

ANNUAL REPORT

2003

年 度 年 報



continuing expansion



building collaboration



pool of resources



prudent investment



solid foundation

ITC

ITC Corporation Limited

德祥企業集團有限公司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

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CORPORATE INFORMATION

DIRECTORS

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

COMPANY SECRETARY

Law Hon Wa, William

SOLICITORS

Herbert Smith (*Hong Kong*)
 Iu, Lai & Li (*Hong Kong*)
 Conyers Dill & Pearman (*Bermuda*)

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
 BNP Paribas
 CEF (Capital Markets) Limited
 CITIC Ka Wah Bank Limited
 HSBC Bank Canada
 The Hongkong and Shanghai Banking
 Corporation Limited
 Wing Hang Bank, Limited

REGISTERED OFFICE

Clarendon House
 Church Street
 Hamilton HM 11
 Bermuda

PRINCIPAL PLACE OF BUSINESS

33rd Floor, Paul Y. Centre
 51 Hung To Road
 Kwun Tong, Kowloon
 Hong Kong
 Tel : (852) 2831 8338
 Fax : (852) 2833 1030

REGISTRARS

Bermuda:

Butterfield Fund Services (Bermuda) Limited
 Rosebank Centre
 11 Bermudiana Road
 Pembroke
 Bermuda

Hong Kong:

Secretaries Limited
 Ground Floor, Bank of East Asia Harbour View Centre
 56 Gloucester Road
 Wanchai
 Hong Kong

WEBSITE

<http://www.itccorp.com.hk>

STOCK CODE

Hong Kong Stock Exchange	372
Reuters	0372.HK
Bloomberg	372 HK

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of ITC Corporation Limited (the "Company") will be held at Conference Room, 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Monday, 8th September, 2003 at 3:00 p.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31st March, 2003.
2. To re-elect retiring directors and to fix the directors' remuneration.
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration.
4. As special business, to consider and, if thought fit, to pass the following resolutions as ordinary resolutions of the Company:

(A) **"THAT:**

- (i) subject to sub-paragraph (iii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which would or might require the exercise of such powers, subject to and in accordance with all applicable laws and the bye-laws of the Company, be and is hereby generally and unconditionally approved;
- (ii) the approval in sub-paragraph (i) of this resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which would or might require the exercise of such powers after the end of the Relevant Period;
- (iii) the aggregate nominal amount of the share capital of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in sub-paragraph (i) of this resolution, otherwise than pursuant to a Rights Issue (as hereinafter defined) or upon the exercise of rights of subscription or conversion under the outstanding warrants to subscribe for shares of the Company or any securities which are convertible into shares of the Company or the share option scheme of the Company or any scrip dividend in lieu of the whole or part of a dividend on shares of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the ordinary share capital of the Company in issue on the date of this resolution, and 20 per cent. of the aggregate nominal amount of the preference share capital of the Company in issue on the date of this resolution, and the said approval shall be limited accordingly; and
- (iv) for the purpose of this resolution:

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws of Bermuda to be held; or
- (c) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the directors of the Company to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

NOTICE OF ANNUAL GENERAL MEETING *(continued)*

(B) **“THAT:**

- (i) subject to sub-paragraph (ii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase issued ordinary shares and preference shares in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of the ordinary share capital and preference share capital of the Company which the directors of the Company are authorised to repurchase pursuant to the approval in sub-paragraph (i) of this resolution shall not exceed 10 per cent. of the aggregate nominal amount of the ordinary share capital of the Company in issue on the date of this resolution, and 10 per cent. of the aggregate nominal amount of the preference share capital of the Company in issue on the date of this resolution, and the said approval shall be limited accordingly; and
- (iii) for the purpose of this resolution:
 “Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:
 - (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws of Bermuda to be held; or
 - (c) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

- (C) **“THAT** conditional upon resolutions numbered 4(A) and 4(B) as set out in the notice convening this meeting being passed, the aggregate nominal amount of the issued ordinary shares and preference shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors of the Company pursuant to and in accordance with the said resolution numbered 4(B) above shall be added to the aggregate nominal amount of the ordinary share capital and the preference share capital that may be allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with by the directors of the Company pursuant to and in accordance with the resolution numbered 4(A) as set out in the notice convening this meeting.”

5. To transact any other ordinary business of the Company.

By Order of the Board

Law Hon Wa, William
Company Secretary

Hong Kong, 21st July, 2003

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

Registered Office:
 Clarendon House
 Church Street
 Hamilton HM 11
 Bermuda

Notes:

1. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. A form of proxy for the meeting is enclosed. In order to be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority, must be deposited at the Company’s principal place of business 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 holding the meeting or any adjournment thereof.

CHAIRMAN'S STATEMENT

I present to shareholders the annual report of the Group for the year ended 31st March, 2003.

BUSINESS REVIEW

Results and financial highlights

In October 2002, the Group made a voluntary conditional cash offer for the shares and warrants in Paul Y. - ITC Construction Holdings Limited as disclosed under the section headed "Major Events". When Paul Y. - ITC Construction Holdings Limited became a subsidiary of the Company after the close of the cash offer in December 2002, the Group started to consolidate it as subsidiary in the accounts of the Group instead of sharing its results as an associate using the equity accounting method. Such changes accounted for most of the significant fluctuations on the results and financial position of the Group during the year ended 31st March, 2003 as summarised in the table below:

	Notes	2003	2002	Percentage change
Consolidated turnover (HK\$'million)	a	768.7	40.1	+1,815%
Profit from operations (HK\$'million)	b	69.7	3.1	+2,179%
Loss for the year (HK\$'million)	c	355.4	289.3	+23%
Total assets (HK\$'million)	a	4,834.1	2,115.6	+128%
Net tangible assets (HK\$'million)	a	1,677.8	1,537.2	+9%
Shareholders' funds (HK\$'million)	d	1,226.5	1,489.4	-18%
Basic loss per ordinary share (HK\$)	c	0.59	0.51	+16%
Current ratio	a	1.32	0.46	+187%

Notes:

- (a) Increased mainly due to the consolidation of Paul Y. - ITC Construction Holdings Limited as subsidiary after the close of the cash offer.
- (b) Increased mainly due to the amortisation of negative goodwill and bad debts and compensation recovered included in other operating income.
- (c) Increased mainly due to the increase in share of losses of associates.
- (d) Decreased as a result of the loss for the year.

Review of operations

Paul Y. - ITC Construction Holdings Limited ("Paul Y. - ITC")

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

The Paul Y. - ITC group's principal business includes, building construction, civil engineering, specialist works, property development and investment, and manufacturing and trading of construction materials. Paul Y. - ITC also holds 36.6% interest in Downer EDI Limited and 14.5% interest in China Strategic Holdings Limited as strategic investments as at 31st March, 2003.

The gross value of construction work in Hong Kong continue to shrink as the Government has been revising its housing policy, in particular the cutback in flat production under the Home Ownership Scheme. With its well established credibility, experience and technical capabilities, the Paul Y. - ITC group has 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 that was mainly due to the loss incurred in civil engineering and construction materials activities.

