
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Kowloon Development Company Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

DISCLOSEABLE AND CONNECTED TRANSACTIONS

**ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL
IN NEW BASIC HOLDINGS LIMITED**

AND

**ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL
AND RELATED SHAREHOLDER'S LOAN OF
TOP SAIL INTERNATIONAL LIMITED**

**Independent Financial Adviser to the
Independent Board Committee and the Independent Shareholders**

ALTUS CAPITAL LIMITED

A letter from the Board is set out on pages 7 to 25 of this circular and a letter from the Independent Board Committee is set out on pages 26 to 27 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and Independent Shareholders is set out on pages 28 to 52 this circular.

A notice convening the Extraordinary General Meeting is set out on pages 70 to 71 of this circular. Whether or not you intend to attend the meeting or any adjournment thereof, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof to the share registrars of the Company, Computershare Hong Kong Investor Services Limited of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof if you so wish.

30 October 2013

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“Brilliant Idea”	Brilliant Idea Investments Limited, a company incorporated in the British Virgin Islands with limited liability which is principally engaged in investment holding and is a wholly-owned subsidiary of the Company
“Business Plan”	the business plan in respect of the Development setting out, among others, the proposed dates for commencement of the construction, the sale of the Units and completion of the Development and the funding requirement of the Development for the financial year to which the Business Plan relates
“Co-Investment Agreement”	the co-investment agreement dated 22 August 2013 entered into between Polytec Holdings and New Basic in relation to the investment in and financing of the Development by New Basic
“Company”	Kowloon Development Company Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Development”	the development to be erected on the Land as described in the paragraph headed “Information on the Land and the Development” under the Letter from the Board
“Development Period”	the period during which the Development is to be carried out until and up to the completion date of the Development which is expected to be on or before the seventh anniversary of the date of the Co-Investment Agreement
“Director(s)”	the director(s) of the Company

DEFINITIONS

“DTZ”	DTZ Debenham Tie Leung Limited, an independent property valuer
“Event of Default”	the event of default as specified in the Co-Investment Agreement including, inter alia, (i) non-payment on the due date any amount payable by Polytec Holdings under the Co-Investment Agreement; (ii) breach of the obligations of Polytec Holdings under the Co-Investment Agreement; (iii) misrepresentation by Polytec Holdings under the Co-Investment Agreement; (iv) cross-default by Polytec (Huizhou) under the Co-Investment Agreement; (v) insolvency of Polytec Holdings, Polytec (Huizhou) and its holding companies; (vi) insolvency proceedings against Polytec Holdings, Polytec (Huizhou) and its holding companies; (vii) creditors’ process against Polytec Holdings and/or Polytec (Huizhou) which is not discharged within 20 days; (viii) cessation or threatening of cessation of business of Polytec Holdings and/or Polytec (Huizhou); (ix) in-effectiveness of the Co-Investment Agreement; (x) abandonment or suspension of the Development by Polytec Holdings or Polytec (Huizhou); (xi) major damage on the Land; and (xii) material adverse change as specified in the Co-Investment Agreement
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement
“Final Accounts”	the audited accounts in respect of the Receipts and the expenditure of the Development after completion of the sale of all the Units comprised in the Development which shall be prepared in the form and substance satisfactory to New Basic and on the basis as set out in the Co-Investment Agreement and delivered to New Basic within six months from the completion of the sale of all the Units comprised in the Development
“Group”	the Company and its subsidiaries
“HIBOR”	Hong Kong Interbank Offered Rate

DEFINITIONS

“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HK Acquisition”	the acquisition of the Top Sail Sale Share together with the assignment of the Top Sail Sale Loan pursuant to the terms of the HK Agreement
“HK Acquisition Consideration”	the consideration of the HK Acquisition pursuant to the HK Agreement
“HK Agreement”	the agreement dated 23 August 2013 entered into between Partner Talent and Brilliant Idea in relation to the HK Acquisition
“HK Property”	property situated at 1, 3, 5, 7, 9 and 11 Tang Fung Street, Aberdeen, Hong Kong held by Top Sail
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huizhou Acquisition”	the acquisition of the New Basic Sale Share pursuant to the terms of the Huizhou Agreement
“Huizhou Acquisition Consideration”	the consideration of the Huizhou Acquisition pursuant to the Huizhou Agreement
“Huizhou Agreement”	the agreement dated 23 August 2013 entered into between Polytec Holdings and the Company in relation to the Huizhou Acquisition
“Independent Board Committee”	an independent committee of the Board, comprising all the Independent Non-executive Directors appointed by the Board to advise the Independent Shareholders in relation to the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement
“Independent Financial Adviser”	Altus Capital Limited, a licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement

DEFINITIONS

“Independent Shareholders”	shareholders of the Company other than Mr Or and his associates
“Land”	three parcels of land owned by Polytec (Huizhou) as described in the paragraph headed “Information on the Land and the Development” under the Letter from the Board
“Land Costs”	an amount of RMB1,700,000,000, representing the revaluated value of the Land indicated in the final valuation report of the Land as set out in Appendix I of this circular
“Latest Practicable Date”	25 October 2013, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Mr Or”	Mr Or Wai Sheun, an Executive Director and the controlling shareholder of the Company
“New Basic”	New Basic Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
“New Basic Sale Share”	one share in the issued share capital of New Basic, representing the entire issued share capital of New Basic
“Partner Talent”	Partner Talent Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Polytec Holdings
“Polytec Holdings”	Polytec Holdings International Limited, a company incorporated in the British Virgin Islands with limited liability and the ultimate holding company of the Company

DEFINITIONS

“Polytec (Huizhou)”	Polytec (Huizhou) Investments Development Limited, a company established in the PRC with limited liability and is beneficially owned as to 90.82% and 9.18% by Polytec Holdings and an independent third party respectively as at the Latest Practicable Date
“Potential Event of Default”	an event which would reasonably become (with the expiry of a grace period and/or the giving of notice) an Event of Default
“PRC”	the People’s Republic of China and for the purpose of this circular, excludes Hong Kong, Taiwan and Macau
“PRIME”	the best lending rate of Hong Kong dollar loan offered by The Hongkong and Shanghai Banking Corporation Limited from time to time
“Project Accounts”	the project accounts in respect of the Receipts and the expenditure of the Development for each calendar month of a financial year of Polytec (Huizhou) which shall be delivered to New Basic not later than the end of the next calendar month
“Receipts”	the sale proceeds, proceeds of any insurance policy and interest accrued thereon in relation to the Development
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“sq. ft.”	square feet
“sq. m.”	square metre
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning given to it under the Listing Rules

DEFINITIONS

“Top Sail”	Top Sail International Limited, a company incorporated in the British Virgin Islands with limited liability and registered as a non-Hong Kong company in Hong Kong
“Top Sail Sale Loan”	the amount of HK\$182,752,120 advanced by Partner Talent to Top Sail as at 31 July 2013 which will be assigned to Brilliant Idea pursuant to the terms of the HK Agreement
“Top Sail Sale Share”	one share in the issued share capital of Top Sail, representing the entire issued share capital of Top Sail
“Units”	residential units, commercial/retail units and/or parking space in the saleable part of the Development

Note: Unless otherwise specified in this circular, translations of RMB into HK\$ are made in this circular for illustration only, at the rate of HK\$1.00 to RMB0.79672. No representation is made that any amounts in RMB or HK\$ could have been or could be converted at that rate or any other rates or at all.

LETTER FROM THE BOARD



九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

Executive Directors

Mr Or Wai Sheun (*Chairman*)

Mr Lai Ka Fai

Mr Or Pui Kwan

Registered Office

23rd Floor, Pioneer Centre

750 Nathan Road

Kowloon

Hong Kong

Non-executive Directors

Mr Keith Alan Holman (*Deputy Chairman*)

Ms Ng Chi Man

Mr Yeung Kwok Kwong

Independent Non-executive Directors

Mr Li Kwok Sing, Aubrey

Mr Lok Kung Chin, Hardy

Mr Seto Gin Chung, John

Mr David John Shaw

30 October 2013

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTIONS

**ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL
IN NEW BASIC HOLDINGS LIMITED**

AND

**ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL
AND RELATED SHAREHOLDER'S LOAN OF
TOP SAIL INTERNATIONAL LIMITED**

