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九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

TERMINATION OF TRANSACTIONS

On 23 December 2008, the Company and, among others, the Purchaser and China Orient have entered into a termination agreement to terminate the cooperation between the Company and China Orient in respect of the Joint Venture that engages in the business of assets management.

Reference is made to the announcement of the Company dated 29 August 2007 (the “**First Announcement**”), the circular of the Company dated 18 October 2007 (the “**Circular**”) and the announcements of the Company dated 1 April 2008, 18 April 2008 and 10 July 2008 (the “**Other Announcements**”) in relation to the Acquisition and the establishment of the Joint Venture. Save as otherwise provided in this announcement, capitalised terms used herein shall have the same meanings as used in the Circular and the Other Announcements.

THE TRANSACTIONS

As disclosed in the First Announcement, the Circular and the Other Announcements, the Purchaser, an indirect wholly owned subsidiary of the Company, the Company and China Orient entered into the Assets Transfer Agreement pursuant to which the Purchaser agreed to acquire from China Orient the Assets. As announced by the Company on 18 April 2008, China Orient elected the consideration of the Acquisition would be satisfied by the issue by the Company of the Convertible Bonds.

Pursuant to the Joint Venture Agreement between the Purchaser, the Company and China Orient, the Purchaser and China Orient agreed to establish the Joint Venture to carry out the business of asset management. The Purchaser’s contribution to the Joint Venture would be in the form of the Assets purchased from China Orient and cash in the total sum of RMB3,190,000,000, of which RMB2,253,000,000 would be accounted as capital and RMB937,000,000 would be accounted as an interest-free shareholder’s loan to the Joint Venture. China Orient would contribute non-performing loan assets valued at RMB2,190,000,000, of which RMB747,000,000 would be accounted as capital and the balance of RMB1,443,000,000 would be accounted as an interest-free shareholder’s loan to the Joint Venture.

The Acquisition and the establishment of the Joint Venture were inter-conditional and constituted a major transaction for the Company under the Listing Rules.

The Acquisition and the establishment of the Joint Venture were approved by the PRC Examination and Approval Authorities on 26 March 2008. As the Assets could not be physically divided from the non-performing loans package of China Orient, no actual transfer of the Assets was made from China Orient to the Purchaser but rather China Orient has assigned the beneficial right to the non-performing loans package that it held prior to the Acquisition (including the Assets) directly to the Joint Venture and accounted that as contributions made by China Orient and the Purchaser to the Joint Venture. As consideration for the Acquisition, the Company issued the Convertible Bonds in the principal amount of HK\$2,413,773,720 to China Orient on 7 July 2008. The Convertible Bonds do not bear interest and will mature on 6 January 2009. As at the date of this announcement, no Conversion Shares have been issued by the Company.

The Joint Venture, Orient Polytec Asset Management Company Limited (the “**Joint Venture**”), was established on 30 April 2008 and the shareholding in the Joint Venture was registered as to 24.9% of the registered capital of the Joint Venture being held by China Orient and as to 75.1% by the Purchaser. Since the establishment of the Joint Venture, procedures for transferring the non-performing loan assets, including the Assets, to the Joint Venture were and are still in progress. The Company has not yet been involved in the day-to-day management of the Joint Venture and the same management team from China Orient that was managing the non-performing loan assets prior to the Acquisition and the establishment of the Joint Venture is still managing the day-to-day operation of the Joint Venture.

As at the date of this announcement, the Joint Venture has accounted the Assets as part of the Purchaser’s contribution to the Joint Venture. In addition, the Purchaser has provided capital contribution in cash in the amount of RMB600,000,000 to the Joint Venture, of which RMB200,000,000 has already been repaid by the Joint Venture to the Purchaser as repayment of shareholder’s loan. As at the date of this announcement, the Purchaser has outstanding capital contribution in the amount of RMB400,000,000 yet to be made to the Joint Venture. In accordance with prevailing PRC regulations, an investor in a PRC joint venture may only exercise its shareholder’s right in the joint venture to the extent of its capital contribution already made and as long as there are outstanding capital contributions remain to be made, the relevant shareholder may not exercise its full shareholder’s right in the joint venture. As advised by PRC legal advisers to the Company, the Purchaser still has an outstanding capital contribution of RMB400,000,000 yet to be made to the Joint Venture, and the procedures for completing the assignment of the non-performing loans package to the Joint Venture is still in progress, the Acquisition and the transaction in respect of the establishment of the Joint Venture are therefore not considered to have been completed.

THE TERMINATION AGREEMENT

On 23 December 2008, (1) the Company, (2) the Purchaser, (3) China Orient and (4) Dong Yin Development (Holdings) Limited (“**Dong Yin**”), a wholly-owned subsidiary of China Orient, enter into a termination agreement (the “**Termination Agreement**”) pursuant to which the parties agreed to terminate the cooperation between the Company and China Orient in respect of the Joint Venture that engages in the business of assets management (the “**Termination**”).

