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## **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your securities in ITC Corporation Limited, you should at once hand this circular to the purchaser or the transferee or to the bank manager, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**ITC CORPORATION LIMITED**

*(Incorporated in Bermuda with limited liability)*

**POSSIBLE DISCLOSEABLE TRANSACTION  
IN CONNECTION WITH  
A MANDATORY CONDITIONAL CASH OFFER**

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“Announcement”	the announcement dated 8 July 2003 made jointly by ITC Corporation, Hanny, Paul Y. - ITC and China Strategic regarding the Offers
“China Strategic”	China Strategic Holdings Limited, a limited liability company incorporated in Hong Kong, the securities of which are listed on the Stock Exchange
“China Strategic Group”	China Strategic and its subsidiaries
“China Strategic Option(s)”	share option(s) granted by China Strategic under the share option scheme adopted on 20 July 1992
“China Strategic Share(s)”	share(s) of HK\$0.10 each in the share capital of China Strategic
“China Strategic Shareholder(s)”	holder(s) of China Strategic Share(s)
“China Strategic Warrant(s)”	warrant(s) of China Strategic carrying rights to subscribe for 165,893,682 China Strategic Shares at the subscription price of HK\$0.16 per China Strategic Share, at any time from 29 August 2002 up to and including 31 December 2003
“China Strategic Warrantholder(s)”	holder(s) of China Strategic Warrant(s)
“Directors”	the directors, including independent non-executive directors, of ITC Corporation
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Hanny”	Hanny Holdings Limited, a limited liability company incorporated in Bermuda, the shares of which are listed on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee to be duly appointed by the board of China Strategic to give advice in respect of the Offers
“Independent Third Parties”	parties not connected nor acting in concert with the directors, chief executives or substantial shareholders of ITC Corporation, Hanny, Paul Y. - ITC and China Strategic or any of their subsidiaries or an associate (as defined in the Listing Rules) of any of them
“ITC Corporation” or the “Company”	ITC Corporation Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“ITC Corporation Group” or the “Group”	ITC Corporation and its subsidiaries
“Kingsway Capital”	Kingsway Capital Limited, a fellow subsidiary of Kingsway SW Securities, a Licensed Corporation and the financial adviser to Hanny and Paul Y. - ITC in relation to the Offers

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## DEFINITIONS

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“Kingsway SW Securities”	Kingsway SW Securities Limited, a fellow subsidiary of Kingsway Capital and a Licensed Corporation
“Latest Practicable Date”	24 July 2003, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Licensed Corporation”	a party falling within the definition of “licensed corporation” in the SFO
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Offers”	the mandatory conditional cash offer to be made by Kingsway SW Securities, on behalf of the Offerors, to acquire all the issued China Strategic Shares and outstanding China Strategic Warrants, other than the China Strategic Shares and China Strategic Warrants presently owned by the Offerors and parties acting in concert with them, and to cancel all outstanding China Strategic Options
“Offer Document”	means the document setting out, amongst others, the details and the terms of the Offers, together with the forms of acceptance and transfer to be despatched to all China Strategic Shareholders, China Strategic Warrantholders and China Strategic Options holder in accordance with the Takeovers Code
“Offerors”	Calisan Developments Limited and Well Orient Limited, which are indirect wholly-owned subsidiaries of Paul Y. - ITC and Hanny respectively
“parties acting in concert”	has the same meaning ascribed to that term in the Takeovers Code
“Paul Y. - ITC”	Paul Y. - ITC Construction Holdings Limited, a limited liability company incorporated in Bermuda, the securities of which are listed on the Stock Exchange
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong and the Macau Special Administrative Region of the People’s Republic of China
“SFC”	Securities and Futures Commission
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Offer”	the mandatory conditional cash offer to be made by Kingsway SW Securities, on behalf of the Offerors, to acquire all the issued China Strategic Shares other than those owned by the Offerors and parties acting in concert with them at HK\$0.139 per China Strategic Share on the terms and subject to the conditions set out in the Offer Document
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplementary Announcement”	the supplementary announcement dated 21 July 2003 made jointly by ITC Corporation, Hanny, Paul Y. - ITC and China Strategic regarding the Offers

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## DEFINITIONS

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“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Warrant Offer”	the mandatory conditional cash offer to be made by Kingsway SW Securities, on behalf of the Offerors, to acquire all the outstanding China Strategic Warrants other than those owned by the Offerors or parties acting in concert with them at HK\$0.001 per China Strategic Warrant on the terms and subject to the conditions set out in the Offer Document
“HK\$”	Hong Kong dollars
“%”	percentage



## ITC CORPORATION LIMITED

*(Incorporated in Bermuda with limited liability)*

*Executive directors:*

Chan Kwok Keung, Charles (*Chairman*)  
Lau Ko Yuen, Tom (*Deputy Chairman*)  
Chau Mei Wah, Rosanna (*Managing Director*)  
Chan Kwok Hung  
Chan Fut Yan  
Wong Kun To  
Cheung Hon Kit

*Independent non-executive directors:*

Lai, Dominic  
Chuck, Winston Calptor

*Registered office:*

Clarendon House  
Church Street  
Hamilton HM 11  
Bermuda

*Principal place of business  
in Hong Kong:*

33rd Floor  
Paul Y. Centre  
51 Hung To Road  
Kwun Tong  
Kowloon  
Hong Kong

29 July 2003

*To the ordinary shareholders and, for information only,  
the holders of the preference shares  
and convertible notes issued by the Company*

Dear Sir and Madam,

**POSSIBLE DISCLOSEABLE TRANSACTION IN CONNECTION  
WITH A MANDATORY CONDITIONAL CASH OFFER BY  
KINGSWAY SW SECURITIES ON BEHALF OF  
THE OFFERORS TO ACQUIRE ALL THE ISSUED CHINA STRATEGIC  
SHARES AND OUTSTANDING CHINA STRATEGIC WARRANTS,  
OTHER THAN THE CHINA STRATEGIC SHARES AND  
CHINA STRATEGIC WARRANTS PRESENTLY OWNED BY  
THE OFFERORS AND PARTIES ACTING IN CONCERT WITH THEM,  
AND TO CANCEL ALL OUTSTANDING CHINA STRATEGIC OPTIONS**

### INTRODUCTION

On 8 July 2003, the respective boards of directors of ITC Corporation, Hanny, Paul Y. - ITC and China Strategic jointly announced that the Offerors, through Kingsway SW Securities, will make a voluntary conditional cash offer at the price of HK\$0.10 for each China Strategic Share and HK\$0.001 for each China Strategic Warrant respectively, other than the China Strategic Shares and the China Strategic Warrants presently owned by the Offerors and parties acting in concert with the Offerors, and to cancel all outstanding China Strategic Options at HK\$0.001 per China Strategic Option. The Offerors have also informed China Strategic that Kingsway SW Securities, on behalf of the Offerors, will stand in the market to acquire other China Strategic Shares necessary to increase the aggregate shareholdings of the Offerors in China Strategic to over 50% of its issued share capital.