CHAIRMAN'S STATEMENT *(continued)*

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. The profile of contracts on hand as at 31st March, 2003 is as follows:

	Value of contracts on hand as at 31/3/2003 <i>HK\$'million</i>	Value of work remaining as at 31/3/2003 <i>HK\$'million</i>
Building construction	8,179	4,216
Civil engineering	1,346	303
Specialist works	833	416
	<u>10,358</u>	<u>4,935</u>

Some of the major contracts are as follows:

	Value of contracts on hand as at 31/3/2003 <i>HK\$'million</i>	Value of work remaining as at 31/3/2003 <i>HK\$'million</i>
Cheung Kong Center, Central	2,890	82
Cyberport Residential Development (Contract R1a & R1b)	2,558	2,241
Tsing Yi Hotel Superstructure Phase 2	1,020	777
Site Formation for Lamma Power Station Extension	684	91
Tseung Kwan O Area 73A Phase 3	490	201
Shek Kip Mei Estate Phase 1	397	397
Thomson Road 121-131 & Fleming Road 2-10 Superstructure	288	272
Sheraton Hong Kong Hotel & Towers Guestroom Refurbishment	231	82
APT Satellite Telepark at Tai Po Industrial Estate	173	74
Others	1,627	718
	<u>10,358</u>	<u>4,935</u>

Subsequent to the year end, the Paul Y. - ITC group secured further new contracts with an aggregate attributable value of approximately HK\$1,765 million, which comprised some HK\$542 million of building construction contracts, some HK\$938 million of civil contracts and some HK\$285 million of specialist works.

For property operation, the Group's investment property portfolio included Paul Y. Centre, the Group's headquarter in Kwun Tong, In-Zone, a shopping arcade in Wanchai and certain investment properties in the Mainland (being the People's Republic of China, and for the purpose of this report, excluding Hong Kong and Macau).

The overall rental rates of the investment properties had been reduced and the occupancy rate was maintained at a level of around 92% and 75% for Paul Y. Centre and In-Zone, respectively, at the year end.

For the year ended 31st March, 2003, Paul Y. - ITC reported a consolidated loss for the year of HK\$348.7 million and its overall after tax contribution to the Group was a loss of HK\$149.1 million.

CHAIRMAN'S STATEMENT *(continued)*

Strategic investments

During the year ended 31st March, 2003, the Group continued to hold significant interests, both directly or indirectly, in a number of companies listed in Hong Kong, Canada, Australia, New Zealand, Singapore 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 liaison with the management of the companies invested by the Group. As at 31st March, 2003, the Group had the following strategic investments:

Listed strategic investments directly held

Hanny Holdings Limited ("Hanny")

The Hanny group's principal business includes, inter alia, the manufacturing, distribution and marketing of data storage media (primarily floppy disks, CD-R and CD-RW) and the distribution and marketing of computer accessories, storage media drives, scanners, audio and video cassettes, minidisks, household electronic products and telecommunication accessories, through its core Memorex® business, and securities trading. Hanny also holds strategic investment in Provisions Suppliers Corporation Limited. For the year ended 31st March, 2003, Hanny reported a consolidated loss for the year of HK\$648.5 million and its after tax contribution to the Group was a loss of HK\$182.9 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™, with unique functional and nutritional profiles, 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. Recently, Burcon has signed a letter of intent with a leading agricultural company which contemplates the parties entering into a licence agreement for the licencing and commercialisation of Burcon's technology. For the year ended 31st March, 2003, Burcon's after tax contribution to the Group was a loss of HK\$4.5 million.

Star East Holdings Limited ("Star East")

Star East is principally engaged in entertainment-related business with the goal to become a fully integrated entertainment and media conglomerate in the Asia Pacific region. Its major business includes the production, distribution and licensing of movies, television drama series, documentary and infotainment programmes; the franchising and operation of theme restaurants under the brand names "Planet Hollywood" and "Star East" in Asia Pacific region; strategic investment in M Channel Corporation Limited; talent management, music production, event production and marketing and property investment. For the year ended 31st March, 2003, Star East reported a consolidated loss of HK\$130.4 million and its after tax contribution to the Group was a loss of HK\$32.9 million.

M Channel Corporation Limited ("M Channel")

M Channel is principally engaged in the out-of-home audio and video media business through platform of approximately 1,000 public light buses and approximately 140 fixed locations (including those within Watson's the Chemist and fast food chain stores) in Hong Kong and approximately 1,100 public buses in Guangzhou and Harbin. Out-of-home audio and video advertising is proven to be an effective way of advertising that offers various advantages to advertisers such as production flexibility and cost effectiveness in comparison with television, newspapers and magazines. For the year under review, an impairment loss of HK\$20.4 million was recognised by the Group on its investment in M Channel.

CHAIRMAN'S STATEMENT *(continued)*

Downer EDI Limited ("Downer")

Downer is the second largest Australian listed engineering, infrastructure and resource services company. The Downer group, is a value-adding service provider with focus on the Australian, New Zealand and Asian markets. The Downer group is a preferred supplier of engineering and infrastructure management services to the rail, public and private road, telecommunications, power and mining and resource sectors.

China Strategic Holdings Limited ("China Strategic")

China Strategic is an investment holding company and the subsidiaries of which are principally engaged in the business of tire manufacturing; manufacturing, retailing and distribution of Chinese medicine, western pharmaceuticals and health food; and investment in infrastructure projects.

Listed strategic investments indirectly held

Provisions Suppliers Corporation Limited ("PSC")

The principal activities of PSC are those relating to the supply of household consumer products. The subsidiaries of PSC are principally engaged in investment holding; supply of agency products to supermarkets, hotels, institutions and provision shops; marketing and distribution of chemical products; and supply of provisions and household products. PSC also manages a well-established network of franchise stores and possesses various brand names.

Rosedale Hotel Group Limited ("Rosedale Hotel")

Rosedale Hotel is an investment holding company and the subsidiaries of which are principally engaged in hotel operations, and property trading, investment and development in Hong Kong and the Mainland. To achieve synergy effect in hotel operations, Rosedale Hotel has developed a hotel chain branded under the name of "Rosedale".

China Enterprises Limited ("China Enterprises")

China Enterprises is a holding company for a sino-foreign equity joint venture enterprise which manufacture and market tires in the Mainland and other countries aboard. China Enterprises also holds a substantial interest in Ananda Wing On Travel (Holdings) Limited.

MRI Holdings Limited ("MRI") (formerly Australia Net.Com Limited)

Given the substantial financial resources, MRI continues to look for strategic investment opportunities as they arise so as to maximise return on its capital resources.

Dong Fang Gas Holdings Limited ("Dong Fang Gas")

In addition to its existing business in manufacturing and trading of building materials and trading of marketable securities and derivatives, Dong Fang Gas has shown its dedication to the natural gas business by entering into conditional agreements for acquisitions of certain interests in gas projects in the Mainland with a view to realise the premium market in this sector.

Ananda Wing On Travel (Holdings) Limited ("Ananda")

The Ananda group is principally engaged in the provision of package tours, travel, transportation and other related services. "Wing On Travel", being a business name used by the Ananda group, is one of the most experienced and largest local travel agency. The Ananda group is a well-known expert in the travel industry having extensive experience in marketing and promoting tour business with far-reaching global network and connections in tour operation.

