

EXCELLENCE

THROUGH VISION

ITC Corporation Limited
(Incorporated in Bermuda with limited liability)
INTERIM REPORT 2001/2002

ITC

HANNY

PAULY
ITC

stareast 東方魅力

Burc
A New World in Protein

Downer
EDI



stareastnet

The board of directors (the “Board”) of ITC Corporation Limited (the “Company”) presents the interim financial report and condensed financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2001.

INTERIM DIVIDEND

On the basis of the accounts, the Board has resolved not to pay interim dividend for the six months ended 30th September, 2001 (2000: NIL).

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 period under review.

BUSINESS REVIEW AND OUTLOOK

Results and financial highlights

The results of the Group during the six months ended 30th September, 2001 are summarised below:

- Consolidated turnover was HK\$23.5 million, a decrease of 24.8% as compared to the last corresponding period of HK\$31.3 million. The decrease in turnover was mainly due to the decrease in interest income resulting from the drop in interest rate.
- Profit from operations increased by 103.5% to HK\$10.6 million, as compared to the last corresponding period of HK\$5.2 million. The increase in profit from operations was mainly due to the unrealised gain on valuation of other investments and the reduction in staff costs.
- Consolidated loss attributable to shareholders reduced to HK\$7.0 million, as compared with the loss of HK\$88.7 million for the last corresponding period mainly due to improvement in the contribution from share of results of associates.
- Basic loss per ordinary share for the period was HK\$0.028 (2000: loss per share of HK\$0.186).
- Current ratio was 2.27, an increase of 11.8% as compared to 2.03 as at 31st March, 2001.
- Total assets of the Group increased by 1.4% to HK\$2,447.7 million and shareholders’ funds increased by 3.2% to HK\$1,663.2 million, as compared with the total assets and shareholders’ funds as at 31st March, 2001.

Review of operations

During the six months ended 30th September, 2001, the Group continued to hold significant interests, both directly or indirectly, in a number of companies listed in Hong Kong, Canada, Australia and the United States (the “US”) and unlisted investments with high potential pursuant to its long term strategy of exploring potential investments and to enhance the value of its strategic investments by active participation in or close liaisons with the management of the companies invested. As at 30th September, 2001, the Group had the following strategic investments:

BUSINESS REVIEW AND OUTLOOK *(continued)***Review of operations** *(continued)**Listed strategic investments directly held**Paul Y. - ITC Construction Holdings Limited ("Paul Y. - ITC")*

The Paul Y. - ITC group's principal businesses include, inter alia, building construction, civil engineering, specialist works, property development and investment, hotel management and operations, catering business, manufacture and trading of construction materials, investment in a major associate, Downer EDI Limited that engaged in engineering service business, as well as strategic investments in internet related services. It has operations in Hong Kong and the PRC. For the six months ended 30th September, 2001, Paul Y. - ITC reported a consolidated profit attributable to shareholders of HK\$55.3 million and its after tax contribution to the Group was a profit of HK\$26.1 million.

Hanny Holdings Limited ("Hanny")

The Hanny group's principal businesses include, inter alia, the manufacture, distribution and marketing of data storage media (primarily floppy disks, CD-R and CD-RW) and the distribution and marketing of computer accessories and storage media drives, scanners, audio and video cassettes, minidisks, household electronic products and telecommunication accessories through its core Memorex® and Dyan® businesses, and securities trading. Hanny also holds strategic investments in companies engaged in information technology, internet, internet related and investment businesses. For the six months ended 30th September, 2001, Hanny reported a consolidated profit attributable to shareholders of HK\$2.9 million and its after tax contribution to the Group was a profit of HK\$0.8 million.

Burcon NutraScience Corporation ("Burcon")

Burcon is developing a novel plant protein purification and extraction technology. The goal of Burcon's research is to develop its patented process to utilize inexpensive oilseed meals for the production of highly purified plant proteins that exhibit both valuable nutritional profiles and broad functionality. Burcon is currently focusing its efforts on developing the world's first commercial canola protein, Puratein™. Canola, recognized for its nutritional qualities, is Canada's largest oilseed crop and the second largest in the world after soybean. Burcon's goal is to develop Puratein™ 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. Given that Burcon was still in the stage of research and development of its business, its results and contribution to the Group for the six months ended 30th September, 2001 were not significant.