On 9 July 2003, Kingsway SW Securities, on behalf of the Offerors, purchased 49,665,000 China Strategic Shares, representing 5.98% of the issued share capital of China Strategic, at the open market at a price of HK\$0.10 per China Strategic Share. After the purchase on 9 July 2003, the Offerors and their

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## LETTER FROM THE BOARD

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concert parties are interested in 291,675,000 China Strategic Shares, 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 Takeovers Code.

On 21 July 2003, the Offerors have notified China Strategic that, to make the offer price under the Share Offer more attractive to the China Strategic Shareholders, the offer price under the Share Offer is to be increased from HK\$0.10 to HK\$0.139 per China Strategic Share, representing an increase of 39%.

The China Strategic Shares and the China Strategic Warrants to be acquired by Kingsway SW Securities, on behalf of the Offerors, during the offer period will be distributed to the Offerors in equal proportion.

The Offerors have also informed China Strategic that Kingsway SW Securities, on behalf of the Offerors, will stand in the market to acquire other China Strategic Shares at a price of no more than HK\$0.139 per China Strategic Share until the end of offer period.

As the Offerors, namely, Calisan Developments Limited and Well Orient Limited, are indirect wholly-owned subsidiaries of Paul Y. - ITC and Hanny respectively, the Offers may constitute a possible discloseable transaction for Hanny and Paul Y. - ITC. As ITC Corporation has 64.46% interests in Paul Y. - ITC, the Offers may also constitute a possible discloseable transaction for ITC Corporation. The purpose of this circular is to provide you with further information on the Offers.

### TERMS OF THE OFFERS

The Offers will be made in compliance with the Takeovers Code, which is administered by the Executive. Kingsway SW Securities, on behalf of the Offerors, will make the Offers to acquire all the issued China Strategic Shares and the outstanding China Strategic Warrants, other than the China Strategic Shares and the China Strategic Warrants presently owned by the Offerors and parties acting in concert with the Offerors, and to cancel all outstanding China Strategic Options on the following basis:

**for each China Strategic Share . . . . . HK\$0.139 in cash**  
**for each China Strategic Warrant . . . . . HK\$0.001 in cash**  
**for cancellation of each China Strategic Option . . . . . HK\$0.001 in cash**

and on the terms set out in the Offer Document. The China Strategic Shares to be acquired under the Share Offer will be acquired with the right to all future dividends and distributions.

The China Strategic Shares and the China Strategic Warrants to be acquired under the Offers will be acquired free from all encumbrances and any other third party rights.

Pursuant to the Offers, seller's ad valorem stamp duty in connection with the acceptance of the Share Offer and/or Warrant Offer amounting to HK\$1.00 for every HK\$1,000 or part thereof of the consideration which the accepting China Strategic Shareholder and/or China Strategic Warrantholders will become liable to pay and will be deducted from the consideration payable on acceptance of the Share Offer and/or Warrant Offer and will be paid by the Offerors.

The revised offer price of HK\$0.139 per China Strategic Share payable under the Share Offer represents:

- a discount of approximately 4.14% to the closing price of HK\$0.145 per China Strategic Share as quoted on the Stock Exchange on 10 July 2003, being the last trading day on which China Strategic Shares were traded on the Stock Exchange prior to the publication of the Supplementary Announcement;
- a premium of approximately 41.12% to the average closing price of HK\$0.0985 per China Strategic Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including 10 July 2003;

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## LETTER FROM THE BOARD

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- a premium of approximately 54.96% to the average closing price of HK\$0.0897 per China Strategic Share as quoted on the Stock Exchange for the thirty consecutive trading days up to and including 10 July 2003; and
- a premium of approximately 54.27% to the average closing price of HK\$0.0901 per China Strategic Share as quoted on the Stock Exchange for the six month period up to and including 10 July 2003.

The consideration per China Strategic Share payable under the Share Offer represents a discount of 93.32% on the net asset value per China Strategic Share of HK\$2.08 based on the audited accounts of China Strategic as at 31 December 2002.

As the average daily trading volume for China Strategic Shares was very thin during the six months before the publication of the Announcement, if any China Strategic Shareholders want to dispose their investments in China Strategic in the open market, it is very likely to significantly depress the China Strategic Share price. During the six month period preceding the date of the Supplementary Announcement, the highest and lowest closing prices of the China Strategic Share traded on the Stock Exchange were HK\$0.15 and HK\$0.08 per China Strategic Share respectively.

The China Strategic Warrants are currently out-of-the-money and will expire after 31 December 2003. Accordingly, an offer at HK\$0.001 is being made for each China Strategic Warrant. The price of HK\$0.001 per China Strategic Warrant represents:

- a discount of approximately 95.00% to the closing price of HK\$0.02 per China Strategic Warrant as quoted on the Stock Exchange on 10 July 2003, being the last trading day on which China Strategic Warrants were traded on the Stock Exchange prior to the publication of the Supplementary Announcement; and
- a discount of approximately 91.67% to the average closing price of HK\$0.012 per China Strategic Warrant as quoted on the Stock Exchange for the ten consecutive trading days up to and including 10 July 2003.

China Strategic has issued to Ms. Chan Ling, Eva, an executive director of China Strategic, China Strategic Options to subscribe for up to 75,000 China Strategic Shares under its share option scheme at a subscription price of HK\$3.145 per China Strategic Share. The China Strategic Options are currently out-of-the-money. Further, the price of each China Strategic Share is substantially lower than the exercise price of the China Strategic Options and these China Strategic Options are non-assignable and non-transferable. Taking into consideration the above factors, Kingsway SW Securities is making an offer, on behalf of the Offerors, to the China Strategic Options holder for her to surrender her China Strategic Options for cancellation at HK\$0.001 for each China Strategic Option outstanding pursuant to the Takeovers Code. Ms. Chan Ling, Eva (the holder of China Strategic Options) has undertaken to the Offerors that she will not exercise her China Strategic Options during the period in which the Offers remain open.