CHAIRMAN'S STATEMENT *(continued)*

The Group's interests in listed subsidiary and strategic investments are summarised below:

Listed subsidiary and strategic investments directly held

Name of investee company	Place of listing	Shareholding percentage	
		As at 31st March, 2003	As at the date of this report
Paul Y. - ITC	Hong Kong Stock Exchange	64.5%	64.5%
Hanny	Hong Kong Stock Exchange	28.3%	28.3%
Burcon	TSX Venture Exchange	26.0%	25.1%
Star East	Hong Kong Stock Exchange	25.9%	26.1%
M Channel	The Growth Enterprise Market of Hong Kong Stock Exchange	26.4% <i>Effective interest (Note a)</i>	26.6% <i>Effective interest (Note a)</i>
Downer	Australian Stock Exchange and New Zealand Stock Exchange	23.6% <i>Effective interest (Note b)</i>	23.5% <i>Effective interest (Note b)</i>
China Strategic	Hong Kong Stock Exchange	13.5% <i>Effective interest (Note c)</i>	16.3% <i>Effective interest (Note c)</i>

Listed strategic investments indirectly held

Name of investee company	Place of listing	Effective interest	
		As at 31st March, 2003	As at the date of this report
PSC	Singapore Exchange Securities Trading Limited	7.8% <i>(Note d)</i>	7.8% <i>(Note d)</i>
Rosedale Hotel	Hong Kong Stock Exchange	5.5% <i>(Note e)</i>	5.1% <i>(Note e)</i>
China Enterprises	OTC Bulletin Board, U.S.A.	7.5% <i>(Note f)</i>	9.0% <i>(Note f)</i>
MRI	Australian Stock Exchange	7.7% <i>(Note f)</i>	9.3% <i>(Note f)</i>
Dong Fang Gas	Hong Kong Stock Exchange	5.8% <i>(Note f)</i>	7.0% <i>(Note f)</i>
Ananda	Hong Kong Stock Exchange	2.4% <i>(Note g)</i>	2.9% <i>(Note g)</i>

Notes:

- (a) The effective interest of the Group represents its direct interest of 18.8% and indirect interest held through the Group's direct interest in Star East and effective interest in China Strategic.
- (b) The Group's interest is held through its direct interest in Paul Y. - ITC.
- (c) The Group's interest is held through its direct interests in Paul Y. - ITC and Hanny.
- (d) The Group's interest is held through its direct interest in Hanny.
- (e) The Group's interest is held through its effective interest in China Strategic and indirect interest in Ananda.
- (f) The Group's interest is held through its effective interest in China Strategic.
- (g) The Group's interest is held through its indirect interest in China Enterprises.

CHAIRMAN'S STATEMENT *(continued)*

LIQUIDITY AND FINANCIAL RESOURCES

The 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. Cash, bank balances and deposits as at 31st March, 2003 amounted to approximately HK\$241.2 million. As at 31st March, 2003, the Group had bank borrowings of approximately HK\$805.0 million and other loans of approximately HK\$143.8 million of which HK\$167.9 million and HK\$77.3 million, respectively, are repayable within one year or on demand. All the convertible notes issued in 1999 and 2000 were repaid during the year and new convertible notes in an aggregate principal amounts of HK\$392.5 million were issued on 3rd March, 2003. Unless previously converted, redeemed or purchased and cancelled, the new convertible notes will be redeemed on 3rd March, 2006 (or the next following business day if it is not a business day).

Approximately 95.5% of the Group's borrowings are at floating interest rates and the Group's current ratio was 1.32 as at 31st March, 2003.

EXCHANGE RATE EXPOSURE

As at 31st March, 2003, approximately 9.2% of the cash, bank balances and deposits were in other currencies and only 0.8% of the Group's total borrowings of HK\$1,340.6 million was denominated in Canadian dollars. The Canadian dollars denominated borrowings are directly tied in with the Group's business in Canada.

GEARING RATIO

The Group's gearing ratio, which was calculated using the Group's net borrowings of HK\$1,099.5 million and the shareholders' funds of HK\$1,226.5 million, was 89.6% as at 31st March, 2003 as compared to 34.8% as at 31st March, 2002. The increase was mainly due to the inclusion of Paul Y. - ITC's net borrowings of HK\$545.5 million as at 31st March, 2003.

PLEDGE OF ASSETS

As at 31st March, 2003, certain of the Group's properties and debtors with an aggregate carrying value of approximately HK\$911.1 million and its benefits under certain construction contracts and the interests in certain issued shares of subsidiaries of the Company were pledged to banks and financial institutions to secure general facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31st March, 2003, the Group has contingent liabilities in respect of outstanding performance bonds on construction contracts, guarantees given to banks and financial institutions on general banking facilities granted to associates and financial support given to an investee company of HK\$740.5 million, HK\$2.4 million and HK\$4.4 million, respectively.

EMPLOYEE AND REMUNERATION POLICY

As at 31st March, 2003, the Group employed a total of approximately 1,300 employees. The Group recruits and promotes individuals based on merit and their development potentials for the positions offered. Remuneration package is determined with reference to their performance and the prevailing salary levels in the market. The Group also offers other benefits to employees including training, provident funds and medical coverage. Share option schemes are established for the eligible employees but no share option was granted during the year.

CHAIRMAN'S STATEMENT *(continued)*

MAJOR EVENTS

Redemption of existing convertible notes and placing and subscription of new convertible notes

On 16th September, 2002, the Company and Galaxyway Investments Limited ("Galaxyway"), a controlling shareholder of the Company, entered into a redemption and subscription agreement pursuant to which the Company conditionally agreed to redeem the existing convertible notes in an aggregate principal amount of HK\$250 million issued by the Company to Galaxyway and, in consideration, Galaxyway conditionally agreed to subscribe for new convertible notes with face value amounting up to HK\$250 million. As regards the remaining holders of the existing convertible notes, the Company would offer to them to redeem their existing convertible notes issued by the Company and, in consideration, issue new convertible notes to them at their respective face values under substantially similar terms and conditions as those contained in the redemption and subscription agreement. In addition, BNP Paribas Peregrine Securities Limited has been appointed by the Company on 20th September, 2002 under a placing agreement as the placing agent to place, on a best endeavours basis, the new convertible notes of an aggregate principal amount of up to HK\$330 million to the existing noteholders (other than Galaxyway) and/or other independent investors. On 4th October, 2002, supplemental agreements to the above agreements were entered into between the same parties in relation to the completion arrangements of the issue of the new convertible notes.

On 3rd March, 2003, new convertible notes in an aggregate principal amount of HK\$392.5 million were issued.

Making of cash offers to acquire all the issued shares in, and warrants of, Paul Y. - ITC

On 25th October, 2002, the Company announced that its indirect wholly-owned subsidiary, Hollyfield Group Limited ("Hollyfield"), through Anglo Chinese Corporate Finance, Limited will make voluntary conditional cash 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 owned by the Company or its wholly-owned subsidiaries. The offers subsequently became unconditional and finally closed in 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 million on an unsecured basis and on normal commercial terms of which HK\$66.5 million was utilised.

