

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.