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**ITC CORPORATION
LIMITED**

*(Incorporated in Bermuda
with limited liability)*



**PAUL Y. - ITC
CONSTRUCTION
HOLDINGS LIMITED**

*(Incorporated in Bermuda
with limited liability)*

**GROUP REORGANIZATION OF
PAUL Y. - ITC CONSTRUCTION HOLDINGS LIMITED
AND
POTENTIAL MAJOR AND CONNECTED TRANSACTION
FOR ITC CORPORATION LIMITED**

Dr. Charles Chan owns approximately 34.82% equity interest in ITC Corporation, which is the controlling shareholder of Paul Y. - ITC holding indirectly approximately 42.59% equity interest in Paul Y. - ITC's issued share capital. Dr. Charles Chan has requested the directors of Paul Y. - ITC to place before its shareholders a proposal at his costs under which:

- Paul Y. - ITC will cancel approximately HK\$2,107 million, subject to adjustment, of its capital reserves which will be repaid in specie, being in the form of the Scheme Assets held by its wholly owned subsidiaries comprising principally of approximately 36.83% interest in Downer EDI, 14.55% interest in China Strategic Holdings and its property interests unrelated to its contracting and construction materials operations;
- the Scheme Shareholders will agree to novate their pro rata entitlements to the capital repayment in specie by directing Paul Y. - ITC to allot/transfer all their shares in the company holding the Scheme Assets under the capital repayment in specie to Dr. Charles Chan; and

- in consideration for their agreement to novate their pro rata entitlements to the capital repayment in specie as above, Dr. Charles Chan will pay to each Scheme Shareholder a cash amount equal to HK\$0.2 multiplied by the number of shares of Paul Y. - ITC held by the Scheme Shareholder.

A conditional cash option is granted by Dr. Charles Chan to pay to ITC Corporation the same cash amount as to each Scheme Shareholder in the same manner under the proposal if ITC Corporation chooses to exercise this option instead of holding its interests in the Scheme Assets. This option is conditional on the proposal becoming unconditional. The independent shareholders of ITC Corporation will be asked to determine at a shareholders' meeting if ITC Corporation should exercise this option simultaneous to the implementation of the proposal.

The effect of the proposal is that the Scheme Shareholders will retain their shareholding interest in Paul Y. - ITC, which will thereafter be engaged primarily in contracting and construction materials operations in Hong Kong and the PRC and will receive a cash amount equal to HK\$0.2 multiplied by the number of shares of Paul Y. - ITC held by the Scheme Shareholders. The consideration is at a discount of 90.1% of the pro forma net book value of the Scheme Assets as at 31st March, 2002, but represents a premium of about 9.3% to the last traded price of shares in Paul Y. - ITC on 26th September, 2002 before the publication of this joint announcement of HK\$0.183 after adjustment on an ex-dividend basis. ITC Corporation will retain its shareholding interest in Paul Y. - ITC while Dr. Charles Chan and ITC Corporation will effectively own directly the Scheme Assets on a 57.41% to 42.59% basis. If the independent shareholders of ITC Corporation elect to exercise the cash option mentioned above instead of holding its interest in the Scheme Assets while the Scheme Shareholders pass the resolutions to implement the proposal, Dr. Charles Chan will then own directly all the Scheme Assets.

The board of directors of Paul Y. - ITC, other than Dr. Charles Chan, considers that the consideration payable to the Scheme Shareholders under the proposal may not be fair and reasonable when comparing to the pro forma net book value of the Scheme Assets. However, the board of directors of Paul Y. - ITC considers that the proposal, which is initiated by Dr. Charles Chan, and not solicited by Paul Y. - ITC itself, provides the Scheme Shareholders with an opportunity of receiving a significant portion of their investment in cash under the current difficult market condition. But the board of directors of Paul Y. - ITC would like to remind the Scheme Shareholders that upon implementation of the proposal, the net asset value and the profitability of Paul Y. - ITC would also be substantially decreased as stated in this joint announcement.

The exercise of the Cash Option will constitute a major transaction for ITC Corporation under the Listing Rules. Since Dr. Charles Chan is a substantial shareholder of ITC Corporation, the exercise of the Cash Option will also constitute a connected transaction for ITC Corporation under the Listing Rules. The Cash Option granted by Dr. Charles Chan to pay to ITC Corporation will be put forward at a special general meeting to the shareholders of ITC Corporation other than Dr. Charles Chan and his associates to decide if ITC Corporation should exercise it.