INTRODUCTION

The Board announced on 23 August 2013 that (i) the Company entered into the Huizhou Agreement with Polytec Holdings pursuant to which Polytec Holdings conditionally agreed to sell and the Company conditionally agreed to purchase the New Basic Sale Share, representing the entire issued share capital of New Basic for a consideration of HK\$1,280,249,021; (ii) Brilliant Idea, a wholly-owned subsidiary of the Company entered into the HK Agreement with Partner Talent, a wholly-owned subsidiary of Polytec Holdings, pursuant to which Partner Talent conditionally agreed to sell and Brilliant Idea conditionally agreed to purchase the Top

LETTER FROM THE BOARD

Sail Sale Share, representing the entire issued share capital of Top Sail together with the assignment of the Top Sail Sale Loan for an aggregate consideration of HK\$368,557,890. In addition, on 22 August 2013, New Basic entered into the Co-Investment Agreement with Polytec Holdings pursuant to which New Basic has agreed to co-invest with Polytec Holdings in the Development.

The Independent Board Committee has been formed to make recommendation to the Independent Shareholders in relation to the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement. Altus Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement.

The purposes of this circular are:

- (a) to provide you with further details on the Huizhou Acquisition, the Co-Investment Agreement and the HK Acquisition;
- (b) to set out the view of the Independent Board Committee in respect of the terms of the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement;
- (c) to set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the terms of the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement; and
- (d) to give you notice of the Extraordinary General Meeting to consider and, if thought fit, to approve the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement.

Your attention is hereby drawn to pages 70 to 71 of this circular where you will find a notice of the Extraordinary General Meeting to be held on 20 November 2013.

LETTER FROM THE BOARD

I. THE HUIZHOU AGREEMENT

Date: 23 August 2013

Parties to the Huizhou Agreement:

- (1) the Company; and
- (2) Polytec Holdings, a company which is ultimately wholly-owned by Mr Or, an Executive Director and the controlling shareholder of the Company, and his family members. Polytec Holdings is therefore an associate of a connected person of the Company and the Huizhou Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

Subject Matter and Underlying Assets of the Huizhou Acquisition

Pursuant to the Huizhou Agreement, Polytec Holdings conditionally agreed to sell and the Company conditionally agreed to purchase the New Basic Sale Share for an aggregate consideration of HK\$1,280,249,021. The New Basic Sale Share represents the entire issued share capital of New Basic. Upon completion of the Huizhou Acquisition, New Basic will become a wholly-owned subsidiary of the Company and the accounts of which will be consolidated with the Group's accounts upon completion of the Huizhou Agreement. Following the completion of the Huizhou Acquisition, New Basic will be interested in 60% of the profit or loss of the Development pursuant to the Co-Investment Agreement.

Consideration

The Huizhou Acquisition Consideration is HK\$1,280,249,021 which was determined after arm's length negotiations between the parties based on (i) a valuation report on the Land of RMB1,700,000,000 (equivalent to HK\$2,133,748,368) prepared by DTZ for the valuation on the Land conducted on 31 July 2013 using the Direct Comparison Approach by making reference to comparable sales transactions as available in the market (the final valuation report of the Land is set out in Appendix I of this circular); and (ii) New Basic's entitlement to 60% of the profit or loss in the Development pursuant to the Co-Investment Agreement. The Huizhou Acquisition Consideration is not subject to any downward or upward adjustment.

Apart from the Huizhou Acquisition Consideration, there is no other committed consideration payable by the Company under the Huizhou Agreement.

The Huizhou Acquisition Consideration is payable by the Company in cash in accordance with the following schedule:

- 10% of the Huizhou Acquisition Consideration, equivalent to HK\$128,024,902, has been paid by the Company to Polytec Holdings upon the signing of the Huizhou Agreement as a deposit; and

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- the remaining balance of 90% of the Huizhou Acquisition Consideration, equivalent to HK\$1,152,224,119, shall be payable by the Company to Polytec Holdings at completion of the Huizhou Agreement.

