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ITC CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

Announcement

Proposed Redemption and Subscription of Convertible Notes (Connected transaction)

On 16th September, 2002, the Company entered into an agreement with Galaxyway, a controlling shareholder of the Company and therefore a connected person, in relation to, among other things, the redemption of the Existing Convertible Notes in an aggregate principal amount of HK\$250,000,000, held by Galaxyway and, in consideration, subscription of the New Convertible Notes in the principal amount of HK\$250,000,000 at its face value. The Existing Convertible Notes do not provide for any early redemption thereof. The Redemption and Subscription Agreement provides that if Completion takes place prior to the respective maturity dates of the Existing Convertible Notes, the Existing Convertible Notes held by Galaxyway shall be redeemed on the date of Completion and the redeemed principal amount shall be applied for the subscription of the New Convertible Notes by Galaxyway.

The Company would also offer to the Other Existing Noteholders to redeem the balance of the Existing Convertible Notes and, in consideration, issue New Convertible Notes at their respective face values to them under substantially similar terms and conditions as those contained in the Redemption and Subscription Agreement. In the event that all of the Other Existing Noteholders accepted such offer, New Convertible Notes in an aggregate principal amount of HK\$330,000,000 would be issued to the Other Existing Noteholders and, as such, New Convertible Notes in an aggregate principal amount of HK\$580,000,000 would be issued. In the event that not all the Other Existing Noteholders accepted such offer, the Company intends to offer the balance of the New Convertible Notes to other independent investors. No concrete plan has been formulated by the Company at the present moment. Further announcement will be made when the Company

entered into separate redemption and subscription agreements with the Other Existing Noteholders and/or other independent investors and the approval by Shareholders will be sought.

The new Shares to be issued upon exercise of the conversion rights attaching to the New Convertible Notes will be free from all liens, charges and encumbrances and will rank pari passu in all respects among themselves and with the Shares in issue on the relevant date of exercise of conversion rights.

Upon full exercise of the conversion rights attaching to the New Convertible Notes held by Galaxyway, a total of 833,333,333 new Shares will be issued, which represent approximately 132.1 per cent. of the existing issued ordinary share capital of the Company, and approximately 56.9 per cent. of the issued ordinary share capital of the Company as enlarged by the new Shares to be issued upon full exercise of such conversion rights, assuming no other issue or repurchase of Shares is made before such conversion.

Upon full exercise of the conversion rights attaching to the New Convertible Notes, a total of 1,933,333,333 new Shares will be issued, which represent approximately 306.4 per cent. of the existing issued ordinary share capital of the Company, and approximately 75.4 per cent. of the issued ordinary share capital of the Company as enlarged by the new Shares to be issued upon full exercise of such conversion rights, assuming no other issue or repurchase of Shares is made before such conversion.

Completion of the redemption of the Existing Convertible Notes and the subscription of the New Convertible Notes by both Galaxyway and the Other Existing Noteholders are subject to the fulfillment of certain conditions which include, amongst others, the approval of the issue of the New Convertible Notes to Galaxyway under the Redemption and Subscription Agreement by the Independent Shareholders at a special general meeting of the Company, and the approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the new Shares falling to be issued upon the exercise of the conversion rights attaching to the New Convertible Notes.

A circular containing, among other things, details of the redemption of the Existing Convertible Notes and the subscription of the New Convertible Notes by both Galaxyway and the Other Existing Noteholders, the recommendation from the independent committee of the Board, a letter of advice from the independent financial adviser and a notice to convene a special general meeting to approve, among other things, the redemption of the Existing Convertible Notes and the subscription of the New Convertible Notes by both Galaxyway and the Other Existing Noteholders, will be sent to shareholders of the Company as soon as practicable.

REDEMPTION AND SUBSCRIPTION AGREEMENT

Date

16th September, 2002

Parties

- (1) The Company
- (2) Galaxyway, a controlling shareholder of the Company, which is indirectly wholly-owned by Dr. Chan Kwok Keung, Charles, the chairman and a director of the Company

Subject matter

Under the Redemption and Subscription Agreement, the Company would redeem the Existing Convertible Notes in an aggregate principal amount of HK\$250,000,000 held by Galaxyway and, in consideration of the above, New Convertible Notes in the principal amount of HK\$250,000,000 will be issued to Galaxyway at its face value.

