the Company shall make any capital distribution to holders (in their capacity as such) of ordinary shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the conversion price in force immediately prior to such distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{A - B}{A}$$

Where:

A = the closing price published in the Hong Kong Stock Exchange's Daily Quotation Sheet of one ordinary share on the trading day last preceding the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) immediately preceding the date of the capital distribution or, as the case may be, of the grant; and

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B = the fair market value on the day of such announcement or (as the case may require) immediately preceding the date of the capital distribution or, as the case may be, of the grant, as determined in good faith by the auditor for the time being of the Company or an approved merchant bank (as the Directors may select), of the portion of the capital distribution or of such rights which is/are attributable to one Share,

Provided that:

- (1) if, in the opinion of the relevant auditor or approved merchant bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if B meant) the amount of the closing price published in the Hong Kong Stock Exchange's Daily Quotation Sheet of one ordinary share which should properly be attributed to the value of the capital distribution or rights; and
- (2) the provisions of this paragraph (3)(e)(iii) shall not apply in relation to the issue of ordinary shares paid out of profits or reserves and issued in lieu of a cash dividend or a purchase by the Company of its own shares.

Each such adjustment shall be effective (if appropriate, retrospectively) from the commencement of the day next following the record date for the capital distribution or grant;

- (iv) if and whenever the Company shall offer to holders of ordinary shares new ordinary shares for subscription by way of rights, the conversion price shall be adjusted by multiplying the conversion price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{G + H}{G + I}$$

where:

G = the number of ordinary shares in issue immediately before the date of announcement of the offer;

H = the number of ordinary shares which the aggregate of the following two amounts would purchase at the closing price published in the Hong Kong Stock Exchange's Daily Quotation Sheet last preceding the date of the announcement of the terms of the offer or grant:

- (a) the total amount (if any) payable to the rights being offered or granted; and
- (b) the total amount payable for all of the new ordinary shares being offered for subscription or comprised in the rights being granted; and

I = the aggregate number of ordinary shares being offered for subscription or comprised in the rights being granted.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the relevant offer or grant;

- (v) if and whenever the Company shall issue wholly for cash any ordinary shares (other than ordinary shares issued pursuant to any share option scheme or pursuant to the exercise of any warrants, bonds and debentures convertible into shares of the Company) at a price per share which is less than 90 per cent of the market price (being the closing price published in the Hong Kong Stock Exchange's Daily Quotation Sheet last preceding the date of the announcement of the terms of such issue, the conversion price shall be adjusted by multiplying the conversion price in force immediately before the date of such announcement by a fraction of which the numerator is the number of ordinary shares in issue immediately before the date of such announcement plus the number of ordinary shares which the aggregate amount payable for the issue would purchase at such market price and the denominator is the number of ordinary shares in

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issue immediately before such date of announcement plus the number of ordinary shares so issued. Such adjustment shall become effective on the date of the issue.

- (f) Notice of any of the events set out above which affects the conversion price shall be sent within twenty eight days of the event to the registered holders of the Redeemable Convertible Preference Shares. The notice shall state the conversion price applicable as a result of such event.
- (g) If while any Redeemable Convertible Preference Share remains capable of conversion and the Company is placed in liquidation, the Company shall forthwith give notice thereof in writing to the holders of all the Redeemable Convertible Preference Shares and each holder of Redeemable Convertible Preference Shares shall in respect of all or any of his Redeemable Convertible Preference Shares be entitled within six weeks after the date of the resolution for winding up the Company or, as the case may be, after the date of the Order of the Supreme Court of Bermuda for such winding up, such respective dates being referred to in this sub-paragraph as the “operative date”, by notice in writing to the Company to elect to be treated as if a conversion date had occurred on the day immediately preceding the operative date and his conversion rights had been exercisable and had been exercised as at that date at the conversion price then applicable. Any holder of Redeemable Convertible Preference Shares so electing shall be entitled to any arrears, deficiency or accrual of the fixed preferential dividend on such Redeemable Convertible Preference Shares, whether or not such dividend has been declared or earned, calculated down to the dividend payment date immediately preceding the operative date and, in lieu of any other payments which would be payable in respect of such Redeemable Convertible Preference Shares, to participate in the assets available in the liquidation *pari passu* with the holders of the ordinary shares as if he were the holder of ordinary shares, including any fraction of a share, to which he would have become entitled by virtue of such conversion. At the expiration of the said period of six weeks, any outstanding Redeemable Convertible Preference Shares shall cease to be capable of conversion.
- (h) So long as any Redeemable Convertible Preference Share remains capable of conversion the Company shall not give effect to any arrangement pursuant to which the Company is to make a distribution in the form of a transfer of assets to another company or other companies whereby shares are to be issued or transferred to all or any of the holders of ordinary shares in the capital of the Company by the company or companies to which such distribution is to be made unless it shall have given not less than twenty one days notice prior to the proposed record date in respect of the entitlement of holders of ordinary shares to receive the shares to be issued by such company or companies.
- (i) In the event that the closing price of the ordinary shares in the Company on the Hong Kong Stock Exchange as stated in its daily quotation sheet is 125% or more of the conversion price for twenty consecutive trading days or there are at any time less than 50 million Redeemable Convertible Preference Shares in issue, and provided in each case that there are no accrued and unpaid dividends payable to holders of Redeemable Convertible Preference Shares, the Company may give written notice to each holder of Redeemable Convertible Preference Shares (a “compulsory conversion notice”), whereupon each holder of Redeemable Convertible Preference Shares shall be deemed to have delivered to the Company a conversion notice on the date of the compulsory conversion notice.
- (j) The Company shall send to the holders of the Redeemable Convertible Preference Shares a copy of every document sent by the Company to the holders of its ordinary shares at the time the same is sent to the holders of its ordinary shares.
- (k) The Company shall apply to the Hong Kong Stock Exchange for, and use its best endeavours to obtain, the listing of and permission to deal in the Redeemable Convertible Preference Shares, if applicable, and all the ordinary shares in the capital of the Company arising from conversion of any of the Redeemable Convertible Preference Shares on the Hong Kong Stock Exchange.

