IT Capital Limited

APPRAISAL REPORT
On the Fairness of a Series of Related Party Transactions

AND

An Issue of Shares to Directors

AND

INDEPENDENT ADVISER'S REPORT
On the Merits of a Proposed Allotment of Securities

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Auckland • Sydney • Melbourne

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1 The Proposed Transactions

1.1 Details of the Proposed Related Party Transactions and Proposed Allotment of Securities

IT Capital Limited ("ITC") intends to enter into a series of linked transactions collectively referred to in this report as the "Proposed Related Party Transactions" with Messrs Maurice Bryham and David McKee Wright and associated interests. The Proposed Related Party Transactions involve ITC:

- entering into a management services contract with Platinum Management Limited ("PML"), a company controlled and indirectly owned by Messrs Bryham and McKee Wright. The contract is for a term of three years for which PML will be paid a management fee of $300,000 per annum for providing day to day management utilising the services of Messrs Bryham and McKee Wright; and

- issuing 50 million options to PML that will vest in a series of tranches over a period of 30 months from the date of the meeting of shareholders to approve the Proposed Related Party Transactions. The exercise price for each option is 4 cents per share.

The number of options exercisable, commencement period, and a trigger price that ITC shares must be at before the options can be exercised is listed below:

IT Capital Limited – Details of Options to be issued			
Tranche	Number of Options Exercisable	Commencement of Exercise Period	Trigger Price
(a)	10 million	6 months after shareholders' meeting	8 cents
(b)	10 million	12 months after shareholders' meeting	10.5 cents
(c)	10 million	18 months after shareholders' meeting	13 cents
(d)	10 million	24 months after shareholders' meeting	15.5 cents
(e)	10 million	30 months after shareholders' meeting	18 cents

The options are exercisable at any time from the commencement of the relevant exercise period until 90 days after the termination of the PML management services contract. They can only be exercised if the average weighted market price for ITC shares sold on the New Zealand Stock Exchange ("NZSE") during the 15 days ending on the date of the exercise of the option is equal to or greater than the trigger price for the relevant tranche;

- the issue of 15 million fully paid ordinary shares in ITC to each of Maurice Bryham and David McKee Wright for the consideration of 4 cents per share. The shares are to be issued within 10 working days of the date of the shareholders' meeting; and
- purchasing Messrs Bryham and McKee Wright's shareholdings in the following companies:

  - 40% of Datasquirt Limited ("Datasquirt")

  - 50% of Conceptual Solutionz Limited ("CSL")

  - 70% of Sealegs International Limited ("Sealegs")

Collectively Datasquirt, CSL and Sealegs are referred to in this report as the "Target Companies". The consideration for the acquisition of the Target Companies is to be satisfied by the issue of 137.5 million fully paid ordinary shares in ITC issued at 4 cents each.

The proposed issue of ordinary shares and options to Messrs Bryham and McKee Wright are collectively referred to in this report as the "Proposed Allotment of Securities".

The four transactions described above are linked and interdependent. That is, the completion of one transaction will not occur without the completion of the remaining three transactions. For this reason the Proposed Related Party Transactions are considered for the purpose of this report as a whole rather than in parts. In addition, the subscription by Messrs Bryham and McKee Wright for 15 million fully paid ordinary shares each referred to above is conditional upon ITC raising $3.7 million in total from this subscription and from outside investors.

ITC proposes to raise $2.5 million of new equity through the issue of 62.5 million new shares at a price of 4 cents each to certain habitual or institutional investors. Grant Samuel has been advised that the subscription for these new shares and the Proposed Related Party Transactions is also interdependent. That is, the completion of one transaction will not occur without the completion of the other. Grant Samuel has also been advised that a director and substantial security holder of ITC, Mr Jay Snider, intends to subscribe for 12.5 million new shares out of the 62.5 million new shares referred to above.

1.2 Details of the Issue of Shares to Directors

ITC intends to increase the annual remuneration of directors for the year commencing 1 April 2002. A component of the new remuneration proposed involves the issue of ordinary shares at an ascribed value of 4 cents per share in lieu of directors' fees (the "Directors' Share Issue"). The total number of shares issued to the chairman and directors will not exceed 2,625,000 and is split as follows:

- 375,000 shares to each director (other than the chairman); and
- 750,000 shares to the chairman.

In addition to the shares, directors will receive a proportion of directors fees paid in cash.

1.3 NZSE Listing Rule Requirements

Mr McKee Wright is the Chief Executive Officer and Mr Bryham is the Chief Operating Officer of ITC. As officers of ITC, Messrs Bryham and McKee Wright are deemed to be related parties of the company. By virtue of its association with Messrs Bryham and McKee Wright, PML is also deemed to be a related party. The aggregate gross value of the Proposed Related Party Transactions exceeds 0.5% of the lesser of shareholders funds or the average market capitalisation of ITC. The Proposed Related Party Transactions therefore constitute a material transaction with related parties as defined by NZSE Listing Rules.

The Proposed Related Party Transactions are conditional upon ITC shareholder approval by Special Resolution at a meeting to be held on 23 July 2002. NZSE Listing Rule 9.2.5 requires that the Notice of Meeting be accompanied by an Appraisal Report stating whether or not in the opinion of the reporter the consideration and terms and conditions of the Proposed Related Party Transactions are fair to holders of equity securities other than Messrs Bryham and McKee Wright (the "Affected Holders").

NZSE Listing Rule 9.2.4(c) specifically excludes any employment or services contract from the definition of a material transaction for the purposes of the Listing Rules where the NZSE is satisfied the terms of the contract have been set on an arms length, commercial basis. In this instance, the management services contract with PML forms part of the Proposed Related Party Transactions and therefore must also be considered.

NZSE Listing Rule 6.2.2 requires that the Notice of Meeting be accompanied by an Appraisal Report where the issue of shares is intended or likely to result in more than 50% of the shares being issued being acquired by directors or associated persons of the director. The Appraisal Report must state whether or not in the opinion of the reporter the consideration and terms and conditions of the Directors' Share Issue are fair to the Affected Holders.

Mr Jay Snider is a director and substantial security holder of ITC and as such is deemed to be a related party for the purposes of the NZSE Listing Rules. His intended subscription for 12.5 million new shares at an issue price of 4 cents per share, being a total of $500,000 in value, constitutes a Material Transaction with a Related Party under Listing Rule 9.2.1 as it is in excess of 5% of ITC Shareholders' Funds. This issue is part of the issue of 62.5 million new ITC shares to certain habitual or institutional investors required to be approved by ordinary resolution of ITC shareholders at the meeting to be held on 23 July 2002.

1.4 Takeovers Code Requirements

The Takeovers Code came into effect on 1 July 2001, replacing the NZSE Listing Rule requirements governing the conduct of listed company takeover activity in New Zealand. The Takeovers Code seeks to ensure that all shareholders are treated equally and on the basis of proper disclosure, are able to make an informed decision as to whether to accept or reject a takeover offer or approve or disapprove the allotment of new securities that will lead to a substantial change in ownership of the company. ITC is a Code company and is therefore subject to the rules and regulations incorporated in the Takeovers Code. Under the Takeovers Code a person seeking to increase its shareholding in a Code company to 20% or more is required to make a full or partial offer to all shareholders conditional on acceptances for 50% or more of the Code company's voting rights, unless approved by an ordinary resolution of shareholders of the Code company. The Proposed Allotment of Shares to Messrs Bryham and McKee Wright constitutes an exception to Rule 6 of the Takeovers Code and requires approval by ordinary resolution of ITC shareholders entitled to vote on the matter.

Messrs Bryham and McKee Wright and the management company, PML are joined as associates by virtue of the management contract with ITC. ITC currently has 171.95 million shares and 17.9 million options on issue. The Proposed Allotment of Securities involves the issue of 167.5 million new shares to Messrs Bryham and McKee Wright and 50 million new options being issued to PML. On a fully diluted basis (ie assuming all the options were exercised and all other proposed allotments of shares and options to be approved by shareholders are made) ITC will have approximately 456.6 million shares on issue. Messrs Bryham and McKee Wright will collectively hold 217.5 million shares either directly or via PML, which equates to 47.6% of the voting rights of ITC. If none of the options are exercised, then Messrs Bryham and McKee Wright will jointly control 41.4% of the voting rights of ITC.

The Notice of Meeting containing the resolution to be voted on must contain (inter alia) a report (or summary report) from an independent adviser on the merits of the proposed allotment, having regard to the interests of the persons who may vote to approve it.

2 Scope of the Report

2.1 Purpose of the Report

The Proposed Related Party Transactions are subject to shareholder approval under NZSE Listing Rules and Section 129 of the Companies Act 1993. The Proposed Allotment of Securities is also subject to shareholder approval under the Takeovers Code.

The Directors of ITC have engaged Grant Samuel & Associates Limited ("Grant Samuel") to prepare a report (the "Report") that provides:

- an opinion as to whether or not the consideration and terms and conditions of the Proposed Related Party Transactions are fair to the shareholders in ITC other than Messrs Bryham and McKee Wright in accordance with NZSE Listing Rules;

- an evaluation of the merits of the Proposed Allotment of Securities in accordance with the Takeovers Code;

- an opinion as to whether or not the consideration and terms and conditions of the Director's Share Issue are fair to holders of equity securities other than ITC directors in accordance with NZSE Listing Rules; and

- an opinion as to whether or not the consideration and terms and conditions of the issue of new shares to Mr Jay Snider, being a Material Transaction with a Related Party, are fair to shareholders in ITC other than Mr Snider or associates. Grant Samuel has been approved by the Market Surveillance Panel of the NZSE and the Takeovers Panel to prepare the Report.

The Report has been prepared by Grant Samuel to assist the directors of ITC in advising shareholders in relation to the Proposed Related Party Transactions, consequential Proposed Allotment of Securities and Directors' Share Issue. It is not intended that the Report be used or relied upon for any purpose other than an expression of Grant Samuel's opinion as to:

- the fairness of the Proposed Transactions;

- the merits of the Proposed Allotment of Securities; and

- the and fairness of Director's Share Issue.

The Report should not be used for any other purpose.

2.2 Basis of Assessment

Grant Samuel's appraisal of the fairness of the Proposed Related Party Transactions and evaluation of the merits of the Proposed Allotment of Securities should be considered in each case as a whole. Selecting portions of the analyses or factors considered by Grant Samuel, without considering all the factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel is not required to opine on whether the level of directors' remuneration is appropriate or the fairness of the issue of 62.5 million new shares to certain habitual or institutional investors.

2.2.1 Appraisal of the Proposed Related Party Transactions

The term "fair" as used in the NZSE Listing Rule has no legal definition in New Zealand either in the NZSE Listing Rules themselves or in any statute dealing with securities or commercial law, although over time a commonly accepted meaning has evolved.

In Australia, where the phrase "fair and reasonable" appears in legislation and in the Listing Rules of the Australian Stock Exchange, the Australian Securities Commission issued a Policy Statement on 8 December 1993 ("Policy Statement 75") setting out the basis on which independent experts are to evaluate whether a takeover is fair and reasonable for the purpose of Sections 411, 648 and 703 of the Australian Corporations Law. The Policy Statement is directed primarily at the responsibilities of companies under takeover offer and requires independent experts to consider separately whether a takeover offer is "fair" and whether it is "reasonable". Fairness is said to involve a comparison of the offer price with the value of the underlying businesses and assets. In determining fairness, any existing entitlement to shares by the offeror is to be ignored. An offer is considered to be fair if the price fully reflects the value of a company's businesses and assets. Reasonableness is said to involve an analysis of other factors that a shareholder might consider prior to accepting an offer such as the offeror's existing shareholding, other significant shareholdings, the likelihood of an alternative offer and the liquidity of the market for the target company's shares.

Listing Rule 9.2 requires that the Appraisal Report evaluate whether the transaction price and terms are fair. In the context of the Proposed Related Party Transactions price relates to:

- the issue price of ITC shares; and
- the value ascribed to the Target Companies.

In Grant Samuel's opinion the relevant test for determining a fair issue price for ITC shares is to consider whether the current market price of ITC shares is a fair reflection of a portfolio interest in ITC.