Assuming full acceptance of the Offers, the cash consideration payable by the Offerors at the offer price of HK\$0.139 per China Strategic Share, HK\$0.001 per China Strategic Warrant and HK\$0.001 per China Strategic Option will amount to approximately HK\$74.9 million, in which approximately HK\$74.8 million, HK\$117,630 and HK\$75 will be used for the acquisition of China Strategic Shares, China Strategic Warrants and China Strategic Options respectively.

### INFORMATION ON THE COMPANY, HANNY AND PAUL Y. - ITC

As at the Latest Practicable Date, the Offerors and parties acting in concert with them are interested in 291,675,000 China Strategic Shares, representing an aggregate interest of approximately 35.16% of the existing issued share capital of China Strategic. As at the Latest Practicable Date, China Strategic also has outstanding China Strategic Warrants conferring right to subscribe for 165,893,682 China Strategic Shares at the subscription price of HK\$0.16 per China Strategic Share. Upon full conversion of all China Strategic



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## LETTER FROM THE BOARD

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Warrants, 165,893,682 new China Strategic Shares will be issued, representing approximately 20.0% of the existing total issued China Strategic Shares and approximately 16.67% of the total issued China Strategic Shares as enlarged by the issue of such new China Strategic Shares.

Each of the Offerors holds 24,132,000 China Strategic Warrants, representing approximately 14.55% of the outstanding China Strategic Warrants. Upon full conversion of all China Strategic Warrants by the Offerors, 48,264,000 new China Strategic Shares will be issued, representing approximately 5.82% of the existing total issued China Strategic Shares and approximately 5.50% of the total issued China Strategic Shares as enlarged by the issue of such new China Strategic Shares.

### **Information about 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 China Strategic, interests in Hanny, Burcon NutraScience Corporation, Star East Holdings Limited, M Channel Corporation Limited, Downer EDI Limited, Ananda Wing On Travel (Holdings) Limited, Rosedale Hotel Group Limited, China Enterprises Limited and MRI Holdings Limited. In addition to those businesses carried out through Paul Y. - ITC, the principal activities of ITC Corporation Group comprise the investment and property holdings, provision of finances, and trading of building materials and machinery.

### **Information about Calisan Developments Limited and Paul Y. - ITC**

Calisan Developments Limited, one of the Offerors, is a limited liability company which was incorporated in the British Virgin Islands on 2 May 1991 and it is an investment holding company which, as at the Latest Practicable Date, directly holds 145,492,500 China Strategic Shares, representing approximately 17.54% of issued share capital of China Strategic, and 24,132,000 China Strategic Warrants, representing approximately 14.55% of the total outstanding China Strategic Warrants. Based on the subscription price of HK\$0.16 per China Strategic Share, 24,132,000 new China Strategic Shares will be issued upon full conversion of China Strategic Warrants by Calisan Developments Limited, representing approximately 2.91% of the existing total issued China Strategic Shares and approximately 2.83% of the total issued China Strategic Shares as enlarged by the issue of such new China Strategic Shares. Calisan Developments Limited is an indirect wholly-owned subsidiary of Paul Y. - ITC.

The principal business of Paul Y. - ITC group includes building construction, civil engineering, specialist works, property development and investment, and manufacturing and trading of construction materials. Its primary business focus is in Hong Kong and the PRC. Paul Y. - ITC is beneficially owned as to approximately 64.46% by ITC Corporation.

### **Information about Well Orient Limited and Hanny**

Well Orient Limited, one of the Offerors, is a limited liability company which was incorporated in Hong Kong on 21 August 2000 and it is an investment holding company. As at the Latest Practicable Date, Well Orient Limited and its concert parties directly hold 145,492,500 and 690,000 China Strategic Shares respectively, representing approximately 17.54% and 0.08% of issued share capital of China Strategic. In addition, Well Orient Limited directly hold 24,132,000 China Strategic Warrants, representing approximately 14.55% of the total outstanding China Strategic Warrants. Based on the subscription price of HK\$0.16 per China Strategic Share, 24,132,000 new China Strategic Shares will be issued upon full conversion of China Strategic Warrants by Well Orient Limited, representing approximately 2.91% of the existing total issued China Strategic Shares and approximately 2.83% of the total issued China Strategic Shares as enlarged by the issue of such new China Strategic Shares. Well Orient Limited is an indirect wholly-owned subsidiary of Hanny.

The principal business of Hanny group includes trading of computer related products and consumer electronic products. Hanny also trades securities and invests in information technology businesses. Hanny is beneficially owned as to approximately 28.26% by ITC Corporation.

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## LETTER FROM THE BOARD

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### INFORMATION ON 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.

As at the Latest Practicable Date, Dr. Chan Kwok Keung, Charles indirectly holds approximately 34.82% of the issued ordinary share capital of ITC Corporation and he also directly holds approximately 1.06% of the issued share capital of Paul Y. - ITC.

By virtue of his being the controlling shareholder of ITC Corporation, as at the Latest Practicable Date, Dr. Chan Kwok Keung, Charles is deemed to be interested in 145,492,500 China Strategic Shares and 24,132,000 China Strategic Warrants held by Paul Y. - ITC group under Part XV of SFO.

In addition, 650,000 China Strategic Shares, representing approximately 0.08% of the issued share capital of China Strategic, and 40,000 China Strategic Shares, representing approximately 0.005% of issued share capital of China Strategic, are held respectively by Ms. Ma Wai Man, Catherine, an independent non-executive director of Hanny and Ms. Lee Li, the spouse of a director of Hanny's subsidiary.

Save as disclosed above, Dr. Chan Kwok Keung, Charles and other directors of ITC Corporation, Hanny and Paul Y. - ITC and their respective concert parties do not hold any China Strategic Shares, China Strategic Warrants and/or China Strategic Options. Save for its interest in China Strategic through Hanny and Paul Y. - ITC, ITC Corporation does not hold any direct and/or indirect interest in China Strategic.

As at the Latest Practicable Date, the Offerors and their concert parties hold approximately 35.16% of the issued share capital of China Strategic. Assuming the Offers close in full acceptance and before the Offerors placing down their interests in China Strategic in order to maintain not less than 25% of the China Strategic Shares in the public hand, the Offerors and their concert parties will hold 100% of the issued share capital of China Strategic.