Star East Holdings Limited ("Star East")

Star East is principally engaged in entertainment-related business, including the franchising and operation of "Planet Hollywood" theme restaurants in Asia Pacific and "Star East" entertainment complexes worldwide, the trading of merchandise, strategic investments in STAREASTnet.com Corporation, production of movies, television drama series, documentary and infotainment programmes, public relations and event marketing and production, and property investment and development.

BUSINESS REVIEW AND OUTLOOK *(continued)***Review of operations** *(continued)***Listed strategic investments indirectly held***Downer EDI Limited (“Downer”)*

Downer is the second largest Australian listed engineering, infrastructure and resource services company. The Downer group provides comprehensive engineering and infrastructure management services to the public and private rail, road, power, telecommunications, mining and resource sectors in Australia, New Zealand, South East Asia, Hong Kong and the Pacific.

STAREASTnet.com Corporation (“STAREASTnet”)

STAREASTnet is a global Chinese internet content provider on multimedia entertainment and life-style information. STAREASTnet produces and distributes original interactive programmes through its network of vertically-integrated entertainment portals. In December 2001, STAREASTnet has acquired various media businesses including Sing Pao Daily News (a well known daily Chinese newspaper published in Hong Kong) and Wide Angle magazine (a current affairs magazine sold in Hong Kong and the PRC).

China Strategic Holdings Limited (“China Strategic”)

China Strategic is engaged in the holding of investments in a diversified range of businesses including manufacturing, property, toll road development and hotel operations, mainly through its subsidiaries, China Land Group Limited, China Enterprises Limited and Australia Net.Com Limited. China Strategic also has investments in the area of information technology and e-commerce related services through PacificNet.com, Inc.

China Land Group Limited (“China Land”)

China Land is principally engaged in property trading and development, hotel operations and toll road development in Hong Kong and the PRC.

China Enterprises Limited (“China Enterprises”)

China Enterprises is one of the largest tire manufacturers in the PRC. Through its sino-foreign joint ventures and other international joint ventures in the PRC, China Enterprises manufactures and sells tires and other rubber products in both the PRC and overseas.

Australia Net.Com Limited (“Australia Net”)

Australia Net is now in the course of assessing suitable investment projects to maximise return on its capital resources.

PacificNet.com, Inc. (“PacificNet”)

PacificNet is a leading Asian IT solutions provider that develops and implements full-service e-business solutions and technologies. PacificNet has formed alliance with technology and solutions partners including hardware vendors, e-commerce solutions providers, internet services providers and leading communications operators in the Greater China region as well as those in the US.

Other unlisted investment*Mobile Media Holdings Limited (“Mobile Media”)*

During the six months ended 30th September, 2001, the Group, together with Star East, is engaged in the innovative media solution under the name “Mobile Media” and “M Channel”. “Mobile Media” is an advertising media that offers multimedia-advertising programmes through its extensive media network to provide the world of advertisers with a cost-effective medium to target their audience. The network consists of multimedia displays installed at different locations such as public transits and stations, major shopping malls, department stores, retail chain stores and the exterior of various buildings facing high pedestrian traffic throughout the regions, including Hong Kong and the PRC. “Mobile Media”, through “M Channel” provides premium multimedia content including, but not limited to, video and audio “infotainment” and real time information and advertisements.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Review of operations *(continued)*

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

Listed strategic investments directly held

Name of investee company	Place of listing	Shareholding percentage	
		As at 30th September, 2001	As at the date of this report
Paul Y. - ITC	Hong Kong Stock Exchange	41.0%	42.2%
Hanny	Hong Kong Stock Exchange	27.7%	27.7%
Burcon	Canadian Venture Exchange	24.5%	24.5%
Star East	Hong Kong Stock Exchange	20.9%	20.9%