ITC is acquiring less than 100% ownership of three small, unlisted New Zealand companies. Grant Samuel believes it is appropriate to value Messrs Bryham and McKee Wrights equity interests in the Target Companies on the basis that ITC is a new investor and apply a discount to the full underlying value for non-marketability.

The terms and conditions of the Proposed Related Party Transactions are considered to be fair if they are not onerous and do not adversely impact on the Affected Holders.

2.2.2 Merits of the Proposed Allotment of Securities

The term "merits" as used in the Takeovers Code has also no legal definition in New Zealand either in the Takeovers Code itself or in any statute dealing with securities or commercial law. Its meaning is also far from clear in the context of the Proposed Allotment of Securities. Accordingly, in the absence of regulatory guidance, Grant Samuel has considered that an assessment of the merits of the Proposed Allotment of Securities is a broader test than "fair and reasonable" and should incorporate an assessment of the benefits, disadvantages and risks of the Proposed Allotment of Securities such as:

- the impact of the Proposed Allotment on the shareholding structure of ITC;
- the prospects for shareholders without the Proposed Allotment of Securities;
- advantages, disadvantages and implications of the Proposed Allotment of Securities;
- an assessment of alternatives considered by ITC and an overview of the process to determine the terms of the Proposed Allotment of Securities; and
- the risks associated with an investment in ITC before and after the Proposed Allotment of Securities.

2.2.3 Appraisal of Director's Share Issue

Grant Samuel has formed an opinion on the fairness of the Director's Share Issue on the basis of an assessment of the issue price as part of its appraisal of the Proposed Related Party Transactions. Directors will receive shares in lieu of fees. Consideration is therefore the cash equivalent of the amount that would otherwise be payable in cash by ITC to its directors.

2.3 Sources of Information

The following information on ITC and the Target Companies was used and relied upon in preparing this report:

- Annual reports of ITC for the years 31 March 2000 and 2001 and draft annual report for the year ended 31 March 2002;
- Half year reports for the six months ended 30 September 2000 and 2001;
- management accounts for ITC for the months of February 2002 and March 2002;
- drafts of the notice of meeting and accompanying documentation;
- monthly projections of operating expenses for DVI for the year ending 31 March 2003;
- brokers reports on ITC and various press releases / NZSE announcements made by ITC and/or DVI over the last eight months;
- information provided by Messrs Bryham and McKee Wright on the Target Companies including:
- an information memorandum or business plan for each of the Target Companies;
- four year projections of financial performance for each of the Target Companies; and
- unaudited historical financial information and statutory records.

Grant Samuel also held discussions with and obtained information from ITC's Chairman, Messrs Bryham and McKee Wright and management of the Target Companies.

2.4 Limitations and Reliance on Information

The report is based upon financial and other information provided by ITC and the Target Companies. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming opinions as to the fairness of the Proposed Related Party Transactions and Director's Share Issue and evaluating the merits of the Proposed Allotment of Securities. However, in such assignments time is limited and Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or 'due diligence' investigation might disclose.

In any event, the analysis is in the nature of an overall opinion rather than an audit or detailed investigation. Grant Samuel has not undertaken a due diligence investigation of ITC, its investee companies or the Target Companies. Preparation of this report does not imply that Grant Samuel has audited in any way the financial or other records of ITC, its investee companies or the Target Companies. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting principles and in a manner consistent with methods of accounting used in previous years.

An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of the management of the relevant enterprise. Grant Samuel held discussions with management and Messrs Bryham and McKee Wright in their capacity as officers of ITC and as part of the management team of the Target Companies. The information provided by Messrs Bryham and

McKee Wright was also evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included forecasts of future revenues and expenditures, profits and cash flows of ITC, its investee companies and the Target Companies prepared by the management. Grant Samuel has assumed that these forecasts were prepared fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such forecasts. It is assumed that the forecasts do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

Grant Samuel in no way guarantees or otherwise warrants the achievability of the forecasts of future profits and cash flows prepared by management. Forecasts are inherently uncertain and this is undoubtedly so in case of business start ups and companies in the early stages of development. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

2.5 Current Market Conditions

The opinion of Grant Samuel is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

3 Profile of IT Capital

3.1 Background and History

ITC has its origins in Iddison Group Vietnam Limited ("Iddison"), which listed on the NZSE in October 1994. Iddison focused on investing in a diverse range of projects and businesses in Vietnam. Iddison experienced a series of losses in its first five years of listing causing its share price to drop to 5 cents from an issue price of $1.00.

A name change to IT Capital was made in April 1999, reflecting the change in the company's operations to a technology investment venture capital fund. In September 1999 a former head of Apple Computers UK, Keith Phillips, was appointed managing director. During 1999, ITC made three placements of shares, which raised $11.8 million.

ITC has been an active investor in the technology sector since April 1999, following a strategy of funding second round capital raisings by emerging companies rather than greenfields or first round funding. As is common for venture capital funds, ITC's investments have met with varying degrees of success, as demonstrated in the summary below:

I.T. Capital - Investment History

Investee Company	Sector	Entry Date	Sum Invested ($000's)	Exit Date	Exit or Market Value ($000's)
exo-net	Business software	May 1999	NZ$1,520	Aug 2000	NZ$12,300
Tunes.com	Internet portal	May 1999	US$500	Dec 1999	Nil
BMC Media	Internet Services	Nov 1999	A$250	Dec 1999	A$492
Terabyte	Website Developer	Nov 1999	NZ$8,400	Held	Nil*
Virtual Spectator	Internet Software	Feb 2000	NZ$6,374	May 2002	Nil*
Deep Video Imaging	Computer Hardware	May 2000	NZ$3,859	Held	Nil*
Golden Orb	E-commerce Developer	May 2000	NZ$1,305	Held	Nil*
Streamlink	Business Software	April 2001	A$1,000	July 2001	(Nil in receivership)

*Directors' valuation

As with many other companies with investments in the technology sector, ITC has been through a difficult period during 2000 and 2001 as values in the sector declined and doubts about projected growth rates of the e-commerce sector in particular emerged. As a consequence, ITC announced on 22 February 2002 that it was writing down the value of its investment portfolio by $9.715 million. The write down was applied to all investee companies other than Deep Video Imaging.

At the same time, ITC announced that it was projecting a total loss of $20 million for the year 31 March 2002. In addition to the $9.715 million write down of the investment portfolio, the loss includes ITC's equity accounted share of operating losses in its portfolio companies, head office costs, and costs arising out of restructuring and rationalisation.

Current Portfolio

ITC has three companies in its investment portfolio:

Terabyte

Terabyte is 100% owned by ITC who purchased the company for $8.4 million in November 1999. It is New Zealand's largest interactive media and web services development company with a number of blue chip regular clients such as Auckland International Airport, Telecom, Nestle and Microsoft. Revenue arises from one-off project fees and ongoing service fees. Growth strategy is focused on entry into the Australian and Asian markets.

Terabyte suffered from the downturn in the e-commerce market during 2000/01. A loss of $824,000 was incurred for the six months to 30 September 2001. As a result ITC wrote down the carrying value of its investment in Terabyte by $4.7 million, by writing off the goodwill purchased at the time of the original investment in the half-year accounts to 30 September 2001. Although, Terabyte revenues have stabilised in recent months ITC Directors wrote the carrying value to down to nil in February 2002.

Golden Orb Technologies

ITC has a 40% shareholding in the Queensland based software company, Golden Orb Technologies. Golden Orb has focused on the development of software than enables small to medium sized businesses to quickly and easily build websites that are used to conduct business online. The software provides the flexibility to change the layout, design, and content of a website without having to obtain web programming skills. The shareholding was purchased in May 2000 for $350,000.

The "dot com" collapse in 2000/01 led to a significant slow down in Golden Orb's business from which it has not fully recovered. A loss of $440,000 was recorded for the six months ending 30 September 2001. The carrying value of the investment in the financial statements of ITC as at 31 March 2002 is nil as a result of equity accounting for ITC's share of operating losses, write-downs and director's revaluations.

Deep Video Imaging

In May 2000, ITC purchased a 34.6% interest in Deep Video Imaging ("DVI") for $1.4 million and subsequently invested an additional $2.5million to bring its shareholding to 42% and total investment to $3.9 million. DVI specialises in the development of LCD screens for computers and kiosks. It is developing a video screen consisting of multiple LCD layers which provide high quality 3-D effects without the need for the viewer to wear the traditional green and red lens glasses. After equity accounting for ITC's share of DVI's losses, the carrying value of the DVI investment is nil.

DVI has sought global patents for the innovative screens. The product has attracted attention from many user markets, including process control, military, gaming and kiosk markets. DVI has struck relationships with the largest LCD manufacturer in the world, LG Phillips in Asia, and also with Innova in the USA. A 2% investment in the company has been made by the Singapore Government through that country's National Science and Technology Board.

Reflecting the company's early stages, a loss of $2.23 million was recorded by DVI for the six months to 30 September 2001. However, DVI's prospects look positive. Nevertheless, the carrying value of the investment in DVI as at 31 March 2002 is nil as a result of equity accounting write-downs.

3.2 Financial Performance

The financial performance of ITC for the three years ending 31 March 2002 is summarised in the table below:

ITC - Financial Performance ($000's)

	Year Ended 31 March		
	2000	**2001**	**2002**
Sales revenue	1,249	3,417	2,511
Profit on sale of investments	734	9,849	-
Other income	3	90	75
Total Operating Revenue	1,986	13,356	2,586
Overheads & expenses	(4,535)	(10,746)	(8,243)
EBITDA	**(2,549)**	**2,610**	**(5,657)**
Depreciation and amortisation	(304)	(5,015)	(2,477)
EBIT	**(2,853)**	**(2,405)**	**(8,134)**
Net interest	292	672	65
Reduction in carrying value of investments	(500)	(1,580)	(13,112)
Non recurring items	(194)	(688)	(314)
Taxation	-	-	-
Share of deficit of associate companies	-	(957)	-
Deficit after taxation	**(3,255)**	**(4,958)**	**(21,495)**

In analysing the table above, the following should be taken into account:

- reductions in the carrying value of investments have been made following reviews by the Board of Directors and as a result of equity accounting losses in associates. The Board's policy is to not revalue carrying values upwards following any previous write down below entry price; and

- non recurring items consist of:

ITC - Non-Recurring Items ($000's)			
	Year Ended 31 March		
	2000	**2001**	**2002**
Unrealised exchange gains / (losses)	29	(642)	(13)
Share issue costs	(49)	-	-
Loss on disposal of fixed assets	(174)	-	(93)
Loss on disposal of fixed assets	-	(46)	-
Bad and doubtful debts	-	-	(208)
Total	(194)	(688)	(314)

3.3 Financial Position

The financial positions of ITC as at 31 March 2000, 2001 and 2002 are summarised below:

ITC - Financial Position ($000's)			
	As at 31 March		
	2000	**2001**	**2002**
Current Assets			
Receivables and prepayments	904	776	363
Other	13	25	-
Total current assets	917	801	363
Current Liabilities			
Creditors and accruals	(4,946)	(1,423)	(961)
Current portion of debt	(23)	(1,140)	-
Other	(150)	(144)	-
Total current liabilities	(5,119)	(2,707)	(961)
Net Working Capital	**(4,202)**	**(1,906)**	**(598)**
Fixed assets	499	1,101	653
Intangibles	6,728	2,100	-
Investments	4,024	8,191	84
Other assets	12	12	-
Finance leases	(31)	(37)	(56)
Capital employed	7,030	9,461	83
Net cash	14,729	13,045	929
Shareholders Funds	**21,759**	**22,506**	**1,012**

In analysing Financial Position of ITC, the following should be taken into account:

- the reduction in the value of intangibles to nil is a result of writing off goodwill that arose on the acquisition of Terabyte Interactive Ltd; and

- the consumption of cash during the 2002 year is primarily due to a net cash operating loss of $5.6 million and a net outwards cash flow on investing activities of $6.5 million.