Making of cash offers to acquire all the issued shares in, and warrants of, China Strategic by Calisan Developments Limited and Well Orient Limited (the "Offerors"), each being wholly-owned subsidiary of Paul Y. - ITC and Hanny respectively

On 8th July, 2003, Paul Y. - ITC, Hanny, China Strategic and the Company jointly announced that the Offerors, through Kingsway SW Securities Limited, will make voluntary conditional cash offers at the price of HK\$0.10 for each share and HK\$0.001 for each warrant of China Strategic respectively, other than those owned by the Offerors and parties acting in concert with them, and to cancel all outstanding share options of China Strategic at HK\$0.001 each. Paul Y. - ITC, Hanny, China Strategic and the Company further jointly announced on the same date of this report, that after the purchase at the open market on 9th July 2003, the Offerors and their concert parties are interested in 291,675,000 shares of China Strategic, representing approximately 35.16% of the issued share capital of China Strategic, thus triggering a mandatory offer during the offer period of a voluntary offer under Rule 26 of the Hong Kong Code on Takeovers and Mergers. The Offerors have notified China Strategic that, to make the offer price more attractive to the shareholders of China Strategic, the offer price per share of China Strategic is to be increased from HK\$0.1 to HK\$0.139, representing an increase of 39%. The shares and warrants to be acquired by Kingsway SW Securities Limited will be distributed to the Offerors in the same proportion. Following the close of the offers, the Offerors intend to take appropriate steps to ensure that not less than 25% of the shares of China Strategic will be held by the public. As the Company has 64.5% interests in Paul Y. - ITC, the offers may constitute a possible discloseable transaction for the Company. A circular containing, among other things, details of the offer will be despatched to shareholders of the Company as soon as practicable.

SECURITIES IN ISSUE

As at the date of this report, the total number of issued ordinary shares of the Company is 630,960,774.

CHAIRMAN'S STATEMENT *(continued)*

FINAL DIVIDEND

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

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

OUTLOOK

The economy of Hong Kong was dampened by the Iraq War and the devastating outbreak of Severe Acute Respiratory Syndrome. The Government's revised housing policy would inexorably deteriorate the local construction market conditions, lessen tendering opportunities and intensify competitions. However, the Closer Economic Partnership Arrangement ("CEPA") between the Mainland and Hong Kong is expected to be able to spur overseas investment in Hong Kong and drive economic recovery although its actual contribution to economic growth and job creation has yet to be quantified. With the persistent high growth in the Mainland's GDP, Hong Kong should be able to benefit from the arrangement. The Group will focus more on the Mainland and believes that CEPA can provide the Group an alternative way for exploring the market in the Mainland. The Group will build on its existing assets base with stringent cost control measures so as to maintain a sound financial management and pursue its long-term strategy under a prudent investment and development policy to explore high potential investments and attractive business opportunities. The Group will remain confident to meet future challenges by taking advantage of the new opportunities lying ahead with its strong financial foundation and diversified investment portfolio.

APPRECIATION

On behalf of the Board, I wish to express our sincere appreciation to the shareholders for their continuous support to the Company and to all management and staff members for their commitment and dedication throughout the year.

Dr. Chan Kwok Keung, Charles
Chairman

Hong Kong, 21st July, 2003

BIOGRAPHY OF DIRECTORS

Chan Kwok Keung, Charles, aged 48, is the Chairman of the Company. Dr. Chan holds an honorary degree of Doctor of Laws and a bachelor's degree in civil engineering and has over 23 years' international corporate management experience in the construction and property sectors as well as in strategic investments. He joined the Group in February 1997 and is responsible for its strategic planning. Dr. Chan is the chairman of Paul Y. - ITC Construction Holdings Limited ("Paul Y. - ITC"), Hanny Holdings Limited ("Hanny") and Dong Fang Gas Holdings Limited ("Dong Fang Gas"), all of which are companies whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), and China Enterprises Limited, a company whose shares are traded on OTC Bulletin Board in U.S.A.. He is the chairman and chief executive officer of China Strategic Holdings Limited ("China Strategic") and an executive director of Ananda Wing On Travel (Holdings) Limited, both of which are companies whose shares are listed on the Hong Kong Stock Exchange. Dr. Chan is also a non-executive director of Downer EDI Limited ("Downer"), a company whose shares are listed on the Australian Stock Exchange and the New Zealand Stock Exchange. He is the sole director of Chinaview International Limited and Galaxyway Investments Limited which are substantial shareholders of the Company as disclosed in the section headed "Substantial Shareholders" in the directors' report. Dr. Chan is the elder brother of Mr. Chan Kwok Hung, an executive director of the Company.

Lau Ko Yuen, Tom, aged 52, is the Deputy Chairman of the Company. Mr. Lau has over 30 years' international corporate management experience in the construction industry. He joined the Group in February 1997 and is responsible for its general corporate development and administration. Mr. Lau is the deputy chairman of Paul Y. - ITC and Downer.

Chau Mei Wah, Rosanna, aged 48, is the Managing Director of the Company. Ms. Chau has over 23 years' experience in international corporate management and finance. She holds a bachelor's degree and a master's degree in commerce and is a member of the Hong Kong Society of Accountants, the CPA Australia and the Certified General Accountants' Association of Canada. She joined the Group in February 1997 and is responsible for its general corporate development, administration and overall finance activities. Ms. Chau is an executive director of Paul Y. - ITC, Star East Holdings Limited ("Star East"), China Strategic and Rosedale Hotel Group Limited ("Rosedale Hotel"), all of which are companies whose shares are listed on the Hong Kong Stock Exchange. She is also a director of Burcon NutraScience Corporation, a company whose shares are listed on the TSX Venture Exchange.

Chan Kwok Hung, aged 44, joined the Company as an executive director in November 1997. Mr. Chan holds a diploma in arts and has over 20 years' experience in trading business in China. He is the chairman of Rosedale Hotel and an executive director of Hanny and Dong Fang Gas. Mr. Chan is also an alternate director to Dr. Chan Kwok Keung, Charles in China Strategic. He is the younger brother of Dr. Chan Kwok Keung, Charles, the Chairman of the Company.

Chan Fut Yan, aged 49, joined the Company as an executive director in December 1997. Mr. Chan has over 30 years' experience in the local construction field specialising in site supervision, planning of works and progress monitoring. He is the vice chairman of Rosedale Hotel and the managing director of Paul Y. - ITC.

Wong Kun To, aged 47, joined the Company as an executive director in October 1998. Mr. Wong is a graduate of McMaster University, Canada with a bachelor's degree in engineering, and has over 24 years' experience in property development, construction and investment. He is a qualified engineer and a member of both the Institution of Civil Engineers, United Kingdom and the Hong Kong Institution of Engineers. He is the managing director of Star East and the chairman of M Channel Corporation Limited, a company whose shares are listed on the Hong Kong Stock Exchange.

Cheung Hon Kit, aged 49, joined the Company as independent non-executive director in December 1999 and was appointed as an executive director in September 2001. Mr. Cheung graduated from the University of London with a bachelor of arts degree. He has over 25 years' experience in real estate development, property investment and corporate finance. He has worked in key executive position in various leading property development companies in Hong Kong. Mr. Cheung is an executive director of Paul Y. - ITC and the executive vice chairman of Rosedale Hotel. He is also a director of Hanny, Skynet (International Group) Holdings Limited, Panva Gas Holdings Limited, Cyber On-Air Group Company Limited and Billybala Holdings Limited, all of which are companies whose shares are listed on the Hong Kong Stock Exchange.

Lai, Dominic, aged 56, joined the Company as an independent non-executive director in February 1997. Mr. Lai is a practising solicitor in Hong Kong and the senior partner of the Hong Kong law firm of Lu, Lai & Li. He is also a director of a number of publicly listed companies in Hong Kong.

Chuck, Winston Calptor, aged 47, joined the Company as an independent non-executive director in November 2001. Mr. Chuck graduated from the University of Western Ontario, Canada with a bachelor of arts degree. He is a practising solicitor in Hong Kong and has over 23 years' experience in the legal fields.