Pursuant to the Redemption and Subscription Agreement, Galaxyway agreed to change the repayment date of the 2002 Convertible Notes held by it from 5th October, 2002 to the date of Completion, or the date of termination or rescission of the Redemption and Subscription Agreement, or 3rd March, 2003 (being the long stop date for the Redemption and Subscription Agreement) whichever is earlier. Interest will be accrued to Galaxyway at Prime Rate during the period from 5th October, 2002 to the date of actual repayment. The execution of the Redemption and Subscription Agreement will not affect the conversion rights attaching to the Existing Convertible Notes, which will continue to be valid and exercisable until the respective maturity dates of the Existing Convertible Notes. Any exercise of the conversion rights attaching to the Existing Convertible Notes by Galaxyway before the maturity date, will reduce the principal amount of the Existing Convertible Notes to be redeemed and, thus reduce the corresponding principal amount of New Convertible Notes to be subscribed by Galaxyway.

The Existing Convertible Notes do not provide for any early redemption thereof. The Redemption and Subscription Agreement provides that if Completion takes place prior to the respective maturity dates of the Existing Convertible Notes, the Existing Convertible Notes held by Galaxyway shall be redeemed on the date of Completion and the redeemed principal amount shall be applied for the subscription of the New Convertible Notes by Galaxyway.

Conditions

The Redemption and Subscription Agreement is conditional upon, inter alia, the fulfillment of the following conditions:

- a. approval by the Shareholders of an increase in authorised ordinary share capital of the Company from HK\$200,000,000 to HK\$300,000,000 by the creation of 1,000,000,000 new Shares;
- b. approval of the issue of the New Convertible Notes to Galaxyway under the Redemption and Subscription Agreement, and the issue of new Shares which will be issued upon the exercise of the conversion rights attaching to the New Convertible Notes to be issued to Galaxyway, by the Independent Shareholders at a special general meeting of the Company;
- c. the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the new Shares falling to be issued upon the exercise of the conversion rights attaching to the New Convertible Notes to be issued to Galaxyway; and
- d. the Bermuda Monetary Authority granting approval to the issue of the New Convertible Notes and the new Shares falling to be issued upon the exercise of the conversion rights attaching to the New Convertible Notes to be issued to Galaxyway.

The Redemption and Subscription Agreement is not conditional upon the completion of the other redemption and subscription agreements that may be entered into between the Company and the Other Existing Noteholders. Completion of the Redemption and Subscription Agreement is expected to take place on or around 7th October, 2002.

In the event that any of the above conditions in relation to the Redemption and Subscription Agreement have not been fulfilled or waived by 3rd March, 2003, the Redemption and Subscription Agreement will be void and be of no effect and no party shall have any further obligations and liabilities thereunder.

EXISTING CONVERTIBLE NOTES

As at the date of this announcement, the Company has two series of convertible notes outstanding. Particulars of the Existing Convertible Notes are set out below:

	Principal amount <i>HK\$</i>	Interest rate	Issue date	Maturity date and last date for conversion	Prevailing conversion price <i>HK\$</i>	Shares to be issued upon conversion
2002 Convertible Notes	120,000,000	Prime Rate	5th October, 1999 & 3rd November, 1999*	5th October, 2002	1.06	113,207,547
2003 Convertible Notes	460,000,000	Prime Rate	29th February, 2000 & 30th March, 2000*	1st March, 2003	1.68	273,809,523
	<u>580,000,000</u>					<u>387,017,070</u>

* The above issue dates represent the dates of further issues of the 2002 Convertible Notes and the 2003 Convertible Notes, pursuant to further subscription by the Other Existing Noteholders.

During the period from the above issue dates to the date of this announcement, none of the holders of the Existing Convertible Notes has exercised the conversion rights attaching to such convertible notes.