3.4 Capital Structure and Ownership

The capital structure of ITC at 31 March 2002 consists of:

ITC - Capital Structure

Class	Number	Uncalled
Fully paid shares	171,503,565	nil
Class 1 partly paid shares	100,000	$0.44
Class 2 partly paid shares	87,000	$0.66
Class 3 partly paid shares	5,000	$0.56
Class 4 partly paid shares	30,000	$0.26
	171,725,565	

The ITC Board does not intend to call up these unpaid amounts whilst the market price of the shares is below the uncalled value of each class of share because if a call was made in these circumstances the holders of the shares in classes 1-4 would most likely choose to forfeit their shares rather than pay the call.

All partly paid shares represent shares issued prior to April 1999 and are paid up to $0.01.

All classes of shares have equal voting rights and share equally in dividends and surplus on winding up.

The top 20 shareholders at 24 May 2002 are listed in the following table:

ITC - Top 20 Holders of ITC Shares at 24 May 2002

	No. of Shares Held (000)	% of Total
Cross Atlantic Capital Partners	14,634	8.5%
Snider Capital ITC Investment	11,884	6.9%
ANZ Nominees Limited	10,145	5.9%
Permanent Trustee Australia Limited	9,443	5.5%
Springbrook Partners	2,558	1.6%
Wainui Investments Limited	2,025	1.1%
Craig Meek	1,750	1.0%
National Nominees Limited	1,726	1.0%
Moondance Ventures Limited	1,381	0.8%
Raphael Chaikin	1,252	0.7%
Hendry Nominees Limited	1,020	0.5%
Darrell Earl Antonopoulos	1,000	0.5%
Peter James Stewart	1,000	0.5%
ANZ Nominees Limited	961	0.5%
Gary William Douglas Richards	850	0.4%
Gavin James Shute & Joan Lesley Shute	844	0.4%
Citibank Nominees (NZ)	814	0.4%
Malcolm Wayne Court	771	0.4%
Citicorp Nominees Pty Limited	737	0.4%
Forsyth Barr Limited	664	0.3%
Total	**65,459**	**37.3%**

In addition to the ordinary shares issues above, ITC has 32,226,952 options on issue as follows:

ITC - Existing Options on Issue

Option Holders Number of Options	Expiry Date	Exercise Price
8,775,000	1 April 2004	$0.14
2,479,971	1 April 2004	$0.17
14,467,803	1 April 2004	$0.24
5,004,178	1 April 2004	$0.34
1,500,000	1 April 2004	$0.38

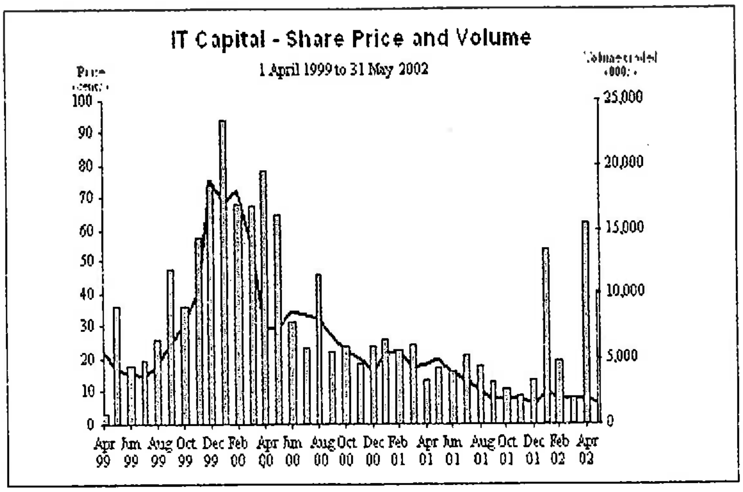
The options participate in any restructure of share capital including cash and bonus issues, on a pro-rata basis. It is unlikely that any options would be exercised at the current market price of the ordinary shares.

3.5 Share Price History

The trading history of ITC shares since 1 April 1999 is shown in the table below:

IT Capital - Share Price History			
1999 (month ended)	**High (cents)**	**Low (cents)**	**Volume 000s**
April	22	14.9	934.3
May	22	14	9,101.7
June	21	16	4,452.9
July	17.5	14.3	4,921.6
August	18.5	14.8	6,487.1
September	31	19	11,961
October	36	26	9,148.6
November	45	29	14,372
December	78	37	18,447.3
2000 (month ended)			
January	105	60	23,442.4
February	100	62	16,938.9
March	78	50	16,801.9
April	55	28	19,621.3
May	30	21	16,175.8
June	42	29	7,760.9
July	39	32	5,776.5
August	38	32	11,459.2
September	34	25	5,528.2
October	28	20	5,968.8
November	25	20	4,657.1
December	22	16	5,912.3
2001 (month ended)			
January	24	16	6,422.4
February	26	22	5,723.7
March	23	17	6,043.4
April	19.8	17.4	6,452.1
May	21	17.5	4,346.8
June	19.5	15.9	4,161.8
July	17	13	5,275.6
August	14.2	9.5	4,536.5
September	10	6.5	3,302.2
October	12.6	7.3	2,974.5
November	8.5	7.5	2,175.3
December	8.3	5.3	3,465.2
2002 (month ended)			
January	13	5.9	13,296.4
February	9.2	7.0	4,847.4
March	8.0	7.1	1,961.1
April	11.5	5.6	15,533.3
May	8.0	5.2	10,187.1

The month end closing price history of ITC shares since April 1999 and the total volume of shares traded during each month of that period is depicted in the following graph:



4 Profile of Target Companies

4.1 Conceptual Solutionz Limited

CSL was incorporated in December 2000 to commercialise a unique electric motor technology that seeks to overcome the deficiencies of conventional electric motors which do not provide optimal efficiency across all ranges of running conditions.

CSL has filed three provisional patents and built a working prototype called the Radial Electric Engine ("REE") that maintains efficiency at any speed and is expected to improve the viability of use of electric motors in a range of applications.

Much of the research into improving the efficiency of electric motors has focused on battery and fuel cell technology. CSL has approached the problem from a fresh perspective seeking to improve efficiency of the engine that uses alternative fuels. The REE is simple to construct, which is expected to facilitate production line manufacturing at comparatively low cost.

Set out below is a summary of the historical unaudited trading performance for CSL for the 3 months ended 31 March 2002 and management projections assuming the company is successful in raising $1 million of new equity needed to commercialise the technology:

Conceptual Solutionz Limited - Summary Financial Performance ($000s)

	3 months to 31 March 2002	Management Projections Year 1	Management Projections Year 2
Sales	-	48	1,298
Operating Expenses	(5)	(948)	(1,248)
EBIT	(5)	(900)	**50**

CSL currently does not trade. The developer is working full time on research and development but is drawing no salary. Operating costs for the three months ended 31 March 2002 included approximately $9,000 spent on marketing and promotional materials.

The business model is predicated on CSL receiving royalties and licence fees by licencing original equipment manufacturers ("OEM") with technology that enables them to commercially manufacture the REE for use in the OEM's products. By March 2006 management have forecast CSL will have 21 licenses in place generating more than $40,000 per month in royalties. Management have also assumed that CSL will receive one off licence agreement fees of $250,000 for each licence written. Prior to full commercialisation CSL expects to derive revenue from two sources:

- sale of development kits, which are assumed will be used by OEMs to assist them in developing a commercial application for the REE; and
- non-refundable engineering grants from OEMs to cover the cost of CSL engineers working alongside the OEMs production team to develop a product / solution to suit the OEMs requirements.

Salaries and wages and research and development costs are expected to account for the major part of operating expenses over the next 12 to 24 months. Initially CSL will employ two staff, the developer and one other engineer to assist with research and product development. Salaries and wages costs are forecast to increase as more engineering staff and business development personnel are employed by CSL going forward.

Management expect that future research and development costs will be between $500,000 and $600,000 and include:

- mechanical hardware costs, which includes the cost to design and build new prototypes;
- software costs - there is a significant software component. Basic code has been developed to operate the REE, which has eight moving solenoids and seeks to improve efficiency through greater control of speed, torque, rotation and direction. New code is being to include a graphical interface and accommodate more complex logic paths;

- electronics componentry; and
- costs associated with performance measurement and analysis.

Management have provided for $100,000 of marketing costs in year 1 increasing to $600,000 in year 4.

There is a high degree of uncertainty in regard to timing and quantifying future revenues and expenses, in particular:

- the timing of and extent to which OEMs are willing to pay for development kits and non-refundable engineering grants;
- the acceptance of licence / royalty fee arrangements by OEMs; and
- the costs and time needed to develop commercial applications of the REE to meet OEM requirements.

The extent to which CSL can attract interest of OEMs is dependent upon its success in developing a commercial prototype, which is still some way off.

Set out below is a summary of the unaudited financial position of CSL as at 31 March 2002:

Conceptual Solutionz Limited - Summary Financial Position ($)	
As at	**31 March 2002**
Fixed Assets	15,046
Cash at Bank	750
Trade Creditors	(9,244)
Net Trading Liabilities	**6,552**
Represented by:	
Share Capital	100
Shareholder Advances	11,927
Loss for the Period	(5,375)
Total Shareholders Funds	**6,652**

CSL can only continue its research and development with the ongoing financial support of its shareholders. ITC management estimate that CSL's current shareholders have invested between $150,000 and $200,000 to date in time and resources developing the intellectual property.

4.2 Datasquirt Limited

In May 2001 Datasquirt began research into and development of a Wireless Application Messaging ("WAM") engine and related business solutions. Today Datasquirt has a fully functional WAM engine and three categories of applications:

Textcode™ is a convenience marketing tool using the short messaging services ("SMS") offered by Vodafone and Telecom that is more commonly known as "Text" messaging. Textcode(tm) is an application that enables consumers to purchase goods and services from merchants using their mobile phone and short digit codes. Management predict Datasquirt will derive significant revenues over the next four years from its Textcode(tm) service in the form of transactional fees and sharing premium text messaging revenues collected by Vodafone and Telecom. Transactional fees are based on the premise that the merchant will benefit from using the Textcode(tm) service by not requiring an operator to take orders over the telephone. Pilot trials are underway with several companies

WAM-E™ is a service targeted at other application service providers ("ASPs") in the mobile-commerce or mobile communications space. Datasquirt will allow other ASP's to use its WAM engine under licence. For example Fever Pitch International Limited uses Datasquirt's WAM engine to offer person to person and exchange betting services via text messaging.

WAM Apps Datasquirt also develops specific WAM applications for businesses. Its current client base includes a number of large companies.

Datasquirt's WAM engine is technology agnostic and provides a bridge between the different messaging tools employed by mobile phone companies. In developing an engine that is compatible with SMS, GSM, GPRS and CDMA platforms Datasqiurt has reduced the threat of businesses and consumers moving to the next generation of mobile communications technology. The primary advantage of its compatibility with SMS is that Datasquirt can immediately begin marketing its services to the significant number of existing text messaging users.

Set out below is a summary of the historical unaudited financial performance of Datasquirt for the six months ended 31 March 2002 and Management projections:

Datasquirt Limited - Summary Financial Performance ($000s)			
	Eleven months to	**Management Projections**	
	31 March 2002	**Year 1**	**Year 2**
Sales	27	620	2,544
Operating Expenses	(97)	(821)	(1,125)
EBIT	(69)	(200)	**1,419**

- Software licence fees account for the major part of actual sales revenue for the six months ended 31 March 2002. Actual salaries and wages totalled approximately $57,000 for the six-month period representing more than half of the total operating expenses.

  Management projections assume that income from Textcode(tm) accounts for more than 85% of total revenues in year one, increasing to more than 98% of total revenues in year four. Management have assumed that the number of Textcode(tm) users grows from 450 in month one of the forecast period to 330,000 users spending on average $17 per order on average 7 times per month by the end of the four year term. It is also assumed that Datasquirt will receive:

- from the merchant a commission of 1.25% of the transaction value; and

- from the host mobile phone company, $0.03 of the premium text message revenue.[1]

The projections are highly dependent on the success of Textcode(tm). However, in the absence of existing competing or similar services and other persuasive market evidence it is difficult to predict with any accuracy the likely take up of Textcode(tm) and revenues that Datasquirt may derive. Management's projections represent a "best guess" based on discussions with the mobile phone companies and the historical penetration of text messaging.

