

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



KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

**CONNECTED TRANSACTION
CO-INVESTMENT IN A PROPERTY PROJECT IN MACAU
THROUGH THE ACQUISITION OF SHARES AND OUTSTANDING SHAREHOLDER'S
LOAN IN
TOP MILESTONE DEVELOPMENTS LIMITED
AND
PROVISION OF LOANS BY TOP MILESTONE TO POLYTEX CORPORATION LIMITED
PURSUANT TO THE CO-INVESTMENT AGREEMENT**

SUMMARY

Future Star and Polytec Holdings entered into the Agreement on 7 January 2004, pursuant to which Future Star has conditionally agreed to acquire from Polytec Holdings the entire issued share capital together with the shareholder's loan of Top Milestone. The consideration for the Acquisition is HK\$400 million.

As Polytec Holdings is a controlling shareholder of the Company, the Acquisition constitutes a connected transaction for the Company under Rule 14.26 of the Listing Rules and the provision of loans by Top Milestone to Polytec under the Co-Investment Agreement after Completion constitutes a connected transaction for the Company under Rule 14.25(2) of the Listing Rules. The Agreement and the provision of loans by Top Milestone to Polytec under the Co-Investment Agreement are subject to the approval of the independent shareholders of the Company.

A circular containing the notice of an extraordinary general meeting of the Company, further details of the Acquisition and the Co-Investment Agreement, a letter from the independent board committee of the Company and a letter of advice from the independent financial adviser to the independent board committee of the Company will be despatched to shareholders of the Company as soon as practicable in accordance with the requirements of the Listing Rules.

THE AGREEMENT

Under the Agreement, Future Star will conditionally acquire from Polytec Holdings:

- i. the entire issued share capital of Top Milestone; and
- ii. total outstanding interest-free shareholder's loan owed by Top Milestone to Polytec Holdings in the amount of HK\$176 million.

The Agreement was entered into on an arm's length basis between Future Star and Polytec Holdings and on normal commercial terms. The directors (including the independent non-executive directors) of the Company consider the terms of the Acquisition to be fair and reasonable as far as independent shareholders are concerned.

Consideration and payment terms

The consideration is HK\$400 million comprises:

- (a) the consideration in respect of the entire issued share capital of Top Milestone in the amount of HK\$224 million; and
- (b) the consideration in respect of the interest-free outstanding shareholder's loan owed by Top Milestone to Polytec Holdings of HK\$176 million.

As pursuant to the Co-Investment Agreement, Top Milestone will be remunerated by Polytec in an amount equal to 80% of the after-tax profits from the sales of the units comprised the Project, the consideration of the Acquisition has been determined with reference to the valuation of the underlying Property of the Project of HK\$500 million as valued by DTZ Debenham Tie Leung Limited, an independent valuer not connected with the directors, chief executive and substantial shareholders of the Company, its subsidiaries and their respective associates (as defined in the Listing Rules), as at 31 December 2003 on an open market basis. The consideration of HK\$400 million (comprising a share consideration of HK\$224 million and a loan consideration of HK\$176 million) represents 80% of the valuation of the underlying Property of the Project of HK\$500 million.

The consideration will be satisfied by cash at Completion.

Funding

The consideration will be funded from internal resources of the Company and/or borrowings from bank and/or Polytec Holdings. In the event that a loan is made by Polytec Holdings to the Company for the purpose of financing the Acquisition, interest will be charged on the loan at normal commercial terms. This connected transaction is exempted by virtue of rule 14.24(8) of the Listing Rules.

The conditions of the Acquisition

Completion of the Agreement is subject to the following conditions being either fulfilled or waived (in part or in whole except for (b) and (c)) by Future Star in writing:

- (a) completion of the due diligence investigation on Top Milestone to the absolute satisfaction of Future Star;
- (b) the passing of the resolution(s) by the independent shareholders of the Company to approve the entry into and performance of the Agreement and the transactions contemplated thereunder in the manner as required under the Listing Rules;
- (c) all necessary consents and approval in respect of the Agreement and the transactions contemplated therein required by Future Star and/or the Company (as the case may be) being obtained;
- (d) the obtaining of a certificate of good standing and certificate of incumbency issued by the registered agent of Top Milestone in form and substance satisfactory to Future Star dated no earlier than seven days prior to Completion;
- (e) the obtaining of a legal opinion in form and substance satisfactory to Future Star; and
- (f) the warranties set out under the Agreement being true, accurate and correct in all respects.