The financial information of China Strategic extracted from the audited consolidated financial statements of China Strategic for the two financial years ended 31 December 2002 is as follows:

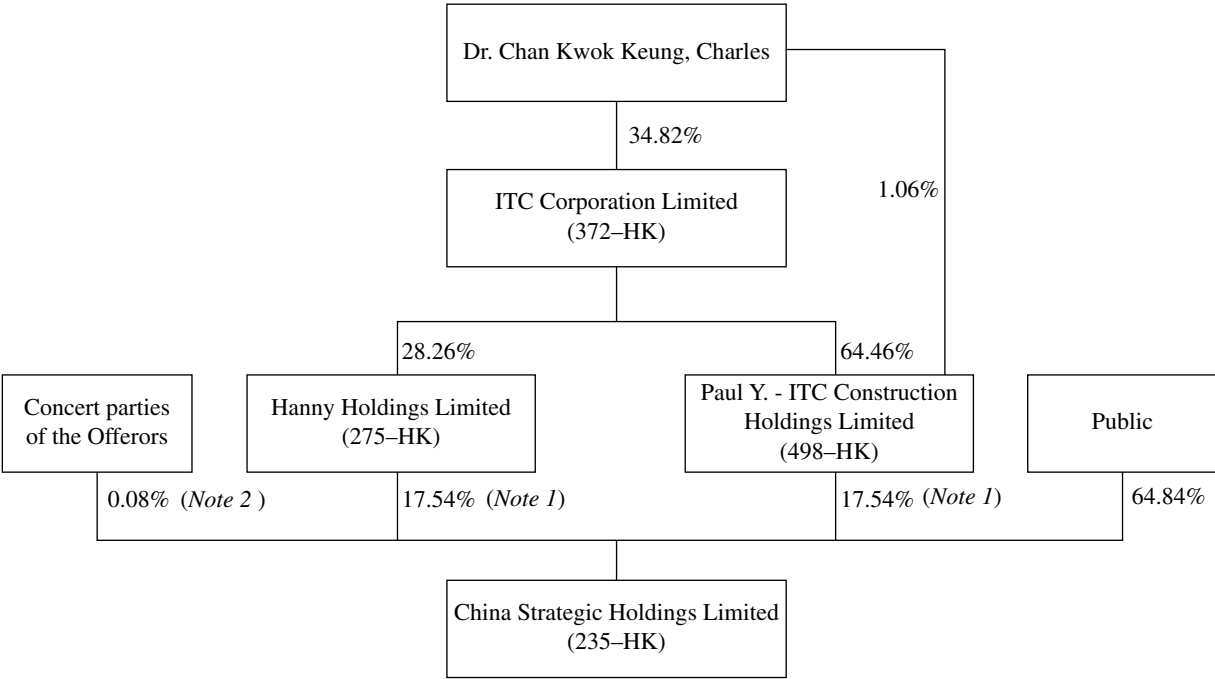
	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Loss before taxation	(695,566)	(1,001,147)
Taxation	<u>(18,041)</u>	<u>(5,982)</u>
Loss before minority interests	(713,607)	(1,007,129)
Minority interests	<u>236,500</u>	<u>408,399</u>
Net loss from ordinary activities attributable to China Strategic Shareholders	<u>(477,107)</u>	<u>(598,730)</u>
Net tangible assets	<u>1,728,935</u>	<u>2,167,946</u>

The Offers would result in Paul Y. - ITC having a decrease in cash and bank balances and an increase in investment. The extent of liabilities incurred will depend on the amount of external funding used to finance the Offers. Before the Offers, since Paul Y. - ITC holds less than 20% interest in China Strategic, it does not account for China Strategic as an associated company in its financial statements. After the successful completion of the Offers, Paul Y. - ITC will be able to recognise China Strategic as an associated company of Paul Y. - ITC. As a result, income statement of Paul Y. - ITC will reflect the financial performance of China Strategic through sharing the earning or loss of China Strategic.

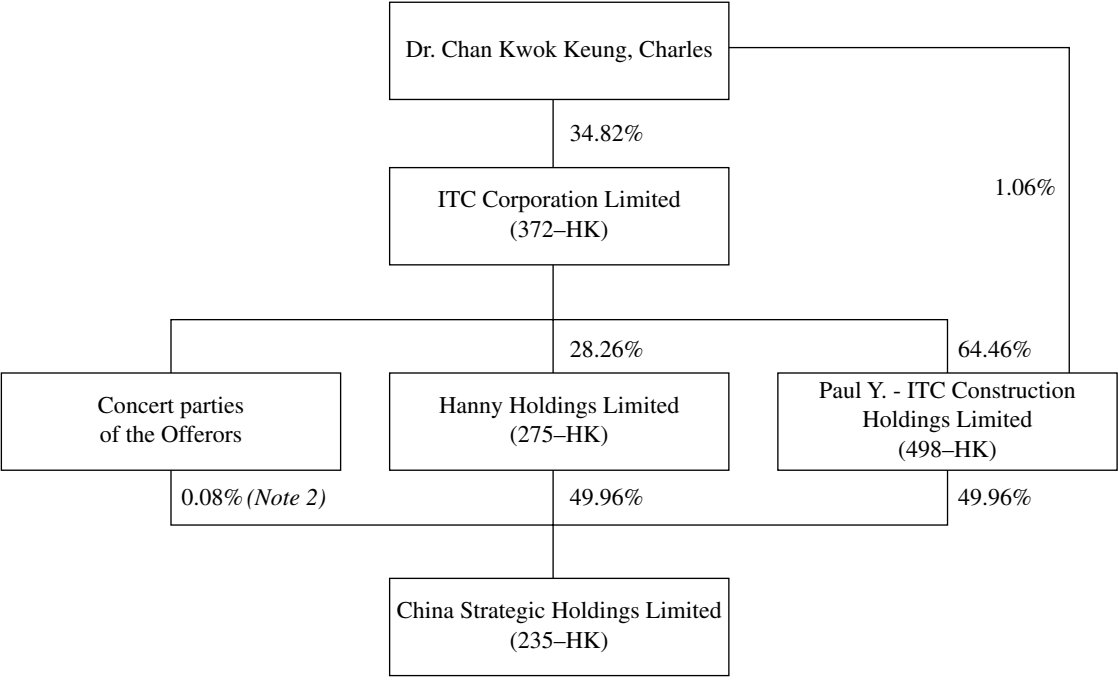
LETTER FROM THE BOARD

The following charts summarise the shareholding structure of China Strategic immediately before the publication of the Supplementary Announcement and after full acceptance of the Offers:

Before the publication of the Supplementary Announcement

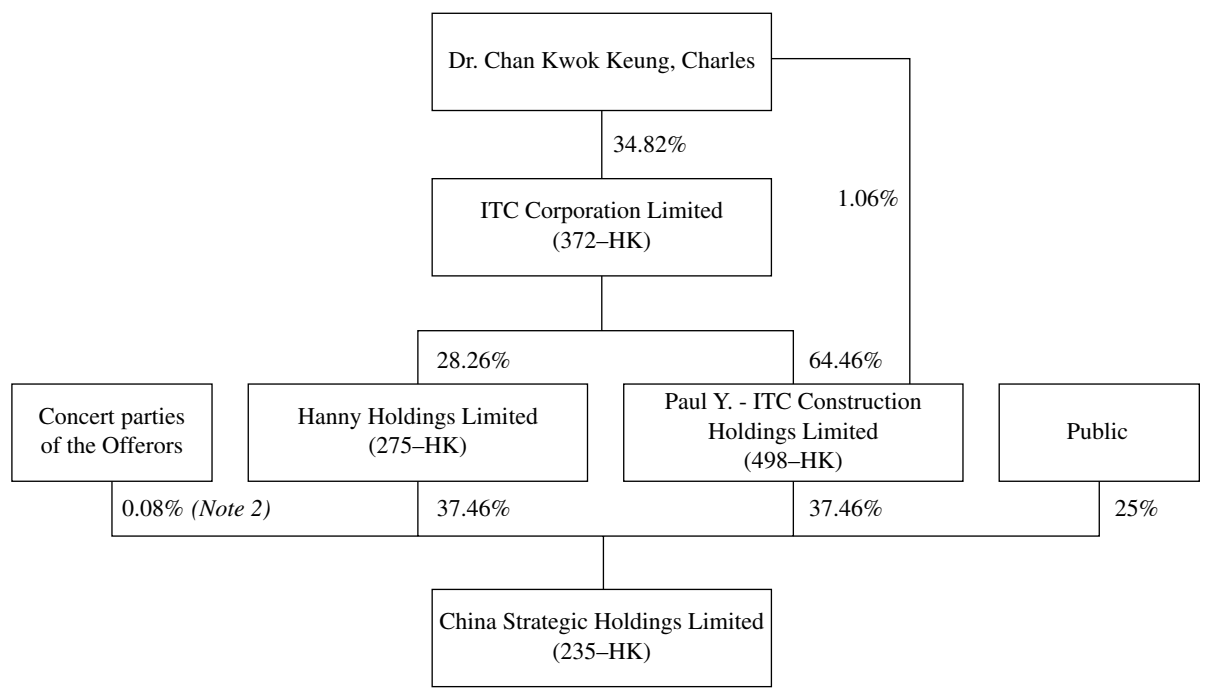


After full acceptance of the Offers but before the Offerors place down their interests in China Strategic:



LETTER FROM THE BOARD

After full acceptance of the Offers and the Offerors place down their interests in China Strategic:



Notes:

- As at the Latest Practicable Date, 64.46% and 1.06% of issued share capital of Paul Y. - ITC are indirectly held by ITC Corporation and directly held by Dr. Chan Kwok Keung, Charles respectively. 400 shares of Paul Y. - ITC, representing 0.00004% of issued share capital of Paul Y. - ITC, are held by Mr. Cheung Hon Kit, a director of ITC Corporation, Hanny and Paul Y. - ITC, and 6,445 shares of Paul Y. - ITC, representing 0.0006% of issued share capital of Paul Y. - ITC, are held by Mr. Law Man Wah, Conrad, a director of Paul Y. - ITC. Save for the above, the remaining 34.48% of issued share capital of Paul Y. - ITC are held by public investors.
- As at the Latest Practicable Date, the Offerors and their concert parties (Ms. Ma Wai Man, Catherine, an independent non-executive director of Hanny and Ms. Lee Li, the spouse of a director of Hanny's subsidiary) are interested in 290,985,000 and 690,000 China Strategic Shares (650,000 China Strategic Shares and 40,000 China Strategic Shares were owned by Ms. Ma Wai Man, Catherine and Ms. Lee Li respectively) respectively, representing 35.08% and 0.08% of the issued share capital of China Strategic respectively. The remaining 64.84% of issued share capital of China Strategic are held by public investors, in which 11.62% of the issued share capital of China Strategic are held by Mr. Oei Hong Leong, ex-chairman and ex-director of China Strategic.

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## LETTER FROM THE BOARD

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### THE CONDITION OF THE OFFERS

The Offers is conditional upon the Offerors having received acceptances in respect of voting rights attached to China Strategic Shares which, together with any voting rights acquired or agreed to be acquired before or during the Offers, will result in the Offerors and any parties acting in concert with them in aggregate holding more than 50% of the voting rights attaching to the China Strategic Shares.

It should be noted that the Offerors are subject to the aforesaid condition and the possible discloseable transaction in relation to the Offers may or may not proceed. Investors are advised to exercise extreme caution in dealing in the securities of ITC Corporation.

### REASONS OF THE OFFERS

As the liquidity of the China Strategic Shares is low, the Offers give China Strategic Shareholders and China Strategic Warrantholders an opportunity to realise their investments in China Strategic. In addition, the average daily trading volume for China Strategic Shares was very thin during the six months before the publication of the Announcement. If any China Strategic Shareholders want to dispose their investments in China Strategic at the open market, it is very likely to significantly depress the China Strategic Share price.

To the extent that the Offerors are successful in acquiring China Strategic Shares either through market purchases or through acceptances to the Share Offer, the Offerors will be able to enhance their investment in China Strategic by improving their share of the net assets of China Strategic and reduce their average investment cost in 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. The Offerors consider that the Offers could strengthen their ties with China Strategic and enhance their profile in the PRC. Having considered the economy in the PRC has maintained good impetus and the consumption power of Chinese people has steadily improved throughout this decade, the Offerors expect that the investments and businesses of China Strategic in the PRC will contribute long-term financial benefit to the Offerors. At present, since Hanny and Paul Y. - ITC each holds less than 20% interest in China Strategic, neither of them accounts for China Strategic as an associated company in their respective financial statements. After the successful completion of the Offers, the Offerors will be able to recognise China Strategic as an associated company which will enhance the long term investment value of Hanny and Paul Y. - ITC group.

### INTENTION OF THE OFFERORS REGARDING CHINA STRATEGIC

The Offers will not of itself result in any change in the board of directors, management, business or the continued employment of the employees, including directors, of China Strategic Group or any of its associated companies under the control of China Strategic.

Following the close of the Offers, the Offerors intend to continue the existing business of China Strategic Group and currently the Offerors have no intention to re-deploy fixed assets of China Strategic Group. Further, the Offerors have no intention to inject any assets or businesses into and/or dispose of any assets or business from China Strategic Group immediately after completion of the Offers.