On the surface the projections appear aggressive. However, the following factors need to be taken into consideration:

- more than 2 million Text Messages are currently being sent each day in New Zealand. By comparison, Management have assumed that by March 2006 Datasquirt will on average derive revenue from approximately 11,000 transactions a day;

- Textcode™ is a readily scalable service that can be deployed at comparatively low cost anywhere in the world; and

- Textcode™ and WAM Apps are services that will appeal to a wide range of businesses where m-commerce and convenience marketing will result in lower transaction costs. While pizza delivery is a good example of the type of transaction where Textcode(tm) is used, there are a number of alternatives including:

  - other fast / convenience food

  - products sold by infomercial

  - parking fines

[1] Mobile phone companies currently charge a premium over and above the standard $0.20 charge for an ordinary text message when it involves a m-commerce transaction.

- CD's, DVD's and music tapes
- beer, wine and spirits
- cosmetics and pharmaceutical products

Datasquirt is targeting large merchants with a nationwide presence and established home delivery networks handling lower value fast moving consumer goods that are marketed to consumers via television, newspapers, circulars and other printed media.

- management have conservatively forecast relatively low levels of income from Datasquirt's other application categories when in all probability Datasquirt can and may derive revenues from a much wider range of sources.

Set out below is a summary unaudited balance sheet for Datasquirt at 31 March 2002:

Datasquirt Limited - Summary Financial position ($)	
As at	**31 March 2002**
Fixed Assets	14,895
Software Licences	7,319
Cash at Bank	4,443
Trade Debtors	27,450
Total Assets	54,108
Trade Creditors	(23,514)
Net Operating Assets	**30,594**
Represented by:	
Share Capital	100
Shareholder Loans	99,900
Net Loss for Period	(69,406)
Total Shareholders Funds	**30,594**

4.3 Sealegs International Limited

In December 2001 Sealegs began construction of a "proof-of-concept" prototype 4.5 metre rigid inflatable boat fitted with motorised, storable retractable wheels that enabled the boat to be driven across onshore terrain and into and out of the water but without compromising water performance.

The developers of the Sealegs prototype believe that the utility of an hour or less on the water did not outweigh the 30-45 minutes of effort it takes to launch and land small pleasure craft. The prototype was a success and demonstrated that by being able to drive the boat into and out of water the seafarer also benefited because:

- the boat operator does not require assistance from any other person; and
- it substantially eliminated the prospect of getting wet by:
  - removing the need to disembark before landing or launch before boarding the vessel;
  - launching the boat bow first into surf; and
  - reducing the chances of broaching on landing by maintaining momentum up the beach.

Sealegs has made progress since sea trials of its proof of concept prototype in February 2002 and has:

- filed for two provisional patents;
- been awarded a research and development grant by Technology New Zealand; and
- commenced development of a production prototype.

Management have advised that Sealegs is on schedule to deliver a production prototype by 1 August 2002. The current plans are to begin marketing boats complete with retractable wheels in October 2002.

Potential purchasers of a Sealegs boat include:

- commercial passenger liners wanting a tender that is capable of ferrying guests between the ship and shore without getting wet on landing and launching;
- people who reside at or near the water front and are be able to drive the boat to and from the beach or boat ramp1;
- older boaties and boaties that want to venture out on their own but may have difficulty physically launching and landing a boat off / onto a trailer on their own;
- busy people that can't afford the time required to land / launch a craft using a trailer;
- families where there are concerns for small children; and
- boaties that simply prefer the utility of driving into and out of the water to the less convenient alternative of using a trailer.

Set out below is a summary of the historical unaudited financial performance of Sealegs for the 3 months ended 31 March 2002 and management projections:

Sealegs International Limited - Summary Financial Performance ($000s)			
	Six months to 31 March 2002	**Management Projections**	
		Year 1	**Year 2**
Sales	-	570	2,944
Operating Expenses	(5)	(707)	(2,909)
EBIT	(5)	(137)	35

Management projections assume Sealegs sells 15 complete boats at a price of $38,000 (plus GST) each in year one increasing to 680 boats at a lower effective average price of $32,000 (plus GST) in year four.

All forecast sales in year one include an outboard motor with the boat and are made directly by Sealegs to customers in New Zealand. From year two onwards the average sale price falls on the basis that a proportion of boats sold will exclude outboard motors.

Sealegs intends to export complete boats via international distributors targeting a niche within the pleasure craft market. The product is unique and will compliment distributors existing range of boats rather than competing with the major brands. Management predict that by year four more than 90% of all sales will be via distributors into overseas markets.

Set out below is a summary of the unaudited balance sheet for Sealegs at 31 March 2002:

Sealegs International Limited - Summary Financial Position ($)	
As at	**31 March 2002**
Capitalised Research & Development Costs	29,392
Cash at Bank	500
GST Refund	3,517
Trade Creditors	(485)
Net Operating Assets	**32,924**
Represented by:	
Share Capital	100
Shareholder Loans	38,315
Net Loss for Period	(5,491)
Total Shareholders Funds	**32,924**

It is important to note Sealegs is not trying to be a car that can travel across water or a boat that can be driven on the road like a car. It is a boat that can be driven out of (Or into) the water and over land for short distances (typically less than 500 metres) at slow speeds (up to 7 km per hour).

5 Valuation of Target Companies

5.1 Methodology

The most reliable evidence as to the value of a business is the price at which the business or comparable businesses have been bought and sold in an arms length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary methodologies used for valuing assets:

(i) capitalisation of earnings;

(ii) discounting cash flows;

(iii) industry rule of thumb; and

(iv) estimate of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary factor in determining which methodology is appropriate is the actual practice adopted by potential purchasers of the type of business involved. Grant Samuel has adopted the discounted cash flows methodology to value the Target Companies.

Capitalisation of Earnings

Capitalisation of earnings is the most commonly used method for valuation. It is most appropriate for industrial companies with a long operating history and consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not as suitable for a start-up business or businesses with an erratic earnings pattern. Neither is it particularly suitable for businesses that have lumpy capital expenditure requirements or projects with a finite life. This methodology involves capitalising the earnings of a business at a multiple which reflects the risks of the business and the stream of income that it generates.

Discounted Cash Flows

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for the valuation of start-up businesses where earnings during the first few years can be negative and businesses have erratic earnings patterns. Discounted cash flows are discounted at a rate that reflects the risk associated with the cash flow stream. Considerable judgement is required in estimating future cash flows and the valuer generally places great reliance on medium to long term projections prepared by management. Grant Samuel has adopted management's projections as the basis for its discounted cash flow analysis.

The discounted cash flow methodology requires a terminal or continuing value be calculated to take account of cash flows that will be derived from ownership of the business beyond the forecast period. A perpetuity framework is usually applied to cash flows for the final forecast period on the basis that these projections reflect a near steady state and sustainable result for the company going forward. However, in the case of the Target Companies, management projections extend out only four years and, irrespective of accuracy, applying a perpetuity framework to cash flows from 1 April 2006 onwards ignores:

- the high degree of uncertainty surrounding the future performance of each Target Company, which increases with time;
- the extent and timing of change which is not only uncertain, but is not expected to take full effect within the forecast period; and
- the expectation that in each case the success of the company is predicted on a change in consumer behaviour and/or preferences.

Even where cash flow forecasts are available for up to, say, ten years, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation.

In addition the financial projections are based on judgements and assumptions about a range of variables. The sensitivity of net present values ("NPVs") to relatively small changes in assumptions and high degree of uncertainty requires consideration of alternative scenarios and sensitivities. However, as a consequence the range of NPV outcomes determined using assumptions which, individually are quite reasonable, can be very wide. It is therefore necessary to overlay commercial judgement to reflect the risks and to determine a value range that is narrow enough to be meaningful.

Notwithstanding these limitations, discounted cash flow valuations are commonly used in valuing start-up and high growth businesses not least because of the explicit and relatively detailed assumptions that need to be made in relation to future performance. In this case, a discounted cash flow approach captures some of the critical issues such as product development future growth expectations, development of new markets and distribution channels and future capital requirements. Grant Samuel has therefore adopted discounted cash flow analyses as its primary methodology for valuing the Target Companies.

Industry Rules of Thumb

Industry rules of thumb are generally used by a valuer as a "cross check" of the result determined by a capitalised earnings or by discounted cash flows valuation. While used mainly as a "cross check" in most cases, industry rules of thumb can be the primary basis on which buyers determine price in some industries. This has proved to be the case with internet stocks, where multiples of annualised revenues and values per subscriber have been used to ascribe value to loss making start-up businesses and transactions have been undertaken on the basis of these value parameters. However, more recently there has been a strong move away from using these industry benchmarks and back towards more traditional valuation techniques as investors search for "real" value propositions in the new economy. In general, it must be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

In this case Grant Samuel understands that the pricing of the Proposed Related Party Transactions was determined by reference to potential exit prices for ITC in three years time assuming it sold the equity interest it is to acquire in each of the Target Companies. The exit price was calculated by applying an earnings multiple times Year Four earnings and discounting back to an equivalent net present value today at a rate of 30% per annum. This approach has merit to the extent that it involves a direct reference to an estimate of a potential future exit price.

The disadvantages of discounting back a notional exit price based on a multiple of future earnings four years out are that this approach:

- does not take into account working capital and capital expenditure funding requirements of the business over the next three - four years, which can be significant particularly for high growth start-up businesses; and

- it assumes management projections are representative of actual results of the company over the next four years. While the high discount rate is intended to reward investors for the risks associated with achieving these projections, unless sensitivity analysis or a range of projections are considered, no consideration is given to the range of potential outcomes that may occur; and

- the issues in respect of a perpetuity framework and whether the business has reached a sustainable level of earnings in four years time remain.

Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to loss making businesses. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading and other intangible assets. Grant Samuel believes a buyer would willingly pay a premium to net tangible asset values to acquire these businesses despite the fact that all of the Target Companies currently operate at a loss. The goodwill that a prospective purchaser is expected to be willing to pay reflects the value attaching to intellectual property, potential for growth and high expectations of profitable trading once commercial products and/or distribution channels have been developed.

5.2 Selection of an Appropriate Discount Rate

Grant Samuel has applied discount rates in the range of 30%-40% to forecast nominal ungeared, after tax cash flows of the Target Companies on the basis that these rates are representative of the weighted average level of returns equity and debt providers would seek from each of these companies.

Selection of the appropriate discount rate to apply to the forecast cash flows of any business enterprise is fundamentally a matter of judgement. The valuation of an asset or business involves judgements about the discount rates that may be utilised by potential acquirers of that asset. There is a body of theory that can be used to support that judgement. However, a mechanistic application of formulae derived from that theory can obscure the reality that there is no "correct" discount rate. Despite the growing acceptance and application of various theoretical models it is Grant Samuel's experience that many companies rely on less sophisticated approaches. Many businesses use relatively arbitrary "hurdle rates" which do not vary significantly from investment to investment or change significantly over time despite interest rate movements. Valuation is an estimate of what real world buyers and sellers of assets would pay and must therefore reflect criteria that will be applied in practice even if they are not theoretically correct. Grant Samuel considers the rates adopted to be reasonable discount rates that acquirers would use irrespective of the outcome or shortcomings of applying any particular theoretical model.

The discount rates that Grant Samuel has adopted are reasonable relative to the rates derived from theoretical models and based on knowledge of venture capital markets in Australia and New Zealand. The start-up nature, early stage of development and high degree of uncertainty attaching to the future performance of each of the Target Companies effectively means the capital committed to or being invested is akin to high risk, venture capital. It is usual for venture capital providers to seek returns in excess of 30% per annum from investments in businesses similar to the Target Companies.

5.3 NPV Outcomes

Grant Samuel has adopted Management's projections as the basis for its discounted cash flow analysis and tested the sensitivity of NPV outcomes to changes to underlying assumptions. The results of this sensitivity analysis are summarised in the tables below:

Conceptual Solutionz Limited - NPV of 50% Equity Interest ($000s)

		Discount Rate	
		40%	**35%**
Management Projections		1,160	1,520
50% increase in sales volume	A	2,635	3,330
50% decrease in sales volume	B	355	525
10% lower sales price	C	930	1,240
10% higher sales price	D	1,385	1,800
A&D combined		2,985	3,760
B&C combined		220	365

Whilst a 50% reduction / increase in sales volume may appear high, the number of units sold and licences assumed to have been written is low. The business model for CSL is based on the company licensing of small number of OEM's and deriving very high returns from these few contracts.

