



ITC

**ANNUAL
REPORT**
年度報告

2004

德祥企業集團有限公司
(於百慕達註冊成立之有限公司)

ITC Corporation Limited
(Incorporated in Bermuda with limited liability)

C O N T E N T S



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BOARD OF 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
Lee Kit Wah

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
DBS Bank (Hong Kong) Limited
HSBC Bank Canada
The Hongkong and Shanghai Banking
Corporation Limited
Wing Hang Bank, Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

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

BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
G/F, 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



CHAIRMAN'S STATEMENT

I am pleased to present to shareholders the annual report of the Group for the year ended 31st March, 2004.

BUSINESS REVIEW AND OUTLOOK

Results and financial highlights

The results and financial position of the Group for the year ended 31st March, 2004 are summarised in the table below:

	Notes	2004	2003	Percentage change
Consolidated turnover (<i>HK\$'million</i>)	<i>a</i>	3,434.7	768.7	+346.8%
Profit from operations (<i>HK\$'million</i>)	<i>b</i>	71.8	66.9	+7.3%
Profit (loss) for the year (<i>HK\$'million</i>)	<i>c</i>	28.9	(358.5)	N/A
Total assets (<i>HK\$'million</i>)	<i>d</i>	4,982.5	4,851.2	+2.7%
Shareholders' funds (<i>HK\$'million</i>)	<i>e</i>	1,353.2	1,205.2	+12.3%
Basic earnings (loss) per ordinary share (<i>HK\$</i>)	<i>c</i>	0.02	(0.60)	N/A
Current ratio	<i>f</i>	1.58	1.32	+19.7%

Notes:

- (a) Increased mainly due to the consolidation of Paul Y. - ITC Construction Holdings Limited ("Paul Y. - ITC") as subsidiary for only three months last year after the close of the cash offer.
- (b) Increased mainly due to the release of negative goodwill.
- (c) Increased mainly due to the gain on disposal of Downer EDI Limited ("Downer") and the improvement in the results of associates.
- (d) Increased mainly due to the release of negative goodwill on dilution of interest in Paul Y. - ITC.
- (e) Increased mainly as a result of the profit generated during the year, the allotment of ordinary shares upon the conversion of convertible notes and increase in translation reserve due to appreciation of Australian dollars.
- (f) Increased mainly as a result of the reduction of borrowings.

The Group started to consolidate Paul Y. - ITC as a subsidiary in the accounts of the Group after the closure of cash offer in December 2002. Beforehand, the Group shared its results as an associate using the equity accounting method. Such change accounted for most of the significant fluctuation for the year under review when compared with the last corresponding year.

CHAIRMAN'S STATEMENT *(continued)*

The following proforma income statement has been prepared for reference on the basis as if Paul Y. - ITC was consolidated as a subsidiary for the whole financial year ended 31st March, 2003.

	For the year ended	
	31st March,	
	2004	2003
	HK\$'000	HK\$'000
		(Proforma)
Turnover	3,434,666	3,667,367
Cost of sales	(3,288,566)	(3,616,293)
Gross profit	146,100	51,074
Other operating income	80,091	90,663
Administrative expenses	(154,429)	(206,996)
Loss on disposal of discontinued operations	-	(1,701)
Impairment loss on property, plant and equipment	-	(110,327)
Profit (loss) from operations	71,762	(177,287)
Finance costs	(38,722)	(59,170)
Net investment expenses	(43,183)	(63,600)
Deficit arising from revaluation of investment properties	(14,000)	(99,392)
Allowance for amounts due from associates and a related company	(40,985)	(13,964)
Net gain (loss) on disposal and dilution of interests in subsidiaries and associates	83,600	(4,665)
Share of results of associates	156,400	(100,477)
Share of results of jointly controlled entities	9,074	5,920
Profit (loss) before taxation	183,946	(512,635)
Taxation	(53,719)	(48,406)
Profit (loss) before minority interests	130,227	(561,041)
Minority interests	(101,295)	202,517
Profit (loss) for the year	28,932	(358,524)

CHAIRMAN'S STATEMENT *(continued)*

REVIEW OF OPERATIONS

Paul Y. - ITC

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

Construction sector output in Hong Kong has been declining for a few years due to the reduction of capital expenditures by both public and private sectors. This had led to severe competition and eroded the gross margin of the construction sector. Consequently the overall construction division experienced loss in operation during the year under review. However, due to the persistent effort in implementing risk management and cost saving measures, improvement in gross margin was achieved.

During the year, the Paul Y. - ITC group secured new contracts with an aggregate value of approximately HK\$3,593 million, which comprised some HK\$1,906 million of building construction contracts, some HK\$1,388 million of civil engineering contracts and some HK\$299 million of specialist works.

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

	Value of contracts on hand as at 31st March, 2004 HK\$'million	Value of work remaining as at 31st March, 2004 HK\$'million
Building construction	9,159	3,714
Civil engineering	1,136	774
Specialist works	916	440
	11,211	4,928

Subsequent to the year end, the Paul Y. - ITC group secured further new contracts with an aggregate attributable value of approximately HK\$2,026 million as to about HK\$1,588 million being attributable to building construction contracts and as to about HK\$438 million being attributable to civil engineering contracts.

For property operation, the Group's investment property portfolio included Paul Y. Centre, the Group's headquarter in Kwun Tong; and In-Zone, a shopping arcade in Wanchai which has been disposed of subsequent to the year end at nearly its carrying value of some HK\$60 million. Although the overall rental rates of the investment properties had been reduced, the occupancy rate was maintained at a level of around 94% for Paul Y. Centre at the year end.

For the year ended 31st March, 2004, Paul Y. - ITC reported a consolidated profit for the year of HK\$163.6 million and its overall after tax contribution to the Group was a profit of HK\$156.5 million. In addition, the Group has reported a loss of approximately HK\$105.0 million due to the dilution of its interest in Paul Y. - ITC from approximately 64.5% at the beginning of the year to approximately 55.1% at the end of the year.

Strategic Investments

During the year ended 31st March, 2004, SMI Corporation Limited ("SMI", formerly known as Star East Holdings Limited) ceased to be an associate of the Group due to the dilution of interest and disposal of shares in SMI. 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, Germany and the United States ("U.S.A.") and also high potential unlisted investments pursuant to its long term strategy of exploring potential investments and enhancing the value of its strategic investments by active participation in or close liaisons with the management of the companies invested by the Group. As at 31st March, 2004, the Group had the following strategic investments:

CHAIRMAN'S STATEMENT *(continued)*

Listed strategic investments directly held

Hanny Holdings Limited ("Hanny")

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

Burcon NutraScience Corporation ("Burcon")

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

Downer

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

China Strategic

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

Listed strategic investments indirectly held

PSC Corporation Ltd ("PSC")

The PSC group are principally engaged in manufacturing of food and other consumer products, distribution of food and other fast moving consumer goods, logistics and franchising; healthcare consultancy and services; and education.

China Enterprises Limited ("China Enterprises")

China Enterprises is an investment holding company and has substantial interests in investment companies, the subsidiaries of which are principally engaged in the manufacturing and marketing of tires in the Mainland (being the People's Republic of China and for the purpose of this report, excluding Hong Kong and Macau) and other countries abroad and the business of providing package tours, travel, hotel operation and other related services.

MRI Holdings Limited ("MRI")

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

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

Wing On Travel group is principally engaged in the provision of package tours, travel and other related services and also has a substantial interest in a hotel chain branded under the name of "Rosedale" in the Mainland and Hong Kong. Wing On Travel is one of the most experienced and largest local travel agency, and 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, 2004	As at the date of this report
Paul Y. - ITC	Hong Kong Stock Exchange	55.1%	55.1%
Hanny	Hong Kong Stock Exchange	24.6%	24.6%
Burcon	TSX Venture Exchange and Frankfurt Stock Exchange	25.1%	25.0%
Downer	Australian Stock Exchange and New Zealand Stock Exchange	11.7%	11.7%
		<i>Effective interest (Note a)</i>	<i>Effective interest (Note a)</i>
China Strategic	Hong Kong Stock Exchange	23.4%	23.4%
		<i>Effective interest (Note b)</i>	<i>Effective interest (Note b)</i>

Listed strategic investments indirectly held

Name of investee company	Place of listing	Effective interest	
		As at 31st March, 2004	As at the date of this report
PSC	Singapore Exchange Securities Trading Limited	6.8%	5.6%
		<i>(Note c)</i>	<i>(Note c)</i>
China Enterprises	OTC Bulletin Board, U.S.A.	12.9%	12.9%
		<i>(Note d)</i>	<i>(Note d)</i>
MRI	Australian Stock Exchange	13.4%	13.4%
		<i>(Note d)</i>	<i>(Note d)</i>
Wing On Travel	Hong Kong Stock Exchange	4.2%	4.2%
		<i>(Note e)</i>	<i>(Note e)</i>

Notes:

- (a) The Group's interest is held through its direct interest in Paul Y. - ITC.
- (b) The Group's interest is held through its direct interests in Paul Y. - ITC and Hanny.
- (c) The Group's interest is held through its direct interest in Hanny.
- (d) The Group's interest is held through its effective interest in China Strategic.
- (e) 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, 2004 amounted to approximately HK\$303.1 million. As at 31st March, 2004, the Group had bank borrowings of approximately HK\$575.2 million and other loans of approximately HK\$17.3 million of which HK\$58.2 million and HK\$17.3 million, respectively, are repayable within one year or on demand.

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

As at 31st March, 2004, all the Group's borrowings are at floating interest rates and the Group's current ratio was 1.58.

EXCHANGE RATE EXPOSURE

As at 31st March, 2004, approximately 14.5% of the cash, bank balances and deposits were in other currencies and only 1.6% of the Group's total borrowings of HK\$881.6 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\$578.5 million and the shareholders' funds of HK\$1,353.2 million, was 42.8% as at 31st March, 2004 as compared to 91.2% as at 31st March, 2003. The decrease was mainly due to the reduction of borrowings by HK\$459.0 million during the year.

PLEDGE OF ASSETS

As at 31st March, 2004, certain of the Group's properties and investment in securities with an aggregate carrying value of approximately HK\$696 million 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, 2004, the Group has contingent liabilities in respect of outstanding performance bonds on construction contracts of HK\$623 million.

EMPLOYEE AND REMUNERATION POLICY

As at 31st March, 2004, the Group employed a total of approximately 1,270 employees. The Group's remuneration package is structured with reference to the individual performance and the prevailing salary levels in the market. The Group also offers other benefits to employees including discretionary bonus, training, provident funds and medical coverage. Share option schemes are established for the eligible employees but no share option was granted during the year.