Listed strategic investments indirectly held

Name of investee company	Place of listing	Effective interest	
		As at 30th September, 2001	As at the date of this report
Downer	Australian Stock Exchange	18.3% <i>(Note a)</i>	16.1% <i>(Note a)</i>
STAREASTnet	The Growth Enterprise Market of Hong Kong Stock Exchange	10.2% <i>(Note b)</i>	12.5% <i>(Note b)</i>
China Strategic	Hong Kong Stock Exchange	12.0% <i>(Note c)</i>	12.2% <i>(Note c)</i>
China Land	Hong Kong Stock Exchange	7.8% <i>(Note d)</i>	8.0% <i>(Note d)</i>
China Enterprises	New York Stock Exchange	6.6% <i>(Note d)</i>	6.7% <i>(Note d)</i>
Australia Net	Australian Stock Exchange	6.9% <i>(Note d)</i>	7.0% <i>(Note d)</i>
PacificNet	NASDAQ	3.5% <i>(Note d)</i>	3.6% <i>(Note d)</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 Hanny and Star East and indirect interest in China Strategic.
- (c) The Group's interest is held through its direct interests in Paul Y. - ITC and Hanny.
- (d) The Group's interest is held through its indirect interest in China Strategic.

BUSINESS REVIEW AND OUTLOOK *(continued)***Liquidity and financial resources**

Cash, bank balances and deposits as at 30th September, 2001 amounted to approximately HK\$20.8 million of which only 1.6% were in other currencies. The convertible notes in issue at principal values of HK\$150 million, HK\$120 million and HK\$460 million will be redeemed on 14th February, 2002, 5th October, 2002 and 1st March, 2003 (or the next following business day if it is not a business day), respectively. As at 30th September, 2001, the Group's bank overdrafts and other loan repayable within one year or on demand amounted to approximately HK\$34.2 million. Approximately 1.2% of the Group's total borrowings, including the convertible notes in issue, were denominated in Canadian dollars. The Canadian dollars denominated borrowings are directly tied in with the Group's businesses in Canada. Amongst the Group's borrowings, only the convertible notes of HK\$150 million are at fixed interest rates. The Group's current ratio was 2.27 and the gearing ratio, which was calculated using the Group's net borrowings of HK\$739.5 million and the shareholders' funds of HK\$1,663.2 million, was 44.5% as at 30th September, 2001.

As at 30th September, 2001, certain land and buildings of the Group with an aggregate carrying value of approximately HK\$17.7 million were pledged to banks and other financial institutions to secure general facilities granted to the Group. The Group did not have any significant contingent liabilities as at 30th September, 2001.

Employee and remuneration policy

As at 30th September, 2001, the Group employed a total of approximately 47 employees. The Group recruits and promotes individuals based on merit and their development potentials for the positions offered. Remuneration package is determined with reference to their performance and the prevailing salary levels in the market. The Group also offers other benefits to employees including training, provident funds and medical coverage. Through the share option scheme established for the eligible employees, it is intended to integrate their responsibilities, authority and benefits.

Major events***Fund raising***

In June 2001, Galaxyway Investments Limited ("Galaxyway"), a substantial shareholder of the Company, placed 68,500,000 ordinary shares in the Company to independent professional investors at a price of HK\$0.60 per share and simultaneously subscribed for 105,000,000 new ordinary shares at the same price per share. The net proceeds received by the Company under the subscription, which was completed on the same date, were approximately HK\$61.5 million and were used as to about HK\$12.4 million to subscribe for the shares in Star East pursuant to a conditional agreement as announced by Star East on 12th June, 2001, and as additional working capital of the Company.

Securities in issue

As a result of the new issue of shares under the placing and subscription as referred to above, the total number of issued ordinary shares of the Company as at the date of this report is 630,960,774.

Outlook

The US economy is currently experiencing a slowdown and Hong Kong is not impervious to the effects. However, China's accession to the World Trade Organisation and Beijing's successful bid to host the 2008 Olympic Games will make the China market the center stage for global investors and will provide Hong Kong with significant business opportunities. Cooperation between the Group and its strategic investments or between its strategic investments will surely bring in synergy. The Group will build on its existing platform with stringent cost control measures to maintain a sound financial management and, under a prudent investment and development policy, pursue its long term strategy of exploring high potential investments and attractive business opportunities. With a strong financial foundation and diversified investment portfolio, the Group is well positioned to meet future challenges and take advantage of the new opportunities lying ahead with great confidence.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th September, 2001, the interests of the directors of the Company in the securities of the Company or any of its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register kept by the Company under Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(a) Interest in the Company