The capital reduction and repayment, and the novation of the Scheme Shareholders' entitlement to the capital repayment in specie will be implemented by way of a scheme of arrangement under section 99 of the Act which will be conditional upon, amongst other things, the approval of the Scheme Shareholders.

At the request of the directors of ITC Corporation and Paul Y. - ITC, trading in the securities of ITC Corporation and Paul Y. - ITC respectively were suspended at 9:30 a.m. on 27th September, 2002 pending the publication of this joint announcement. Application has been made to The Stock Exchange of Hong Kong Limited for a resumption of trading in the securities of each of ITC Corporation and Paul Y. - ITC with effect from 9:30 a.m. on 8th October, 2002.

INTRODUCTION

Dr. Charles Chan owns approximately 34.82% equity interest in ITC Corporation Limited, which is the controlling shareholder of Paul Y. - ITC Construction Holdings Limited holding indirectly approximately 42.59% of the issued share capital in Paul Y. - ITC. Dr. Charles Chan has requested the directors of Paul Y. - ITC to place before its shareholders a proposal at his costs under which:

- Paul Y. - ITC will cancel approximately HK\$2,107 million, subject to adjustment, of its capital reserves by way of a capital reduction which will be repaid in specie, being in the form of its assets, other than those related to its contracting and construction materials business, held by its wholly owned subsidiaries comprising principally of approximately 36.83% interest in Downer EDI Limited, 14.55% in China Strategic Holdings Limited and its property interests unrelated to its contracting and construction materials operations (“Scheme Assets”), which will then be transferred to a wholly owned subsidiary of Paul Y. - ITC;
- the shareholders of Paul Y. - ITC other than ITC Corporation and its associates (“Scheme Shareholders”) will agree to novate their pro rata entitlements to the capital repayment in specie by directing Paul Y. - ITC to allot/transfer all their shares in the company holding the Scheme Assets under the capital repayment in specie to Dr. Charles Chan; and

- in consideration for their agreement to novate their pro rata entitlements to the capital repayment in specie as above, Dr. Charles Chan will pay to each Scheme Shareholder a cash amount equal to HK\$0.2 multiplied by the number of shares of Paul Y. - ITC held by the Scheme Shareholder. The consideration is determined with reference to the recent market price of Paul Y. - ITC. The consideration is at a discount of 90.1% of the pro forma net book value of the Scheme Assets as at 31st March, 2002, but represents a premium of about 9.3% to the last traded price of shares in Paul Y. - ITC on 26th September, 2002 before the publication of this joint announcement of HK\$0.183 after adjustment on an ex-dividend basis.

The proposal will be implemented by way of a scheme of arrangement under section 99 of the Companies Act 1981 of Bermuda (the “Act”). ITC Corporation will retain its shareholding interest in Paul Y. - ITC while Dr. Charles Chan and ITC Corporation will effectively own directly the Scheme Assets on a 57.41% to 42.59% basis.

Dr. Charles Chan also grants ITC Corporation a conditional cash option (“Cash Option”) to pay to ITC Corporation the same cash amount as to each Scheme Shareholder in the same manner under the proposal if ITC Corporation chooses to exercise the option instead of holding its interests in the Scheme Assets. The Cash Option is conditional on the proposal becoming unconditional. It is exercisable only after and simultaneous to the approval of the proposal by the independent shareholders of Paul Y. - ITC at their shareholders’ meeting mentioned below. The shareholders of ITC Corporation other than Dr. Charles Chan and his associates will be asked to determine if ITC Corporation should exercise this option at a special general meeting. Therefore, if the independent shareholders of ITC Corporation elect to exercise the option while the Scheme Shareholders pass the resolutions to implement the proposal, Dr. Charles Chan will then own directly all the Scheme Assets. If the independent shareholders of ITC Corporation choose not to exercise the Cash Option at the special general meeting, the Cash Option shall lapse immediately.