If the conditions specified in the Agreement have not been fulfilled or waived by Future Star on or before 31 March 2004 being the long stop date for the fulfilment of the conditions, or such other date as Future Star and Polytec Holdings may agree, Future Star may, without prejudice to any other right or remedy it may have under the Agreement, elect to rescind the Agreement.

Completion

Completion will take place within three business days following the satisfaction or waiver of the conditions precedent referred to above. This is expected to take place on or before 27 February 2004.

RELATIONSHIP BETWEEN POLYTEC HOLDINGS AND THE COMPANY

Polytec Holdings is a connected person of the Company as Polytec Holdings is a controlling shareholder of the Company. Polytec Holdings indirectly owns approximately 72.94% of the issued share capital of the Company and together with its associates (as defined in the Listing Rules) indirectly owns approximately 72.97% of the issued share capital of the Company as at the date of this announcement.

The Acquisition constitutes a connected transaction for the Company under Rule 14.26 of the Listing Rules and the provision of loans to Polytex by Top Milestone under the Co-Investment Agreement after Completion amounts to the granting of financial assistance by the Company under Rule 14.25(2) of the Listing Rules. The Agreement and the provision of loans to Polytex by Top Milestone under the Co-Investment Agreement after Completion require approval of the independent shareholders of the Company.

INFORMATION ON TOP MILESTONE

Top Milestone is a company with limited liability incorporated in the British Virgin Islands on 15 October 2003 and is wholly owned by Polytec Holdings. It is principally engaged in property development in Macau. Based on the latest unaudited management account of Top Milestone and the independent valuation of the underlying Property of the Project, the net asset value of Top Milestone amounted to HK\$224 million as at 31 December 2003.

Top Milestone recorded no turnover or revenue since its incorporation and it does not own any assets or capital apart from its rights and interests under the Co-Investment Agreement and its issued share capital of HK\$780.

Top Milestone has entered into the Co-Investment Agreement with Polytex with respect to the development of the Project into 5 residential blocks, a commercial complex with carparking spaces and a recreation podium.

The Property, being the subject of the Project, is situated at Lote S, Novos Aterros da Areia Preta, Macau, a prime area in Macau. It comprises a plot with a site area of approximately 149,792 square feet. The Project involves the development of 5 residential blocks on top of a 3-storey commercial complex with carparking spaces and a recreation podium. The total gross floor area of the Property are expected to be approximately 1,600,000 square feet. The foundation work of the Project has been completed and the superstructure works are in progress. Completion of the Project is expected to be before 30 September 2005.

It is intended that all the units of the Projects will be sold in the market and the profits from the sales of the units comprising the Project will be shared by Top Milestone and Polytex in the ratio of 80% and 20%. The directors of the Company understand that the ratio was determined by the relevant parties after arm's length negotiation with reference to (i) the respective roles of Polytex as the developer in the Project and registered owner of the Property and Top Milestone as the investor to provide funding and financing to Polytex in the development of the Project; (ii) the associated risk of Top Milestone as an unsecured creditor of Polytex under the Co-Investment Agreement; and (iii) their associated potential benefits from the Project.

As at 31 December 2003, the Property was valued at HK\$500 million based on the valuation report prepared by DTZ Debenham Tie Leung Limited, an independent valuer not connected with the directors, chief executive and substantial shareholders of the Company, its subsidiaries and their respective associates (as defined in the Listing Rules).