MAJOR EVENTS

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

In July 2003, the Company, Paul Y. - ITC and Hanny jointly announced that Paul Y. - ITC and Hanny would make a voluntary conditional general cash offer for the shares and warrants of China Strategic, other than those owned by Paul Y. - ITC and Hanny and parties acting in concert with them, and to cancel all the outstanding share options of China Strategic. Upon the closure of the offer in September 2003, China Strategic becomes an associate of the Group.

Placing of ordinary shares in Downer

In November and December 2003, Paul Y. - ITC has arranged for placing of an aggregate of 28.75 million Downer ordinary shares (adjusted by the consolidation of four ordinary shares in Downer into one Downer ordinary share on 28th November, 2003) to independent third parties which raised, before tax and expenses, approximately A\$104.1 million (approximately HK\$587.8 million).

Disposal of shares in Paul Y. - ITC

On 21st January, 2004, the Group had disposed of 190 million shares of Paul Y. - ITC to independent third parties for a consideration of HK\$133 million.

CHAIRMAN'S STATEMENT *(continued)*

Acquisition of indirect interest in a joint venture company

In March, 2004, the Group, through Paul Y. - ITC, acquired an approximately 54.06% indirect interest in a joint venture company to build and operate a bulk handling deep sea port at Yangkou Port, Nantong City, Jiangsu, China from an independent third party for a purchase consideration of HK\$396 million with further commitment of HK\$125 million required to finance the initial phase of development. In addition to the concession granted to operate the port for 50 years, Yangkou Port also owns the marine rights to reclaim 42 square kilometres of land for the purpose of an industrial park development. There is also an option to develop an additional 15 square kilometres of reclaimed land.

Acquisition of interest in Skynet (International Group) Holdings Limited ("Skynet")

In March 2004, the Group, through Paul Y. - ITC, initiated a capital reorganisation, asset and debt restructuring proposal (the "Skynet Restructuring Proposal") for Skynet, a company whose shares are listed on the Hong Kong Stock Exchange. As part of the Skynet Restructuring Proposal, Paul Y. Construction Group, which undertakes the Paul Y. - ITC group's entire engineering and construction activities, will be sold to Skynet at a consideration of HK\$400 million, which is to be satisfied by Skynet issuing new shares to Paul Y. - ITC at an issue price of HK\$0.04 per share. Further, approximately HK\$94 million of claim held by the Paul Y. - ITC group against Skynet will be capitalised. Additional financial resources of up to HK\$145 million will also be offered to Skynet in the form of a convertible loan facility and an underwritten share issue in an open offer by Skynet. Upon completion of the Skynet Restructuring Proposal, Paul Y. - ITC will become interested in approximately 93.4% of the issued share capital of Skynet and steps will be taken to reduce such holding to no more than 75% in order to maintain the listing position of Skynet. The proposal is expected to be completed in October 2004.

SECURITIES IN ISSUE

As a result of the issue of new ordinary shares under the conversion of the convertible notes as referred to above, the total number of issued ordinary shares of the Company as at the date of this report is 654,294,107.

FINAL DIVIDEND

The board of directors does not recommend the payment of a dividend to ordinary shareholders for the year ended 31st March, 2004.

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

OUTLOOK

During the year under review, Hong Kong economy was rehabilitating from the impact of Severe Acute Respiratory Syndrome. With growth in GDP, ease of unemployment rate and rebound of property value, there is a general anticipation that Hong Kong economy will continue on its path of recovery. The Group is well-prepared to capture the opportunities appeared in the course of economy recovery. In addition, the Group will continue to focus more on the Mainland and proactively appraise various investment opportunities under the Closer Economic Partnership Arrangement to explore high potential investments and attractive business opportunities in the Mainland. Building on its existing assets base with diversified investment portfolio, barring unforeseeable circumstances, the Group is confident in meeting future challenges by taking advantage of any new opportunities lying ahead.

APPRECIATION

On behalf of the board of directors, I would like to take this opportunity to thank the shareholders for their continuous support to the Company and extend my appreciation to all management and staff members for their contribution and dedication throughout the year.

Dr. Chan Kwok Keung, Charles
Chairman

Hong Kong, 23rd July, 2004

BIOGRAPHIES OF DIRECTORS AND QUALIFIED ACCOUNTANT

DIRECTORS

Chan Kwok Keung, Charles, aged 49, 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 24 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") and Hanny Holdings Limited ("Hanny"), both 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 Wing On Travel (Holdings) Limited ("Wing On Travel"), 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 "Interests and short positions of substantial shareholders/other persons recorded in the register kept under section 336 of the SFO" 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 53, is the Deputy Chairman of the Company. Mr. Lau has over 31 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 49, is the Managing Director of the Company. Ms. Chau has over 24 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 and China Strategic. She is also a director of Burcon NutraScience Corporation, a company whose shares are listed on the TSX Venture Exchange and the Frankfurt Stock Exchange.

Chan Kwok Hung, aged 45, joined the Company as an executive director in November 1997. Mr. Chan holds a diploma in arts and has over 21 years' experience in trading business in China. He is an executive director of Hanny. 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 50, joined the Company as an executive director in December 1997. Mr. Chan has over 31 years' experience in the local construction field specialising in site supervision, planning of works and progress monitoring. He is the managing director of Paul Y. - ITC.

Wong Kun To, aged 48, 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 25 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 SMI Corporation Limited and the deputy chairman of M Channel Corporation Limited, both of which are companies whose shares are listed on the Hong Kong Stock Exchange.

Cheung Hon Kit, aged 50, 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 26 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 the managing director of Wing On Travel, an executive director of Paul Y. - ITC and a non-executive director of Hanny. He is also a director of various companies whose shares are listed on the Hong Kong Stock Exchange.

BIOGRAPHIES OF DIRECTORS AND QUALIFIED ACCOUNTANT *(continued)*

DIRECTORS *(continued)*

Lai, Dominic, aged 57, 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 48, 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 24 years' experience in the legal fields.

Lee Kit Wah, aged 49, joined the Company as an independent non-executive director in July 2004. Mr. Lee graduated from University of Toronto with a bachelor's degree in commerce. He is a fellow member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants, and a member of the Taxation Institute of Hong Kong. He has been practising as a certified public accountant in Hong Kong since 1988 and is the managing director of an accounting firm. Mr. Lee is also an independent non-executive director of a listed company in Hong Kong.

QUALIFIED ACCOUNTANT

Law Hon Wa, William, aged 39, is the Company Secretary and the Chief Accountant of the Company. Mr. Law has over 15 years' experience in auditing, accounting and financial management. He holds a bachelor's degree in business administration and a master's degree in applied finance. He is a member of the Hong Kong Society of Accountants, a fellow member of the Association of Chartered Certified Accountants and also a certified public accountant in Hong Kong. He joined the Group in 2000 and is responsible for its finance, accounting, and company secretarial functions.

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, 2004.

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, 2004 are set out in note 47 to the financial statements.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to operating results for the year ended 31st March, 2004 is set out in note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March, 2004 are set out in the consolidated income statement on page 23 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 27 and note 37 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, 2004 accounted for approximately 77% and 27% 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, a director and/or his 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 three of the five largest customers of the Group for the year ended 31st March, 2004.

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, 2004.

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 76 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 14 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 15 to the financial statements.

DIRECTORS' REPORT *(continued)*

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, 2004 are set out in note 47 to the financial statements.

MAJOR PROPERTIES

Particulars regarding major properties of the Group as at 31st March, 2004 are set out on page 77 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 35 to the financial statements.

SHARE OPTIONS

Details of the movements in the share options of the Company and a subsidiary during the year are set out in note 36 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, 2004 are set out in notes 31 and 32 to the financial statements respectively.

At 31st March, 2004, the Group had in issue convertible notes with an aggregate principal amount of HK\$289,500,000. Details of the convertible notes are set out in note 30 to the financial statements.

Interest of approximately HK\$5,054,000 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

Cheung Kwok Wah, Ken

(resigned on 16th June, 2003)

Independent non-executive directors:

Lai, Dominic

Chuck, Winston Calptor

Lee Kit Wah

(appointed on 23rd July, 2004)

In accordance with Bye-law 98(A) of the Company's Bye-laws, Mr. Chan Fut Yan, Mr. Wong Kun To and Mr. Lai, Dominic retire by rotation at the forthcoming annual general meeting. In addition, in accordance with Bye-law 103(B) of the Company's Bye-laws, Mr. Lee Kit Wah retires at the forthcoming annual general meeting. All retiring directors, being eligible, offer themselves for re-election, except Mr. Wong Kun To and Mr. Lai, Dominic who do not 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 AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 31st March, 2004, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register of the Company required to be kept under Section 352 of the SFO, 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 (the "Model Code") in the Listing Rules were as follows:

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

Name of director	Capacity	Long position/ Short position	Number of ordinary shares of the Company held	Number of underlying shares (in respect of convertible notes (unlisted equity derivatives)) of the Company held	Approximate percentage of the issued ordinary share capital of the Company
Chan Kwok Keung, Charles	Interest of controlled corporation (Note 1)	Long position	219,681,911	–	33.58%
Chan Kwok Keung, Charles	Beneficial owner	Long position	–	833,333,333 (Note 2)	127.36%

Notes:

- Galaxyway Investments Limited ("Galaxyway") was a wholly-owned subsidiary of Chinaview International Limited ("Chinaview") which was, in turn, wholly owned by Dr. Chan Kwok Keung, Charles. Dr. Chan Kwok Keung, Charles was deemed to be interested in 219,681,911 ordinary shares held by Galaxyway.
- Dr. Chan Kwok Keung, Charles owned convertible notes issued by the Company in an aggregate principal amount of HK\$250,000,000 carrying rights to convert into 833,333,333 ordinary shares of the Company at an initial conversion price of HK\$0.30 per ordinary share, subject to adjustment. Out of the aforesaid convertible notes of HK\$250,000,000, HK\$120,000,000 convertible notes (representing 400,000,000 underlying shares) were pledged.