The China Strategic Shares and the China Strategic Warrants to be acquired by Kingsway SW Securities, on behalf of the Offerors, during the offer period will be distributed to the Offerors in equal proportion. To ensure that not less than 25% of the China Strategic Shares and China Strategic Warrants will be held by the public after the Offers, the Offerors will place down their interests in China Strategic as soon as possible. China Strategic will become an associated company of Hanny and Paul Y. - ITC after the Offers and the placing.

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## LETTER FROM THE BOARD

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Under Rule 2.4 of the Takeovers Code, a competent independent advice as to whether the making of the offer is in the interests of the offeror's shareholders is required if the directors of the offeror are faced with a conflict of interest. Such advice must also be obtained before announcing an offer. However, in this case, Rule 2.4 of the Takeovers Code is inapplicable as stated in note 3 of the Rule 2.4 of the Takeovers Code, as the conflict of interest arises mainly due to the existence of common directors among the boards of the Offerors and China Strategic.

### FINANCIAL RESOURCES FOR THE OFFERS

Kingsway Capital has been appointed by the Offerors to advise them in connection with the Offers and Kingsway Capital is satisfied that sufficient financial resources are available to the Offerors, from a loan facility of HK\$60 million granted to the Offerors by Kingsway SW Securities and the remaining HK\$14.9 million will be financed by internal resources of the Offerors, to enable the Offerors to satisfy full acceptance of the Offers. Pursuant to the loan and mortgage agreements between the Offerors and Kingsway SW Securities, the Offerors agreed to pledge their 290,985,000 China Strategic Shares beneficially owned by the Offerors and any China Strategic Shares to be acquired by the Offerors under the Share Offer or otherwise during the offer period to Kingsway SW Securities to secure the loan facility granted to the Offerors by Kingsway SW Securities.

### MAINTAINING THE LISTING STATUS OF CHINA STRATEGIC

The Offerors will not exercise the power of compulsory acquisition. It is the intention of the Offerors to maintain the listing of China Strategic on the Stock Exchange after the close of the Offers. The Offerors and China Strategic have undertaken to the Stock Exchange that appropriate steps following the close of the Offers will be taken as soon as possible to ensure that not less than 25% of the China Strategic Shares and China Strategic Warrants will be held by the public. When the Offers close, should there be less than 25% of China Strategic Shares and China Strategic Warrants in public hands, the directors of the Offerors presently intend to take appropriate steps which may include, placing down their interests in China Strategic to Independent Third Parties within one month after closing of the Offers.

**The Stock Exchange has stated that it will closely monitor the trading in the China Strategic Shares and China Strategic Warrants on the Stock Exchange. If the Stock Exchange believes that:**

- a false market exists or may exist in the China Strategic Shares and China Strategic Warrants; or
- there are too few China Strategic Shares and China Strategic Warrants in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in China Strategic Shares and China Strategic Warrants.

In this connection, it should be noted that upon completion of the Offers, there may be an insufficient public float for the China Strategic Shares and China Strategic Warrants and, therefore, trading in the China Strategic Shares and China Strategic Warrants may be suspended until a sufficient level of public float is attained.

If China Strategic remains a listed company, the Stock Exchange will closely monitor all future acquisitions or disposals of assets by China Strategic. Any acquisitions or disposals of assets by China Strategic and its subsidiaries will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has discretion to require China Strategic to issue a circular and an announcement to China Strategic Shareholders irrespective of the size of the proposed acquisitions and disposals of assets by China Strategic, particularly where such proposed acquisitions and disposals of assets by China Strategic represent a departure from the principal activities of China Strategic. The Stock Exchange has the power pursuant to the Listing Rules to aggregate a series of acquisitions and disposals of assets by China Strategic and any such acquisitions and disposals of assets may result in China Strategic being treated as if it were a new listing applicant and subject to the requirements for new listing application as set out in the Listing Rules.

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## LETTER FROM THE BOARD

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### GENERAL INFORMATION

#### Offer Document

An Offer Document setting out, amongst others, the details and the terms of the Offers, together with the forms of acceptance and transfer will be despatched by the Offerors to all China Strategic Shareholders, China Strategic Warrantholders and China Strategic Options holder on 29 July 2003.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendix of this circular.

Your faithfully,  
For and on behalf of the Board  
**Dr. Chan Kwok Keung, Charles**  
*Chairman*

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group, Hanny group, Paul Y. - ITC group and China Strategic Group.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular relating to the Group and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

The information in this circular relating to Hanny, Paul Y. - ITC and China Strategic, and their respective subsidiaries has been extracted or summarized from information provided by Hanny, Paul Y. - ITC and China Strategic, at the request of the Company or from publicly available information. The Directors have made all reasonable enquiries and collectively and individually accept responsibility for the accuracy of extracts or summaries of such information.

DISCLOSURE OF INTERESTS

(a) Interests in Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered in the register required to be kept under section 352 of the SFO were as follow:

- (i) Aggregate long and short positions in shares, (in respect of equity derivatives) underlying shares and debentures of the Company

Name of Director	Nature of interests	Long position/ Short position	No. of ordinary shares of the Company held	No. of underlying shares (in respect of convertible notes (unlisted equity derivatives) of the Company) held	Approximate % of the existing ordinary issued share capital of the Company
Chan Kwok Keung, Charles	Corporate interest (Note 1)	Long position	219,681,911		34.82%
	Personal interest	Long position		833,333,333 (Note 2)	132.07%

Notes:

1.

Galaxyway Investments Limited was a wholly-owned subsidiary of Chinaview International Limited which was, in turn, wholly owned by Dr. Chan Kwok Keung, Charles. Dr. Chan Kwok Keung, Charles was deemed to be interested in 219,681,911 ordinary shares held by Galaxyway Investments Limited.
2.

Dr. Chan Kwok Keung, Charles personally owned convertible notes issued by the Company in the principal amount of HK\$250,000,000 carrying rights to convert into 833,333,333 ordinary shares of the Company at an initial conversion price of HK\$0.30 per share, subject to adjustment. Out of the aforesaid convertible notes of HK\$250,000,000, HK\$120,000,000 convertible notes (representing 400,000,000 underlying shares) were pledged by Dr. Chan Kwok Keung, Charles for his personal interest.