Name of director	Nature of interest	Number of ordinary shares of the Company held	Amount of 1999 convertible notes of the Company held	Amount of 2000 convertible notes of the Company held	Number of share options of the Company held
Chan Kwok Keung, Charles	Corporate interest	219,681,911 (note)	HK\$50,000,000 (note)	HK\$200,000,000 (note)	–
	Personal interest	–	–	–	10,300,000
Lau Ko Yuen, Tom	Personal interest	–	–	–	6,200,000
Chau Mei Wah, Rosanna	Personal interest	–	–	–	6,200,000
Chan Fut Yan	Personal interest	–	–	–	4,200,000
Chan Kwok Hung	Personal interest	–	–	–	4,200,000

Note: Dr. Chan Kwok Keung, Charles was deemed to have a corporate interest in 219,681,911 ordinary shares of the Company, the 1999 convertible notes with a principal amount of HK\$50,000,000 and the 2000 convertible notes with a principal amount of HK\$200,000,000 by virtue of his indirect shareholding in Galaxyway which owned these securities.

(b) Interest in Paul Y. – ITC

Name of director	Nature of interest	Number of shares of Paul Y. – ITC held	Number of share options of Paul Y. – ITC held
Chan Kwok Keung, Charles	Corporate interest	406,450,015 (note)	–
	Personal interest	–	9,587,301
Lau Ko Yuen, Tom	Personal interest	–	14,587,301
Chau Mei Wah, Rosanna	Personal interest	–	15,687,301
Chan Fut Yan	Personal interest	–	14,587,301
Cheung Hon Kit	Personal interest	400	–

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

DIRECTORS' INTERESTS IN SECURITIES *(continued)*

(c) Interest in Hanny

Name of director	Nature of interest	Number of shares of Hanny held	Amount of warrants of Hanny held	Amount of convertible note of Hanny held	Number of share options of Hanny held
Chan Kwok Keung, Charles	Corporate interest	1,778,028,504 <i>(note)</i>	HK\$70,226,716.14 <i>(note)</i>	HK\$385,900,000 <i>(note)</i>	–
	Personal interest	–	–	–	248,500,000
Chan Kwok Hung	Personal interest	–	–	–	100,000,000
Allan Yap	Personal interest	–	–	–	218,500,000
Cheung Kwok Wah	Personal interest	–	–	–	30,000,000

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

(d) Interest in Burcon

Name of director	Nature of interest	Number of common shares of Burcon held	Number of share options of Burcon held
Chan Kwok Keung, Charles	Corporate interest	3,400,000 <i>(note)</i>	–
Chau Mei Wah, Rosanna	Personal interest	280,000	40,000
Allan Yap	Personal interest	860,000	320,000

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

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

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

Save as disclosed above, as at 30th September, 2001, none of the directors of the Company had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations, within the meaning of the SDI Ordinance, as recorded in the register kept by the Company under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 30th September, 2001, the following directors of the Company had share options granted by the Company to subscribe for its ordinary shares:

Name of director	Date of grant	Exercise price per share HK\$	Number of ordinary shares to be issued upon exercise of the share options
Chan Kwok Keung, Charles	18.12.1998	0.3792	2,600,000
	17.12.1999	1.0816	7,700,000
Lau Ko Yuen, Tom	18.12.1998	0.3792	2,000,000
	17.12.1999	1.0816	4,200,000
Chau Mei Wah, Rosanna	18.12.1998	0.3792	2,000,000
	17.12.1999	1.0816	4,200,000
Chan Fut Yan	17.12.1999	1.0816	4,200,000
Chan Kwok Hung	17.12.1999	1.0816	4,200,000

The options granted on 18th December, 1998 can be exercised at any time during the three year period commencing on a day after the date of offer, subject to certain restrictions contained in the offer letters.

The options granted on 17th December, 1999 can be exercised at any time during the period commencing on a day after the date of offer until 23rd January, 2002 (the expiry date of the share option scheme of the Company).

No share options were granted, exercised or lapsed during the period.

The consideration for the grant of share options in respective period held by the directors of the Company is at HK\$1.00.

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

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2001, the following parties were interested in 10% or more of the issued ordinary share capital of the Company as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

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

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

Save as disclosed above, no other parties were recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance as having an interest of 10% or more of the issued ordinary share capital of the Company as at 30th September, 2001.