(b) Interests and short positions in shares, underlying shares and debentures of Paul Y. - ITC Construction Holdings Limited ("Paul Y. - ITC")

Name of director	Capacity	Long position/ Short position	Number of shares of Paul Y. - ITC held	Approximate percentage of the issued share capital of Paul Y. - ITC
Chan Kwok Keung, Charles	Interest of controlled corporation (Note)	Long position	740,668,056	55.06%
Chan Kwok Keung, Charles	Beneficial owner	Long position	11,603,952	0.86%
Cheung Hon Kit	Beneficial owner	Long position	400	0.00%

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

DIRECTORS' REPORT *(continued)*

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

(c) *Interests and short positions in shares, underlying shares and debentures of Hanny Holdings Limited ("Hanny")*

Name of director	Capacity	Long position/ short position	Number of shares of Hanny held	Number of underlying shares (in respect of the share options (unlisted equity derivatives)) of Hanny held	Approximate percentage of the issued share capital of Hanny
Chan Kwok Keung, Charles	Interest of controlled corporation (<i>Note</i>)	Long position	45,798,813	–	24.55%
Chan Kwok Keung, Charles	Beneficial owner	Long position	–	5,600,000	3.00%
Chan Kwok Hung	Beneficial owner	Long position	–	3,350,000	1.80%

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

(d) *Interests and short positions in shares, underlying shares and debentures of Burcon NutraScience Corporation ("Burcon")*

Name of director	Capacity	Long position/ short position	Number of shares of Burcon held	Number of underlying shares (in respect of the share options (unlisted equity derivatives)) of Burcon held	Approximate percentage of the issued share capital of Burcon
Chau Mei Wah, Rosanna	Beneficial owner	Long position	280,000	–	1.55%
Chau Mei Wah, Rosanna	Beneficial owner	Long position	–	40,000	0.22%

(e) *Interests and short positions in shares, underlying shares and debentures of China Strategic Holdings Limited ("China Strategic")*

Name of director	Capacity	Long position/ short position	Number of shares of China Strategic held	Approximate percentage of the issued share capital of China Strategic
Chan Kwok Keung, Charles	Interest of controlled corporation (<i>Note</i>)	Long position	258,819,795	29.36%

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

DIRECTORS' REPORT (continued)**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**
(continued)

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

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

Save as disclosed above, as at 31st March, 2004, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO 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, 2004, 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 36 to the financial statements.

(b) Share options of Paul Y. - ITC

(i) *Initial Share Option Scheme of Paul Y. - ITC adopted on 1st September, 1993 (the "Paul Y. - ITC Initial Scheme")*

The following table discloses movements in the share options of Paul Y. - ITC under the Paul Y. - ITC Initial Scheme 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 1.4.2003	Lapsed during the year	Outstanding at 31.3.2004
Lau Ko Yuen, Tom	17th December, 1999	0.5552	5,000,000	(5,000,000)	-
Chau Mei Wah, Rosanna	17th December, 1999	0.5552	6,100,000	(6,100,000)	-
Chan Fut Yan	17th December, 1999	0.5552	5,000,000	(5,000,000)	-
			<u>16,100,000</u>	<u>(16,100,000)</u>	<u>-</u>

(ii) *New Share Option Scheme of Paul Y. - ITC adopted on 27th August, 2002 (the "Paul Y. - ITC New Scheme")*

At 31st March, 2004, there were no outstanding share options granted by Paul Y. - ITC pursuant to the share option scheme of Paul Y. - ITC under the Paul Y. - ITC New Scheme. No share options were granted, exercised, cancelled or lapsed during the year.

Details of the above two share option schemes of Paul Y. - ITC are set out in note 36 to the financial statements.

DIRECTORS' REPORT *(continued)*

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(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 executive or their spouse or children under the age of 18, had any right to subscribe for securities of the Company or had exercised any such rights during the year.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 46 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 BUSINESSES

Interests of directors of the Company in competing businesses as at 31st March, 2004 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	China Strategic and its subsidiaries	Property business in the Mainland (being the People's Republic of China and for the purpose of this report, excluding Hong Kong and Macau)	As the chairman of China Strategic and chief executive officer
	Wing On Travel (Holdings) Limited ("Wing On Travel", formerly known as Ananda Wing On Travel (Holdings) Limited) and its subsidiaries	Property business in Hong Kong	As an executive director of Wing On Travel
	Pacific Century Premium Developments Limited ("PCPD", formerly known as Dong Fang Gas Holdings Limited) and its subsidiaries	Trading of building materials	As the chairman of PCPD
Chau Mei Wah, Rosanna	China Strategic and its subsidiaries	Property business in the Mainland	As an executive director of China Strategic
Chan Kwok Hung	China Strategic and its subsidiaries	Property business in the Mainland	As an alternate director to Dr. Chan Kwok Keung, Charles, the chairman & chief executive officer of China Strategic
	PCPD and its subsidiaries	Trading of building materials	As an executive director of PCPD
Wong Kun To	SMI Corporation Limited ("SMI", formerly known as Star East Holdings Limited) and its subsidiaries	Loan financing business in Hong Kong and property business in Hong Kong and the Mainland	As the managing director of SMI

DIRECTORS' REPORT *(continued)***DIRECTORS' INTERESTS IN COMPETING BUSINESSES** *(continued)*

Name of director	Name of company	Nature of competing business	Nature of interest
Cheung Hon Kit	Wing On Travel and its subsidiaries	Property business in Hong Kong	As the managing director of Wing On Travel
	Universal Engineering & Construction Ltd ("UECL")	Construction	Holds indirect shareholding interest in UECL
	Silver City Limited ("Silver City")	Property business in Hong Kong	As a director and shareholder of Silver City
	Co-Forward Development Limited ("Co-Forward")	Property business in Hong Kong	As a director and shareholder of Co-Forward
	China Development Limited ("China Development")	Property business in Hong Kong	As a director and shareholder of China Development
	Asia City Holding Limited ("Asia City")	Property business in Hong Kong	As a director and shareholder of Asia City

The changes in details of the directors' interests in competing businesses previously disclosed in the annual report of the Company for the year ended 31st March, 2003 (the "Annual Report 2003") were set out below:

1. The name of Ananda Wing On Travel (Holdings) Limited was changed to Wing On Travel (Holdings) Limited during the year.
2. Dr. Chan Kwok Keung, Charles ceased to be a substantial shareholder of SMI on 25th February, 2004. Ms. Chau Mei Wah, Rosanna retired as an executive director of SMI on 4th September, 2003. SMI had competing business of loan financing business in Hong Kong, property business in Hong Kong and the Mainland as disclosed in the Annual Report 2003.
3. Mr. Chan Kwok Hung, Mr. Chan Fut Yan, Mr. Cheung Hon Kit and Ms. Chau Mei Wah, Rosanna resigned on 9th January, 2004 as the chairman, the vice chairman, the executive vice chairman and an executive director, respectively, of China Velocity Group Limited (formerly known as Rosedale Hotel Group Limited) which had competing business of property business in the Mainland as disclosed in the Annual Report 2003.
4. Mr. Cheung Hon Kit was appointed as the managing director of Wing On Travel on 9th October, 2003.

Subsequent to the balance sheet date, Dr. Chan Kwok Keung, Charles and Mr. Chan Kwok Hung resigned on 10th May, 2004 as the chairman and an executive director, respectively, of PCPD; and the names of Dong Fang Gas Holdings Limited and Star East Holdings Limited were changed to Pacific Century Premium Developments Limited and SMI Corporation Limited respectively.

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

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

DIRECTORS' REPORT *(continued)*

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS/OTHER PERSONS RECORDED IN THE REGISTER KEPT UNDER SECTION 336 OF THE SFO

As at 31st March, 2004, so far as is known to the directors and chief executive of the Company, the interests or short positions of substantial shareholders/other persons in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

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

Name	Capacity	Long position/ Short position	Number of ordinary shares of the Company held	Number of underlying shares (in respect of unlisted equity derivatives) of the Company held	Approximate percentage of the issued ordinary share capital of the Company
Chan Kwok Keung, Charles	Interest of controlled corporation <i>(Note)</i>	Long position	219,681,911	–	33.58%
Chan Kwok Keung, Charles	Beneficial owner <i>(Note)</i>	Long position	–	833,333,333	127.36%
Chinaview	Interest of controlled corporation <i>(Note)</i>	Long position	219,681,911	–	33.58%
Galaxyway	Beneficial owner	Long position	219,681,911	–	33.58%
Ng Yuen Lan, Macy	Interest of spouse <i>(Note)</i>	Long position	219,681,911	–	33.58%
Ng Yuen Lan, Macy	Interest of spouse <i>(Note)</i>	Long position	–	833,333,333	127.36%

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

Dr. Chan Kwok Keung, Charles owned convertible notes issued by the Company in an aggregate principal amount of HK\$250,000,000 carrying rights to convert into 833,333,333 ordinary shares of the Company at an initial conversion price of HK\$0.30 per ordinary share, subject to adjustment. Ms. Ng Yuen Lan, Macy, being the spouse of Dr. Chan Kwok Keung, Charles, was deemed to be interested in the underlying shares (in respect of the convertible notes (unlisted equity derivatives)) held by Dr. Chan Kwok Keung, Charles. Out of the aforesaid convertible notes of HK\$250,000,000, HK\$120,000,000 convertible notes (representing 400,000,000 underlying shares) were pledged.

DIRECTORS' REPORT *(continued)***INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS/OTHER PERSONS RECORDED IN THE REGISTER KEPT UNDER SECTION 336 OF THE SFO** *(continued)***b) Interests and short positions of other persons in shares and underlying shares of the Company**

Name	Capacity	Long position/ Short position	Number of ordinary shares of the Company held	Number of underlying shares (in respect of (unlisted equity derivatives)) of the Company held	Approximate percentage of the issued ordinary share capital of the Company
Tai Fook Finance Company Limited	Security interest (Note 1)	Long position	–	400,000,000	61.13%
Tai Fook (BVI) Limited	Interest of controlled corporation (Note 1)	Long position	–	400,000,000	61.13%
Tai Fook Securities Group Limited	Interest of controlled corporation (Note 1)	Long position	–	400,000,000	61.13%
Leung Choi Yin	Beneficial owner	Long position	32,053,333	–	4.90%
Leung Choi Yin	Beneficial owner	Long position	–	26,666,667	4.08%
Gold Device Ltd.	Beneficial owner	Long position	–	40,000,000	6.11%
Wang Yung-tyng	Interest of controlled corporation (Note 2)	Long position	–	40,000,000	6.11%

Notes:

1. Tai Fook Finance Company Limited had interests in underlying shares (in respect of the unlisted equity derivatives) as security interests.

Tai Fook Finance Company Limited was a wholly-owned subsidiary of Tai Fook (BVI) Limited which was in turn wholly owned by Tai Fook Securities Group Limited. Tai Fook (BVI) Limited and Tai Fook Securities Group Limited were deemed to have security interests in the underlying shares interested by Tai Fook Finance Company Limited.

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

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under Section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31st March, 2004.

RETIREMENT BENEFIT SCHEMES

Information on the Group's retirement benefit schemes is set out in note 40 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.

DIRECTORS' REPORT *(continued)*

CHARITABLE DONATIONS

During the year, the Group made charitable donation amounting to HK\$16,000.

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.

DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES

The following disclosure is made by the Company pursuant to Rules 13.20 and 13.22 of the Listing Rules:

(1) Advances to entities

Pursuant to Rule 13.20 of the Listing Rules, the details of the advances ("Advances") to and trading balances due from the entities as at 31st March, 2004 which individually exceeded 8% of one or more of the relevant percentage ratios as set out in Rule 14.07 of the Listing Rules are as follows:

Entities	Amount of Advances HK\$'000	Amount of trading balances HK\$'000	Total HK\$'000	Interest rate
China Strategic, its subsidiaries and its affiliated companies, excluding China Velocity Group Limited ("China Velocity") and Wing On Travel	175,700	1,858	177,558	Prime rate + 2%
Hanny, its subsidiaries and its affiliated companies, excluding China Strategic	150,717	256	150,973	Prime rate + 2%
China Velocity, its subsidiaries and its affiliated companies	131,702 (Note 1)	641	132,343	Prime rate + 0.25%
Wing On Travel, its subsidiaries and its affiliated companies	87,879	2,665	90,544	Prime rate + 2%
Bongear Enterprises Limited	80,206	–	80,206	Prime rate + 1%
Banyan Profits Limited	69,869	–	69,869	Prime rate – 2%
SMI, its subsidiaries and its affiliated companies	54,739 (Note 2)	2,252	56,991	Prime rate + 2% and Prime rate + 3%
Digital World Technology Limited	16,741	23,666	40,407	Prime rate + 2%
Gold Signature Securities Limited	22,664	–	22,664	Prime rate + 2%

Notes:

1. Amount repayable by instalment with final maturity on 30th June, 2005.
2. Amount repayable on 30th September, 2004, 30th November, 2004 (subsequently extended to 30th April, 2005) and 31st December, 2004.

The amounts are unsecured and, except as otherwise stated above in notes 1 and 2, are repayable on demand.

The Group advanced the monies to these entities for their general working capital purpose in return of interest income and establishing and maintaining a business and investment relationship with them.

DIRECTORS' REPORT *(continued)***DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES** *(continued)***(1) Advances to entities** *(continued)*

In addition, as at 31st March, 2004, the Group has the following trading balances including retention monies ("Trade Receivable") due from five trade customers, their subsidiaries and their affiliated companies which individually exceeded 8% of one or more of the relevant percentage ratios as set out in Rule 14.07 of the Listing Rules:

	Amount of Trade Receivable HK\$'000
Cyber-port Limited	318,228
Cheung Kong (Holdings) Limited, its subsidiaries and its affiliated companies <i>(Note)</i>	230,887
Hutchison Whampoa Limited, its subsidiaries and its affiliated companies <i>(Note)</i>	173,793
Hong Kong Housing Authority	45,141
Tak Shing Investment Co Ltd	35,285

Note: This includes the trade receivables from Hutchison Whampoa Limited and its subsidiaries in the sum of approximately HK\$95,087,000.

The Trade Receivable, which are unsecured, interest free and with payment terms ranging from 30 days to 90 days, are mainly arisen from construction services rendered by the Group to the relevant customers.

(2) Financial assistance given to and trading balance due from affiliated companies

Pursuant to Rule 13.22 of the Listing Rules, the proforma combined balance sheet of the affiliated companies and the Group's attributable interest in these affiliated companies based on their latest financial statements available are presented below:

	Proforma combined balance sheet HK\$'000	The Group's attributable interest HK\$'000
Non-current assets	8,333,565	1,931,557
Current assets	9,743,055	2,256,534
Current liabilities	(6,130,897)	(1,410,248)
Non-current liabilities	(3,317,210)	(727,174)
Minority interests	(655,317)	(172,914)
	<u>7,973,196</u>	<u>1,877,755</u>

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

During the year ended 31st March, 2004, save as disclosed herein, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of 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, 23rd July, 2004

AUDITORS' REPORT



TO THE MEMBERS OF ITC CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 23 to 75 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 solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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, 2004 and of the profit 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
23rd July, 2004

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST MARCH, 2004

	Notes	2004 HK\$'000	2003 HK\$'000 (As restated)
Turnover	4	3,434,666	768,697
Cost of sales		(3,288,566)	(709,563)
Gross profit		146,100	59,134
Other operating income	5	80,091	84,694
Administrative expenses		(154,429)	(76,959)
Profit from operations	6	71,762	66,869
Finance costs	8	(38,722)	(36,680)
Net investment expenses	9	(43,183)	(20,409)
Deficit arising from revaluation of investment properties		(14,000)	–
Allowance for amounts due from associates and a related company		(40,985)	–
Net gain on disposal and dilution of interests in subsidiaries and associates	10	83,600	–
Share of results of associates		156,400	(344,404)
Share of results of jointly controlled entities		9,074	1,895
Profit (loss) before taxation		183,946	(332,729)
Taxation	11	(53,719)	(28,019)
Profit (loss) before minority interests		130,227	(360,748)
Minority interests		(101,295)	2,224
Profit (loss) for the year		28,932	(358,524)
Earnings (loss) per share	13		
Basic		HK\$0.02	(HK\$0.60)
Diluted		HK\$0.01	(HK\$0.60)

CONSOLIDATED BALANCE SHEET

AT 31ST MARCH, 2004

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

CONSOLIDATED BALANCE SHEET *(continued)*

AT 31ST MARCH, 2004

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

The financial statements on pages 23 to 75 were approved and authorised for issue by the Board of Directors on 23rd July, 2004 and are signed on its behalf by:

Chau Mei Wah, Rosanna
Managing Director

Chan Fut Yan
Director

BALANCE SHEET

AT 31ST MARCH, 2004

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

Chau Mei Wah, Rosanna
Managing Director

Chan Fui Yan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST MARCH, 2004

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Other 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, 2002										
- as previously reported	89,894	205,222	2,092,234	908	-	-	(21,851)	(139,650)	(737,323)	1,489,434
- prior period adjustment (note 2)	-	-	-	-	-	-	-	-	(18,191)	(18,191)
- as restated	89,894	205,222	2,092,234	908	-	-	(21,851)	(139,650)	(755,514)	1,471,243
Exchange differences arising from translation of overseas operations	-	-	-	-	-	-	34,587	-	-	34,587
Share of post-acquisition reserve movements of associates	-	-	-	-	-	-	16,010	-	-	16,010
Surplus arising on revaluation of land and buildings	-	-	-	-	-	805	-	-	-	805
Net gain not recognised in the income statement	-	-	-	-	-	805	50,597	-	-	51,402
Share of post-acquisition reserve movements in associates	-	-	-	-	-	-	-	41,119	-	41,119
Loss for the year (as restated)	-	-	-	-	-	-	-	-	(358,524)	(358,524)
At 31st March, 2003	89,894	205,222	2,092,234	908	-	805	28,746	(98,531)	(1,114,038)	1,205,240
Exchange differences arising from translation of overseas operations	-	-	-	-	-	-	60,884	-	-	60,884
Share of post-acquisition reserve movements of associates	-	-	-	-	7,130	-	4,274	-	-	11,404
Surplus arising on revaluation of land and buildings	-	-	-	-	-	2,731	-	-	-	2,731
Released on disposal of land and buildings	-	-	-	-	-	(5)	-	-	5	-
Net gain not recognised in the income statement	-	-	-	-	7,130	2,726	65,158	-	5	75,019
Issue of shares	2,333	4,667	-	-	-	-	-	-	-	7,000
Share of post-acquisition reserve movements of associates	-	-	-	-	-	-	-	3,433	-	3,433
Released on disposal and dilution of interests in subsidiaries	-	-	-	-	-	(117)	(12,522)	-	-	(12,639)
Released on disposal and dilution of interests in associates	-	-	-	-	-	-	166	46,031	-	46,197
Profit for the year	-	-	-	-	-	-	-	-	28,932	28,932
At 31st March, 2004	92,227	209,889	2,092,234	908	7,130	3,414	81,548	(49,067)	(1,085,101)	1,353,182

The accumulated losses of the Group include accumulated losses of approximately HK\$514,187,000 (2003: HK\$652,040,000) and accumulated profits of approximately HK\$10,969,000 (2003: HK\$1,895,000) retained by the associates and jointly controlled entities of the Group respectively.

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST MARCH, 2004

	2004 HK\$'000	2003 HK\$'000 (As restated)
OPERATING ACTIVITIES		
Profit (loss) before taxation	183,946	(332,729)
Adjustments for:		
Share of results of associates	(156,400)	344,404
Share of results of jointly controlled entities	(9,074)	(1,895)
Release of negative goodwill	(53,139)	(18,412)
Interest expenses	38,237	34,295
Amortisation of deferred expenditure on issuance of convertible notes	485	2,385
Depreciation and amortisation of property, plant and equipment	74,969	18,756
Impairment loss on property interests	1,496	–
Allowance for amounts due from associates and a related company	40,985	–
Net gain on disposal and dilution of interests in subsidiaries and associates	(83,600)	–
Impairment loss on investment securities	5,340	20,410
Loss on option agreement	52,871	–
Deficit arising from revaluation of investment properties	14,000	–
Surplus arising from revaluation of land and buildings	(273)	(242)
Net unrealised holding (gain) loss on listed other investments	(36)	3,049
Gain on disposal of investment securities	(17,180)	–
Net gain on disposal of listed other investments	(26,643)	(669)
(Gain) loss on disposal of property, plant and equipment	(3,875)	2,746
Loss (gain) on disposal of investment properties	2,152	(1)
Operating cash flows before movements in working capital	64,261	72,097
Decrease in property held for resale	2,342	–
Decrease (increase) in inventories	118	(38)
Increase in amounts due from (to) customers for contract works, net of attributable interest expenses and depreciation and amortisation	(101,929)	(26,763)
(Increase) decrease in debtors, deposits and prepayments	(17,709)	28,716
Decrease in amounts due from associates	4,955	73
Increase in amounts due from jointly controlled entities	(664)	–
Decrease (increase) in amounts due from related companies	7,344	(4,846)
Decrease in loans receivable	69,249	826
Increase (decrease) in creditors and accrued expenses	13,564	(82,186)
(Decrease) increase in amounts due to associates	(25,751)	4,889
Increase (decrease) in amounts due to related companies	11	(1,569)
Cash generated from (used in) operations	15,791	(8,801)
Dividends received from associates	55,844	8,973
Dividends received from a jointly controlled entity	–	5,000
Overseas tax (paid) refunded	(4,487)	7
Hong Kong Profits Tax refunded	–	12
Hong Kong Profits Tax paid	(11,822)	(513)
NET CASH FROM OPERATING ACTIVITIES	55,326	4,678

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

Property, plant and equipment

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

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

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

No amortisation is provided in respect of freehold land.

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

Depreciation is provided so as to write off the cost of items of other property, plant and equipment over their estimated useful lives, using the straight-line method, at rates ranging from 10% to 33 $\frac{1}{3}$ % per annum.