CONDITIONS OF THE PROPOSAL

The proposal is conditional upon fulfillment of the following conditions by Paul Y. - ITC by 31st December, 2002 or such later date as Dr. Charles Chan may agree:

- the passing of a resolution by a majority in number representing three quarters in value of the Scheme Shareholders attending and voting at a court meeting of Paul Y. - ITC held in accordance with section 99 of the Act approving the proposal;
- the passing of the resolutions necessary to implement the proposal to be proposed at a special general meeting of Paul Y. - ITC;

- the sanction of the Supreme Court of Bermuda;
- the filing of the court order with the Registrar of Companies in Bermuda;
- the consent, if required, of lenders to Paul Y. - ITC and its subsidiaries; and
- the receipt of any relevant regulatory or other consents or approvals required to implement the proposal.

Dr. Charles Chan and ITC Corporation and their respective associates will abstain from voting at a court meeting of Paul Y. - ITC held in accordance with section 99 of the Act and at the special general meeting of Paul Y. - ITC.

If all the conditions of the proposal are satisfied, the proposal shall be proceeded to implementation and the Scheme Shareholders will then novate their pro rata entitlements to the capital repayment in specie by directing Paul Y. - ITC to allot/transfer all their shares in the company holding the Scheme Assets, which represent 57.41% of the company holding the Scheme Assets, under the capital repayment in specie to Dr. Charles Chan.

If any condition of the proposal is not satisfied, the proposal shall not be proceeded to implementation and the Scheme Shareholders will continue to hold their interests in the Scheme Assets through Paul Y. - ITC.

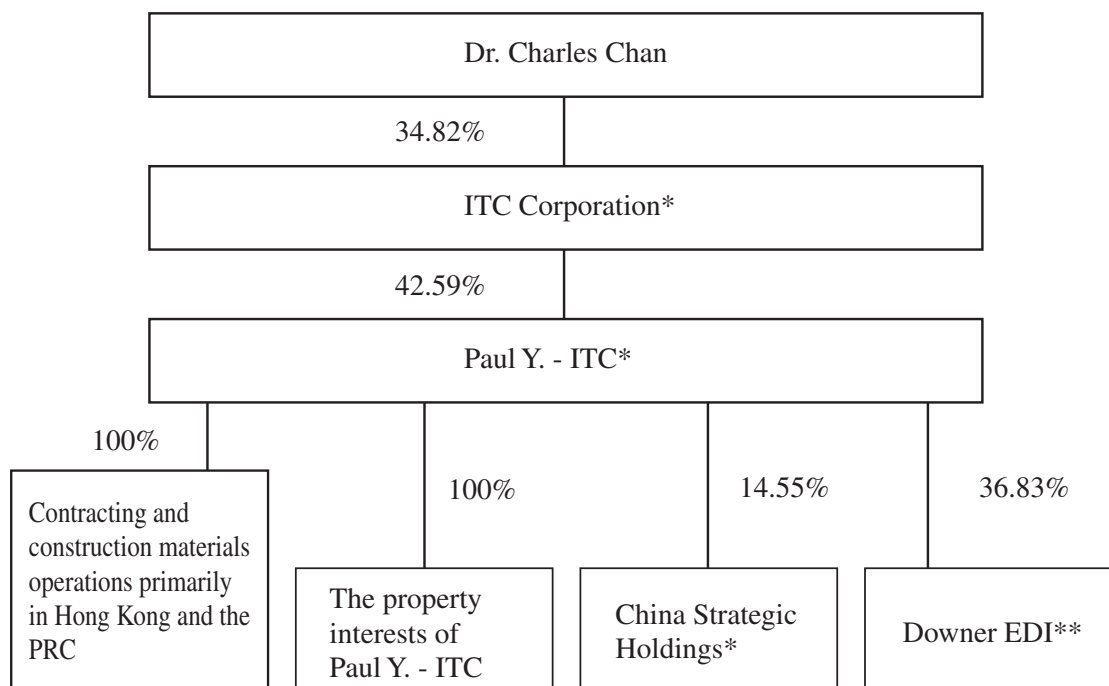
The Cash Option granted by Dr. Charles Chan to ITC Corporation will be put forward at a special general meeting to the shareholders of ITC Corporation other than Dr. Charles Chan and his associates to decide if ITC Corporation should exercise it. Dr. Charles Chan and its associates will abstain from voting at such special general meeting of ITC Corporation.