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31st March, 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

The principal activities of the Company's principal subsidiaries, the Group's principal associates and principal jointly controlled entities as at 31st March, 2003 are set out in note 49 to the financial statements.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to operating results for the year ended 31st March, 2003 is set out in note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March, 2003 are set out in the consolidated income statement on page 21 of the annual report.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 25 and note 38 to the financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers in aggregate and the single largest customer of the Group for the year ended 31st March, 2003 accounted for approximately 60.5% and 19.0% of the turnover of the Group respectively. The aggregate purchases attributable to the five largest suppliers of the Group during the year were less than 30% of the purchases of the Group.

As far as the directors are aware, certain directors and/or their associates, within the meaning of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (the "Listing Rules"), have an interest of less than 1% in shares and/or equity derivatives of one of the five largest customers of the Group for the year ended 31st March, 2003.

Save as disclosed above, as far as the directors are aware, none of the directors, their associates, within the meaning of the Listing Rules, nor those shareholders which to the knowledge of the directors own more than 5% of the Company's share capital have an interest in any of the five largest customers of the Group for the year ended 31st March, 2003.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 72 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

INVESTMENT PROPERTIES

Details of the movements in the investment properties of the Group during the year are set out in note 16 to the financial statements.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Particulars of the principal subsidiaries of the Company and principal associates and jointly controlled entities of the Group as at 31st March, 2003 are set out in note 49 to the financial statements.

DIRECTORS' REPORT *(continued)*

MAJOR PROPERTIES

Particulars regarding major properties of the Group as at 31st March, 2003 are set out on page 73 of the annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 36 to the financial statements.

SHARE OPTIONS

Details of the movements in the share options of the Company and its subsidiaries during the year are set out in note 37 to the financial statements.

BORROWINGS

Bank borrowings and other loans repayable within one year or on demand are classified as current liabilities. Details of and the repayment analysis of bank borrowings and other loans of the Group and the Company as at 31st March, 2003 are set out in notes 32 and 33 to the financial statements, respectively.

At 31st March, 2003, the Group had in issue convertible notes with an aggregate principal value of HK\$392,500,000. Details of the convertible notes are set out in note 31 to the financial statements.

Interest of approximately HK\$713,000 was capitalised by the Group during the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Chan Kwok Keung, Charles (*Chairman*)

Lau Ko Yuen, Tom (*Deputy Chairman*)

Chau Mei Wah, Rosanna (*Managing Director*)

Chan Kwok Hung

Chan Fut Yan

Wong Kun To

Cheung Hon Kit

Allan Yap

(retired on 27th August, 2002)

Cheung Kwok Wah, Ken

(resigned on 16th June, 2003)

Independent non-executive directors

Lai, Dominic

Chuck, Winston Calptor

In accordance with Bye-law 98(A) of the Company's Bye-laws, Ms. Chau Mei Wah, Rosanna, Mr. Chan Kwok Hung and Mr. Cheung Hon Kit retire at the forthcoming annual general meeting. All retiring directors being eligible, offer themselves for re-election.

The term of office for each of the independent non-executive directors is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT *(continued)*

DIRECTORS' INTERESTS IN SECURITIES

As at 31st March, 2003, the interests of the directors of the Company in the securities of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register kept by the Company under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules (the "Model Code") were as follows:

(a) Interest in the Company

Name of director	Nature of interest	Number of ordinary shares of the Company held	Amount of 2006 convertible notes of the Company held
Chan Kwok Keung, Charles	Corporate interest	219,681,911 <i>(note)</i>	–
	Personal interest	–	HK\$250,000,000

Note: Dr. Chan Kwok Keung, Charles was deemed to have a corporate interest in 219,681,911 ordinary shares of the Company by virtue of his indirect shareholding in Galaxyway Investments Limited ("Galaxyway") which owned these shares.

(b) Interest in Paul Y. - ITC Construction Holdings Limited ("Paul Y. - ITC")

Name of director	Nature of interest	Number of shares of Paul Y. - ITC held	Amount of warrants of Paul Y. - ITC held	Number of share options of Paul Y. - ITC held
Chan Kwok Keung, Charles	Corporate interest	685,220,227 <i>(note)</i>	HK\$46,034,370.80 <i>(note)</i>	–
	Personal interest	8,624,000	–	–
Lau Ko Yuen, Tom	Personal interest	–	–	5,000,000
Chau Mei Wah, Rosanna	Personal interest	–	–	6,100,000
Chan Fut Yan	Personal interest	–	–	5,000,000
Cheung Hon Kit	Personal interest	400	HK\$32.00	–

Note: The shares and warrants were held by a wholly-owned subsidiary of the Company. By virtue of his deemed interest in the ordinary share capital of the Company, Dr. Chan Kwok Keung, Charles was deemed to be interested in these shares and warrants under the SDI Ordinance.

(c) Interest in Hanny Holdings Limited ("Hanny")

Name of director	Nature of interest	Number of shares of Hanny held	Number of share options of Hanny held
Chan Kwok Keung, Charles	Corporate interest	45,298,813 <i>(note)</i>	–
	Personal interest	–	4,000,000
Chan Kwok Hung	Personal interest	–	1,750,000
Cheung Kwok Wah, Ken	Personal interest	–	750,000

Note: The shares were held by a wholly-owned subsidiary of the Company. By virtue of his deemed interest in the ordinary share capital of the Company, Dr. Chan Kwok Keung, Charles was deemed to be interested in these shares under the SDI Ordinance.

(d) Interest in Burcon NutraScience Corporation ("Burcon")

Name of director	Nature of interest	Number of common shares of Burcon held	Number of warrants of Burcon held	Number of share options of Burcon held
Chan Kwok Keung, Charles	Corporate interest	3,860,000 <i>(note)</i>	460,000 <i>(note)</i>	–
Chau Mei Wah, Rosanna	Personal interest	280,000	–	40,000

Note: The common shares and warrants were held by wholly-owned subsidiaries of the Company. By virtue of his deemed interest in the ordinary share capital of the Company, Dr. Chan Kwok Keung, Charles was deemed to be interested in these common shares and warrants under the SDI Ordinance.

DIRECTORS' REPORT *(continued)*

DIRECTORS' INTERESTS IN SECURITIES *(continued)*

(e) Interest in Star East Holdings Limited ("Star East")

Name of director	Nature of interest	Number of shares of Star East held	Number of share options of Star East held
Chan Kwok Keung, Charles	Corporate interest	635,082,479 <i>(note)</i>	–
Lau Ko Yuen, Tom	Personal interest	382,000	–
Chau Mei Wah, Rosanna	Personal interest	–	12,500,000
Wong Kun To	Personal interest	–	15,500,000

Note: The shares were held by a wholly-owned subsidiary of the Company. By virtue of his deemed interest in the ordinary share capital of the Company, Dr. Chan Kwok Keung, Charles was deemed to be interested in these shares under the SDI Ordinance.

Paul Y. - ITC, Hanny, Burcon and Star East were associated corporations, within the meaning of the SDI Ordinance, of the Company.

Dr. Chan Kwok Keung, Charles was, by virtue of his deemed interest in the ordinary share capital of the Company, deemed to be interested in the securities of associated corporations, within the meaning of SDI Ordinance, of the Company under the SDI Ordinance.

Save as disclosed above, as at 31st March, 2003, none of the directors of the Company had any interests in any securities of the Company or any of its associated corporations, within the meaning of the SDI Ordinance, as recorded in the register kept by the Company under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

(a) Share options of the Company

At 31st March, 2003, there were no outstanding share options granted by the Company pursuant to the share option scheme of the Company adopted on 16th January, 2002. No share options were granted, exercised, cancelled or lapsed during the year. Details of the share option scheme of the Company are set out in note 37 to the financial statements.

