

## CHAIRMAN'S STATEMENT

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

### BUSINESS REVIEW

#### Results and financial highlights

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

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

Notes:

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

#### Review of operations

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

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

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

The gross value of construction work in Hong Kong continue to shrink as the Government has been revising its housing policy, in particular the cutback in flat production under the Home Ownership Scheme. With its well established credibility, experience and technical capabilities, the Paul Y. - ITC group has managed to secure additional new building construction contracts from private sector to compensate for the loss in revenue from public sector. Nevertheless, the severe competition in the market due to the drastic decrease in available works had inevitably lowered its average margin from the contracting business. As a result, the contracting business reported a loss that was mainly due to the loss incurred in civil engineering and construction materials activities.

## CHAIRMAN'S STATEMENT *(continued)*

As at 31st March, 2003, contracts on hand and the value of work remaining of the Paul Y. - ITC group were HK\$10,358 million and HK\$4,935 million, respectively. The profile of contracts on hand as at 31st March, 2003 is as follows:

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

Some of the major contracts are as follows:

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

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

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

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

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

## CHAIRMAN'S STATEMENT *(continued)*

### Strategic investments

During the year ended 31st March, 2003, the Group continued to hold significant interests, both directly or indirectly, in a number of companies listed in Hong Kong, Canada, Australia, New Zealand, Singapore and the United States ("U.S.A.") and also high potential unlisted investments pursuant to its long term strategy of exploring potential investments and enhancing the value of its strategic investments by active participation in or close liaison with the management of the companies invested by the Group. As at 31st March, 2003, the Group had the following strategic investments:

#### **Listed strategic investments directly held**

##### *Hanny Holdings Limited ("Hanny")*

The Hanny group's principal business includes, inter alia, the manufacturing, distribution and marketing of data storage media (primarily floppy disks, CD-R and CD-RW) and the distribution and marketing of computer accessories, storage media drives, scanners, audio and video cassettes, minidisks, household electronic products and telecommunication accessories, through its core Memorex® business, and securities trading. Hanny also holds strategic investment in Provisions Suppliers Corporation Limited. For the year ended 31st March, 2003, Hanny reported a consolidated loss for the year of HK\$648.5 million and its after tax contribution to the Group was a loss of HK\$182.9 million.

##### *Burcon NutraScience Corporation ("Burcon")*

Burcon is a research and development company developing a portfolio of composition, application and process patents around its plant protein extraction and purification technology. The goal of Burcon's research is to develop its patented process to utilize inexpensive oilseed meals for the production of purified plant proteins that exhibit valuable nutritional, functional or nutraceutical profiles. Burcon is currently focusing its efforts on developing the world's first commercial canola proteins, namely Puratein® and Supertein™, with unique functional and nutritional profiles, to participate with soy, dairy and egg proteins in the expanding multi-billion-dollar protein ingredient market, with potential uses in prepared foods, nutritional supplements and personal care products. Recently, Burcon has signed a letter of intent with a leading agricultural company which contemplates the parties entering into a licence agreement for the licencing and commercialisation of Burcon's technology. For the year ended 31st March, 2003, Burcon's after tax contribution to the Group was a loss of HK\$4.5 million.

##### *Star East Holdings Limited ("Star East")*

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

##### *M Channel Corporation Limited ("M Channel")*

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

## CHAIRMAN'S STATEMENT *(continued)*

### *Downer EDI Limited ("Downer")*

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

### *China Strategic Holdings Limited ("China Strategic")*

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

### **Listed strategic investments indirectly held**

#### *Provisions Suppliers Corporation Limited ("PSC")*

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

#### *Rosedale Hotel Group Limited ("Rosedale Hotel")*

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

#### *China Enterprises Limited ("China Enterprises")*

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

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

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

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

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

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

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

## CHAIRMAN'S STATEMENT *(continued)*

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

### **Listed subsidiary and strategic investments directly held**

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

### **Listed strategic investments indirectly held**

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

#### Notes:

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

## CHAIRMAN'S STATEMENT *(continued)*

### LIQUIDITY AND FINANCIAL RESOURCES

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

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

### EXCHANGE RATE EXPOSURE

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

### GEARING RATIO

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

### PLEDGE OF ASSETS

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

### CONTINGENT LIABILITIES

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

### EMPLOYEE AND REMUNERATION POLICY

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

## CHAIRMAN'S STATEMENT *(continued)*

### MAJOR EVENTS

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

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

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

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

On 25th October, 2002, the Company announced that its indirect wholly-owned subsidiary, Hollyfield Group Limited ("Hollyfield"), through Anglo Chinese Corporate Finance, Limited will make voluntary conditional cash offers at the price of HK\$0.30 for each share and HK\$0.01 for each warrant in Paul Y. - ITC, other than those shares and warrants owned by the Company or its wholly-owned subsidiaries. The offers subsequently became unconditional and finally closed in December 2002.

Dr. Chan Kwok Keung, Charles has agreed to finance the offers in full by granting to the Company on 28th October, 2002, a term loan facility of up to HK\$180 million on an unsecured basis and on normal commercial terms of which HK\$66.5 million was utilised.

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

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

### SECURITIES IN ISSUE

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

## CHAIRMAN'S STATEMENT *(continued)*

### FINAL DIVIDEND

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

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

### OUTLOOK

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

### APPRECIATION

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

**Dr. Chan Kwok Keung, Charles**  
*Chairman*

Hong Kong, 21st July, 2003