Datasquirt Limited - NPV of 40% Equity Interest ($000s)

		Discount Rate	
		35%	**30%**
Management Projections		3,305	4,250
20% decrease in active users	A	2,550	3,290
20% increase in active users	B	4,060	5,210
10% decrease in ARPU	C	2,655	3,415
10% increase in ARPU	D	4,000	5,135
A&C combined		2,030	2,625
B&D combined		4,890	6,270

As noted earlier, management projections for Datasquirt relate to the New Zealand market only and are based on input from local mobile phone companies. In Grant Samuel's opinion management's projections appear optimistic with respect to New Zealand but the company should be able to leverage off any success in establishing its Textcode (tm) service in its local market and export its technology overseas.

Textcode (tm) is a service that is expected to have a limited life span as 3G applications supersede Text Messaging. Against this, Datasquirt's WAM engine is technology agnostic and the company should be able to maintain an income stream providing similar services to merchants using alternative technology platforms.

Sealegs International Limited - NPV of 70% Equity Interest ($000s)

		Discount Rate	
		35%	**30%**
Management Projections		2,660	3,520
20% reduction in sales volumes	A	1,865	2,505
20% increase in sales volumes	B	3,450	4,530
20% increase in cost of sales	C	910	1,344
20% reduction in cost of sales	D	4,398	5,683
A&C combined		488	792
B&D combined		5,525	7,115

The NPV's calculated for each of the Target Companies vary considerably. Grant Samuel considers that in general, management projections appear realistic but there is also a very real possibility that one or more of the changes to key assumptions supporting management's projections may occur instead.

5.4 Market Value of the Target Companies

ITC is acquiring the following equity interest in the Target Companies:

- 50% of CSL;
- 40% of Datasquirt; and
- 70% of Sealegs.

Valuing these equity interests requires forming a view on the value of 100% of the underlying business. In doing so a number of factors need to be taken into consideration:

- Each of these companies are in the start-up phase of development as evidenced by:

  - a lack of sales revenues and largely unproven business plans;

  - ongoing research and development costs;

  - limited management resources and infrastructure; and

  - the need to raise capital from external sources to implement the business plan.

  Even Datasquirt which is the most advanced of the three Target Companies in terms of its development, with several months of trading and three established product categories is considered a business start-up primarily because it has yet to establish a sustainable revenue stream from Textcode™ and its other WAM Apps.

- A high proportion of business start-ups fail for a variety of reasons that are not all linked to the strength or quality of the intellectual property or acumen and experience of the management team. For example, delays in the development and subsequent take up or sales of a commercial product can result in business failure simply because the start-up venture runs out of funding.

  Grant Samuel has endeavoured to take account of the greater risk associated with a business start-up by recognising the premium returns that investors require when making this type of investment. The corollary of higher required rates of returns is that the range of potential future outcomes or exit values is much wider for a business start-up than an established mature business and typically starts from a low of $nil.

- The main tenet of business valuation is forming a judgement as to the price a purchaser could reasonably be expected to pay for a business given current market conditions. However, in respect of a business start up it is more common place for:

  - founding shareholders to remain and not want to exit until a later point in time at a higher value; and

  - for new investors to acquire new shares by investing capital into the company, rather than purchasing existing shares from an exiting shareholder.

  As a consequence, there is an absence of reliable transaction evidence to support judgements as to the value of 100% of a business at this early stage in its development.

The Proposed Related Party Transactions are also a little unusual because its legal form involves founding shareholders of the Target Companies trading existing shares for ITC shares, which could be construed as a partial exit. Grant Samuel does not consider this to be the case and Messrs Bryham and McKee Wright have confirmed it is not their intent. Accordingly, Grant Samuel believes it is more appropriate to value the equity interests in the Target Companies on the basis that ITC is a new investor rather than the founding shareholders seeking to exit. In doing so Grant Samuel is not purporting that a trade buyer could not be found that may be interested in acquiring 100% of each of the Target Companies today. It is more likely that, given the stage of development, strength of intellectual property and growth potential, additional investors would be sought rather than outright sale.

Each of the Target Companies requires additional equity. Grant Samuel has valued the Target Companies on the basis that either existing shareholders or new investors will provide sufficient capital to fund each Target Company's business plan. Grant Samuel considers this to be a realistic assumption.

ITC is acquiring equity interests in three small, unlisted New Zealand companies. Grant Samuel believes it is appropriate in this instance to apply a discount to the full underlying value ascribed to each of the Target Companies to account for the non-marketability of the shareholdings in these companies.

Grant Samuel has ascribed a value range for the Target Companies of $3.5 - $5.5 million having considered the NPV outcomes from discounted cash flow analysis that was based on management's projections as summarised in Section 4. Given the inherent uncertainty of forecasts, a range of alternative scenarios and sensitivity analysis have also been modelled to demonstrate the impact of changing key assumptions (refer section 5.3).

The value range ascribed to the Target Companies reflects a subjective opinion having regard to these NPV outcomes. The table below provides a breakdown of the value ascribed to Messrs Bryham and McKee Wright's equity interests in each of the Target Companies:

Valuation Summary ($000s)

	Equity Value Range	
Company Name	**Low**	**High**
CSL	750	1,500
Datasquirt	2,000	3,000
Sealegs	750	1,500
Total	3,500	5,500

In Grant Samuel's experience raising capital for businesses similar to the Target Companies in New Zealand and Australia would be difficult given the relatively small base of funds dedicated to providing capital to start-up ventures. However, taking into account the associated risks and potential rewards, Grant Samuel believes that there are parties present in these markets that would consider an opportunity to invest in the Target Companies at a price within Grant Samuel's valuation range.

The value range is wide and representative of the difficulty in ascribing value to a start-up venture. It also reflects an opinion that parties interested in investing in the Target Companies will have quite varied views as to the market value of each company.

The net present value outcomes in section 5.3 vary considerably and illustrate a high degree of sensitivity to changes to key assumptions. Grant Samuel considers that for the most part management's projections appear realistic. However, it is almost certain that management's projections will differ positively or negatively from actual future results at least by the extent of the changes to underlying assumptions modelled in section 5.3 and potentially to a greater extent.

There are a number of factors, many beyond management's control, that can influence the actual performance of a mature, well-established business and lead to materially different actual results. For a start-up venture there are a number of additional factors that need to be considered when reviewing and relying upon management projections including:

- a limited trading history;
- limited or no established terms of trade and distribution agreements;
- limited or no tried and proven manufacturing and operational procedures and policies;
- few or no contractual arrangements;
- limited management resources; and
- few readily available sources of capital.

Management have assumed that the Target Companies will employ appropriate people at the appropriate time to implement the business plan. However, establishing a functional and cohesive workforce can be difficult and employing the wrong person in a key position can prove to be very costly, particularly for a start-up business.

The fall out of the recent 'tech wreck' provided strong evidence that many new business ventures can founder as a result of being undercapitalised. None of the Target Companies have the necessary cash resources to fulfil their business plans and it is commonplace to underestimate the length of time and effort required to raise new equity. In turn this can lead to delays in achieving milestones in the company's development due to a lack of funding and/or distracting management from the task of running and growing the business.

Based on these concerns, Grant Samuel believes the market value of the Target Companies today lies nearer to the lower end of the range of NPV outcomes calculated in section 5.3.

6 Appraisal of the Proposed Related Party Transactions

6.1 The Proposed Related Party Transactions

Grant Samuel has been advised that the consideration and terms and conditions of the Proposed Related Party Transactions were determined as a result of arms length negotiation between ITC directors and Messrs Bryham and McKee Wright. The Proposed Related Party Transactions involve the issue of ITC shares and options to Messrs Byrham and McKee Wright and a management services contract with PML, a company wholly owned by Messrs Byrham and McKee Wright.

The consideration to be paid by Messrs Bryham and McKee Wright for ITC shares comprises a combination of $1.2 million of cash and their equity interests in the Target Companies. Grant Samuel has estimated a fair value range for ITC shares of 2.9 cents to 4.0 cents per share having regard to the current market value of its existing investments and in particular its investment in DVI. An issue price of 4 cents per ITC share is at the upper end of the fair value range determined by Grant Samuel. Accordingly, the cash consideration to be paid by Messrs Bryham and McKee Wright is fair.

It is difficult to ascribe a value to start-up ventures such as the Target Companies (refer to comments in section 5.5 for more detail). Using a discounted cash flow approach Grant Samuel has estimated the market value range of Messrs Bryham and McKee Wright's equity interests in the Target Companies to fall within a range of $3.5 million to $5.5 million. This range of values implies an issue price for the 137.5 million shares of 2.5 - 4.0 cents per share. Grant Samuel also considered the following factors before concluding the consideration to be paid by ITC to acquire the Target Companies is fair:

- there are very few, if any, early stage investment opportunities available to ITC that can be acquired in exchange for scrip;
- acquisition of the Target Companies offers ITC the opportunity to grow the value of its shares;
- the potential future value of the Target Companies could be substantially more or less than the value range ascribed by Grant Samuel today;
- acquiring a portfolio of three diverse and independent companies spreads the risk of business failure; and
- Messrs Bryham and McKee Wright are exchanging their direct ownership of the Target Companies for ITC shares, which means they will:
- retain an indirect vested interest in ensuring the Target Companies succeed;
- invest $1.2 million in ITC shares; and
- align their interests with ITC shareholders.

Grant Samuel believes that the benefits of the Proposed Related Party Transactions far outweigh the disadvantages. In Grant Samuel's opinion ITC will benefit from:

- a significantly improved financial position as a result of raising $3.7 million of new capital by issuing shares to Messrs Bryham and McKee Wright and certain habitual investors;
- the continuation of an experienced management team whose interests are aligned with ITC shareholders; and
- the opportunity to participate in three new business ventures.

The Proposed Related Party Transactions deliver ITC shareholders more certainty as to the future direction of the company. Against this there is the potential dilutionary impact of issuing 280 million new securities at 4 cents each. It is difficult to predict to what extent the value of Affected Holders' shareholdings in ITC will change due to the dilutionary effect of the Proposed Related Party

Transactions. However, the change in control heralds a new beginning for a company that was otherwise foundering and would have been insolvent by early 2003 if no immediate action was taken.

In Grant Samuel's opinion ITC has little prospect of raising new equity in the absence of the Proposed Related Party Transactions or another transaction. The write down to $nil value of its investments and recent poor trading performance combined with only limited interest from investors in technology related investments at present count against ITC. ITC's resources are rapidly diminishing and its shareholders are left with few alternatives to chose from. The most obvious being liquidation offers no more certainty and is not expected to realise ITC shareholders any better outcome than the Proposed Related Party Transactions. At the very least the Proposed Related Party Transactions preserve for the time being any future upside exposure in relation to ITC's existing investments, albeit in a significantly diluted share.

Whether Affected Holders vote in favour of the Proposed Related Party Transactions is a decision for individual holders having considered these factors and their own individual preferences.

6.2 PML Management Contract

A management fee of $300,000 per annum for the next three years for the day-to-day management of ITC equates to an effective gross salary of $150,000 per annum each for Messrs Bryham and McKee Wright.

Under the Management Services Contract PML is required to provide day-to-day management services. David McKee Wright and Maurice Bryham will continue to fill the full time roles of ITC's Chief Executive Officer and Chief Operating Officer respectively but will be employed by PML. The management fee equates to an effective gross salary of $150,000 per annum each.