COSTS OF THE PROPOSAL

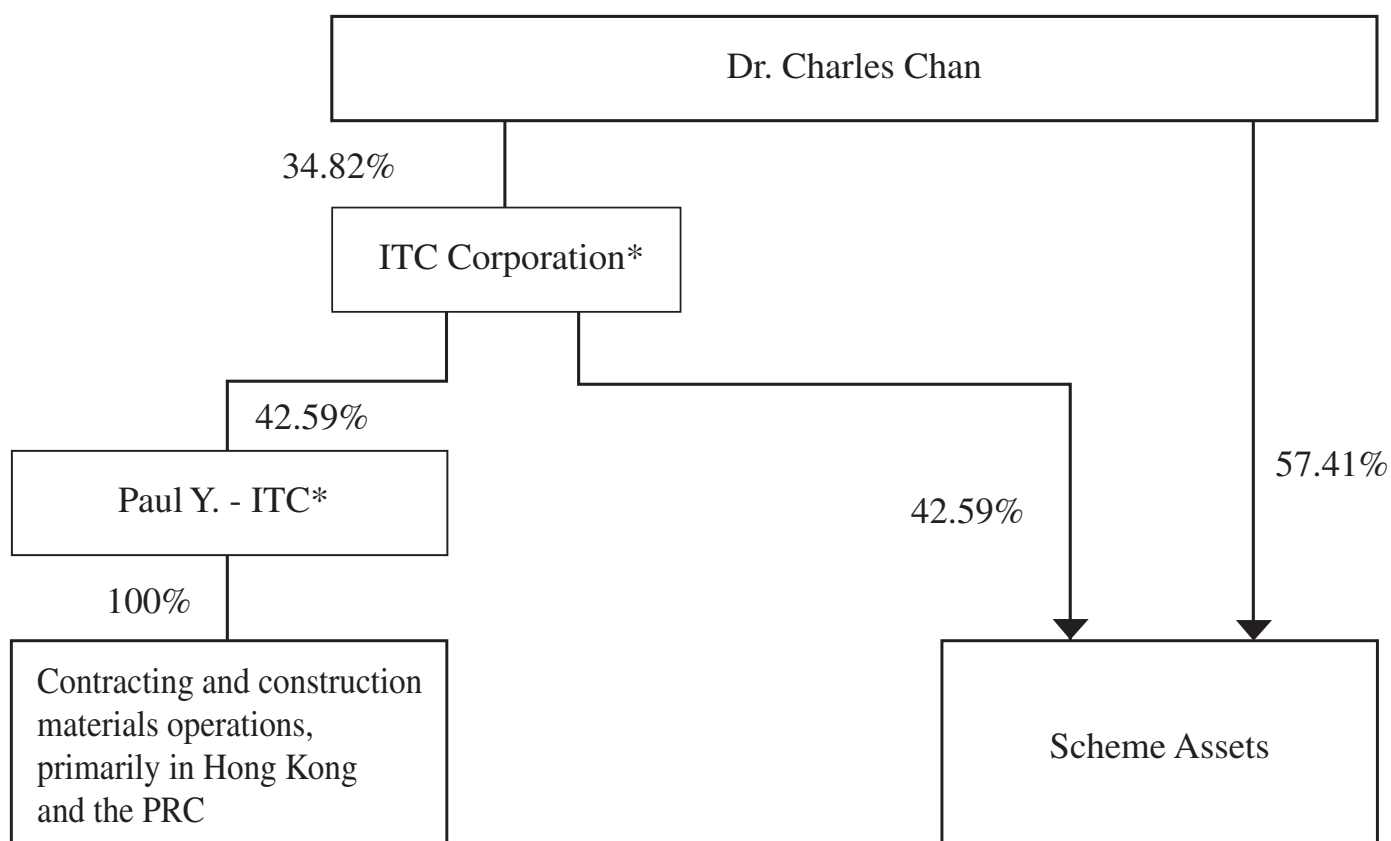
Dr. Charles Chan has agreed to pay all the costs incurred in implementing the proposal including all costs incurred by Paul Y. - ITC.

