

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
	<u>11,211</u>	<u>4,928</u>

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