Particulars of the Existing Convertible Notes held by Galaxyway and the Other Existing Noteholders are set out as follows:

Existing Convertible Notes	Principal amount of the Existing Convertible Notes held by		Total <i>HK\$</i>
	Galaxyway <i>HK\$</i>	Other Existing Noteholders <i>HK\$</i>	
2002 Convertible Notes	50,000,000	70,000,000	120,000,000
2003 Convertible Notes	200,000,000	260,000,000	460,000,000
	<u>250,000,000</u>	<u>330,000,000</u>	<u>580,000,000</u>

The Company would also offer to the Other Existing Noteholders to redeem the balance of the Existing Convertible Notes 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 except for: (i) the issue of the New Convertible Notes and the issue of new Shares upon the exercise of the conversion rights attaching to the New Convertible Notes will be subject to the approval by the Shareholders instead of the Independent Shareholders; and (ii) the condition that completion of such redemption and subscription is conditional upon the Redemption and Subscription Agreement becoming unconditional in all respects. For those Other Existing Noteholders who did not accept such offer, the Existing Convertible Notes held by them would be redeemed at the respective maturity dates according to the terms and conditions of the respective Existing Convertible Notes.

In the event that all of the Other Existing Noteholders accepted such offer, further Existing Convertible Notes of an aggregate principal amount of HK\$330,000,000 would be redeemed and, thus, all the Existing Convertible Notes would be redeemed in full. At the same time, New Convertible Notes in an aggregate principal amount of HK\$330,000,000 would be issued to the Other Existing Noteholders and, as such, New Convertible Notes in an aggregate principal amount of HK\$580,000,000 would be issued. In such event, separate agreements will be entered into with the Other Existing Noteholders. In the event that not all the Other Existing Noteholders accepted such offer, the Company intends to offer the balance of the New Convertible Notes to the other independent investors. No concrete plan has been formulated by the Company at the present moment. Further announcement will be made in this regard and the relevant approval by Shareholders will be sought.

PRINCIPAL TERMS OF THE NEW CONVERTIBLE NOTES

Issuer : The Company

Principal amount : up to HK\$580,000,000

Conversion price : HK\$0.30 per Share, subject to adjustments, representing a premium of about 14.5 per cent. over the average closing price of HK\$0.262 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 16th September, 2002 and a premium of about 30.4 per cent. over the closing price of HK\$0.23 per Share as quoted on the Stock Exchange on 16th September, 2002

The new Shares to be issued upon exercise of the conversion rights attaching to the New Convertible Notes will be free from all liens, charges and encumbrances and will rank pari passu in all respects among themselves and with the Shares in issue on the relevant date of exercise of conversion rights

Assuming that New Convertible Notes in an aggregate principal amount of HK\$250,000,000 are issued to Galaxyway and the conversion rights attaching to the New Convertible Notes are exercised in full by Galaxyway, a total of 833,333,333 new Shares will be issued, which represent approximately 132.1 per cent. of the existing issued ordinary share capital of the Company, and approximately 56.9 per cent. of the issued ordinary share capital of the Company as enlarged by the new Shares to be issued upon full exercise of such conversion rights, assuming no other issue or repurchase of Shares is made before such conversion

Assuming that New Convertible Notes in an aggregate principal amount of HK\$580,000,000 are issued and the conversion rights attaching to the New Convertible Notes are exercised in full, a total of 1,933,333,333 new Shares will be issued, which represent approximately 306.4 per cent. of the existing issued ordinary share capital of the Company, and approximately 75.4 per cent. of the issued ordinary share capital of the Company as enlarged by the new Shares to be issued upon full exercise of such conversion rights, assuming no other issue or repurchase of Shares is made before such conversion

- Interest : Prime Rate, payable semi-annually in arrears
- Conversion period : The New Convertible Notes may be converted in whole or in part (in integral multiples of HK\$100,000) at any time 3 months after the date of issue of the New Convertible Notes until maturity
- Maturity : The Company shall repay the outstanding principal amount of the New Convertible Notes, together with interests accrued from the last interest payment date up to and including the date of repayment, on the third anniversary of the date of issue of the New Convertible Notes

Transfer : The New Convertible Notes may not be assigned or transferred without prior written consent of the Company except to the subsidiaries or the holding company of the holders of the New Convertible Notes and may not be assigned or transferred to connected persons (as defined in the Listing Rules) of the Company without the prior written consent of the Company. The Company will immediately notify the Stock Exchange, upon the Company becoming aware of any dealings in the New Convertible Notes by connected persons of the Company.