THE GROUP STRUCTURE BEFORE AND AFTER THE IMPLEMENTATION OF THE PROPOSAL

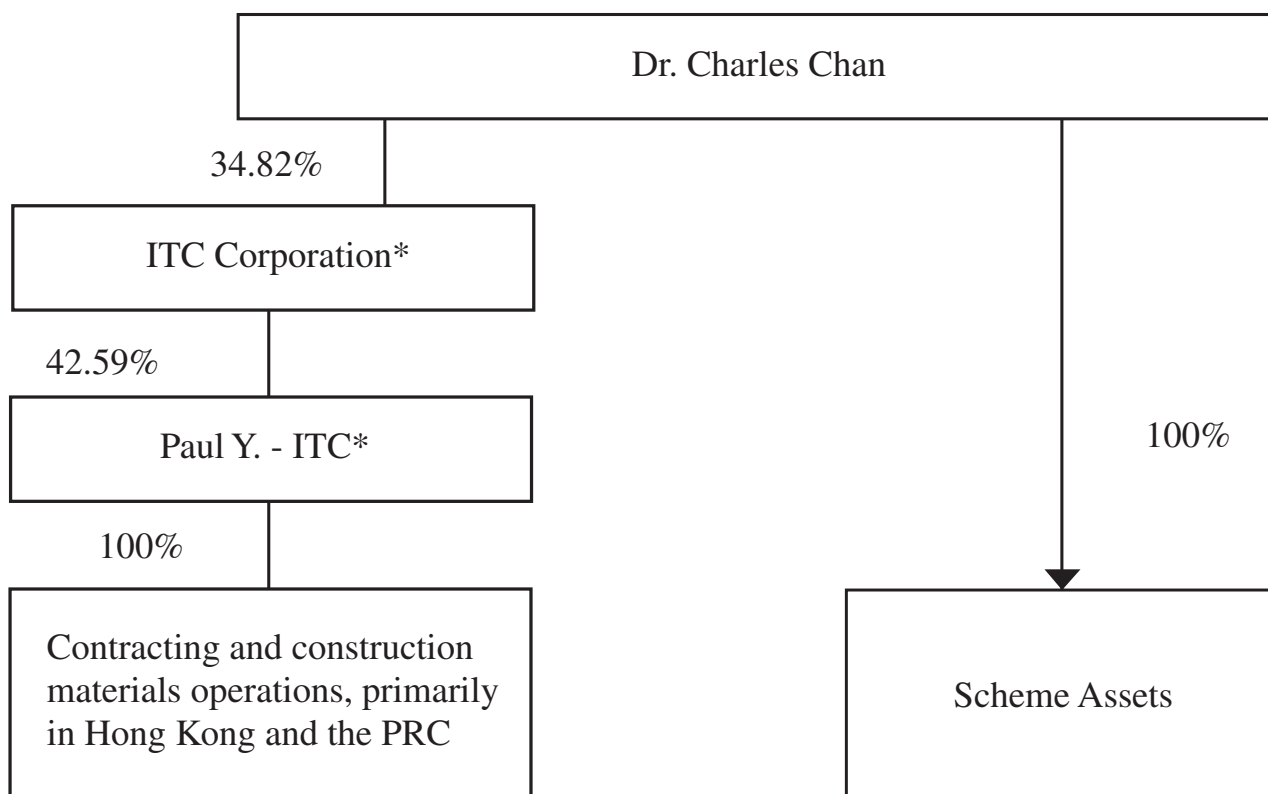
Immediately before the implementation of the proposal, the group structure of Paul Y. - ITC and ITC Corporation is in summary as follows:



Immediately after the implementation of the proposal and assuming that ITC Corporation does not exercise the Cash Option, the group structure of Paul Y. - ITC and ITC Corporation will be in summary as follows:



Immediately after the implementation of the proposal and assuming that ITC Corporation exercises the Cash Option, the group structure of Paul Y. - ITC and ITC Corporation will be in summary as follows:



* Listed on the main board of The Stock Exchange of Hong Kong Limited

** Listed on the Australian Stock Exchange

THE REASONS FOR, AND EFFECTS OF, THE PROPOSAL ON PAUL Y. - ITC

In requesting the board of directors of Paul Y. - ITC to place the proposal before its shareholders, Dr. Charles Chan believes that the market value ascribed to Paul Y. - ITC is primarily from an assessment of its local construction and construction materials activities and that the stock market has not placed any significant value on its other activities, primarily its investment in properties and securities. The proposal will release a portion of this value to the Scheme Shareholders in the form of cash payment. It will also result in Paul Y. - ITC concentrating on its principal business of contracting and construction materials operations which it intends to expand further through strategic alliances into the construction sector in the PRC.