(ii) Aggregate long and short positions in shares and (in respect of equity derivatives) underlying shares of the following associated corporations

Interests in Paul Y. - ITC

Name of Director	Nature of interests	Long position/ Short position	No. of shares of Paul Y. - ITC held	No. of underlying shares (in respect of the warrants (listed equity derivatives) of Paul Y. - ITC) held	Approximate % of the existing issued share capital of Paul Y. - ITC
Chan Kwok Keung, Charles	Corporate interest (Note)	Long position	685,220,227		64.46%
	Personal interest	Long position	11,318,000		1.06%
	Corporate interest (Note)	Long position		115,085,927	10.83%
Cheung Hon Kit	Personal interest	Long position	400		0.00%
	Personal interest	Long position		80	0.00%

Note: The shares and underlying shares (in respect of the warrants) were held by a wholly-owned subsidiary of the Company. By virtue of his deemed interests in the ordinary share capital of the Company, Dr. Chan Kwok Keung, Charles was deemed to be interested in these shares and underlying shares. Out of the aforesaid 685,220,227 shares, 685,202,227 shares were pledged.

Interests in Hanny

Name of Director	Nature of interests	Long position/ Short position	No. of shares of Hanny held	No. of underlying shares (in respect of the share options (unlisted equity derivatives) of Hanny) held	Approximate % of the existing issued share capital of Hanny
Chan Kwok Keung, Charles	Corporate interest (Note)	Long position	45,298,813		28.26%
	Personal interest	Long position		4,000,000	2.49%
Chan Kwok Hung	Personal interest	Long position		1,750,000	1.09%

Note: The shares were held by a wholly-owned subsidiary of the Company. By virtue of his deemed interests in the ordinary share capital of the Company, Dr. Chan Kwok Keung, Charles was deemed to be interested in these shares.

Interests in Burcon NutraScience Corporation (“Burcon”)

Name of Director	Nature of interests	Long position/ Short position	No. of shares of Burcon held	No. of underlying shares (in respect of share options (unlisted equity derivatives) of Burcon) held	Approximate % of the existing issued share capital of Burcon
Chau Mei Wah, Rosanna	Personal interest	Long position	280,000		1.82%
	Personal interest	Long position		40,000	0.26%

Interests in Star East Holdings Limited (“Star East”)

Name of Director	Nature of interests	Long position/ Short position	No. of shares of Star East held	No. of underlying shares (in respect of share options (unlisted equity derivatives) of Star East) held	Approximate % of the existing issued share capital of Star East
Chan Kwok Keung, Charles	Corporate interest <i>(Note)</i>	Long position	1,135,082,479		26.09%
Chau Mei Wah, Rosanna	Personal interest	Long position		7,500,000	0.17%
Wong Kun To	Personal interest	Long position		10,500,000	0.24%

*Note:* The shares were held by a wholly-owned subsidiary of the Company. By virtue of his deemed interests in the ordinary share capital of the Company, Dr. Chan Kwok Keung, Charles was deemed to be interested in these shares.

Paul Y. - ITC, Hanny, Burcon and Star East are associated corporations, within the meaning of Part XV of SFO, of the Company.

Dr. Chan Kwok Keung, Charles was, by virtue of his deemed interest in the ordinary share capital of the Company, deemed to be interested in shares and underlying shares (in respect of equity derivatives), if any, of associated corporations (within the meaning of Part XV of SFO) of the Company held by the Group under Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

(b) Interests of shareholders discloseable pursuant to the SFO

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following parties had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

*Aggregate long and short positions in shares and (in respect of equity derivatives) underlying shares of the Company*

Name	Notes	Long position/ Short position	Nature of interests	No. of ordinary shares of the Company held	No. of underlying shares (in respect of unlisted equity derivatives of the Company) held	Approximate % of the existing issued share capital of the Company
Chan Kwok Keung, Charles	1	Long position	Personal interest		833,333,333	132.07%
Chan Kwok Keung, Charles	1	Long position	Corporate interest	219,681,911		34.82%
Chinaview International Limited	1	Long position	Corporate interest	219,681,911		34.82%
Galaxyway Investments Limited	1	Long position	Personal interest	219,681,911		34.82%
Ng Yuen Lan, Macy	1	Long position	Family interest	219,681,911		34.82%
Ng Yuen Lan, Macy	1	Long position	Family interest		833,333,333	132.07%
Tai Fook Finance Company Limited	2	Long position	Security interest		400,000,000	63.40%
Tai Fook (BVI) Limited	2	Long position	Corporate interest		400,000,000	63.40%
Tai Fook Securities Group Limited	2	Long position	Corporate interest		400,000,000	63.40%
Leung Choi Yin		Long position	Personal interest	7,720,000		1.22%
Leung Choi Yin		Long position	Personal interest		66,666,666	10.57%
Cheng Hairong	3	Long position	Corporate interest	1,000,000		0.16%
Cheng Hairong	3	Long position	Corporate interest		33,333,332	5.28%
Yang Yan	3	Long position	Family interest	1,000,000		0.16%
Yang Yan	3	Long Position	Family interest		33,333,332	5.28%
Gold Device Ltd.	4	Long position	Personal interest		80,000,000	12.68%
Wang Yung-tyng	4	Long position	Corporate interest		80,000,000	12.68%

Name	Notes	Long position/ Short position	Nature of interests	No. of ordinary shares of the Company held	No. of underlying shares (in respect of unlisted equity derivatives of the Company) held	Approximate % of the existing issued share capital of the Company
Bookman Properties Limited	5	Long position	Personal interest		66,666,666	10.57%
Yugang Enterprises Limited	5	Long position	Corporate interest		66,666,666	10.57%
Yugang International (BVI) Limited	5	Long position	Corporate interest		66,666,666	10.57%
Yugang International Limited	5	Long position	Corporate interest		66,666,666	10.57%
Chongqing Industrial Limited	5	Long position	Corporate interest		66,666,666	10.57%
Palin Holdings Limited	5	Long position	Corporate interest		66,666,666	10.57%
Cheung Chung Kiu	5	Long position	Corporate interest		66,666,666	10.57%
Million Dollar Trading Limited	6	Long position	Personal interest		33,333,333	5.28%
New World CyberBase Limited	6	Long position	Corporate interest		33,333,333	5.28%
Halluck Limited	7	Long position	Personal interest		33,333,333	5.28%
Ho Hau Hay, Hamilton	7	Long position	Corporate interest		33,333,333	5.28%
Grand Ocean Investments Limited	8	Long position	Personal interest		66,666,666	10.57%
Chang Wa Shan	8	Long position	Personal interest	2,320,000		0.36%
Chang Wa Shan	8	Long position	Corporate interest		66,666,666	10.57%
Cheung Wing Har, Linda	8	Long position	Family interest	2,320,000		0.36%
Cheung Wing Har, Linda	8	Long position	Corporate interest		66,666,666	10.57%

*Notes:*

1. Galaxyway Investments Limited, a substantial shareholder (as defined in the Listing Rules) of the Company, was a wholly-owned subsidiary of Chinaview International Limited which was in turn wholly owned by Dr. Chan Kwok Keung, Charles. Ms. Ng Yuen Lan, Macy was the spouse of Dr. Chan Kwok Keung, Charles. Chinaview International Limited, Dr. Chan Kwok Keung, Charles and Ms. Ng Yuen Lan, Macy were deemed to be interested in the ordinary shares held by Galaxyway Investments Limited and therefore were also deemed to be substantial shareholders of the Company.