(b) Share options of Paul Y. - ITC

The following table discloses movements in the share options of Paul Y. - ITC during the year:

Name of director	Date of grant	Exercise price per share HK\$	Number of shares of Paul Y. - ITC to be issued upon exercise of the share options		
			Outstanding at 1.4.2002	Lapsed during the year	Outstanding at 31.3.2003
Chan Kwok Keung, Charles	18th December, 1998	0.6048	9,587,301	(9,587,301)	–
Lau Ko Yuen, Tom	18th December, 1998	0.6048	9,587,301	(9,587,301)	–
	17th December, 1999	0.5552	5,000,000	–	5,000,000
Chau Mei Wah, Rosanna	18th December, 1998	0.6048	9,587,301	(9,587,301)	–
	17th December, 1999	0.5552	6,100,000	–	6,100,000
Chan Fut Yan	18th December, 1998	0.6048	9,587,301	(9,587,301)	–
	17th December, 1999	0.5552	5,000,000	–	5,000,000
			<u>54,449,204</u>	<u>(38,349,204)</u>	<u>16,100,000</u>

The outstanding options can be exercised at any time during a period of three years commencing on the expiry of six months after the date of acceptance of the options. Details of the share option schemes of Paul Y. - ITC are set out in note 37 to the financial statements.

DIRECTORS' REPORT *(continued)*

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(continued)*

(b) Share options of Paul Y. - ITC *(continued)*

Save as disclosed herein, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate, and none of the directors, chief executives or their spouses or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 48 to the financial statements, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Interests of directors of the Company in competing business as at 31st March, 2003 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
Chan Kwok Keung, Charles	Ananda Wing On Travel (Holdings) Limited ("Ananda") and its subsidiaries	Property business in Hong Kong <i>(note 1)</i>	As an executive director of Ananda <i>(note 2)</i>
	Dong Fang Gas Holdings Limited ("Dong Fang Gas") and its subsidiaries	Trading of building materials	As the chairman of Dong Fang Gas <i>(note 3)</i>
	Star East and its subsidiaries	Loan financing business in Hong Kong	As a substantial shareholder of Star East
	Star East and its subsidiaries	Property business in Hong Kong and the Mainland (being the People's Republic of China and for the purpose of this report, excluding Hong Kong and Macau) <i>(note 1)</i>	As a substantial shareholder of Star East
Lau Ko Yuen, Tom	New World CyberBase Limited ("New World CyberBase") and its subsidiaries	Property business in Hong Kong <i>(note 1)</i>	As a director of New World CyberBase <i>(note 4)</i>
Chau Mei Wah, Rosanna	Rosedale Hotel Group Limited ("Rosedale Hotel") and its subsidiaries	Property business in the Mainland <i>(note 1)</i>	As an executive director of Rosedale Hotel
	Star East and its subsidiaries	Loan financing business in Hong Kong	As an executive director of Star East
	Star East and its subsidiaries	Property business in Hong Kong and the Mainland <i>(note 1)</i>	As an executive director of Star East
Chan Kwok Hung	Dong Fang Gas and its subsidiaries	Trading of building materials	As an executive director of Dong Fang Gas <i>(note 5)</i>
	Rosedale Hotel and its subsidiaries	Property business in the Mainland <i>(note 1)</i>	As the chairman of Rosedale Hotel

DIRECTORS' REPORT *(continued)*

DIRECTORS' INTERESTS IN COMPETING BUSINESS *(continued)*

Name of director	Name of company	Nature of competing business	Nature of interest
Chan Fut Yan	Rosedale Hotel and its subsidiaries	Property business in the Mainland <i>(note 1)</i>	As the vice chairman of Rosedale Hotel
Wong Kun To	Star East and its subsidiaries	Loan financing business in Hong Kong	As the managing director of Star East
	Star East and its subsidiaries	Property business in Hong Kong and the Mainland <i>(note 1)</i>	As the managing director of Star East
Cheung Hon Kit	Rosedale Hotel and its subsidiaries	Property business in the Mainland <i>(note 1)</i>	As the executive vice chairman of Rosedale Hotel

Notes:

- Paul Y. - ITC, which has the property business in Hong Kong and the Mainland, became a subsidiary of the Company in December 2002.
- Dr. Chan Kwok Keung, Charles was appointed as an executive director of Ananda in April 2002.
- Dr. Chan Kwok Keung, Charles was appointed as an executive director and the chairman of Dong Fang Gas in September 2002 and March 2003 respectively.
- Mr. Lau Ko Yuen, Tom resigned as a director of New World CyberBase in June 2003.
- Mr. Chan Kwok Hung was appointed as an executive director of Dong Fang Gas in September 2002.

Having considered the nature, size and scope of the above business, the directors of the Company believe that there is unlikely to be any significant competition with the business of the Group.

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

CONNECTED TRANSACTIONS

On 16th September, 2002, the Company had entered into a conditional agreement (the "Redemption and Subscription Agreement") (as amended by a supplemental agreement dated 4th October, 2002) with Galaxyway, a controlling shareholder indirectly wholly owned by Dr. Chan Kwok Keung, Charles, a director and a substantial shareholder of the Company, relating to the redemption of the convertible notes issued by the Company in an aggregate principal amount of HK\$250,000,000 held by Galaxyway and, in consideration, subscription of the new convertible notes in the principal amount of up to HK\$250,000,000 at face value. Details of the transactions can be referred to a circular of the Company dated 23rd September, 2002. The Redemption and Subscription Agreement was approved by independent shareholders in a special general meeting of the Company held on 9th October, 2002.

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

As at 31st March, 2003, a subsidiary of Paul Y. - ITC, which in turn is a subsidiary of the Company, advanced approximately HK\$43,786,000 to Hamker Concrete Products Limited ("Hamker") which is 70% owned by Paul Y. - ITC for financing its operation. 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 interests at commercial rate.

DIRECTORS' REPORT *(continued)*

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2003, the register of substantial shareholders kept by the Company under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the issued ordinary share capital of the Company:

Name of shareholder	Number of ordinary shares of the Company held		Percentage of issued ordinary share capital
	Direct interest	Deemed interest	
Chan Kwok Keung, Charles <i>(note)</i>	–	219,681,911	34.8%
Chinaview International Limited ("Chinaview") <i>(note)</i>	–	219,681,911	34.8%
Galaxyway	219,681,911	–	34.8%

Note: Galaxyway was a wholly-owned subsidiary of Chinaview which was, in turn, wholly owned by Dr. Chan Kwok Keung, Charles. Chinaview and Dr. Chan Kwok Keung, Charles were both deemed to be interested in 219,681,911 ordinary shares in the Company held by Galaxyway.

Save as disclosed above, the Company has not been notified of any interests representing 10% or more of the issued ordinary share capital of the Company as at 31st March, 2003.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 47 to the financial statements.