Listing : No application will be made for the listing of, and permission to deal in, the New Convertible Notes on any stock exchange. Application will be made to the Stock Exchange for the listing of new Shares to be issued on exercise of the conversion rights attaching to the New Convertible Notes.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table shows (i) the existing shareholding structure of the Company; (ii) the shareholding structure upon full conversion of the New Convertible Notes to be issued to Galaxyway; (iii) the shareholding structure upon full conversion of the New Convertible Notes to be issued to Galaxyway and of the Preference Shares; (iv) the shareholding structure upon full conversion of the New Convertible Notes; and (v) the shareholding structure upon full conversion of the New Convertible Notes and of the Preference Shares.

	Existing		Upon full conversion of the New Convertible Notes to be issued to Galaxyway		Upon full conversion of the New Convertible Notes to be issued to Galaxyway and of the Preference Shares		Upon full conversion of the New Convertible Notes**		Upon full conversion of the New Convertible Notes** and of the Preference Shares	
	Shares	%	Shares	%	Shares	%	Shares	%	Shares	%
Galaxyway	219,681,911	34.8	1,053,015,244	71.9	1,053,015,244	71.3	1,053,015,244	41.1	1,053,015,244	40.9
Other shareholders	411,278,863	65.2	411,278,863	28.1	424,677,863	28.7	1,511,278,863	58.9	1,524,677,863	59.1
Total	630,960,774	100.0	1,464,294,107	100.0	1,477,693,107	100.0	2,564,294,107	100.0	2,577,693,107	100.0

** Assume all of the Other Existing Noteholders and/or other investors accepted the Company's offer and subscribed the New Convertible Notes in an aggregate principal amount of HK\$330,000,000.

Note:

As at the date of this announcement, the Company had 267,980,000 Preference Shares in issue. The Preference Shares are non-voting, non-redeemable and are entitled to a cumulative dividend of HK\$0.069 per Preference Share per annum. The Preference Shares rank in priority to the Shares as to dividends and return of capital. The Preference Shares are convertible into Shares on a twenty-for-one basis at the option of the holders thereof at any time, and at the option of the Company in any of the following cases:

- the closing price of the Shares is 125% or more of the adjusted conversion value of HK\$21.20, subject to further adjustments, for twenty consecutive trading days; or
- there are less than 50,000,000 Preference Shares in issue.

As shown in the above table, the interests of Galaxyway in the Company may increase as a result of the exercise of the conversion rights attaching to the New Convertible Notes to be issued to Galaxyway. Galaxyway will comply with the relevant provisions of The Hong Kong Code on Takeovers and Mergers which may be applicable to Galaxyway's possible increase in shareholding interests in the Company resulting from the exercise of the conversion rights attaching to the New Convertible Notes to be issued to Galaxyway.

REASONS FOR THE TRANSACTION

The Company has outstanding Existing Convertible Notes amounting to HK\$580,000,000, out of which the 2002 Convertible Notes of an aggregate outstanding principal amount of HK\$120,000,000 will be due on 5th October, 2002 with the balance, being the 2003 Convertible Notes of an aggregate outstanding principal amount of HK\$460,000,000 to be due on 1st March, 2003. The Shares have been trading within the range of HK\$0.22 to HK\$0.62 with an average closing price of HK\$0.36 over the 120 trading days ended 16th September, 2002. With conversion prices as high as HK\$1.06 and HK\$1.68 per Share respectively comparing to the prevailing market price of the Shares, the Board does not expect that the Existing Convertible Notes, in particular, the 2002 Convertible Notes would be converted by maturity.