Dr. Charles Chan has no desire to own interests in the company holding the Scheme Assets if such company becomes an unlisted public company, in view of the costs and efforts to maintain such an unlisted public company. Dr. Charles Chan believes that it will not be appropriate to structure the terms of the proposal so as to enable the Scheme Shareholders to hold the Scheme Assets through an unlisted public company, the shares of which will sustain relative illiquidity and limited marketability. It is

therefore, Dr. Charles Chan considers that the Scheme Shareholders should be offered to receive a cash payment instead of holding unlisted interests in the Scheme Assets upon implementation of the proposal and, if the Scheme Shareholders wish to continue to have interests in the Scheme Assets, they could simply disapprove the proposal at the special general meeting and continue to hold interests in the Scheme Assets through Paul Y. - ITC.

The board of directors of Paul Y. - ITC, other than Dr. Charles Chan, considers that the consideration payable to the Scheme Shareholders under the proposal may not be fair and reasonable when comparing to the pro forma net book value of the Scheme Assets. However, the board of directors of Paul Y. - ITC considers that the proposal, which is initiated by Dr. Charles Chan, and not solicited by Paul Y. - ITC itself, provides the Scheme Shareholders with an opportunity of receiving a significant portion of their investment in cash in this current difficult market condition. But the board of directors of Paul Y. - ITC would like to remind the Scheme Shareholders that upon implementation of the proposal, the net asset value and the profitability of Paul Y. - ITC would also be substantially decreased as stated in this announcement.

Based on the audited consolidated financial statements of Paul Y. - ITC for the year ended 31st March, 2002 and on the basis that the proposal had been implemented on that date, the shareholders' consolidated funds would have declined from approximately HK\$2,995 million to approximately HK\$888 million, equivalent to a decline from approximately HK\$2.89 per share to approximately HK\$0.86 per share in Paul Y. - ITC.

The financial performance of the contracting and construction materials operations of Paul Y. - ITC extracted from the audited consolidated financial statements of Paul Y. - ITC for the two financial years ended 31st March, 2002 is as follows:

	Year ended 31st March	
	2001 <i>HK\$'000</i> (as restated)	2002 <i>HK\$'000</i>
Turnover	6,291,550	5,111,432
Profit before taxation	42,427	10,853
Taxation	(25,037)	(1,494)
Profit after taxation	17,390	9,359
Minority interests	(12,247)	(6,605)
Profit attributable to shareholders	5,143	2,754
Earnings per share*	0.49 cent	0.27 cent

* Assuming the issued share capital was 1,036,744,924 shares, being the issued share capital of Paul Y. - ITC as at the date of this joint announcement.

If the proposal had been implemented, the financial performance of the Paul Y. - ITC group would be substantially decreased by approximately HK\$50.5 million for the year ended 31st March, 2002.

THE REASONS FOR, AND EFFECTS OF, THE PROPOSAL AND THE CASH OPTION ON ITC CORPORATION

As a result of the implementation of the proposal, ITC Corporation will be able to maintain its attributable asset value in the Scheme Assets and directly hold interests in Downer EDI, China Strategic Holdings and Paul Y. - ITC's property interests unrelated to its contracting and construction materials operations. This will then increase the spread of its strategic shareholdings in listed companies and its property investment portfolio.

Having considered that ITC Corporation will have to abstain from voting at the independent shareholders meeting of Paul Y. - ITC in respect of the proposal, Dr. Charles Chan considers that it will be appropriate to structure the proposal under the present terms so as to enable ITC Corporation to maintain its attributable asset value in the Scheme Assets, instead of a cash payment to it. However, upon the proposal becoming unconditional, Dr. Charles Chan would like to provide ITC Corporation with an alternative through the grant of the Cash Option to enable its independent shareholders to decide if ITC Corporation should receive a cash payment similar to the Scheme Shareholders under the proposal.