6.3 Options to be issued to PML

In Grant Samuel's opinion the terms and conditions of the issue of options to PML (the "Proposed Option Scheme") are fair. In forming this opinion Grant Samuel concluded:

- that the Proposed Option Scheme is structured fairly and is designed to incentivise PML to increase ITC's share price;
- the mechanics of the Proposed Option Scheme ensure that there will have to be significant growth in the share price for any benefit to be paid; and
- the options if exercised would result in 50 million new ITC shares on issue, which will represent approximately 10.95% of ITC shares on issue. This is a significant number of new shares and will result in an increase in Messrs Bryham and McKee Wright's combined effective shareholding (i.e. including shares held through PML) from 41.4% to 47.6%. Consequently the dilutionary effect of new shares issued upon exercise of the options may have a material impact on the value of shares.

6.3.1 Mechanics of the Proposed Option Scheme are fair

There is a wide range of executive share ownership schemes in operation. Many have no defined growth targets. The Proposed Option Scheme adopts a higher test, requiring a trigger price be achieved before the options can be exercised.

There is a wide range of executive share ownership schemes in operation. Some, as with the Proposed Option Scheme, permit the holder to exercise the option only upon achieving growth in the company's share price according to targets or thresholds set at the time the scheme was established. Other schemes have no defined growth targets. The trigger price thresholds set by the Board have been set to reward PML for a three-fold increase in ITC's share price over the three year term of the management services contract. The effect of the thresholds is that for PML to financially benefit from the ownership of options the market price of ITC's ordinary shares must increase substantially and remain at that increased price for a sustained period.

6.3.2 Impact of the Proposed Option Scheme on the Remuneration of PML

The Proposed Option Scheme is similar to a number of option schemes in other listed companies across a wide number of jurisdictions and is designed to reward management for sustained share price improvement. The amount of any benefit to PML from the Proposed Option Scheme cannot be quantified with any certainty at this time. What is relevant is that for any benefit to accrue under the Proposed Option Scheme, all shareholders would have benefited from a significant increase in the share price.

The Proposed Option Scheme is designed to reward and incentivise Messrs Bryham and McKee Wright. The terms of the Proposed Option Scheme are such that in the event all the options issued can be exercised the value transferred to Messrs Bryham and McKee Wright will be at a minimum $4.5 million as calculated below:

ITC - Proposed Option Scheme				
Tranche	**Number of Options**	**Exercise Price**	**Trigger Price**	**Minimum Future Value**
(a)	10 million	4 cents	8 cents	$400,000
(b)	10 million	4 cents	10.5 cents	$650,000
(c)	10 million	4 cents	13 cents	$900,000
(d)	10 million	4 cents	15.5 cents	$1,150,000
(e)	10 million	4 cents	18 cents	$1,400,000
	50 million			**$4,500,000**

The minimum future value is calculated by deducting the exercise price from the trigger price and then multiplying the total by the number of shares to be issued. While $4.5 million plus is a substantial reward, gains from the Proposed Option Scheme could be substantially less and as low as $nil.

6.3.3 Impact of the Proposed Option Scheme on existing Shareholders.

The size of the Proposed Option Scheme is large relative to ITC's existing capital structure. Accordingly, the dilutionary effects in the event that the options are exercised may have a material impact on ITC's share price.

The size of the Proposed Option Scheme is large relative to ITC's existing capital structure. If the 50 million of options are exercised they will represent approximately 10.95% of ITC's diluted issued ordinary capital. As a consequence, the introduction of the Proposed Option Scheme will dilute future net earnings per share and net asset backing per share. All other factors remaining the same, the Proposed Option Scheme should therefore have a material impact on the market price of ITC's ordinary shares when and if the options are exercised.

6.4 A price of 4 cents per ITC Share is fair

Grant Samuel believes that in this instance it is not appropriate to mechanistically adopt the current market price as a fair price at which ITC should issue new securities. Grant Samuel has assessed the fair value of ITC shares to be in the range of 2.9 cents to 4.0 cents per share. The Proposed Related Party Transactions involve ITC issuing shares and options at an issue price and exercise price respectively of 4 cents for each security. The issue price and exercise price are at the upper end of the fair value range determined by Grant Samuel and is therefore fair.

The Proposed Related Party Transaction involves the issue of:

- 50 million options to PML at an exercise price of 4 cents per option, subject to the ITC share price being at or over specified trigger prices at various points of time in the future;
- 15 million ordinary shares to Messrs Bryham and McKee Wright each at a price of 4 cents each; and
- 137.5 million ordinary shares to Messrs Bryham and McKee Wright in consideration for the acquisition of their equity interests in the Target Companies.

It is normal practice to value securities offered as consideration in a share allotment by reference to the market price of those securities. Although share prices reflect trades in portfolio interests, the share price reflects the cash equivalent of the offer. It is usually representative of the amount that shareholders in the target company could reasonably expect to realise if they were to immediately or over the short term sell the shares they are to receive as a result of transaction. Beyond the short term it can be expected that the share price will fluctuate in response to share market movements and economic conditions. The decision to hold shares in the long term is a matter for the acquiring shareholders having regard to their own preferences and is not relevant to the current evaluation of the Proposed Related Party Transactions.

There are two key issues for assessing the fair price of ITC shares:

- are there any reasons why the current market price is not a fair reflection of the market value of ITC shares? and

- what is the likely impact of the Proposed Related Party Transactions on the market price of ITC shares?

6.4.1 Reliability of the Current Market Price

In Grant Samuel's opinion there is evidence to suggest that the current price of ITC shares is not a fair reflection of market value.

The sharemarket usually provides an objective measure of the value of listed securities with market prices normally incorporating the influence of all available information on the listed vehicles prospects, future earnings and associated risks. Prices fluctuate as a result of new price sensitive information reaching the market and with movements in overall market conditions.

However, in assessing whether the current market price for ITC shares provides a reliable estimate of fair value, the following factors need to be taken into account:

- ITC shares are relatively thinly traded. Less than 55 million ITC shares were traded in calendar year ended 31 December 2001, representing less than one third of all shares on issue. On average less than 3% of all ITC shares on issue trade in any one month;

- there is only a limited institutional shareholder presence on ITC's share register and ITC is no longer researched by any broking houses in New Zealand. While there is a reasonable amount of past research available on ITC there is no additional information in the market concerning the future performance of the company;

- the market response to recent press releases and announcements by ITC and its related investee companies could be viewed at times as being speculative;

  - in January 2002 ITC announced that Messrs Bryham and McKee Wright had joined ITC's management. With little or no detail of their roles and business plans ITC's share price rose 4.1 cents to close at 13 cents two days after the announcement;

  - on 22 February 2002 ITC announced a forecast $20 million loss for the year-ended 31March 2002. The market response was only a modest decrease in the price of ITC shares from ITCs share price 8.0 cents to close 7.6 cents over the week following the announcement;

  - ITC announced the sale of Virtual Spectators for net $nil consideration. The market response was an immaterial movement in ITC's share price;

  - in early April 2002, DVI received press coverage that it had entered into a significant contract with the US military. ITC's share price moved upwards by over 50% over three days prompting a NZSE share price enquiry; and

- ITC recently announced its preliminary results for the year ended 31 March 2002. The announcement contained summary information but lack of sufficient detail for the market to fully appraise the financial position of ITC and its investee companies. It also contained no reference to the Proposed Related Party Transactions.

ITC' shares are thinly traded and not closely followed by either institutional investors or broking houses in New Zealand. Furthermore, there is evidence to suggest past trading in ITC's shares has been speculative and the price sensitive information has not yet been fully disclosed to the market. Grant Samuel has therefore concluded that in this case it would be inappropriate to adopt the current market price as a fair price at which ITC should issue new securities.

6.4.2 Impact of the Proposed Related Party Transactions

When details of the Proposed Related Party Transactions are released to the market the response from shareholders and investors could potentially have a material impact on ITC's share price.

At the time that this report was prepared ITC had not announced details of the Proposed Related Party Transactions. It is difficult to predict how and to what extent the market will react to the Proposed Related Party Transactions. As the Proposed Related Party Transactions will substantially change the profile of ITC's investment portfolio and capital structure the response from shareholders and investors could potentially have a material impact on ITC's share price.

6.4.3 Assessment of a Fair Issue Price

Grant Samuel has assessed that a fair price to issue new ITC securities would be in the range of 2.9 cents to 4.0 cents each.

Grant Samuel has taken into consideration the following factors in order to assess a fair price to issue new ITC securities:

- a valuation of ITC shares using a net assets approach is appropriate given that the company has no current or forecast income and has negative cash flows. An earnings based valuation methodology is not appropriate; and

- the Board of ITC has regularly revalued the carrying value of its investments. The most recent revaluation was undertaken in February 2002 and is reflected in the Statement of Financial Position for 31 March 2002. ITC has a policy of not recognising any gains in the carrying value of investments, unless they are realised.

ITC's Statement of Financial Position as at 31 March 2002 shows a net asset backing per issued ordinary share of $0.006, i.e. less than one cent. This represents a substantial reduction on the previous year's figure of 13.1 cents per share. The reduction is a combination of trading losses experienced by ITC, a write down of the carrying value of portfolio investments other than Deep Video Imaging on Director's valuations, and the write down of the investments in Deep Video Imaging as a result of the equity accounting methodology used for ITC's investments in associate companies as required under the New Zealand accounting standards. Under this methodology, ITC accounts for its share of the increase or decrease in associate companies' equity since the date of its investment in each company. The start-up nature of DVI's business has meant that it has incurred losses that have reduced its shareholders equity to nil. As a consequence, ITC's carrying value of its investment in DVI has also been reduced to zero.

In Grant Samuel's opinion ITC's equity accounting of the value of its investment in DVI does not reflect the price that would be achieved if the interest was sold in the market today. It is common for technology companies in a start-up situation to run down shareholders' funds as they consume cash in the development stages. However, provided that the technology remains viable and a profitable market exists for the product when commercialisation is achieved then a value can be ascribed to that company's shares. The value of start-up companies is commonly derived from discounting expected future cash flows.

ITC has advised Grant Samuel that it remains confident that DVI will have a commercially viable 3D LCD screen product capable of large-scale manufacture in one to two years. However, DVI has not provided forecasts this far out and therefore a discounted cash flow analysis would not produce a meaningful value for the company. As an alternative, Grant Samuel has assessed the value of ITC's shareholding in DVI by comparison with the value of DVI agreed when the Singapore Government agency, National Service and Technology Board, made a 2% investment in June 2001. Grant Samuel understands a value of $40 million was placed on DVI at that time. Since then technology related stocks have generally seen an overall decline in value. The NASDAQ composite index has declined by approximately 30% since the Singapore investment was made and continues to exhibit weakness.

Grant Samuel has estimated the current full underlying value of DVI to be in the range of $14 million to $20 million. Grant Samuel has assessed the value of ITC's 42% shareholding in DVI to be in the range of $4.2 million to $6.0 million.

An assessed net asset backing of ITC shares is derived in the table below:

ITC - Assessed Net Asset Backing as at 31 May 2002 ($000)

	Low	High
Net assets per 31 March 2002 accounts	1,012	1,012
Revaluation of DVI investment	4,200	6,000
Operating losses 1 April - 31 May	(180)	(180)
Adjusted net asset backing	5,032	6,832
ITC Shares on issue as at 31 May 2002	171.7m	171.7m
Net asset backing per share	**2.9 cents**	**4.0 cents**

Grant Samuel has estimated ITC shares to have a net asset backing of 2.9 cents to 4.0 cents per share. Accordingly, in Grant Samuel's opinion the price of 4 cents per share at which Messrs Bryham and McKee Wright will be issued shares at under the Proposed Related Party Transactions is fair.

6.5 Consideration to be paid for the shareholdings in the Target Companies is Fair

In Grant Samuel's opinion the fair market value of Messrs Bryham and McKee Wrights equity interests in the Target Companies falls within the range of $3.5 million to $5.5 million. Messrs Bryham and McKee Wright are to exchange their equity interests in the Target Companies for 137.5 million ITC shares. At 4 cents per ITC share the value ascribed to Messrs Bryham and McKee Wright equity interests in the Target Companies is $5.5 million, which is at the upper end of Grant Samuel's value range.

6.5.1 Value of Target Companies

Grant Samuel has determined the fair market value of Messrs Bryham and McKee Wright's equity interests in the Target Companies falls within the range of $3.5 million to $5.5 million.