The principal assets of the Group comprise its interests in various associated companies, which as at 31st March, 2002, amounted to approximately HK\$1,797 million out of a total assets amounting to approximately HK\$2,116 million as at the same date. As at 31st March, 2002, total liabilities of the Group amounted to approximately HK\$626 million, which mainly comprised the Existing Convertible Notes with an aggregate principal amount of HK\$580 million. In view of the financial position and internal resources of the Group and in light of the current market condition, the Board considers

that refinancing the respective Existing Convertible Notes virtually through extending the repayment period and adjusting the conversion prices of the Existing Convertible Notes might be the best options available to the Company. As such, the Board has opted to put forward the proposal to the holders of the Existing Convertible Notes. The terms of the Redemption and Subscription Agreement have been arrived at after arms length negotiations between the Company and Galaxyway. The Board considers such terms are in the interests of the Company.

GENERAL

The Group is principally engaged in investment and property holding, provision of finance and trading of building materials and machinery. Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the new Shares to be issued to Galaxyway upon the exercise of the conversion rights attaching to the New Convertible Notes.

The redemption of the Existing Convertible Notes held by Galaxyway and the subscription of the HK\$250,000,000 New Convertible Notes by Galaxyway under the Redemption and Subscription Agreement constitutes a connected transaction for the Company under the Listing Rules, and will be subject to the approval by the Independent Shareholders. A special general meeting of the Company will be convened to approve the redemption of the Existing Convertible Notes and the subscription of the New Convertible Notes by both Galaxyway and the Other Existing Noteholders. Galaxyway and its Associates will abstain from voting at the special general meeting of the Company with regard to the resolution to be proposed to approve the Redemption and Subscription Agreement.

The independent committee of the Board will be established to advise the Independent Shareholders in respect of the Redemption and Subscription Agreement. An independent financial adviser will be appointed to advise the independent committee of the Board in connection with the Redemption and Subscription Agreement.

A circular containing, inter alia, details of the redemption of the Existing Convertible Notes and the subscription of the New Convertible Notes by both Galaxyway and the Other Existing Noteholders, a letter of advice from the independent financial adviser, the recommendation from the independent committee of the Board and a notice convening the special general meeting of the Company will be despatched to the shareholders of the Company as soon as practicable.

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“2002 Convertible Notes”	convertible notes issued by the Company in the aggregate principal amount of HK\$120,000,000, which will be due on 5th October, 2002
“2003 Convertible Notes”	convertible notes issued by the Company in the aggregate principal amount of HK\$460,000,000, which will be due on 1st March, 2003
“Associates”	associates as defined in the Listing Rules
“Board”	the board of directors of the Company
“Company”	ITC Corporation Limited, a company incorporated in Bermuda with limited liability, the securities of which are listed on the Stock Exchange
“Completion”	completion of the redemption of the Existing Convertible Notes held by Galaxyway and the subscription of the New Convertible Notes by Galaxyway
“Existing Convertible Notes”	the 2002 Convertible Notes and the 2003 Convertible Notes
“Galaxyway”	Galaxyway Investments Limited, a controlling shareholder of the Company, which is indirectly wholly-owned by Dr. Chan Kwok Keung, Charles, the chairman and a director of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholders”	Shareholders other than Galaxyway and its Associates
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“New Convertible Notes”	the convertible notes due 2005 in the aggregate principal amount of up to HK\$580,000,000 to be issued by the Company
“Other Existing Noteholders”	the registered holders of the Existing Convertible Notes, other than Galaxyway
“Prime Rate”	the best lending rate of Hong Kong dollars as quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time
“Preference Shares”	compulsorily convertible cumulative preference shares of HK\$0.10 each in the preference share capital of the Company
“Redemption and Subscription Agreement”	the conditional redemption and subscription agreement dated 16th September, 2002 and entered into between the Company and Galaxyway in relation to the redemption of the Existing Convertible Notes held by Galaxyway and the subscription of the New Convertible Notes by Galaxyway in the principal amount of HK\$250,000,000
“Share(s)”	ordinary share(s) of HK\$0.10 each in the ordinary share capital of the Company
“Shareholder(s)”	holder(s) of the Share
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

By Order of the Board
Law Hon Wa, William
Company Secretary

Hong Kong, 16th September, 2002

Please also refer to the published version of this announcement in The Standard.