The Cash Option granted by Dr. Charles Chan will facilitate ITC Corporation to strength its cash resources if its independent shareholders decide to exercise this option at the special general meeting to be convened for such purpose. The exercise of the Cash Option will result in a deemed disposal of assets by ITC Corporation at a considerable loss which is estimated to be approximately HK\$809 million based on the pro forma net book value of approximately HK\$2,107 million of the company holding the Scheme Assets as at 31st March, 2002 mentioned below. The exercise of the Cash Option would constitute a connected and major transaction for ITC Corporation under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

ITC CORPORATION

ITC Corporation is an investment holding company which directly and indirectly holds strategic investments in a number of listed companies including, in addition to Paul Y. - ITC and its strategic investments in Downer EDI and China Strategic Holdings, interests in Hanny Holdings Limited, Burcon NutraScience Corporation, Star East Holdings Limited, M Channel Corporation Limited, Sing Pao Media Group Limited, Ananda Wing On Travel (Holdings) Limited, China Land Group Limited, China Enterprises Limited and Australia Net.Com Limited.

The financial information of ITC Corporation extracted from the audited consolidated financial statements of ITC Corporation for the two financial years ended 31st March, 2002 is as follows:

	Year ended 31st March	
	2001 <i>HK\$'000</i> (as restated)	2002 <i>HK\$'000</i>
Turnover	63,144	40,147
Loss before taxation	(586,543)	(272,457)
Taxation	(25,870)	(16,853)
Loss after taxation	(612,413)	(289,310)
Minority interests	–	–
Loss attributable to shareholders	<u>(612,413)</u>	<u>(289,310)</u>

The net asset value of ITC Corporation as at 31st March, 2002 was approximately HK\$1,489 million.

PAUL Y. - ITC

The Paul Y. - ITC group's principal business includes building construction, civil engineering, specialist works, property development and investment, hotel management and operations, catering and manufacturing and trading of construction materials. Its primary business focus is Hong Kong and the PRC. In addition to its investment in its major associated company, Downer EDI, it has strategic investments in China Strategic Holdings, installation and maintenance of escalators and elevators and provision of specialised business solution for construction industry.

SCHEME ASSETS

A wholly owned subsidiary of Paul Y. - ITC which is currently holding some of the Scheme Assets will, before the shareholders' meeting of Paul Y. - ITC to be convened in respect of the proposal, hold all of the Scheme Assets. This company will not conduct any business or hold assets other than the Scheme Assets. The Scheme Assets comprised of principally approximately 36.83% in Downer EDI, 14.55% in China Strategic Holdings and its property interests unrelated to its contracting and construction materials operations.

The pro forma profit and loss accounts of the company which will hold the Scheme Assets under the proposal which is prepared based on the audited consolidated financial statements of Paul Y. - ITC for the two financial years ended 31st March, 2002 is as follows:

	Year ended 31st March	
	2001 <i>HK\$'000</i> (as restated)	2002 <i>HK\$'000</i>
Turnover	4,666,321	240,081
(Loss)/profit before taxation	(336,949)	96,936
Taxation	(24,916)	(46,441)
(Loss)/profit after taxation	(361,865)	50,495
Minority interests	(79,096)	–
(Loss)/profit attributable to shareholders	(440,961)	50,495

The pro-forma net book value of the company holding the Scheme Assets as at 31st March, 2002 was approximately HK\$2,107 million.

Details of the Scheme Assets are set out below.

Downer EDI

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

The financial performance of Downer EDI extracted from its audited consolidated financial statements of Downer EDI for the two financial years ended 30th June, 2002 is as follows:

	Year ended 30th June			
	2001 <i>A\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>A\$'000</i>	2002 <i>HK\$'000</i>
Turnover	<u>1,624,235</u>	<u>6,821,787</u>	<u>2,430,390</u>	<u>10,207,638</u>
Profit before taxation	64,099	269,216	79,301	333,064
Taxation	<u>(18,583)</u>	<u>(78,049)</u>	<u>(22,870)</u>	<u>(96,054)</u>
Profit after taxation	45,516	191,167	56,431	237,010
Minority interests	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Profit attributable to shareholders	<u><u>45,516</u></u>	<u><u>191,167</u></u>	<u><u>56,431</u></u>	<u><u>237,010</u></u>

The book value of the interest in Downer EDI as at 31st March, 2002 which is to be paid out in specie under the proposal is approximately HK\$774 million and its market value based on the closing price of the shares in Downer EDI immediately before the publication of this announcement is approximately HK\$893.8 million.

The net asset value of Downer EDI as at 30th June, 2002 was approximately A\$710 million which is equivalent to approximately HK\$2,982 million.