It is difficult in ascribe a value to start-up ventures like each of the Target Companies (refer to comments in section 5.5 for more detail). Using a discounted cash flow approach Grant Samuel has assessed the market value range of Messrs Bryham and McKee Wright's equity interests in the Target Companies falls within a range of $3.5 million to $5.5 million. The estimate of value was based the current stage of development and information available on the future potential of the company today. The future value of these shareholdings may be significantly more or less depending upon the success of management in implementing the business plans.

6.5.2 Relative Value Analysis

The number of shares ITC will issue to Messrs Bryham and McKee Wright in exchange for their equity interests in the Target Companies is set at 137.5 million. Adopting Grant Samuel's assessments of a fair issue price for ITC shares and the fair market value of Messrs Bryham and McKee Wright's equity interests in the Target Companies, issuing 137.5 million shares is fair if:

- **the value of ITC shares is 4 cents or less; or**

- **the fair market value of Messrs Bryham and McKee Wright's equity interests in the Target Companies equates to or is greater than $5.5 million.**

The number of shares ITC will issue to Messrs Bryham and McKee Wright in exchange for their equity interests in the Target Companies is set at 137.5 million. The table below shows the range of implied values for Messrs Bryham and McKee Wright's equity interests in the Target Companies based on different issue prices for ITC shares:

Relative Value Analysis			
	Grant Samuel valuation range		**Closing Price on**
	Low	**High**	**10 June 2002**
Value of ITC shares (cents)	2.5	4.0	5.0
Implied value of Messrs Bryham and McKee Wright's equity interests in the Target Companies ($000s)	3,500	5,500	6,875

Grant Samuel's assessment of a fair price at which to issue ITC shares is based on an estimate of net asset backing per share. The table below shows the impact on the net asset backing per ITC share assuming different values for Messrs Bryham and McKee Wright's equity interests in the Target Companies:

ITC - impact on Net Asset Backing per share		
Value of Messrs Bryham and McKee Wright's equity interests in Target Company ($000s)	**Implied net asset backing (cents)**	
	Low	**High**
-	2.4	2.8
2,750	3.0	3.4
5,500	3.6	4.0
8,250	4.2	4.6

The very high number of securities on issue assuming the Proposed Related Party Transactions have taken place means that net asset backing per ITC share is relatively insensitive to value ascribed to the Target Companies. Ascribing no value to Messrs Bryham and McKee Wright's equity interests in the Target Companies results in a fall in the net asset backing per share to between 2.4 cents and 2.8 cents. The dilutionary effect of issuing 137.5 million shares for no value being partially offset by ITC issuing 92.5 million shares and 50 million options at a price and exercise price respectively of 4 cents per security.

6.6 Effective Change in Control of ITC

An outcome of the Proposed Related Party Transactions is that Messrs Bryham and McKee Wright will gain effective control over ITC and will have significant influence over its management and strategies.

The table below summarised the change in ITC's shareholder registers:

Change in ITC's Shareholder Register				
	Before Transactions		**After Transactions**	
	Number of Shares (000)	**% of Total**	**Number of Shares (000)***	**% of Total**
Bryham/McKee Wright	nil	0.0%	167,500	41.4%
Cross Atlantic	14,634	8.5%	14,634	3.6%
Suider Capital	11,883	6.9%	11,883	2.9%
ANZ Nominees	10,694	6.2%	10,694	2.6%
Springbrook Pamters	2,885	1.7%	2,885	0.8%
New Investors	nil	0.0%	62,500	15.4%
All Others	131,857	76.7%	134,254	33.3%
Total	171,953	**100.0%**	404,578	**100.0%**

* *before the exercise of options*

Messrs Bryham and McKee Wright are acting jointly in relation to the Proposed Related Party Transactions. They will remain as Chief Operating Officer and Chief Executive Officer of ITC respectively by virtue of the management services contract to be entered into between ITC and PML, the latter being a company that is owned jointly by Bryham and McKee Wright. The arrangements for the acquisition of the Target Companies' shareholdings have been made jointly.

Following the completion of The Proposed Related Party Transactions the Bryham/McKee Wright interests will jointly control 41.4% of ITC's voting shares. If they were to exercise the options granted to them the voting shares under their joint control would increase to 47.6%.

It is generally regarded that any interests holding 40% or more of a company with a large number of shareholders on its register have effective control of the company. This will be the case with the Bryham/McKee Wright interests.

At present ITC has a wide shareholding base with no single shareholder having a material level of control. In Grant Samuel's view the fact that Messrs Bryham and McKee Wright will have effective control over ITC should not adversely impact on other shareholders. Both executives have a demonstrable track record in establishing profitable technology companies from a start-up stage, which should benefit ITC and its minority shareholders.

In Grant Samuel's view, Messrs Bryham and McKee Wright's business experience in the technology sector and the fact that they will have a substantial investment in ITC aligning their interests with those of other shareholders, will be of benefit to all investors in ITC. The fact that they will have effective control does not in itself mean that remaining shareholders will be disadvantaged. Many other public listed companies have a single shareholder with effective control. ITC will continue to have a majority of directors that are not associated with the Bryham/McKee Wright interests providing a balance at the Board level.

6.7 Financial Impact of the Proposed Related Party Transactions

In the absence of the Proposed Related Party Transaction there is little prospect that ITC and its investee companies will generate significant profits over the short term to result in a dividend being paid to shareholders. In addition, based on management projections a significant proportion of future net income for ITC is expected to come from the Target Companies. The Proposed Related Party Transactions are also expected to have a positive impact on future net earnings and dividends per share in the medium term.

From an accounting perspective the Target Companies have little or no net tangible assets at 31 March 2002. However, CSL and Datasquirt will be accounted for as investments at the value at which each investment is made. Taking into consideration the value of $2.45 million that ITC directors have ascribed to these investments and $3.7 million of cash from the issue of new shares, the impact on net asset backing of the Proposed Related Party Transactions is positive, increasing from 0.6 cents to 1.8 cents per share.

From a liquidation or break up perspective, the Proposed Related Party Transactions have a positive impact on net asset backing per share to the extent that the lower end of Grant Samuel's assessment of net asset backing of 2.9 cents increases to 3.6 cent per share. The upper end of the range remains slightly below 4 cents per share.

6.8 Other Benefits and Disadvantages of the Proposed Related Party Transactions

The Proposed Related Party Transactions:

- **offer ITC shareholders the opportunity to participate in three new business ventures**

  ITC does not have the cash resources to make new investments at this time. The Proposed Related Party Transaction effectively adds three new investments to ITC's portfolio in exchange for scrip. This is unusual, as it is more common for a new investor to acquire an equity stake by investing cash into the venture. If ITC shareholders approve the Proposed Related Party Transactions, they will participate indirectly in three start-up ventures that could potentially result in significant upside.

- **means ITC shareholders retain upside exposure**

  The recapitalisation of ITC arising out of the Proposed Related Party Transactions and the linked equity issue to outside investors will allow ITC to contribute to the further development funding required by

DVI. DVI appears to have the potential to be commercially successful and if so is likely to substantially increase the value of ITC's investment in the company. Similarly, the acquisition of shareholdings in the Target Companies give ITC shareholders exposure to investment upside arising out of the commercial success of any or all of their proposed products. The ITC share price, currently at historic lows, stands to improve if the investment value of any of ITC's investee companies improves. Nevertheless, there is no guarantee that any of the investee companies will achieve commercial success and ITC shareholders remain exposed to that risk. This risk is somewhat diminished from that currently faced because of ITC having a larger portfolio of investments and thus spreading investment risk.

- **more fully aligns the interests of ITC's senior executive officers with its shareholders**

  Messrs Bryham and McKee Wright are an integral part of each of the small management teams of the Target Companies. They are also officers of ITC and PML. Over the next 12-24 months the Target Companies are going to require a considerable amount of hands on management, which would otherwise be a significant distraction for Messrs Bryham and McKee Wright from their role as executives of ITC. The Proposed Related Party Transactions address this issue by aligning the interests of Messrs Bryham and McKee Wright with ITC shareholders through an exchange of scrip.

  The option scheme also further incentivises PML to create shareholder wealth (refer section 6.5 below).

- **will improve the financial position of ITC**

  ITC faces serious financial problems as a result of the failure of a number of its investments to provide a monetary return and its continuing cash "burn" of approximately $90,000 per month.

  ITC is not forecasting that any revenue will be received from its remaining investments in Terabyte, Golden Orb, or DVI in the current financial year. To the contrary, DVI, as a start-up operation yet to generate self-supporting revenue streams is likely to require further shareholder funding to allow development of its core product to proceed to the point of commercial production.

  ITC is forecasting to have remaining cash reserves of approximately $750,000 as at the end of May 2002. At its projected monthly cash "burn" rate of $90,000 the company will become insolvent by early 2003 without an injection of further cash. ITC is not in a position to raise the cash through the use of bank debt, because of its very weak balance sheet. To continue to trade ITC has no option but to raise cash through the issue of new shares. As part of The Proposed Related Party Transactions Messrs Bryham and McKee Wright will each subscribe for 15 million fully paid ordinary shares in ITC at 4 cents per share within 10 working days of the proposed shareholders meeting. This will provide $1.2 million in cash and along with the $2.5 million additional cash to be received from the proposed issue of shares to new investors will provide ITC with additional immediate cash of $3.2 million.

  ITC estimates that it will be required to provide funding to the three Target Companies in which it proposes to acquire shareholdings of approximately $1.75 million before each reaches the stage where it generates sufficient revenue to be self funding. After meeting this requirement ITC will be left with cash of $1.95 million which is sufficient to meet approximately 22 months of Head Office expenditure at the forecast rate of $90,000 per month.

  The purchase of the shareholdings in the Target Companies will not provide immediate earnings for ITC. A positive financial benefit from the investments will only be received from each if the underlying product and technology proves commercially viable. Whilst it is expected that this will be the case (particularly with Datasquirt as it has the most advanced product under development) there can be no guarantee that the products will turn out to be commercially viable. Nevertheless, in Grant Samuel's opinion, the prospects for achieving commercial success in at least one of the Target Companies are reasonable.

  In Grant Samuel's view The Proposed Related Party Transactions should provide ITC with financial stability in the short to medium term and with the prospect of substantial returns in the longer term. However, it must be recognised that:

- ITC's future prospects are dependent on the success of the start-up ventures that ITC will have invested in - the company does not have a source of revenue from an established and proven business venture; and

- if the current portfolio of investments consume more cash than forecast to get to the point of being profitable and providing returns to ITC, then ITC will be back to the position it is in today and will require more cash from the issue of additional equity for any additional funding to be made to its investee companies.

In the opinion of both the directors and management of ITC the Proposed Related Party Transactions together with the issue of $2.5 million of shares to third party interests will provide sufficient funds to address ITC's immediate liquidity problems and provides a reasonable platform from which to move forward its investments to the point where reasonable returns to the company will be available. Given the current prospects of ITC being technically insolvent within a relatively short time frame, in Grant Samuel's view there are no other immediate options available to ITC.

- **will provide more certainty as to the future direction of ITC.**

Considerable uncertainty sits over the future of ITC in the absence of the Proposed Related Party Transactions. The carrying value of its investments is $nil and the company has very limited resources with little prospect of raising further equity interest without a compelling new strategy or investment plan.

The Proposed Related Party Transactions:

- provide some certainty as to ongoing management of ITC;

- $3.7 million of additional cash resources; and

- give a renewed strategic direction in managing its position in existing investments and the equity interests in the Target Companies that are to be acquired.

ITC will remain a small listed stock on the NZSE and will still be less likely to attract institutional support, at least over the near term. However, the potential remains that the Proposed Related Party Transactions may be the catalyst for a significant increase in the market capitalisation of ITC over time and greater volumes of shares may be traded.

- **introduction of management expertise**

ITC has suffered in the past from a degree of lack of management discipline that is necessary in a venture capital company. This has been one of the causes of excessive cash drain.

The entering into a management services contract with PML will provide ITC with the proven managerial abilities and experience of Messrs Bryham and McKee Wright who will take on the roles of Chief Operating Officer and Chief Executive Officer respectively.