NOTICE OF SGM

(4) As regards redemption

- (a) The Redeemable Convertible Preference Shares shall, to the extent that they have not been converted pursuant to paragraph (3) above or redeemed or purchased by the Company and subject to available funds under Bermuda law, be redeemed by the Company at HK\$1.06 per Redeemable Convertible Preference Share on the third anniversary of the Effective Date (the “redemption date”). The Redeemable Convertible Preference Shares, once redeemed, converted or purchased by the Company or any of its subsidiaries, shall forthwith be cancelled.
- (b) Redemption of the Redeemable Convertible Preference Shares may be effected in such manner as the directors of the Company shall from time to time determine.
- (c) The holder of the relevant Redeemable Convertible Preference Share shall on or before 10:00 a.m. (Hong Kong time) on the redemption date deliver the certificate relating to the relevant Redeemable Convertible Preference Share and such other evidence (if any) as the directors of the Company may reasonably require to prove the title of the holder (or, if such certificate has been lost or destroyed, such evidence of title and such indemnity as the directors of the Company may reasonably require) to the Company at the principal place of business of the Company in Hong Kong or such other places as may be determined by the directors of the Company.
- (d) On the redemption date, the Company shall redeem the relevant Redeemable Convertible Preference Shares and subject to and upon delivery of the certificate or other evidence of title and indemnity referred to above, the Company shall as soon as reasonably practicable after the redemption date, pay the relevant holder of the Redeemable Convertible Preference Share the redemption price by cheque despatched by post at the risk of the person entitled thereto.
- (e) If the redemption date does not fall on a business day, the redemption date shall instead be the next following business day but the redemption price shall not be changed as a result and no additional sum shall be payable in respect of such delay.

(5) As regards further participation

The Redeemable Convertible Preference Shares shall not entitle the holders thereof to participate in the profits or assets of the Company beyond such rights as are expressly set out above.

(6) As regards voting

The holders of the Redeemable Convertible Preference Shares shall be entitled to receive notices of general meetings of the Company but not to attend or vote thereat unless the business of the meeting includes a resolution:

- (i) for winding up the Company; or
- (ii) for any reduction of the capital of the Company; or
- (iii) affecting, altering or abrogating the rights or privileges or restrictions attached to the Redeemable Convertible Preference Shares;

which matters may only be implemented with the sanction of a special resolution passed at a separate meeting of the holders of the Redeemable Convertible Preference Shares in accordance with the provisions of the bye-laws of the Company.

NOTICE OF SGM

- (7) As regards further issues of Redeemable Convertible Preference Shares

The Company may from time to time create and issue further securities ranking as regards participation in the profits and assets of the Company *pari passu* or in priority with the then issued Redeemable Convertible Preference Shares.

The Amendment shall take effect from the later of (a) the date on which this resolution is passed and (b) the date on which the conditions set out in the first paragraph of this resolution are satisfied.”

By Order of the Board
Law Hon Wa, William
Company Secretary

Hong Kong, 21st September, 2004

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

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Notes:

1. A member entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company but must be present in person at the meeting to represent the member.
2. A yellow form of proxy for the meeting is enclosed. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority notarially certified, must be deposited at the office of 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 not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the yellow form of proxy will not preclude members from attending and voting in person at the meeting if members so desire.
3. As at the date of this notice, the board of directors comprises eight directors, of which (i) six are executive directors, namely Dr. Chan Kwok Keung, Charles, Mr. Lau Ko Yuen, Tom, Ms. Chau Mei Wah, Rosanna, Mr. Chan Kwok Hung, Mr. Chan Fut Yan and Mr. Cheung Hon Kit; and (ii) two are independent non-executive directors, namely Mr. Chuck Winston Calptor and Mr. Lee Kit Wah.