RETIREMENT BENEFIT SCHEMES

Information on the Group's retirement benefit schemes is set out in note 41 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the independent non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31st March, 2003, there were no purchases, sales or redemptions by the Company, or any of its subsidiaries, of the Company's listed securities.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Dr. Chan Kwok Keung, Charles
Chairman

Hong Kong, 21st July, 2003

AUDITORS' REPORT

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE MEMBERS OF ITC CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 21 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st March, 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 21st July, 2003

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST MARCH, 2003

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

CONSOLIDATED BALANCE SHEET

AT 31ST MARCH, 2003

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

CONSOLIDATED BALANCE SHEET *(continued)*

AT 31ST MARCH, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Non-current liabilities			
Convertible notes	31	391,799	–
Bank borrowings – due after one year	32	637,175	–
Other loans – due after one year	33	66,500	–
Deferred taxation	34	3,930	–
Provision for long service payments	35	1,727	–
		<u>1,101,131</u>	–
		<u>1,226,547</u>	<u>1,489,434</u>
Capital and reserves			
Share capital			
Ordinary shares	36	63,096	63,096
Compulsorily convertible cumulative preference shares	36	26,798	26,798
		<u>89,894</u>	89,894
Reserves		<u>1,136,653</u>	<u>1,399,540</u>
		<u>1,226,547</u>	<u>1,489,434</u>

The financial statements on pages 21 to 71 were approved and authorised for issue by the Board of Directors on 21st July, 2003 and are signed on its behalf by:

Chau Mei Wah, Rosanna
Managing Director

Chan Fut Yan
Director

BALANCE SHEET

AT 31ST MARCH, 2003

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

Chau Mei Wah, Rosanna
Managing Director

Chan Fui Yan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST MARCH, 2003

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

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

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST MARCH, 2003

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

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH, 2003

1. GENERAL

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

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

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

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

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

The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the inclusion of the statement of changes in equity. The adoption of the new and revised accounting policies has had no material effect on the results for the current or prior accounting years. Accordingly, no prior period adjustment has been required.

Presentation of financial statements

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

Foreign currency translation

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

Cash flow statements

Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest paid is classified as financing cash flows. Dividends paid and received are classified as financing and operating cash flows, respectively. Comparative amounts have been reclassified in order to achieve a consistent presentation.

Employee benefits

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

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

Property, plant and equipment

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

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

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

No amortisation is provided in respect of freehold land.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

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

Investment properties are stated at open market value at balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment properties revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of revaluation decrease over the balance on the investment properties revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

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

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, an associate or a jointly controlled entity at the date of acquisition.

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

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

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

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, an associate or a jointly controlled entity at the date of acquisition over the cost of acquisition.

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in subsidiaries

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

Interests in associates

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

Interests in jointly controlled entities

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

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

Impairment

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

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

Investments in securities

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

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

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

Inventories

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction contracts

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

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

Convertible notes

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

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

Revenue recognition

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

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

Service revenue is recognised when services are rendered.

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

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

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

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

Capitalisation of borrowing costs

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

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

Taxation

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

Retirement benefit scheme

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

Operating leases

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

4. TURNOVER AND SEGMENTAL INFORMATION

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

4. TURNOVER AND SEGMENTAL INFORMATION *(continued)*

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

Business segments

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST MARCH, 2003

4. TURNOVER AND SEGMENTAL INFORMATION (continued)

Business segments (continued)

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

4. TURNOVER AND SEGMENTAL INFORMATION *(continued)*

Business segments *(continued)*

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

4. TURNOVER AND SEGMENTAL INFORMATION *(continued)*

Business segments *(continued)*

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

Geographical segments

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

5. OTHER OPERATING INCOME

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

6. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,081	435
Allowances for doubtful debts	4,276	4,914
Depreciation and amortisation of property, plant and equipment <i>(note (a) below)</i>	18,756	1,765
Loss on disposal of property, plant and equipment	2,746	62
Minimum lease payments under operating leases in respect of:		
Premises	1,743	539
Plant and machinery	262	–
Staff costs, including directors' emoluments <i>(note (b) below)</i>	48,004	16,126
and after crediting:		
Interest income	19,612	26,542
Rental income under operating leases in respect of:		
Premises, net of outgoings of HK\$2,512,000 (2002: HK\$32,000)	9,052	1,688
Plant and machinery	94	–
	<u>19,758</u>	<u>28,230</u>

Notes:

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

(a) Directors' emoluments

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

Emoluments of the directors were within the following bands:

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

(b) Employees' emoluments

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

8. FINANCE COSTS

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

9. INVESTMENT (EXPENSES) INCOME – NET

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

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

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

11. IMPAIRMENT LOSS IN RESPECT OF GOODWILL

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

12. TAXATION

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

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

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

13. DIVIDENDS

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

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

14. LOSS PER SHARE

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

15. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

16. INVESTMENT PROPERTIES

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

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

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

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

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

17. NEGATIVE GOODWILL

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

18. INTERESTS IN SUBSIDIARIES

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

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

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

19. INTERESTS IN ASSOCIATES

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

19. INTERESTS IN ASSOCIATES *(continued)*

Notes:

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

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

The goodwill is amortised over a period of 20 years.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

19. INTERESTS IN ASSOCIATES *(continued)*

Notes: *(continued)*

(c) The Group increased its equity interest in Hanny Holdings Limited ("Hanny") from 27.73% at the beginning of the year to 28.26% at the end of the year and increased its equity interest in Star East Holdings Limited ("Star East") from 21.11% at the beginning of the year to 25.91% at the end of the year. Extracts of the consolidated results and financial position of Hanny and Star East from their respective audited financial statements for the year ended 31st March, 2003 are set out in note 50.

(d) On 25th October, 2002, the Company announced that its indirect wholly-owned subsidiary, Hollyfield Group Limited ("Hollyfield") will make voluntary conditional cash offers (the "Offers") at the price of HK\$0.30 for each share and HK\$0.01 for each warrant in Paul Y. - ITC, other than those shares and warrants presently owned by the Company or its wholly-owned subsidiaries. When the Offers closed in December 2002, Hollyfield held more than 50% of the voting rights in Paul Y. - ITC and, accordingly, Paul Y. - ITC was classified as a subsidiary of the Company. The Group increased its equity interest in Paul Y. - ITC from 42.59% at the beginning of the year to 64.46% at the end of the year.

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

(e) Downer EDI Limited ("Downer"), Paul Y. - ITC's major associate, became an associate of the Group upon consolidation of Paul Y. - ITC in December 2002. Downer is a company listed in Australia and New Zealand and its financial year end date is 30th June. Only published financial information of Downer will be available and used by the Group in applying the equity method. Accordingly, the Group's share of interest in Downer at 31st March, 2003 is calculated based on the net assets of Downer at 31st December, 2002. Extracts from the published financial information of Downer as at 31st December, 2002 are set out in note 50.

(f) The amounts due from associates are unsecured. Of these amounts, an amount of approximately HK\$214,603,000 bears interest at commercial rates and the remaining balance is interest-free. In the opinion of the directors, the amount will not be repayable within twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.

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

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

21. INVESTMENTS IN SECURITIES

THE GROUP

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

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

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

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

22. CONVERTIBLE NOTES RECEIVABLE

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

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

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

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

24. DEBTORS, DEPOSITS AND PREPAYMENTS

The following is an aged analysis of trade debtors:

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

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

25. AMOUNTS DUE FROM ASSOCIATES

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

26. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

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

27. AMOUNTS DUE FROM RELATED COMPANIES

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

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

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

28. LOANS RECEIVABLE

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

29. CREDITORS AND ACCRUED EXPENSES

The following is an aged analysis of trade creditors:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

31. CONVERTIBLE NOTES

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

Notes:

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

32. BANK BORROWINGS

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

33. OTHER LOANS

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

The loans bore interest at commercial rates.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

34. DEFERRED TAXATION

THE GROUP

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

35. PROVISION FOR LONG SERVICE PAYMENTS

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

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

36. SHARE CAPITAL

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

Notes:

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

36. 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.