DISCLOSURE UNDER PRACTICE NOTE 19 TO THE LISTING RULES (“PN19”)

As at 30th September, 2001, the aggregate value of financial assistance given to the Company’s affiliated companies by the Group amounted to approximately HK\$422.7 million which represented approximately 25.4% of the Group’s net asset value of approximately HK\$1,663.2 million as at 30th September, 2001.

The proforma combined balance sheet of the affiliated companies and the Group’s attributable interest in these affiliated companies as at 30th September, 2001 are presented below pursuant to paragraph 3.10 of PN19:

	Proforma combined balance sheet <i>HK\$’000</i>	Group’s attributable interest <i>HK\$’000</i>
Non-current assets	5,257,733	1,819,314
Current assets	5,828,410	1,958,579
Current liabilities	(4,685,931)	(1,589,723)
Non-current liabilities	(1,167,771)	(424,130)
	<u>5,232,441</u>	<u>1,764,040</u>

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

During the six months ended 30th September, 2001, there were no purchases, sales or redemptions by the Company, or any of its subsidiaries, of the Company’s listed securities.

CODE OF BEST PRACTICE

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th September, 2001, in compliance with the Code of Best Practice as set out in Appendix 14 to 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.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, financial reporting process and internal control matters including a review of the unaudited interim financial report for the six months ended 30th September, 2001.

The interim financial report of the Company for the six months ended 30th September, 2001 has been reviewed by the auditors, Deloitte Touche Tohmatsu in accordance with the Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports” issued by the Hong Kong Society of Accountants and an unqualified review report is issued.

By Order of the Board
Chan Kwok Keung, Charles
Chairman

Hong Kong, 17th December, 2001

INDEPENDENT REVIEW REPORT

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**Deloitte
Touche
Tohmatsu**

TO THE BOARD OF DIRECTORS OF ITC CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 11 to 20.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards SAS 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th September, 2001.

Without modifying our review conclusion, we draw to your attention that the comparative condensed income statement, cash flow statement and statement of recognised gains and losses for the six months ended 30th September, 2000 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 17th December, 2001

Condensed Consolidated Income Statement

For the six months ended 30th September, 2001

	Notes	Six months ended 30th September,	
		2001 HK\$'000 (unaudited)	2000 HK\$'000 (unaudited)
Turnover	3	23,535	31,299
Other revenue		1,756	–
Changes in inventories of finished goods		123	71
Raw materials and consumables used		(1,850)	(1,537)
Staff costs		(7,322)	(11,696)
Depreciation and amortisation		(872)	(809)
Other operating expenses		(6,437)	(6,723)
Loss on disposal of investments in securities		–	(5,409)
Unrealised gain (loss) on valuation of other investments		1,621	(9)
Profit from operations		10,554	5,187
Finance costs		(28,207)	(36,978)
Gain on disposal of subsidiaries		–	12
Gain (loss) arising from dilution of interest in associates		2,122	(12,415)
Goodwill eliminated on cessation of business of an associate		–	(14,641)
Share of results of associates		16,635	(24,488)
Profit (loss) before taxation		1,104	(83,323)
Taxation	4	(8,061)	(5,358)
Loss attributable to shareholders		(6,957)	(88,681)
Loss per share	5		
Basic (cents)		(2.8)	(18.6)
Diluted (cents)		(2.9)	(19.2)

Condensed Consolidated Balance Sheet

At 30th September, 2001

	<i>Notes</i>	30th September, 2001 <i>HK\$'000</i> (unaudited)	31st March, 2001 <i>HK\$'000</i> (audited)
Non-current assets			
Property, plant and equipment		25,826	26,712
Investment properties	6	1,000	23,800
Interests in associates	7	1,942,565	1,654,448
Investments in securities	7	5,426	246,258
		<u>1,974,817</u>	<u>1,951,218</u>
Current assets			
Inventory		299	176
Trade and other receivables	8	5,823	2,444
Amounts due from associates	13	26,650	42,391
Loan receivables		33,421	14,000
Convertible note receivable from an associate	13	385,900	385,900
Bank balances and cash		20,765	18,690
		<u>472,858</u>	<u>463,601</u>
Current liabilities			
Trade and other payables	9	24,139	36,933
Amounts due to associates	13	29	6,798
Convertible notes		150,000	150,000
Bank overdrafts		16,911	17,333
Other loans		17,317	17,317
		<u>208,396</u>	<u>228,381</u>
Net current assets		<u>264,462</u>	<u>235,220</u>
		<u>2,239,279</u>	<u>2,186,438</u>
Capital and reserves			
Share capital	10	89,894	79,394
Reserves	11	1,573,307	1,532,523
		1,663,201	1,611,917
Non-current liabilities			
Convertible notes		576,078	574,521
		<u>2,239,279</u>	<u>2,186,438</u>