Dr. Chan Kwok Keung, Charles owned convertible notes issued by the Company in the principal amount of HK\$250,000,000 carrying rights to convert into 833,333,333 ordinary shares of the Company at an initial conversion price of HK\$0.30 per share, subject to adjustment. Ms. Ng Yuen Lan, Macy, being the spouse of Dr. Chan Kwok Keung, Charles, was deemed to be interested in the underlying shares (in respect of the convertible notes (unlisted equity derivatives)) held by Dr. Chan Kwok Keung, Charles. Out of the aforesaid convertible notes in the principal amount of HK\$250,000,000, HK\$120,000,000 convertible notes (representing 400,000,000 underlying shares) were pledged by Dr. Chan Kwok Keung, Charles for his personal interest.

2. Tai Fook Finance Company Limited had interests in underlying shares (in respect of the unlisted equity derivatives) as security interests.

Tai Fook Finance Company Limited, a wholly-owned subsidiary of Tai Fook (BVI) Limited which was in turn wholly owned by Tai Fook Securities Group Limited. Tai Fook (BVI) Limited and Tai Fook Securities Group Limited were deemed to have security interests in the underlying shares interested by Tai Fook Finance Company Limited.

3. Gladstone Rise Limited and Attractive Futures Limited, both were wholly owned by Mr. Cheng Hairong, held shares and underlying shares (in respect of the unlisted equity derivatives). Mr. Cheng Hairong and, his family member, Ms. Yang Yan were deemed to be interested in these shares and underlying shares held by Gladstone Rise Limited and Attractive Futures Limited.
4. Gold Device Ltd. was wholly owned by Mr. Wang Yung-tyng. Mr. Wang Yung-tyng was deemed to be interested in the underlying shares (in respect of the unlisted equity derivatives) held by Gold Device Ltd..
5. Bookman Properties Limited was a wholly-owned subsidiary of Yugang Enterprises Limited which in turn was a wholly-owned subsidiary of Yugang International (BVI) Limited. Chongqing Industrial Limited owned 37.79% shareholding interests in Yugang International Limited which wholly owned Yugang International (BVI) Limited. Palin Holdings Limited, a company wholly owned by Mr. Cheung Chung Kiu, owned 100% interests in Chongqing Industrial Limited. Yugang Enterprises Limited, Yugang International (BVI) Limited, Yugang International Limited, Chongqing Industrial Limited, Palin Holdings Limited and Mr. Cheung Chung Kiu were deemed to be interested in the underlying shares (in respect of the unlisted equity derivatives) held by Bookman Properties Limited.
6. Million Dollar Trading Limited was a wholly-owned subsidiary of New World CyberBase Limited. New World CyberBase Limited was deemed to be interested in the underlying shares (in respect of the unlisted equity derivatives) held by Million Dollar Trading Limited.
7. Halluck Limited was wholly owned by Mr. Ho Hau Hay, Hamilton. Mr. Ho Hau Hay, Hamilton was deemed to be interested in the underlying shares (in respect of the unlisted equity derivatives) held by Halluck Limited.
8. Grand Ocean Investments Limited was owned as to 50% by Ms. Cheung Wing Har, Linda and as to 50% by Mr. Chang Wa Shan, family member of Ms. Cheung Wing Har, Linda. Mr. Chang Wa Shan and Ms. Cheung Wing Har, Linda were deemed to be interested in the underlying shares (in respect of the unlisted equity derivatives) held by Grand Ocean Investments Limited. Ms. Cheung Wing Har, Linda was deemed to be interested in the shares held by Mr. Chang Wa Shan.

**(c) Substantial shareholding in other members of the Group**

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following parties, other than a Director or chief executive of the Company, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of subsidiary	Name of shareholder	% of issued share capital
Hamker Concrete Products Limited	Lau Kwok Cheung	30.0%
D & C Engineering (H.K.) Limited	Artery Construction Management Limited	45.0%
Paul Y. Seli Limited	Societa Esecuzione Lavori Idraulici S.p.A.	49.0%
Paul Y. - CREC Engineering Co., Limited	China Railway Engineering Corporation	30.0%

Save as disclosed above, the Directors and the chief executive of the Company are not aware that there is any party who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

**SERVICE CONTRACTS**

None of the Directors has entered into any service contracts with any member of the Group which is not terminable by the Group within one year without any payment of compensation, other than statutory compensation.

**LITIGATION**

The Group is currently involved in the following material litigation:

The liquidators of Hoi Sing Construction Company Limited (“Hoi Sing”), a former wholly-owned subsidiary of the Company, instituted proceedings against the Company on 10th July, 1998 claiming approximately HK\$297,441,000 plus interest pursuant to an alleged guarantee by the Company for debt owed by Hoi Sing Builders Limited, a former wholly-owned subsidiary of the Company, to Hoi Sing. The Company does not admit the existence of the guarantee, and has put Hoi Sing to strict proof of its terms and the amounts claimed under it. Even if the Court upholds the alleged guarantee, the Company has a defence of “set off” arising from a claim against Hoi Sing for approximately HK\$308,207,000. As at 31st March, 2003, the Company is a principal unsecured creditor of Hoi Sing and the liquidators of Hoi Sing have admitted a substantial portion of the Company’s claim. The balance is being adjudicated by the liquidators of Hoi Sing.

**GENERAL**

- The secretary of the Company is Law Hon Wa, William, *AHKSA, FCCA*.
- The registered office of the Company is at Clarendon House, Church Street, Hamilton HM 11, Bermuda and the principal place of business in Hong Kong of the Company is at 33rd Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.
- The transfer office and share registrars of the Company are Butterfield Fund Services (Bermuda) Limited of Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda and Secretaries Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, respectively.
- The English text of this circular shall prevail over the Chinese text.