37. SHARE OPTIONS

(a) Share options of the Company

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

37. SHARE OPTIONS *(continued)*

(a) Share options of the Company *(continued)*

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

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

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

(b) Share options of Paul Y. - ITC

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

37. SHARE OPTIONS *(continued)*

(b) Share options of Paul Y. - ITC *(continued)*

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST MARCH, 2003

38. RESERVES

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

Notes:

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

39. PURCHASE OF SUBSIDIARIES

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

39. PURCHASE OF SUBSIDIARIES *(continued)*

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

40. MAJOR NON-CASH TRANSACTION

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

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

41. RETIREMENT BENEFIT SCHEMES

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

42. CONTINGENT LIABILITIES

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

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

43. MATERIAL LITIGATION

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

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

44. OPERATING LEASE ARRANGEMENTS

(a) The Group as a lessee:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

44. OPERATING LEASE ARRANGEMENTS *(continued)***(b) The Group as a lessor:**

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

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

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

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

45. COMMITMENTS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:				
- subscription of new shares of Star East	20,000	-	20,000	-
- acquisition of an associate	36,660	-	-	-
	56,660	-	20,000	-

46. PLEDGE OF ASSETS

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

47. POST BALANCE SHEET EVENT

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

48. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)**FOR THE YEAR ENDED 31ST MARCH, 2003***48. TRANSACTIONS AND BALANCES WITH RELATED PARTIES** *(continued)*

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

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

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

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

Notes:

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

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

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Percentage of issued share capital/ registered capital		Principal activities
			held by the Company* / subsidiaries %	attributable to the Group %	
Paul Y. - ITC Construction Holdings Limited	Bermuda	HK\$106,301,604 ordinary shares	64.5	64.5	Investment holding in companies engaged in construction, engineering and infrastructure management services, property development and investment
Paul Y. - ITC Construction Limited	Hong Kong	HK\$102,000,000 ordinary shares	100	64.5	Building construction
Paul Y. - ITC Construction & Engineering Co. Limited	Hong Kong	HK\$42,000,000 ordinary shares	100	64.5	Building construction and specialist works
Paul Y. - ITC General Contractors Limited	Hong Kong	HK\$36,000,000 ordinary shares	100	64.5	Civil engineering and building construction
Paul Y. - ITC Interior Contractors Limited	Hong Kong	HK\$2 ordinary shares	100	64.5	Interior decoration works
Paul Y. - ITC Investments Group Limited	British Virgin Islands	US\$1 ordinary share	100	64.5	Investment holding
Paul Y. - ITC Management Limited	Hong Kong	HK\$2 ordinary shares	100	64.5	Management services
Paul Y. - ITC Plant Hire Limited	Hong Kong	HK\$2 ordinary shares	100	64.5	Hire of motor vehicles and plant and machinery
Paul Y. Building Management Limited	Hong Kong	HK\$2 ordinary shares	100	64.5	Property management services
Paul Y. Construction Company, Limited	Hong Kong	HK\$2 ordinary shares	100	64.5	Civil engineering, building construction and investment holding
		HK\$50,000,000 non-voting preferred shares <i>(note (iv) below)</i>	-	-	

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

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

Notes:

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES *(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
Hang Pak Engineering Limited	Hong Kong	HK\$100,000 ordinary shares	16.4	Elevators and escalators maintenance
Hanny Holdings Limited	Bermuda	HK\$1,603,014 ordinary shares	28.3	Investment holding in companies engaged in the manufacturing, distribution and marketing of data storage media, the distribution of related products, securities investments and strategic investments in information technology related businesses and other businesses
Paul Y. - CREC Construction Co., Limited	Hong Kong	HK\$100 ordinary shares	32.2	Civil engineering
Paul Y. - SELI Joint Venture	Hong Kong	– <i>(note (i) below)</i>	32.2	Civil engineering
Star East Holdings Limited	Bermuda	HK\$12,256,876 ordinary shares	25.9	Investment holding in companies engaged in entertainment-related business including production of movies, television drama series, documentary and infotainment programmes, the franchising and operation of theme restaurants under the brand names of "Planet Hollywood" and "Star East" in Asia Pacific, strategic investment in M Channel, talent management, music production, event production and marketing and property investment
ThyssenKrupp Elevator (HK) Limited (formerly Bongear Elevator (HK) Limited)	Hong Kong	HK\$116,800,000 ordinary shares	14.3	Elevators and escalators installation and maintenance
Zhujiang Kwan On Concrete Products Co., Ltd. ("Zhujiang Kwan On")	PRC	RMB6,320,000 registered capital <i>(note (ii) below)</i>	32.2	Manufacturing and trading of concrete products

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

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

Notes:

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

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

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

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

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

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

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

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

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

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

Hanny

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2003

50. EXTRACTS OF THE CONSOLIDATED RESULTS AND FINANCIAL POSITION OF ASSOCIATES
*(continued)***Hanny***Financial position as at 31st March, 2003 and 2002*

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

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

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

Financial position as at 31st March, 2003 and 2002

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

Downer*Financial position as at 31st December, 2002*

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

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

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

FINANCIAL SUMMARY

RESULTS

	Year ended 31st March,				2003 HK\$'000
	1999 HK\$'000	2000 HK\$'000 <i>as restated</i>	2001 HK\$'000 <i>as restated</i>	2002 HK\$'000	
Turnover	<u>81,947</u>	<u>122,887</u>	<u>63,144</u>	<u>40,147</u>	<u>768,697</u>
(Loss) profit before taxation	(328,956)	546,671	(586,543)	(272,457)	(332,276)
Taxation	<u>(16,123)</u>	<u>(38,491)</u>	<u>(25,870)</u>	<u>(16,853)</u>	<u>(24,835)</u>
(Loss) profit after taxation	(345,079)	508,180	(612,413)	(289,310)	(357,111)
Minority interests	<u>3,327</u>	<u>(2,437)</u>	<u>-</u>	<u>-</u>	<u>1,703</u>
(Loss) profit for the year	<u>(341,752)</u>	<u>505,743</u>	<u>(612,413)</u>	<u>(289,310)</u>	<u>(355,408)</u>

ASSETS AND LIABILITIES

	As at 31st March,				2003 HK\$'000
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	
Total assets	1,917,292	2,515,142	2,414,819	2,115,628	4,834,138
Total liabilities	(718,934)	(805,695)	(802,902)	(626,194)	(2,725,334)
Minority interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(882,257)</u>
Shareholders' funds	<u>1,198,358</u>	<u>1,709,447</u>	<u>1,611,917</u>	<u>1,489,434</u>	<u>1,226,547</u>

SCHEDULE OF PROPERTY INTERESTS

AT 31ST MARCH, 2003

INVESTMENT PROPERTIES

Location	Purpose	Term of lease	Group interest %
Paul Y. Centre 51 Hung To Road Kwun Tong Kowloon Hong Kong	Industrial/Office	Medium term	64.5
In-Zone Shopping Arcade 125 Wanchai Road Wanchai Hong Kong	Commercial	Long term	64.5
57/F and 60/F Shun Hing Square Shenzhen PRC	Commercial	Medium term	64.5