Pursuant to the Termination Agreement, the parties have agreed to do, among others, the following:

- (a) the Joint Venture will repay the shareholder loan in the amount of RMB400,000,000 to the Purchaser, which will be used to repay debt owed to the Company;
- (b) the Company will (i) transfer its entire equity interest in Forever Happy Investments Limited (“**Forever Happy**”), a wholly-owned subsidiary of the Company, which holds the entire issued share capital in the Purchaser to Dong Yin (the “**Transfer**”) for US\$1.00, and assign the debt owed by the Purchaser to the Company in the amount of HK\$2,413,773,720, being the principal amount of the Convertible Bonds, to Dong Yin (the “**Assignment**”);
- (c) in consideration of the Transfer and the Assignment, China Orient will, pursuant to the terms of the Convertible Bonds, enter into an amendment agreement with the Company to amend the terms of the Convertible Bonds to allow the Company to cancel the Convertible Bonds, and then return the Convertible Bonds to the Company for cancellation; and
- (d) the parties will release the Company of any further obligations under the Joint Venture Agreement and the Company will not share any profits or bear any losses of the Joint Venture from the date of its establishment.

After completion of the above steps, the Joint Venture will be wholly-owned by China Orient and the positions of both China Orient and the Company will be restored back to prior to the Acquisition and the establishment of the Joint Venture. As a result of the surrender and cancellation of the Convertible Bonds, the debt of the Group will be reduced by HK2,413,773,720 as a result of the Termination. Thereafter, none of the parties will have any further obligations towards any of the other parties. Save for the professional fees and miscellaneous expenditures incurred for the Acquisition, the establishment of the Joint Venture and the Termination attributable to the Company, the Company will not incur any loss as a result of the termination of the cooperation with China Orient.

CONDITIONS OF THE TERMINATION AGREEMENT

The Termination Agreement is conditional upon, among others, the following conditions being satisfied:

- (1) the Company having complied with the requirements of the Listing Rules and other regulatory requirements in respect of the transactions contemplated under the Termination Agreement;
- (2) the board of directors and/or shareholder (if necessary) of Forever Happy and the Purchaser passing resolutions to approve the transactions contemplated under the Termination Agreement;
- (3) Dong Yin having received, to its satisfaction in form and substance, the certificate of good standing and certificate of incumbency of Forever Happy;

- (4) Polytec Holdings International Limited, a company incorporated in the British Virgin Islands which holds the entire issued share capital of the substantial shareholder of the Company, Intellinsight Holdings Limited, which is in turn interested in approximately 70% interest in the Company, entering into a deed of guarantee with Dong Yin to guarantee the due performance of the Company of its obligations under the Termination Agreement; and
- (5) Dong Yin being satisfied with its due diligence review on Forever Happy and the Purchaser.

The parties shall use their best endeavours to ensure that the above conditions precedent be satisfied on or before 5:00 p.m. on 5 January 2009, or such other date as may be agreed by the parties in writing. If for any reasons that the conditions precedent cannot be satisfied, the Termination Agreement will lapse and cease to be of further effect and the parties shall consult and determine a resolution to terminate and unwind the cooperation arrangement, including, if required, the entering into supplemental agreements.

REASONS FOR THE TERMINATION

Taking into account the current financial crisis, the Company and China Orient have mutually agreed that the previous proposition of operating a joint venture in the PRC to manage non-performing loan packages is no longer viable and beneficial to both parties. Accordingly, the parties agreed to terminate the co-operation and enter into the Termination Agreement. The Directors, including the independent non-executive Directors, consider that the entering into the Termination Agreement is in the best interest of the Company and the Shareholders as a whole under the present economic environment. The Directors also consider that the Termination will not have any material adverse effect on the Group's operations and financial position, as the Termination does not affect the normal operations of the Group or involve claims of any nature.

By Order of the Board
Kowloon Development Company Limited
Or Wai Sheun
Chairman

Hong Kong, 23 December 2008

As at the date of this announcement, the Board comprises four Executive Directors, being Mr. Or Wai Sheun (Chairman), Ms. Ng Chi Man, Mr. Lai Ka Fai and Mr. Or Pui Kwan; three non-Executive Directors, Mr. Keith Alan Holman (Deputy Chairman), Mr. Tam Hee Chung and Mr. Yeung Kwok Kwong, and four Independent Non-executive Directors, Mr. Li Kwok Sing, Aubrey, Mr. Lok Kung Chin, Hardy, Mr. Seto Gin Chung, John and Mr. David John Shaw.