Maurice Bryham was a co-founder of PC Direct, a company specialising in direct sales of personal computers in New Zealand. PC Direct became a market leader and was eventually sold to Gateway Computers after being purchased by the Blue Star Group at a time when revenues were approximately $100 million per annum and staff numbers were 150.

David McKee Wright joined PC Direct as Financial Controller in 1994 and subsequently became Chief Executive. In 1998 McKee Wright joined Bryham as a partners in exo-net International, a start up e-business software company that ITC later successfully invested in, selling a 35% shareholding that originally cost $1.5 million for $12.7 million after an 18 month holding period. Most recently David McKee Wright has been chief executive for the New Zealand office of Solution 6, a software company that acquired exo-net.

Taken together Messrs Bryham and McKee Wright bring complimentary financial management and entrepreneurial skills to ITC that should benefit the company's prospects of moving out of its difficult financial positions and ensure that appropriate business disciplines are in place moving forward.

The disadvantages of the Proposed Related Party Transactions include:

- **ITC or the Target Companies may need to raise new equity if ITC is to make other investments.**

  Based on management projections the Target Companies require $1.75 million to $2.25 million of capital to fund their respective business plans. A material proportion of the balance of $3.7 million of cash raised as part of the Proposed Related Party Transactions and issue of shares to certain habitual investors will be needed by ITC to fund its own operational costs. Accordingly ITC or the Target Companies may need to raise new equity if ITC is to make other investments.

  The cash arising from the exercise of options may in part address future capital requirements.

- **ITC's investment mandate will change and extend beyond Information Technology and Telecommunications sectors into a range of new areas. For some shareholders this diversification may not suit their individual investment preferences.**

- **the dilutionary impact of the Proposed Related Party Transactions.**

  Issuing 284.6 million shares and options results in the number of ITC shares on issue increasing from 171.5 million to 456.6 million shares on a fully diluted basis. The issue price of 4 cents is less than the current share price of 5 cents. In isolation, the issue of this many shares could be expected to lower the market price of ITC shares but by less than 1 cent per share. However, it is difficult to predict the extent to which the market will react to the announcement of the Proposed Related Party Transactions and information accompanying the notice of meeting.

- **the risks associated with start-up ventures such as the Target Companies are significant.**

  As noted in section 5 of this report there are many risk factors for a start-up venture to be considered in addition to specific technology and product development related risks. Should management achieve their forecasts the returns to shareholders are expected to provide adequate compensation for these risks. The Target Companies are diverse and independent, which helps to spread the risk of failure.

6.9 The Issue of 12.5 Million Shares to Mr Jay Snider, being a Material Transaction with a Related Party, is Fair.

The shares to be subscribed for by director and substantial security holder, Mr Jay Snider are being issued at a price of 4 cents. Grant Samuel has assessed the fair value of ITC shares to be in the range of 2.9 cents to 4 cents per share. The issue price of shares to Mr Snider is at the upper end of this range and is therefore fair. There are no terms or conditions of the issue that are not normal.

7 Merits of the Proposed Allotment of Securities

Grant Samuel has considered the following merits of the Proposed Allotment of Securities:

- based on ITC's projected cash burn rate the company will be insolvent in early 2003 without the introduction of new equity. In such a case it is likely that existing ITC shares would have no value. ITC is not in a position to raise cash through the use of bank debt. The Proposed Allotment of Securities and linked issue of shares to certain habitual investors involves $3.7 million of cash consideration, which will address ITC's short-term capital requirements;

- the Proposed Allotment of Securities results in a change of control. Messrs Bryham and McKee Wright will directly and indirectly through PML own 41.4% of ITC, which could potentially increase to 47.6% upon exercise of the options. The fact that they will have control does not in itself mean that remaining shareholders will be disadvantaged. While in many cases the presence of a controlling shareholder can act to deter prospective purchasers from making a takeover bid for a company, ITC is not considered a takeover candidate at this time. Messrs Bryham and McKee Wright are seeking a controlling shareholding but not 100% ownership of ITC. The attraction in part is its listed company status, which would be lost in a full takeover;

- a consequence of the Proposed Allotment of Securities is ITC entering into a Management contract with PML. ITC should benefit from the ongoing involvement of an experienced management team;

  - the consideration terms and conditions of the Proposed Allotment of Securities are reasonable:

  - the exchange of ITC shares for Target Company shares will take place on a fair basis;

  - the Proposed Option Scheme provides further non-cash remuneration and performance incentives for PML;

  - cash consideration of 4 cents per share is reasonable despite a higher current sharemarket price; note this report was prepared prior to any announcement of the Proposed Allotment of Securities;

  - ITC has evaluated a rights issue to raise new capital from existing shareholder but considered that such an issue would not succeed. The Proposed Allotment of Securities and Related Party Transactions were the only other alternatives considered. In Gratn Samuel's opinion there is unlikely to be many, if any, viable alternatives; and

  - the Proposed Allotment of Securities will mean the risks associated with an investment in ITC will lessen as a result of a broadening of the commercial risk base of ITC's business and improvements in its cash position. However, shareholders will still be exposed to the inherent financial risks of investing in a company that has a predominance of start-up risk attached to its business base.

- other merits of the Proposed Allotment of Securities include:

  - allowing ITC shareholders to continue to participate in the upside exposure for DVI;

  - the introduction of three new investments for scrip;

  - aligning the interests of key ITC executives with other shareholders;

  - more certainty as to the immediate future of ITC;

  - there is considerable risk associated with start-up ventures

  - the dilutionary effect is potentially significant given ITC is issuing 280 million securities at a discount to the current market price; and

- two of the Target Companies operate in sectors outside ITC's original investment mandate and as a result of the Proposed Allotment of Shares ITC's investment direction will change.

Each of the merits of the Proposed Allotment of Securities discussed in more detail in section 6 as part of Grant Samuel's appraisal of the broader Proposed Related Party Transactions.

Whether Affected Holders vote in favour of the Proposed Allotment of Securities is a decision for individual holders having considered these factors and their own individual preferences.

8 Appraisal of the Directors' Share Issue

It is intended that the Directors are issued shares at 4 cents in lieu of directors' fees. The issue price falls within Grant Samuel's range of net asset backing of ITC shares of 2.9 cents to 4.0 cents. Accordingly, the price at which the Directors are to be issued shares in ITC is fair.

ITC's shareholders are being asked to approve the issue of a maximum of 2,625,000 fully paid shares in ITC to the chairman and directors of the company as one component of a revised annual remuneration scheme. Grant Samuel understands that the scheme was structured by considering what was a fair annual remuneration monetary sum and then splitting that amount into a cash component and a share component based on value per share of 4 cents.

ITC - Proposed Director's Remuneration Scheme

	Share Component			
	No. of Shares	**Cash equivalent**	**Cash Component**	**Total**
Chairman	750,000	$30,000	$30,000	$60,000
Directors	375,000	$15,000	$15,000	$30,000

The principal reason for including a share component in the remuneration package was to conserve ITC's cash. The savings amount to $105,000 per annum. Overall the proposal means that ITC directors' fees will increase from $100,000 paid for the year ending 31 March 2002, to $210,000 for the year ending 31 March 2003. Of the increase of $110,000 in directors fees, $105,000 is effectively being financed by the Directors' Share Issue. However, the chairman and directors bear the risk and rewards of share ownership on this component of their remuneration. Grant Samuel understands that the shares will be issued in one parcel to each director shortly following the shareholders' meeting to approve the issue.

The actual value of their remuneration will be a function of the movement in the ITC share price between the notional 4 cents per share issue price and the market price at the conclusion of the financial year on 31 March 2003. Thus, the Directors' Share Issue provides an incentive component that aligns the interest of directors with those of ITC shareholders. Grant Samuel considers this to be fair.

The Directors' Share Issue has been priced at 4 cents a share, the same price used for the issue of shares under the various other proposals to be considered by ITC shareholders at their meeting. The price compares with a value range placed on ITC shares of 2.9 cents to 4.0 cents per share assessed by Grant Samuel in section 6.4.3 of this report. The Directors' Share Issue at 4 cents per share is at the upper end of this range. On this basis, in Grant Samuel's opinion the issue price and terms and conditions of the Directors' Share Issue are fair to ITC shareholders other than the directors.

Whether Affected Holders vote in favour of the Director's Share Issue is a decision for individual holders having considered these factors and their own individual preferences.

9 Qualifications, Declarations and Consents

9.1 Qualifications

Grant Samuel and its related companies provide financial advisory services to corporate and other clients in relation to mergers and acquisitions, capital raisings, corporate restructuring, property and financial matters generally in Australia and New Zealand. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since its inception in 1988, Grant Samuel and its related companies have prepared more than 250 public expert or appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are John Mandeno, BCom and Peter Jackson, BCom, CA. Each has a significant number of years experience in relevant corporate advisory matters.

9.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinions as to the fairness of the Proposed Related Party Transactions and Director's Share Issue and evaluation of the merits of the Proposed Allotment of Securities. Grant Samuel expressly disclaims any liability to any ITC shareholder that relies or purports to rely on this report for any other purpose and to any other party who relies or purports to rely on this report for any purpose.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

9.3 Independence

Grant Samuel does not have at the date of this report, and has not had within the previous two years, any shareholding in or other relationship with Messrs Bryham and McKee Wright, ITC or the Target Companies, that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the fairness of the Proposed Related Party Transactions and Director's Share Issue and merits of the Proposed Allotment of Securities.

Grant Samuel had no part in the formulation of the Proposed Related Party Transactions, Proposed Allotment of Securities or Director's Share Issue. Its only role has been the preparation of the Report and its summary.

Grant Samuel will receive a fixed fee for the preparation of the Report. This fee is not contingent on the outcome of the Proposed Related Party Transactions. Grant Samuel will receive no other benefit for the preparation of the Report. Accordingly, Grant Samuel considers itself to be independent for the purposes of the Takeovers Code and the NZSE Listing Rules.

9.4 Information

Grant Samuel is required to comment on whether the reporter has obtained all information, which it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any Director of ITC and made available to the Directors. The information provided to Grant Samuel is sufficient in all areas except in relation to ITC' existing investments. Grant Samuel was given no detailed financial information in relation to Terrabyte and Golden Orb and only limited financial projections for DVI. ITC has written off its investment in Terrabyte and Golden Orb. Accordingly, Grant Samuel has relied upon verbal advice from ITC's chairman Messrs Bryham and McKee Wright in respect of DVI. While this is less than desirable Grant Samuel has been advised that ITC has made available all relevant information known to its directors. ITC owns only 42% of DVI and there are issues of confidentiality with respect to disclosure of information in such circumstances.

NZSE Listing Rule 1.2.2 (d) requires that the reporter state that in its opinion the information provided by ITC and contained within the Report is sufficient to enable ITC shareholders to understand all relevant factors and make an informed decision, in respect of the Proposed Related Party Transactions, Proposed Allotment of Securities and Director's Share Issue. In Grant Samuel's opinion the information provided is adequate in all areas except in relation to the Target Companies. The financial information provided is limited and is not sufficient to enable ITC shareholders to independently form their own view of the Target Companies. ITC directors, on behalf of the shareholders and directors of the Target Companies, requested that Grant Samuel restrict the level of disclosure for commercial reasons.

9.5 Declarations

ITC has agreed that to the extent permitted by law, it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or arising out of the preparation of this report. This indemnity will not apply in respect of the proportion of liability found by a court to be attributable to any conduct involving negligence or wilful misconduct by Grant Samuel. ITC has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person except where Grant Samuel or its employees and officers are found to have been negligent or engaged in wilful misconduct, in which case Grant Samuel shall bear such costs.

Advance drafts of this report (and parts of it) were provided to ITC. Certain changes were made to this report as a result of the circulation of the draft report. However, there was no alteration to the methodology, conclusions or recommendations made to ITC shareholders as a result of issuing the drafts.

Grant Samuel's terms of reference for its engagement did not contain any term which materially restricted the scope of this report.

9.6 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the information to be sent to ITC shareholders. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

The accompanying letter dated 12 June 2002 and attached appendix form part of this report.

GRANT SAMUEL & ASSOCIATES LIMITED
14 June 2002

Grant Samuel + Associates