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

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

Investment properties

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

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

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

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

Goodwill

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

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

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

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

Negative goodwill

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

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

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

Investments in subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

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

Investments in securities

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

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

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

Inventories

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

Impairment

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

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

Construction contracts

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Convertible notes

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

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

Revenue recognition

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

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

Service revenue is recognised when services are rendered.

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

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

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

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

Capitalisation of borrowing costs

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

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

Foreign currencies

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

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

Taxation

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

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

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

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

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

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

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

Retirement benefit costs

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

Operating leases

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

4. TURNOVER AND SEGMENTAL INFORMATION

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

	2004 HK\$'000	2003 HK\$'000
Building construction	2,418,339	407,653
Civil engineering	463,440	123,048
Specialist works	448,849	189,672
Construction materials	3,448	6,192
Property leasing	48,269	13,735
Investment and finance	46,142	22,346
Others	6,179	6,051
	<u>3,434,666</u>	<u>768,697</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

4. TURNOVER AND SEGMENTAL INFORMATION *(continued)*

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, 2004 is presented below:

	Building construction	Civil engineering	Specialist works	Construction materials	Engineering and infrastructure services	Property leasing	Investment and finance	Others	Corporate	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER											
External sales	2,418,339	463,440	448,849	3,448	-	48,269	46,142	6,179	-	-	3,434,666
Inter-segment sales	28,713	-	76,384	71,029	-	17,022	800	88	-	(194,036)	-
Total	<u>2,447,052</u>	<u>463,440</u>	<u>525,233</u>	<u>74,477</u>	<u>-</u>	<u>65,291</u>	<u>46,942</u>	<u>6,267</u>	<u>-</u>	<u>(194,036)</u>	<u>3,434,666</u>
RESULT											
Segment result	<u>(8,633)</u>	<u>(5,632)</u>	<u>(4)</u>	<u>(24,923)</u>	<u>-</u>	<u>14,935</u>	<u>57,128</u>	<u>802</u>	<u>-</u>	<u>-</u>	<u>33,673</u>
Release of negative goodwill											53,139
Unallocated corporate expenses											<u>(15,050)</u>
Profit from operations											71,762
Finance costs											<u>(38,722)</u>
Net investment expenses	-	-	-	-	-	(2,152)	11,840	-	(52,871)	-	<u>(43,183)</u>
Deficit arising from revaluation of investment properties	-	-	-	-	-	(14,000)	-	-	-	-	<u>(14,000)</u>
Allowance for amounts due from associates and a related company											<u>(40,985)</u>
Net gain on disposal and dilution of interests in subsidiaries and associates	-	-	-	-	246,653	-	-	-	(163,053)	-	83,600
Share of results of associates	334	(16)	-	1,793	191,879	-	-	-	(37,590)	-	156,400
Share of results of jointly controlled entities	-	9,074	-	-	-	-	-	-	-	-	<u>9,074</u>
Profit before taxation											183,946
Taxation											<u>(53,719)</u>
Profit before minority interests											130,227
Minority interests											<u>(101,295)</u>
Profit for the year											<u>28,932</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, 2004

4. TURNOVER AND SEGMENTAL INFORMATION (continued)

Business segments (continued)

	Building construction HK\$'000	Civil engineering HK\$'000	Specialist works HK\$'000	Construction materials HK\$'000	Engineering and infrastructure services HK\$'000	Property leasing HK\$'000	Investment and finance HK\$'000	Others HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
BALANCE SHEET										
ASSETS										
Segment assets	924,550	450,958	179,949	64,738	-	568,057	798,246	1,169	525,535	3,513,202
Interests in associates	21,019	249	-	4,582	634,941	-	-	-	1,089,698	1,750,489
Interests in jointly controlled entities	-	14,817	-	-	-	-	-	-	-	14,817
Negative goodwill	-	-	-	-	-	-	-	-	(314,540)	(314,540)
Other assets	-	-	-	-	-	-	-	-	18,545	18,545
Total assets	<u>945,569</u>	<u>466,024</u>	<u>179,949</u>	<u>69,320</u>	<u>634,941</u>	<u>568,057</u>	<u>798,246</u>	<u>1,169</u>	<u>1,319,238</u>	<u>4,982,513</u>
LIABILITIES										
Segment liabilities	775,262	297,904	99,633	31,295	-	22,676	1,881	810	268,953	1,498,414
Convertible notes, bank borrowings and other loans	-	-	-	-	-	-	-	-	881,614	881,614
Other liabilities	-	-	-	-	-	-	-	-	53,938	53,938
Total liabilities	<u>775,262</u>	<u>297,904</u>	<u>99,633</u>	<u>31,295</u>	<u>-</u>	<u>22,676</u>	<u>1,881</u>	<u>810</u>	<u>1,204,505</u>	<u>2,433,966</u>
OTHER INFORMATION										
Capital additions	2,374	992	2,975	1,999	-	351	90	-	56,030	64,811
Depreciation and amortisation of property, plant and equipment	22,039	6,415	21,072	6,544	-	11,694	298	3	10,912	78,977
Amortisation of deferred expenditure on issuance of convertible notes	-	-	-	-	-	-	-	-	485	485
Release of negative goodwill	-	-	-	-	-	-	-	-	53,139	53,139
Impairment loss on property interests	-	-	-	-	-	1,496	-	-	-	1,496
Loss on option agreement	-	-	-	-	-	-	-	-	52,871	52,871

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

4. TURNOVER AND SEGMENTAL INFORMATION *(continued)*

Business segments *(continued)*

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

	Building construction	Civil engineering	Specialist works	Construction materials	Engineering and infrastructure services	Property leasing	Investment and finance	Others	Corporate	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(As restated)											
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>-</u>	<u>(68,772)</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>66,731</u>	<u>604</u>	<u>-</u>	<u>-</u>	60,089
Release of negative goodwill											18,412
Unallocated corporate expenses											<u>(11,632)</u>
Profit from operations											66,869
Finance costs											<u>(36,680)</u>
Net investment expenses	-	-	-	-	-	-	(20,409)	-	-	-	<u>(20,409)</u>
Share of results of associates	2,004	(9)	-	114	(541)	-	-	-	(345,972)	-	<u>(344,404)</u>
Share of results of jointly controlled entities	-	1,895	-	-	-	-	-	-	-	-	<u>1,895</u>
Loss before taxation											<u>(332,729)</u>
Taxation											<u>(28,019)</u>
Loss before minority interests											<u>(360,748)</u>
Minority interests											<u>2,224</u>
Loss for the year											<u>(358,524)</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, 2004

4. TURNOVER AND SEGMENTAL INFORMATION (continued)

Business segments (continued)

	Building construction HK\$'000	Civil engineering HK\$'000	Specialist works HK\$'000	Construction materials HK\$'000	Engineering and infrastructure services HK\$'000	Property leasing HK\$'000	Investment and finance HK\$'000	Others HK\$'000	Corporate HK\$'000	Consolidated HK\$'000 (As restated)
BALANCE SHEET										
ASSETS										
Segment assets	1,053,076	368,008	193,942	96,312	-	622,262	1,256,831	773	309,482	3,900,686
Interests in associates	43,231	293	-	3,093	649,099	-	-	-	658,911	1,354,627
Interests in jointly controlled entities	-	8,743	-	-	-	-	-	-	-	8,743
Negative goodwill	-	-	-	-	-	-	-	-	(423,474)	(423,474)
Other assets	-	-	-	-	-	-	-	-	10,622	10,622
Total assets	1,096,307	377,044	193,942	99,405	649,099	622,262	1,256,831	773	555,541	4,851,204
LIABILITIES										
Segment liabilities	871,883	298,347	95,744	47,353	-	22,789	1,486	660	37,995	1,376,257
Convertible notes, bank borrowings and other loans	-	-	-	-	-	-	-	-	1,340,644	1,340,644
Other liabilities	-	-	-	-	-	-	-	-	65,668	65,668
Total liabilities	871,883	298,347	95,744	47,353	-	22,789	1,486	660	1,444,307	2,782,569
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
Release of negative goodwill	-	-	-	-	-	-	-	-	18,412	18,412

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

4. TURNOVER AND SEGMENTAL INFORMATION *(continued)*

Geographical segments

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

	2004 HK\$'000	2003 HK\$'000
Hong Kong	3,341,252	760,602
The People's Republic of China other than Hong Kong (the "PRC")	89,611	4,943
Others	3,803	3,152
	<u>3,434,666</u>	<u>768,697</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	
	2004 HK\$'000	2003 HK\$'000 (As restated)	2004 HK\$'000	2003 HK\$'000
Hong Kong	4,205,209	4,036,331	62,677	3,303
The PRC	109,087	116,290	2,118	8,640
Pacific region and South East Asia	636,435	674,946	-	-
Others	31,782	23,637	16	80
	<u>4,982,513</u>	<u>4,851,204</u>	<u>64,811</u>	<u>12,023</u>

5. OTHER OPERATING INCOME

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST MARCH, 2004

6. PROFIT FROM OPERATIONS

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

Notes:

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

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

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

Emoluments of the directors were within the following bands:

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

(b) Employees' emoluments

The five highest paid individuals in the Group for the year ended 31st March, 2004 included four directors and one employee (2003: five directors) and information regarding their emoluments are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST MARCH, 2004

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)**(b) Employees' emoluments** (continued)

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

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

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.

8. FINANCE COSTS

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

9. NET INVESTMENT EXPENSES

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

11. TAXATION

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

Hong Kong Profits Tax is calculated at the rate of 17.5% (2003: 16%) of the estimated assessable profit for the year. The Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment.

No tax is payable on the profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

12. DIVIDENDS

The directors do not recommend the payment of a dividend to ordinary shareholders for the year ended 31st March, 2004.