Condensed Consolidated Statement of Recognised Gains and Losses

For the six months ended 30th September, 2001

	Six months ended 30th September,	
	2001 HK\$'000 (unaudited)	2000 HK\$'000 (unaudited)
Exchange differences arising from translation of overseas operations	30	365
Share of reserves of associates		
Translation reserve	(4,121)	(35,097)
Warrant reserve	–	14
	<u> </u>	<u> </u>
Net losses not recognised in the income statement	(4,091)	(34,718)
Loss attributable to shareholders	<u>(6,957)</u>	<u>(88,681)</u>
Total recognised losses	(11,048)	(123,399)
Negative goodwill arising on acquisition of interests in associates	–	82,846
Share of goodwill reserve of associates	–	(5,850)
	<u> </u>	<u> </u>
	<u>(11,048)</u>	<u>(46,403)</u>
Prior period adjustments arising from the effects of changes in accounting policies (<i>note 2</i>)		
– Increase in accumulated losses at 1st April, 2000		249,768
– Increase in goodwill reserve at 1st April, 2000		<u>(249,768)</u>
		<u> </u>
		<u> </u>
		–
		<u> </u>

Condensed Consolidated Cash Flow Statement

For the six months ended 30th September, 2001

	Six months ended 30th September,	
	2001 HK\$'000 (unaudited)	2000 HK\$'000 (unaudited)
Net cash (outflow) inflow from operating activities	(28,943)	10,503
Net cash outflow from returns on investments and servicing of finance	(25,146)	(33,358)
Net cash inflow (outflow) from investing activities	<u>4,211</u>	<u>(26,583)</u>
Net cash outflow before financing	(49,878)	(49,438)
Net cash inflow from financing	<u>52,354</u>	<u>–</u>
Increase (decrease) in cash and cash equivalents	2,476	(49,438)
Cash and cash equivalents at beginning of the period	1,357	40,177
Effect of foreign exchange rate changes	<u>21</u>	<u>407</u>
Cash and cash equivalents at end of the period	<u><u>3,854</u></u>	<u><u>(8,854)</u></u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	20,765	10,286
Bank overdrafts	<u>(16,911)</u>	<u>(19,140)</u>
	<u><u>3,854</u></u>	<u><u>(8,854)</u></u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th September, 2001

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2001, except the adoption of, for the first time, a number of new and revised SSAPs as described below:

Goodwill

In the current period, the Group has adopted SSAP 30 “Business Combinations” and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. However, impairment losses in respect of goodwill that arose between the date of acquisition of the relevant subsidiary or associate and the date of adoption of SSAP 30 have been recognised retrospectively. The effect of this prior period adjustment is to increase the accumulated losses as at 1st April, 2000 by HK\$249,768,000 and to increase the loss for the year ended 31st March, 2001 by HK\$60,478,000 (note 11). 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 or associate, or at such time as further impairment losses are identified. Negative goodwill arising on acquisitions prior to 1st April, 2001 will be credited to income at the time of disposal of the relevant subsidiary or associate.

Goodwill arising on acquisitions after 1st April, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1st April, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

Paul Y. - ITC, one of the associates, has elected to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves, which differs from the transitional treatment applied by the Group. Accordingly, the financial statements of Paul Y. - ITC have been restated for consolidation under the Group’s accounting policy.

Segment reporting

In the current period, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 “Segment Reporting”. Segment disclosures for the six months ended 30th September, 2000 have been amended so that they are presented on a consistent basis.