Pursuant to the Co-Investment Agreement,

- (i) Top Milestone shall be given access to:
 - (a) the accounts of the receipts and expenses resulting from the Project; and
 - (b) the Property to inspect and view the state and progress of the Project;
- (ii) Top Milestone will provide financing to Polytex on an interest-free basis for the repayment of loans made to Polytex by its shareholders that have been applied to the payment of the expenditure and expenses incurred by Polytex in connection with the Project up to the stage of completion of foundation and showflats provided that the amount of such financing shall not exceed HK\$176 million;
- (iii) Polytex will be responsible to arrange necessary funding or financing to cover payment of the further costs to be incurred from the date of the Co-Investment Agreement up to the date of completion of the Project to the extent that the receipts resulting from the Project do not meet the requirement of the expenditure of the Project as determined by Polytex and Polytex agrees and undertakes that the amount of further costs to be incurred in connection with completion of the Project will be fixed at HK\$350 million and any amount in excess thereof will be solely borne by Polytex;
- (iv) upon completion of the Project but before completion of the sale of all units comprised in the Project, Top Milestone and Polytex will provide financing on an interest-free basis in the ratio of 80% and 20% to cover any shortfall of funding to the extent that the receipts resulting from the Project do not meet the requirement of the expenditure of the Project;
- (v) subject to the full repayment of the loans from Top Milestone and from the shareholders of Polytex that have been applied to the payment of costs incurred in connection with the Project, Top Milestone will be remunerated by Polytex in an amount equal to 80% of the after-tax profits from the sales of the units comprising the Project; and
- (vi) if the receipts from the Project are insufficient to repay the expenditure of the Project, such shortfall shall be borne by Top Milestone and Polytex in the ratio of 80% and 20%.

Top Milestone has advanced HK\$176 million to Polytex on 11 November 2003 pursuant to the Co-Investment Agreement.

INFORMATION ON THE COMPANY

The Company and its subsidiaries are principally engaged in property development and investment, construction, property management, financial services and investments in Hong Kong, world-wide film distribution and local and overseas securities trading.

REASONS FOR THE ACQUISITION

The directors of the Company expect that due to the two-way permit system implemented by the PRC, the launch of the new casinos and the proposed Hong Kong-Zhuhai-Macau bridge, the growth of the tourist and hospitality industry in Macau will boost the demand for quality residential and commercial properties in Macau. The directors of the Company believe that the Acquisition is in line with the Company's business of property development and offers the Company a good opportunity to participate in the Project as a first step into the Macau market and share the benefits thereby enhancing future earnings of the Company.

GENERAL

A circular containing the notice of an extraordinary general meeting of the Company, further details of the Acquisition and the Co-Investment Agreement, a letter from the independent board committee of the Company and a letter of advice from the independent financial adviser to the independent board committee of the Company will be despatched to shareholders of the Company as soon as practicable in accordance with the requirements of the Listing Rules. An independent committee of the board will be formed to give advice to independent shareholders on how they should vote in relation to the Agreement. An independent financial adviser will be retained to advise the independent committee of the board.

The Acquisition and the provision of loans by Top Milestone to Polytex after Completion under the Co-Investment Agreement constitute connected transactions for the Company as Polytec Holdings is a controlling shareholder of the Company. Accordingly, Polytec Holdings and its associates, will abstain from voting at the extraordinary general meeting of the Company.

DEFINITIONS

In this announcement, save the context otherwise requires, the defined terms shall have the following meanings:

“Acquisition”	the acquisition of the entire issued share capital of Top Milestone and the outstanding shareholder's loan due by Top Milestone to Polytec Holdings pursuant to the Agreement;
“Agreement”	the agreement dated 7 January 2004 between Polytec Holdings and Future Star in respect of the Acquisition;
“Co-Investment Agreement”	the agreement dated 11 November 2003 between Top Milestone and Polytex;
“Company”	Kowloon Development Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
“Completion”	completion of the Acquisition pursuant to the Agreement;

“Future Star”	Future Star International Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Macau”	the Macau Special Administrative Region of the People’s Republic of China;
“Polytec Holdings”	Polytec Holdings International Limited, a company incorporated in the British Virgin Islands and a controlling shareholder of the Company indirectly owns approximately 72.94% of the issued share capital of the Company as at the date of this announcement;
“Polytex”	Polytex Corporation Limited, a company incorporated in Macau and a wholly-owned subsidiary of Polytec Holdings. Polytex is the registered owner of the Property;
“PRC”	the People’s Republic of China and for the purpose of this announcement, excludes Hong Kong and Macau;
“Project”	the development of the Property into residential and commercial compounds with car parking facilities;
“Property”	a site at Lote S, Novos Aterros da Areia Preta, Macau with a gross floor area of approximately 1,600,000 square feet;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“Top Milestone”	Top Milestone Developments Limited, a company incorporated in the British Virgin Islands with limited liability.

By Order of the Board
Or Wai Sheun
Chairman

Hong Kong, 8 January 2004

“Please also refer to the published version of this announcement in the South China Morning Post”