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

13. EARNINGS (LOSS) PER SHARE

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

	2004 HK\$'000	2003 <i>HK\$'000</i> (As restated)
Profit (loss) for the year	28,932	(358,524)
Dividend for preference shares	(18,491)	(18,491)
Profit (loss) for the purposes of basic earnings (loss) per share	10,441	(377,015)
Adjustment to the share of results of subsidiaries based on dilution of their earnings per share	(2,963)	(1,370)
Profit (loss) for the purposes of diluted earnings (loss) per share	7,478	(378,385)
	2004 Number of shares	2003 <i>Number</i> <i>of shares</i>
Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) per share	636,379,717	630,960,774

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

The adjustment to comparative basic and diluted loss per share, arising from the changes in accounting policy shown in note 2 above, is as follows:

	Basic <i>HK\$</i>	Diluted <i>HK\$</i>
Reconciliation of 2003 loss per share:		
Reported figures before adjustments	(0.59)	(0.59)
Adjustment arising from the adoption of SSAP 12 (Revised)	(0.01)	(0.01)
Restated	(0.60)	(0.60)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST MARCH, 2004

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Plant, machinery and office equipment HK\$'000	Motor vehicles and vessels HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
THE GROUP					
COST OR VALUATION					
At 1st April, 2003	255,914	441,325	72,690	142,076	912,005
Translation adjustments	2,478	37	90	128	2,733
On acquisition of subsidiaries	–	–	53,758	74	53,832
Additions	141	3,926	3,385	3,527	10,979
Disposals	(15,622)	(30,872)	(29,781)	(6,932)	(83,207)
Written back on revaluation	(10)	–	–	–	(10)
	<u>242,901</u>	<u>414,416</u>	<u>100,142</u>	<u>138,873</u>	<u>896,332</u>
At 31st March, 2004					
Comprising:					
At cost	–	414,416	100,142	138,873	653,431
At directors' valuation – 2004	727	–	–	–	727
At valuation – 2004	<u>242,174</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>242,174</u>
	<u>242,901</u>	<u>414,416</u>	<u>100,142</u>	<u>138,873</u>	<u>896,332</u>
DEPRECIATION AND AMORTISATION					
At 1st April, 2003	–	310,826	43,507	68,341	422,674
Translation adjustments	–	32	79	112	223
Provided for the year	5,263	39,407	11,557	22,750	78,977
Eliminated on disposals	(20)	(26,262)	(21,516)	(4,875)	(52,673)
Written back on revaluation	(5,243)	–	–	–	(5,243)
	<u>–</u>	<u>324,003</u>	<u>33,627</u>	<u>86,328</u>	<u>443,958</u>
At 31st March, 2004					
NET BOOK VALUES					
At 31st March, 2004	<u>242,901</u>	<u>90,413</u>	<u>66,515</u>	<u>52,545</u>	<u>452,374</u>
At 31st March, 2003	<u>255,914</u>	<u>130,499</u>	<u>29,183</u>	<u>73,735</u>	<u>489,331</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST MARCH, 2004

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Land and buildings of the Group were revalued either by RHL Appraisal Ltd., an independent professional property valuer on an open market value basis or by the directors of the Group on an existing use basis as at 31st March, 2004. This revaluation gave rise to a surplus on revaluation of HK\$5,233,000 (2003: HK\$1,490,000) of which HK\$273,000 (2003: HK\$242,000), HK\$2,731,000 (2003: HK\$805,000) and HK\$2,229,000 (2003: HK\$443,000) 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:

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

As at 31st March, 2004, had the Group's land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value would have been approximately HK\$240,407,000 (2003: HK\$258,155,000).

15. INVESTMENT PROPERTIES

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

15. INVESTMENT PROPERTIES *(continued)*

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

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

16. NEGATIVE GOODWILL

	THE GROUP HK\$'000
GROSS AMOUNT	
At 1st April, 2003	
– as previously reported	455,535
– prior period adjustment (<i>note 2</i>)	(11,608)
– as restated	443,927
Eliminated on disposal and dilution of interests in subsidiaries	(64,736)
At 31st March, 2004	379,191
RELEASED TO INCOME	
At 1st April, 2003	
– as previously reported	20,955
– prior period adjustment (<i>note 2</i>)	(502)
– as restated	20,453
Released on disposal and dilution of interests in subsidiaries	(8,941)
Released in the year	53,139
At 31st March, 2004	64,651
CARRYING AMOUNTS	
At 31st March, 2004	314,540
At 31st March, 2003 (As restated)	423,474

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

17. INTERESTS IN SUBSIDIARIES

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

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

The amounts due from subsidiaries are unsecured and have no fixed terms of repayment. Of these amounts, an amount of approximately HK\$2,420,866,000 (2003: HK\$2,651,577,000) 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.

18. INTERESTS IN ASSOCIATES

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

18. INTERESTS IN ASSOCIATES *(continued)*

Notes:

(a) Movement of goodwill is analysed as follows:

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

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

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

	<i>HK\$'000</i>
Gross amount	
At 1st April, 2003	
– as previously reported	18,217
– prior period adjustment (<i>note 2</i>)	<u>35</u>
– as restated	18,252
Arising from acquisition of additional interests in associates	4,541
Eliminated on dilution of interests in associates	<u>(3,206)</u>
At 31st March, 2004	<u>19,587</u>
Released to income	
At 1st April, 2003	
– as previously reported	988
– prior period adjustment (<i>note 2</i>)	<u>2</u>
– as restated	990
Released in the year	996
Released on dilution of interests in associates	<u>(254)</u>
At 31st March, 2004	<u>1,732</u>
Carrying amounts	
At 31st March, 2004	<u>17,855</u>
At 31st March, 2003 (As restated)	<u>17,262</u>

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

18. INTERESTS IN ASSOCIATES *(continued)*

- (c) The Group's equity interest in Hanny Holdings Limited ("Hanny") was diluted from 28.26% at the beginning of the year to 24.55% at the end of the year. Extracts of the consolidated results and financial position of Hanny from its audited financial statements for the year ended 31st March, 2004 are set out in note 48.
- (d) Following a placement of shares by SMI Corporation Limited ("SMI", formerly known as Star East Holdings Limited) on 19th December, 2003, the Group's equity interest in SMI was diluted to less than 20% and the Group is no longer in a position to exercise significant influence over SMI such that the carrying amount of the Group's investment in SMI has been recorded as cost and dealt with in accordance with the Group's accounting policy for investment securities.
- (e) During the year, the Group's equity interest through Paul Y. - ITC Construction Holdings Limited ("Paul Y. - ITC"), a subsidiary of the Company, in China Strategic Holdings Limited ("China Strategic") increased from 14.55% to 29.36%. Accordingly, the investment has been reclassified from investments in securities to interests in associates during the year.
- (f) Downer EDI Limited ("Downer"), an associate of the Group, is a company listed in Australia and New Zealand and its financial year end date is 30th June. Since only published financial information of Downer was available and used by the Group in applying the equity method, the Group's share of interest in Downer at 31st March, 2004 is calculated based on the net assets of Downer at 31st December, 2003 and the results from 1st January, 2003 to 31st December, 2003 whilst the Group's share of interest in Downer at 31st March, 2003 was calculated based on the net assets of Downer at 31st December, 2002. Extracts of the published consolidated results and financial position of Downer for the year ended 31st December, 2003 are set out in note 48.

Paul Y. - ITC has not accounted for its share of losses of Downer 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 Downer. Paul Y. - ITC proceeded a court action against the ex-shareholder to recover the losses together with interest and other expenses incurred. The directors of Paul Y. - ITC, having taken legal advice, believe that the suit is valid and the losses can be fully recovered from the ex-shareholder.

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

- (g) China Strategic is a company listed on the Hong Kong Stock Exchange and its financial year end date is 31st December. Since only published financial information of China Strategic was available and used by the Group in applying the equity method, the Group's share of interest in China Strategic at 31st March, 2004 is calculated based on the net assets of China Strategic at 31st December, 2003 and the results from the date China Strategic became an associate of the Group to 31st December, 2003. Extracts of the consolidated results and financial position of China Strategic from its audited financial statements for the year ended 31st December, 2003 are set out in note 48.
- (h) The amounts due from associates are unsecured. Of these amounts, an amount of approximately HK\$26,400,000 (2003: HK\$214,603,000) bears interest at commercial rate 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.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

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

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

20. INVESTMENTS IN SECURITIES

THE GROUP

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

21. CONVERTIBLE NOTES RECEIVABLE

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

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

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

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

23. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in debtors, deposits and prepayments are trade debtors of approximately HK\$503,395,000 (2003: HK\$482,111,000) and their aged analysis at the balance sheet date is as follows:

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

24. 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\$324,028,000 (2003: HK\$86,851,000) bears interest at commercial rates and the remaining balance is interest-free.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

25. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

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

26. AMOUNTS DUE FROM RELATED COMPANIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
China Velocity Group Limited (formerly known as Rosedale Hotel Group Limited) and its subsidiaries	–	131,546
China Strategic and its subsidiaries	–	158,093
Associates of China Strategic	89,935	–
Other related companies	289	10,209
	90,224	299,848

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

The amounts are unsecured and repayable within one year. Of the amounts, an amount of approximately HK\$86,881,000 (2003: HK\$278,380,000) 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 46.

27. LOANS RECEIVABLE

The amounts are receivable within one year except for HK\$50,000,000 (2003: Nil) which is receivable after one year. Of the Group's amounts, amounts of approximately HK\$246,215,000 (2003: HK\$20,898,000) bear interest at commercial rates and the remaining balance is interest-free.

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

28. CREDITORS AND ACCRUED EXPENSES

Included in creditors and accrued expenses are trade payables of approximately HK\$354,324,000 (2003: HK\$326,987,000) and their aged analysis at the balance sheet date is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Trade creditors		
0-30 days	315,826	273,309
31-60 days	18,742	24,780
61-90 days	1,476	9,342
Over 90 days	18,280	19,556
	354,324	326,987

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST MARCH, 2004

30. CONVERTIBLE NOTES

	THE GROUP AND THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Convertible notes due 2006 (note)	289,500	392,500
Less: Unamortised deferred expenditure	(450)	(701)
	<u>289,050</u>	<u>391,799</u>

Note:

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 ordinary share, subject to adjustment, on or before 3rd March, 2006. The ordinary shares to be issued upon such conversion are to rank pari passu in all respects with the ordinary shares of the Company in issue on the relevant conversion date.

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

31. BANK BORROWINGS

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

32. OTHER LOANS

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

The loans bear interest at commercial rates.

33. PROVISION FOR LONG SERVICE PAYMENTS

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

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

34. DEFERRED TAX

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST MARCH, 2004

34. DEFERRED TAX (continued)

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

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

At the balance sheet date, the Group has unused tax losses of approximately HK\$1,403,000,000 (2003: HK\$1,307,000,000) available for offset against future taxable profits. A deferred tax asset has been recognised in respect of approximately HK\$49,000,000 (2003: HK\$66,000,000) of such losses. No deferred tax asset in respect of the remaining tax losses has been recognised due to the unpredictability of future profit streams.

THE COMPANY

At the balance sheet date, the Company has unused tax losses of approximately HK\$161,000,000 (2003: HK\$150,000,000). No deferred tax asset has been recognised in relation to such assets due to the unpredictability of future profit streams.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

35. SHARE CAPITAL

	Number of shares	Value HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1st April, 2002	2,000,000,000	200,000
Increase during the year (<i>note a</i>)	<u>1,000,000,000</u>	<u>100,000</u>
At 31st March, 2003 and 2004	<u>3,000,000,000</u>	<u>300,000</u>
Compulsorily convertible cumulative preference shares of HK\$0.10 each		
At 1st April, 2002, 31st March, 2003 and 31st March, 2004	<u>280,000,000</u>	<u>28,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1st April, 2002 and 31st March, 2003	630,960,774	63,096
Conversion of convertible notes (<i>note b</i>)	<u>23,333,333</u>	<u>2,333</u>
At 31st March, 2004	<u>654,294,107</u>	<u>65,429</u>
Compulsorily convertible cumulative preference shares of HK\$0.10 each		
At 1st April, 2002, 31st March, 2003 and 31st March, 2004	<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 7th January, 2004, 23,333,333 ordinary shares of the Company of HK\$0.10 each were issued upon conversion of the convertible notes in the principal amount of HK\$7,000,000 at the conversion price of HK\$0.30 per ordinary share. The ordinary shares issued by the Company ranked pari passu with the then existing ordinary shares of the Company in all respects.