3. TURNOVER AND SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to operating results is as follows:

Business segments:

	Six months ended 30th September, 2001			
	Investment and finance <i>HK\$'000</i>	Sale of building materials and machinery <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover				
External	20,423	3,112	–	23,535
Inter-segment	<u>699</u>	<u>–</u>	<u>(699)</u>	<u>–</u>
	<u>21,122</u>	<u>3,112</u>	<u>(699)</u>	<u>23,535</u>
Contribution to profit from operations	<u>16,398</u>	<u>148</u>	<u>–</u>	16,546
Unallocated corporate expenses				<u>(5,992)</u>
Profit from operations				<u>10,554</u>
	Six months ended 30th September, 2000			
	Investment and finance <i>HK\$'000</i>	Sale of building materials and machinery <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover				
External	28,658	2,641	–	31,299
Inter-segment	<u>557</u>	<u>–</u>	<u>(557)</u>	<u>–</u>
	<u>29,215</u>	<u>2,641</u>	<u>(557)</u>	<u>31,299</u>
Contribution to profit from operations	<u>6,723</u>	<u>119</u>	<u>–</u>	6,842
Unallocated corporate expenses				<u>(1,655)</u>
Profit from operations				<u>5,187</u>

No geographical analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated profit from operations of the Group are attributable to markets outside Hong Kong.

4. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for the period. The charge for each of the six months ended 30th September, 2001 and 30th September, 2000 represents the Group's share of tax on the results of associates.

5. LOSS PER SHARE

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

	Six months ended 30th September,	
	2001 HK\$'000 (unaudited)	2000 HK\$'000 (unaudited)
Loss for the period	(6,957)	(88,681)
Dividend for preference shares	(9,245)	(9,245)
Loss for the purposes of basic loss per share	(16,202)	(97,926)
Effect of dilutive potential ordinary shares:		
Adjustment to the share of results of associates based on dilution of their earnings per share	(967)	(2,883)
Loss for the purposes of diluted loss per share	(17,169)	(100,809)
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic loss per share and diluted loss per share	584,485,364	525,960,774

6. MOVEMENTS IN INVESTMENT PROPERTIES

During the period, the Group disposed of an investment property at its carrying amount of approximately HK\$23 million to an independent third party.

7. INTERESTS IN ASSOCIATES/INVESTMENTS IN SECURITIES

During the period, there was a transfer from investments in securities to interests in associates after the Group increased its interest in Star East to approximately 21%.

8. TRADE AND OTHER RECEIVABLES

The following is an aged analysis of trade receivables:

	30th September, 2001 HK\$'000 (unaudited)	31st March, 2001 HK\$'000 (audited)
Trade receivables		
0-30 days	1,500	943
31-60 days	587	199
61-90 days	51	151
Over 90 days	344	131
	2,482	1,424
Other receivables, prepayments and deposits	3,341	1,020
	5,823	2,444

The general credit term is 30 to 60 days.

9. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables:

	30th September, 2001 <i>HK\$'000</i> (unaudited)	31st March, 2001 <i>HK\$'000</i> (audited)
Trade payables		
0-30 days	12,310	13,450
31-60 days	76	21
61-90 days	191	–
Over 90 days	–	15
	<u>12,577</u>	<u>13,486</u>
Other payables and accrued charges	<u>11,562</u>	<u>23,447</u>
	<u>24,139</u>	<u>36,933</u>

10. SHARE CAPITAL

	Number of shares	Value <i>HK\$'000</i>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1st April, 2001	525,960,774	52,596
Issued during the period	<u>105,000,000</u>	<u>10,500</u>
At 30th September, 2001	<u>630,960,774</u>	<u>63,096</u>
Compulsorily convertible cumulative preference shares of HK\$0.10 each		
At 1st April, 2001 and 30th September, 2001	<u>267,980,000</u>	<u>26,798</u>

In June 2001, the Company issued 105,000,000 new ordinary shares of HK\$0.10 each at an issue price of HK\$0.60 per share to Galaxyway, a company in which Dr. Chan Kwok Keung, Charles, a director and a substantial shareholder of the Company has a beneficial interest.