China Strategic Holdings

China Strategic Holdings is an investment holding company with investments in a diversified range of businesses including manufacturing, property investment and development, investment in infrastructure projects and hotel operations, through its subsidiaries, China Land Group Limited and China Enterprises Limited. China Strategic Holdings is also engaged in the business of Chinese medicine, health products, western pharmaceutical products and the provision of travel agency services.

The financial performance of China Strategic Holdings extracted from the audited consolidated financial statements of China Strategic Holdings for the two financial years ended 31st December, 2001 is as follows:

	Year ended 31st December	
	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	3,158,058	3,234,404
Loss before taxation	(812,883)	(1,001,147)
Taxation	(6,608)	(5,982)
Loss after taxation	(819,491)	(1,007,129)
Minority interests	88,809	408,399
Loss attributable to shareholders	(730,682)	(598,730)

As stated in the annual report of China Strategic Holdings as at 31st December, 2001, the audited consolidated loss attributable to its shareholders, was mainly attributable to the provision for impairment and revaluation losses on toll highway and investment properties, operating losses in its tire operations, newspaper publishing as well as provision for diminution in value of investments.

The book value of the interest in China Strategic Holdings as at 31st March, 2002 which is to be paid out in specie under the proposal is approximately HK\$644 million and its market value based on the closing price of the shares in China Strategic Holdings immediately before the publication of this announcement is approximately HK\$12.1 million.

The net asset value of China Strategic Holdings as at 31st December, 2001 was approximately HK\$2,221 million.

The property interests of Paul Y. - ITC

The property interests to be paid out by Paul Y. - ITC and transferred to Dr. Charles Chan under the proposal are principally as follows:

- Paul Y. Centre, an industrial office building comprising approximately 377,000 square feet of office space, of which approximately 30% was self occupied and the remaining for rental purpose and with a vacancy rate of less than 10%, located in Kwun Tong, Kowloon, Hong Kong;

- In-Zone Shopping Arcade, a shopping arcade comprising approximately 14,000 square feet of rental shop space with a vacancy rate of less than 10%, located in Wanchai, Hong Kong; and
- the 57th and 60th floors, comprising approximately 48,000 square feet of office accommodation and are fully rented out, located in Shun Hing Square, Shenzhen, the PRC.

The aggregate book value of the above properties as at 31st March, 2002 was approximately HK\$884 million. An independent professional valuation of the above properties will be undertaken for inclusion in the documents to be sent to the shareholders of ITC Corporation and Paul Y. - ITC.

GENERAL

Anglo Chinese Corporate Finance, Limited has been retained to advise Paul Y. - ITC on the proposal.

An independent committee of the board of Paul Y. - ITC, comprising Messrs. Vincent T.K. Cheung and Ernest S.K. Kwok, has been formed to advise the Scheme Shareholders in connection with the proposal. An independent financial adviser will be appointed to advise the independent board committee.

The exercise of the Cash Option will constitute a major transaction for ITC Corporation under the Listing Rules. Since Dr. Charles Chan is a substantial shareholder of ITC Corporation, the exercise of the Cash Option will also constitute a connected transaction for ITC Corporation under the Listing Rules. An independent committee of the board of ITC Corporation, comprising Messrs. Dominic Lai and Winston Calptor Chuck, has been formed to advise the independent shareholders of ITC Corporation if the Cash Option granted by Dr. Charles Chan should be exercised. An independent financial adviser will be appointed to advise the independent board committee.

Documents containing information on the proposal and notices of the relevant meetings will be despatched to the respective shareholders of ITC Corporation and Paul Y. - ITC as soon as practicable.

At the request of the directors of ITC Corporation and Paul Y. - ITC, trading in the securities of ITC Corporation and Paul Y. - ITC respectively were suspended at 9:30 a.m. on 27th September, 2002 pending the publication of this joint announcement. Application has been made to The Stock Exchange of Hong Kong Limited for a resumption of trading in the securities of each of ITC Corporation and Paul Y. - ITC with effect from 9:30 a.m. on 8th October, 2002.

By order of the board of
ITC CORPORATION LIMITED
Law Hon Wa, William
Company Secretary

By order of the board of
**PAUL Y. - ITC CONSTRUCTION
HOLDINGS LIMITED**
Mui Ching Hung, Joanna
Company Secretary

Hong Kong, 7th October, 2002

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