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

36. SHARE OPTIONS

(a) Share options of the Company

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

The maximum number of ordinary shares which may be issued upon the exercise of all options to be granted under the ITC Scheme and any other share option scheme(s) adopted by the Company must not in aggregate exceed 10% of the total number of issued ordinary shares of the Company as at the Adoption Date. The total number of ordinary shares available for issue under the ITC Scheme was 63,096,077 representing approximately 9.64% of the aggregate number of issued ordinary shares of the Company as at the date of this report.

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

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

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

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

As at 31st March, 2004 and 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 current and prior year.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

36. SHARE OPTIONS *(continued)*

(b) Share options of Paul Y. - ITC

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

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

The maximum number of shares in respect of which options may be granted under the Paul Y. - ITC Initial Scheme was not permitted to exceed 10% of the issued share capital of Paul Y. - ITC from time to time.

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

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

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

Date of grant	Exercise price per share HK\$	Number of shares of Paul Y. - ITC to be issued upon exercise of the share options				
		Balance at 1.4.2002	Lapsed during the year	Balance at 31.3.2003	Lapsed during the year	Balance at 31.3.2004
18th December, 1998	0.6048	38,349,206	(38,349,206)	-	-	-
17th December, 1999	0.5552	16,100,000	-	16,100,000	(16,100,000)	-
		<u>54,449,206</u>	<u>(38,349,206)</u>	<u>16,100,000</u>	<u>(16,100,000)</u>	<u>-</u>

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

36. SHARE OPTIONS *(continued)***(b) Share options of Paul Y. - ITC** *(continued)**(ii) New Share Option Scheme of Paul Y. - ITC (continued)*

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

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

The maximum number of shares of Paul Y. - ITC in respect of which options may be granted to each Eligible Person under the Paul Y. - ITC New Scheme and any other share option scheme(s) of Paul Y. - ITC (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue from time to time unless such grant has been duly approved by shareholders of Paul Y. - ITC at general meeting at which the Eligible Person and his associates (as defined in the Listing Rules) abstained from voting. Options granted to a substantial shareholder and/or an independent non-executive director or any of their respective associates (as defined in the Listing Rules) in any 12-month period in excess of 0.1% of total number of shares in issue and have an aggregate value exceeding HK\$5,000,000 must be approved by the shareholders of Paul Y. - ITC in general meeting in advance.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

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

Notes:

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

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

- (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:

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST MARCH, 2004

38. ACQUISITION OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000 (As restated)
NET ASSETS ACQUIRED		
Property, plant and equipment	53,832	483,977
Properties held for resale	2,342	–
Investment properties	–	572,608
Interests in associates	–	661,008
Interests in jointly controlled entities	–	11,848
Investments in securities	–	695,676
Amounts due from customers for contract works	–	218,650
Debtors, deposits and prepayments	116	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	3,585	155,697
Tax recoverable	–	5,412
Bank deposits	–	99,881
Bank balances and cash	1	56,548
Amounts due to customers for contract works	–	(540,579)
Creditors and accrued expenses	(133)	(858,727)
Amounts due to associates	–	(7,772)
Amounts due to jointly controlled entities	–	(47,460)
Amounts due to related companies	–	(1,774)
Tax payable	–	(3,775)
Bank overdrafts	–	(3,647)
Bank borrowings	–	(634,118)
Minority interests	–	(846,277)
Provision for long service payments	–	(1,727)
Deferred tax	–	(54,715)
	59,743	1,505,486
Negative goodwill	–	(403,622)
Reclassification from interests in associates	–	(1,030,368)
	59,743	71,496
SATISFIED BY:		
Cash	59,743	71,496
Net cash (outflow) inflow arising on acquisition:		
	2004 HK\$'000	2003 HK\$'000
Cash consideration	(59,743)	(71,496)
Bank deposits, bank balances and cash acquired less bank overdrafts acquired	1	152,782
Net (outflow) inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(59,742)	81,286

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

38. ACQUISITION OF SUBSIDIARIES *(continued)*

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

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

The newly acquired subsidiaries did not make any significant impact on the Group's results for the current year.

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

39. MAJOR NON-CASH TRANSACTION

(a) During the year ended 31st March, 2004:

- (i) HK\$7,000,000 convertible notes issued by the Company were converted into 23,333,333 ordinary shares of the Company at HK\$0.3 per share as set out in note 30.
- (ii) HK\$17,500,000 convertible notes receivable were converted by the Group into shares of the Guarantor at a specified price as set out in note 21.

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

40. RETIREMENT BENEFIT SCHEMES

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

40. RETIREMENT BENEFIT SCHEMES *(continued)*

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

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

41. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Outstanding performance bonds in respect of construction contracts	623,257	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
	623,257	747,303	-	67,254

42. MATERIAL LITIGATION

The liquidators of Hoi Sing Construction Company Limited ("Hoi Sing"), a former wholly-owned subsidiary of the Company, instituted proceedings against the Company on 10th July, 1998 claiming approximately HK\$297,441,000 plus interest pursuant to an alleged guarantee by the Company for debt owed by Hoi Sing Builders Limited to Hoi Sing. The Company does not admit the existence of the guarantee, and has put Hoi Sing to strict proof of its terms and the amounts claimed under it. Even if the Court upholds the alleged guarantee, the Company has a defence of "set off" arising from a claim against Hoi Sing for approximately HK\$308,207,000. As at 31st March, 2004, the Company is a principal creditor of Hoi Sing and the liquidators of Hoi Sing have admitted a substantial portion of the Company's claim. The balance is being adjudicated by the liquidators of Hoi Sing.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

43. OPERATING LEASE ARRANGEMENTS

(a) The Group as a lessee:

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	1,060	1,201
In the second to fifth year inclusive	1,877	2,392
After five years	718	1,026
	<u>3,655</u>	<u>4,619</u>

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

(b) The Group as a lessor:

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	26,786	26,571
In the second to fifth year inclusive	13,901	10,665
	<u>40,687</u>	<u>37,236</u>

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

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

44. COMMITMENTS

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

45. PLEDGE OF ASSETS

As at 31st March, 2004, certain of the Group's properties and investment securities with an aggregate value of approximately HK\$696,290,000 (2003: HK\$911,086,000) 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\$558,199,000 (2003: HK\$796,354,000) were utilised as at 31st March, 2004.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

46. 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	2004 HK\$'000	2003 HK\$'000
Associates of the Group	Sales of building materials (<i>note a</i>)	–	511
	Dividend income (including scrip dividend)	48,079	11,178
	Purchase of concrete products (<i>note a</i>)	104	–
	Rentals and related building management fee charged by the Group (<i>notes b and c</i>)	5,219	2,395
	Rentals and related building management fee charged to the Group (<i>notes b and c</i>)	–	500
	Service fees charged by the Group (<i>note c</i>)	406	–
	Service fees charged to the Group (<i>note c</i>)	308	–
	Construction works charged to the Group (<i>note d</i>)	182	–
	Subcontracting fees charged by the Group (<i>note d</i>)	5,437	393
	Sales of motor car registration marks to the Group (<i>note d</i>)	–	790
	Interest income received (<i>note e</i>)	23,219	10,471
	Balances due by the Group (<i>note 29</i>)	96,273	12,772
	Balances due to the Group (<i>notes 18 and 24</i>)	354,050	355,164
	Jointly controlled entities of the Group	Dividend income	–
Project management fees charged by the Group (<i>note c</i>)		–	3,000
Rentals charged by the Group (<i>note b</i>)		102	–
Construction works charged by the Group (<i>note d</i>)		268	–
Subcontracting fees charged to the Group (<i>note d</i>)		104,734	40,249
Service fees charged by the Group (<i>note c</i>)		144	60
Balances due by the Group (<i>note 29</i>)		55,584	69,343
Balances due to the Group (<i>notes 19 and 25</i>)		2,871	5,207
Directors or company controlled by director	Interest paid by the Group (<i>note f</i>)	2,700	900
	Interest payable on convertible notes issued by the Group (<i>note f</i>)	12,526	12,655
	Balance due by the Group (<i>notes f and g</i>)	–	66,500
	Convertible notes due by the Group (<i>note 30</i>)	250,000	250,000

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

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

Class of related party	Nature of transactions/balances	2004 HK\$'000	2003 HK\$'000
Related companies	Rental and related building management fee charged by the Group <i>(notes b and c)</i>	6,896	1,592
	Project management fees charged by the Group <i>(note c)</i>	-	549
	Purchase of medicine and health products by the Group <i>(note d)</i>	432	-
	Service fees charged to the Group <i>(note c)</i>	883	-
	Subcontracting fees charged by the Group <i>(note d)</i>	1,207	-
	Interest income received <i>(note e)</i>	12,027	6,044
	Balance due by the Group <i>(note 29)</i>	216	205
	Balances due to the Group <i>(note 26)</i>	90,224	299,848

During the year ended 31st March, 2003, the Company issued an aggregate principal amount of HK\$250,000,000 convertible notes to Dr. Chan Kwok Keung, Charles for redemption of the convertible notes issued by the Company in an aggregate principal amount of HK\$250,000,000 held by Galaxyway 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.