11. RESERVES

	Share premium HK\$'000	Warrant reserve HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Translation reserve HK\$'000	Goodwill reserve HK\$'000	Accumulated (losses) profits HK\$'000	Total HK\$'000
THE GROUP									
At 1st April, 2000									
– as originally stated	153,843	5,432	2,092,234	908	–	(51,322)	(783,522)	212,480	1,630,053
– prior period adjustment (note 2)	–	–	–	–	–	–	249,768	(249,768)	–
At 1st April, 2000 (as stated)	153,843	5,432	2,092,234	908	–	(51,322)	(533,754)	(37,288)	1,630,053
Exchange differences arising from translation of overseas operations	–	–	–	–	–	775	–	–	775
Reserve movements arising on acquisition of subsidiaries	–	–	–	–	–	–	698	–	698
Reserve movements arising on acquisition of associates	–	–	–	–	–	–	188,524	–	188,524
Released on disposal of subsidiaries	–	–	–	–	–	–	10	–	10
Released on disposal of associates	–	(5,367)	–	–	–	(129)	259,978	–	254,482
Reserve movements arising on reduction of interests in associates	–	(65)	–	–	–	467	14,010	–	14,412
Share of post-acquisition reserve movements of associates	–	–	–	–	–	(13,734)	(15,373)	–	(29,107)
Goodwill eliminated on cessation of business of an associate	–	–	–	–	–	–	14,596	–	14,596
Surplus on revaluation	–	–	–	–	450	–	–	–	450
Loss for the year – as originally stated	–	–	–	–	–	–	–	(542,370)	(542,370)
Prior period adjustment for impairment of goodwill (note 2)	–	–	–	–	–	–	60,478	(60,478)	–
At 31st March, 2001 (as stated)	153,843	–	2,092,234	908	450	(63,943)	(10,833)	(640,136)	1,532,523
Exchange differences arising from translation of overseas operations	–	–	–	–	–	30	–	–	30
Issue of ordinary shares	52,500	–	–	–	–	–	–	–	52,500
Shares issue expenses	(1,115)	–	–	–	–	–	–	–	(1,115)
Reserve movements arising on reduction of interests in associates	–	–	–	–	–	17	880	–	897
Released on disposal of an investment property	–	–	–	–	(450)	–	–	–	(450)
Share of post-acquisition reserve movements of associates	–	–	–	–	–	(4,121)	–	–	(4,121)
Loss for the period	–	–	–	–	–	–	–	(6,957)	(6,957)
At 30th September, 2001	205,228	–	2,092,234	908	–	(68,017)	(9,953)	(647,093)	1,573,307

12. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's land and buildings with an aggregate carrying value of approximately HK\$17,736,000 (31st March, 2001: HK\$244,447,000) were pledged to banks and other financial institutions to secure general credit facilities granted to the Group.

13. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

	Six months ended	
	30th September,	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Transactions		
Associates:		
Sales (<i>note a</i>)	463	210
Dividend income	2,629	6,088
Rental income received (<i>note b</i>)	–	2,328
Interest income received (<i>note c</i>)	<u>14,395</u>	<u>19,853</u>
Directors or companies controlled by directors:		
Interest paid (<i>note d</i>)	173	–
Interest payable on convertible notes issued by the Group (<i>note e</i>)	<u>8,760</u>	<u>11,701</u>
	30th September,	31st March,
	2001	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Balances		
Balances due to associates (<i>note f</i>)	29	6,798
Balances due from associates (<i>note g</i>)	26,650	42,391
Convertible note receivable from an associate (<i>note h</i>)	<u>385,900</u>	<u>385,900</u>

In addition to the above, as at 31st March, 2001 and 30th September, 2001, convertible notes totalling HK\$250,000,000 were payable to Galaxyway.

Notes:

- (a) Sales were carried out by reference to the prevailing market price for comparable transactions.
- (b) Rentals were charged with reference to the market price.
- (c) Interest was charged at a range from prime rate as quoted by The Hongkong and Shanghai Banking Corporation Limited (“Prime rate”) less 2.75% to 2% over Prime rate.
- (d) Interest was payable based on 1% over Prime rate.
- (e) Interest was payable based on Prime rate.
- (f) The amounts stated as at 30th September, 2001 were interest-free, unsecured and repayable on demand. The amounts stated as at 31st March, 2001 were repayable on demand and approximately HK\$6,780,000 out of the balance bore interest at 3% over Prime rate and was secured by certain listed investments of the Group.
- (g) The amounts were unsecured and repayable on demand. Approximately HK\$9,600,000 (31st March, 2001: HK\$31,223,000) out of the balance bore interest at 2% over Prime rate (31st March, 2001: at a range from Prime rate less 2.75% to 2% over Prime rate). The remaining balance was interest-free.
- (h) The convertible note was unsecured and bore interest at Prime rate.