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 fees and project management fees were charged at the pre-agreed rates.
- (d) Construction works, subcontracting fees, sales of motor car registration marks and purchase of medicine and health products were charged at market price or, where no market price was available, at terms determined and agreed by both parties.
- (e) Interest was charged at commercial rates.
- (f) Interest was charged at the Best Lending Rate.
- (g) The amount was unsecured and fully repaid during the year.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

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

(a) Details of the Company's principal subsidiaries as at 31st March, 2004 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 attributable to the Group %	Principal activities
Burcon Group Limited	Canada	CAD1,000 class A common share	100	100	Investment and property holding
Calisan Developments Limited	British Virgin Islands	US\$1 ordinary share	100	55.06	Investment holding
Century Harbour Limited	British Virgin Islands	US\$1 ordinary share	100	55.06	Investment holding
Corless Limited	British Virgin Islands	US\$2 ordinary shares	100	55.06	Investment holding
Cycle Company Limited	Hong Kong	HK\$2 ordinary shares	100	55.06	Property investment and holding
		HK\$2 non-voting deferred shares (Note (i) below)	–	–	
DH Holdings Limited	British Virgin Islands	US\$1 ordinary share	100	55.06	Investment holding
Dreyer and Company Limited	Hong Kong	HK\$6,424,000 ordinary shares	99	99	Trading of building materials and machinery
Full Winners Limited	Hong Kong	HK\$2 ordinary shares	100	55.06	Property sale and holding
Great Intelligence Limited	British Virgin Islands	US\$1 ordinary share	100*	100	Investment holding
Gunnell Properties Limited	British Virgin Islands	US\$1 ordinary share	100	55.06	Property investment and holding
Hamker Concrete Products Limited ("Hamker")	Hong Kong	HK\$10,000,000 ordinary shares	85	46.8	Manufacturing and trading of concrete products
ITC Development Co. Limited	British Virgin Islands	US\$15,000 ordinary shares	100*	100	Investment holding
ITC Investment Group Limited	British Virgin Islands	US\$1 ordinary share	100*	100	Investment holding
ITC Management Group Limited	British Virgin Islands	US\$2 ordinary shares	100*	100	Investment holding
ITC Management Limited	Hong Kong	HK\$2 ordinary shares	100	100	Provision of management and administrative services

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

47. 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 held by the Company* / subsidiaries %	Percentage of issued share capital/ registered capital attributable to the Group %	Principal activities
Large Scale Investments Limited	British Virgin Islands	US\$1 ordinary share	100*	100	Investment holding
Nation Cheer Investment Limited	Hong Kong	HK\$1,200,000 ordinary shares	100	55.06	Securities investment and trading
Paul Y. - CREC Engineering Co., Limited	Hong Kong	HK\$10 ordinary shares	70	38.5	Civil engineering
Paul Y. - CREC Joint Venture	Hong Kong	– <i>(Note (ii) below)</i>	70	38.5	Civil engineering
Paul Y. - ITC (E & M) Contractors Limited	Hong Kong	HK\$20,000,000 ordinary shares	99.9998	55.06	Provision of electrical, mechanical and building services
Paul Y. - ITC Construction Group Limited	Hong Kong	HK\$2 ordinary shares	100	55.06	Investment holding
		HK\$1,000,000 non-voting deferred shares <i>(Note (iii) below)</i>	–	–	
Paul Y. - ITC	Bermuda	HK\$134,524,901.9 ordinary shares	55.06	55.06	Investment holding in companies engaged in construction, engineering and infrastructure management services, property development and investment
Paul Y. - ITC Construction Limited	Hong Kong	HK\$102,000,000 ordinary shares	100	55.06	Building construction
Paul Y. - ITC Construction & Engineering Co. Limited	Hong Kong	HK\$42,000,000 ordinary shares	100	55.06	Building construction and specialist works
Paul Y. - ITC General Contractors Limited	Hong Kong	HK\$36,000,000 ordinary shares	100	55.06	Civil engineering and building construction
Paul Y. - ITC Interior Contractors Limited	Hong Kong	HK\$2 ordinary shares	100	55.06	Interior decoration works
Paul Y. - ITC Investments Group Limited	British Virgin Islands	US\$1 ordinary share	100	55.06	Investment holding
Paul Y. - ITC Management Limited	Hong Kong	HK\$2 ordinary shares	100	55.06	Management services

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

47. 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 held by the Company* / subsidiaries %	attributable to the Group %	Principal activities
Paul Y. - ITC Plant Hire Limited	Hong Kong	HK\$2 ordinary shares	100	55.06	Hire of motor vehicles and plant and machinery
Paul Y. Building Management Limited	Hong Kong	HK\$2 ordinary shares	100	55.06	Property management services
Paul Y. Construction Company, Limited	Hong Kong	HK\$2 ordinary shares	100	55.06	Civil engineering, building construction and investment holding
		HK\$50,000,000 non-voting preferred shares <i>(Note (iv) below)</i>	–	–	
Paul Y. Foundation Holdings Limited	British Virgin Islands	US\$1 ordinary share	100	55.06	Investment holding
Paul Y. Foundation Limited	Hong Kong	HK\$10,000,000 ordinary shares	100	55.06	Civil engineering and foundation works
Paul Y. Properties Group Limited	British Virgin Islands	US\$1 ordinary share	100	55.06	Investment holding
Paul Y. Tunnel Engineering Co. Limited	Hong Kong	HK\$2 ordinary shares	100	55.06	Civil engineering
Tai Shan Paul Y. Construction Co., Ltd.	PRC	US\$5,005,340 registered capital <i>(Note (v) below)</i>	100	55.06	Civil engineering and building construction
Unicon Concrete Products (HK) Limited	Hong Kong	HK\$12,000,002 ordinary shares	100	55.06	Manufacturing and trading of concrete products
Unistress Concrete Products (H.K.) Limited	Hong Kong	HK\$200 ordinary shares	100	55.06	Manufacturing and trading of concrete products
		HK\$1,000,000 non-voting deferred shares <i>(Note (iii) below)</i>	100	55.06	
Unistress Group Limited	British Virgin Islands	US\$1 ordinary share	100	55.06	Investment holding
Winstate Limited	British Virgin Islands	US\$1 ordinary share	100	55.06	Vessel holding

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

47. 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 the PRC and Burcon Group Limited which operates in Canada.

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

(b) Particulars of the Group's principal associates as at 31st March, 2004 are as follows:

Name of associate	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Percentage of issued share capital/ registered capital attributable to the Group %	Principal activities
Burcon NutraScience Corporation ("Burcon")	Canada	CAD15,724,484 common shares	25.1	Investment holding in company engaged in the development of commercial canola protein
China Strategic	Hong Kong	HK\$88,159,508.70 ordinary shares	23.4	Investment holding
CSCEC - Paul Y. Construction Company Limited	PRC	US\$10,000,000 registered capital (Note below)	17.2	Civil engineering and building construction
Domain - Paul Y. Sdn. Bhd.	Malaysia	RM1,000,000 ordinary shares	27.0	Design and building construction
Downer	Australia	A\$563,057,694 ordinary shares	11.7	Investment holding

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

47. 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
Hanny	Bermuda	HK\$1,865,532.02 ordinary shares	24.55	Investment holding in companies engaged in the manufacturing, distribution and marketing of data storage media, the distribution of related products, securities investments and strategic investments in information technology related businesses and other businesses
Paul Y. - CREC Construction Co., Limited	Hong Kong	HK\$100 ordinary shares	27.53	Civil engineering
Zhujiang Kwan On Concrete Products Co., Ltd. ("Zhujiang Kwan On")	PRC	RMB6,320,000 registered capital <i>(Note below)</i>	27.53	Manufacturing and trading of concrete products

Note: The company is a sino-foreign equity joint venture company.

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

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

The above tables list the 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) Particulars of the Group's jointly controlled entities as at 31st March, 2004 are as follows:

Name of jointly controlled entity	Place of incorporation	Issued and fully paid share capital	Percentage of issued share capital attributable to the Group %	Principal activities
DL & PY JV Limited	Hong Kong	HK\$2 ordinary shares	27.53	Civil engineering
Paul Y. - Penta-Ocean Joint Venture	Hong Kong	– <i>(Note below)</i>	27.53	Civil engineering

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

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

Hanny

(a) *Result for the years ended 31st March, 2004 and 2003*

	2004 HK\$'000	2003 HK\$'000 (As restated)
Turnover	<u>5,009,930</u>	<u>4,162,804</u>
Profit (loss) before taxation	<u>121,639</u>	<u>(570,474)</u>
Profit (loss) for the year	<u>13,300</u>	<u>(648,620)</u>

(b) *Financial Position*

As at 31st March, 2004 and 2003

	2004 HK\$'000	2003 HK\$'000 (As restated)
Non-current assets	1,643,529	1,604,463
Current assets	2,299,707	1,663,268
Current liabilities	(1,653,951)	(1,185,858)
Minority interests	(405,157)	(174,598)
Non-current liabilities	<u>(10,947)</u>	<u>(177,708)</u>

Downer

(a) *Result for the year ended 31st December, 2003*

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

(b) *Financial position*

As at 31st December, 2003 and 2002

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31ST MARCH, 2004

48. EXTRACTS OF THE CONSOLIDATED RESULTS AND FINANCIAL POSITION OF ASSOCIATES*(continued)***China Strategic***(a) Result for the year ended 31st December, 2003*

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

*(b) Financial Position**As at 31st December, 2003*

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

Full details of the results and financial position of Hanny can be found in its annual reports dated 23rd July, 2004.

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

FINANCIAL SUMMARY

RESULTS

	Year ended 31st March,				2004 HK\$'000
	2000 HK\$'000 (As restated) (note)	2001 HK\$'000 (As restated) (note)	2002 HK\$'000 (As restated) (note)	2003 HK\$'000 (As restated) (note)	
Turnover	<u>122,887</u>	<u>63,144</u>	<u>40,147</u>	<u>768,697</u>	<u>3,434,666</u>
Profit (loss) before taxation	547,030	(586,543)	(273,450)	(332,729)	183,946
Taxation	<u>(43,898)</u>	<u>(21,800)</u>	<u>(27,186)</u>	<u>(28,019)</u>	<u>(53,719)</u>
Profit (loss) after taxation	503,132	(608,343)	(300,636)	(360,748)	130,227
Minority interests	<u>(2,437)</u>	<u>-</u>	<u>-</u>	<u>2,224</u>	<u>(101,295)</u>
Profit (loss) for the year	<u>500,695</u>	<u>(608,343)</u>	<u>(300,636)</u>	<u>(358,524)</u>	<u>28,932</u>

ASSETS AND LIABILITIES

	As at 31st March,				2004 HK\$'000
	2000 HK\$'000 (As restated) (note)	2001 HK\$'000 (As restated) (note)	2002 HK\$'000 (As restated) (note)	2003 HK\$'000 (As restated) (note)	
Total assets	2,504,207	2,406,969	2,097,437	4,851,204	4,982,513
Total liabilities	(805,695)	(802,902)	(626,194)	(2,782,569)	(2,433,966)
Minority interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>(863,395)</u>	<u>(1,195,365)</u>
Shareholders' funds	<u>1,698,512</u>	<u>1,604,067</u>	<u>1,471,243</u>	<u>1,205,240</u>	<u>1,353,182</u>

Note: Prior periods have been adjusted to reflect the changes in accounting policy for the adoption of SSAP 12 (Revised) "Income taxes" as described in note 2 to the financial statements.

SCHEDULE OF PROPERTY INTERESTS

AT 31ST MARCH, 2004

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	55.06
In-Zone Shopping Arcade 125 Wanchai Road Wanchai Hong Kong	Commercial	Long term	55.06



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