A delay payment interest of PRIME plus 2% per annum will be charged and be payable by the Company if it fails to pay the relevant instalment of the Huizhou Acquisition Consideration pursuant to the Huizhou Agreement when it falls and becomes due.

Although the Company is not acquiring any legal title and ownership of the Land and the Development, the Directors (including the Independent Non-executive Directors) are of the view that the valuation report prepared by DTZ on the Land is relevant as the Land Costs forms part of the formula for calculating the Huizhou Acquisition Consideration and the profit of the Development entitled by New Basic under the Co-Investment Agreement (i.e. in proportion with 60% of the valuation of the Land). In light of the above, the Directors (including the Independent Non-executive Directors) are of the view that the Huizhou Acquisition Consideration was determined based on normal commercial terms and is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

10% of the Huizhou Acquisition Consideration has been satisfied by the internal resources of the Group and 90% of the Huizhou Acquisition Consideration will be satisfied by a loan from Polytec Holdings bearing an interest at the current rate of HIBOR plus 1.3% per annum (which is subject to annual review with reference to prevailing market rate) with no fixed term of repayment and neither secured nor guaranteed. The Company has not tried to obtain independent third party debt financing for the Huizhou Acquisition because, through their experience with independent third party financial institutions, any sizable loans will be required to provide certain kind of security as collateral, and such loan may be subject to annual review or even repayable at any time at the discretion of the independent third party institutions. The Company has also not considered to raise equity financing for the Huizhou Acquisition or even discussed with any securities firms about any equity fund raising exercise, because the Share price of the Company were traded at a discount to its net asset value, any further issue of equity will either dilute the existing Shareholders' interests or even if the existing Shareholders have the right to participate and preserve its shareholdings percentage, there is no guarantee that the Shares will be issued at or above net asset value when the Share price is trading at below net asset value, then the net asset value per Share basis will inevitably be diluted. Having considered the Group's cash flow availability for the payment of the Huizhou Acquisition Consideration, the loan from Polytec Holdings which is readily available and at better terms than those offered by independent third party financial institutions and the disadvantages of equity fund raising as explained above, the Directors (including the Independent Non-executive Directors) considered that such funding arrangement is on normal commercial terms, is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Since such loan is a financial assistance provided by Polytec Holdings, being a connected person of the Company for the benefit of the Company on normal commercial terms where no security over the assets of the Company is granted in respect of the financial assistance, it is exempt from reporting, announcement and independent shareholders' approval requirements under Rule

LETTER FROM THE BOARD

14A.65(4) of the Listing Rules. Accordingly, the Directors (including the Independent Non-executive Directors) are of the view that such arrangement is on normal commercial terms, is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

Conditions

Completion of the Huizhou Agreement is conditional upon the fulfillment or waiver (as the case may be) of the following conditions:

- (a) a valuation report issued by DTZ on the Land with a value of not less than RMB1,700,000,000 (equivalent to HK\$2,133,748,368);
- (b) completion of the due diligence investigation in relation to, including but not limited to, the financial, corporate, taxation and trading position of New Basic and the title of Polytec (Huizhou) to its assets (including without limitation, the Land), to the absolute satisfaction of the Company;
- (c) the passing of the resolution(s) by the Independent Shareholders to approve the entering into and performance of the Huizhou Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement in the manner as required under the Listing Rules;
- (d) all necessary consents and approvals (including those required by relevant regulatory authorities) in respect of the Huizhou Agreement, the transactions contemplated thereunder including the terms of the Co-Investment Agreement required by the Company (as the case may be) being obtained;
- (e) the obtaining of a legal opinion in the form and substance satisfactory to the Company issued by a firm of lawyers qualified to practice PRC laws and addressed to the Company or New Basic in respect of the Land and such other matters which the Company may request; and
- (f) the warranties of the Huizhou Agreement being true, accurate and correct in all respects.

If any of the above conditions (other than condition (f) above) has not been fulfilled or waived (if applicable) by the Company before 5:00 p.m. on 30 November 2013, or condition (f) is not fulfilled on the completion date of the Huizhou Agreement or waived as the case may be, the Huizhou Agreement shall terminate provided that Polytec Holdings shall return the deposit of HK\$128,024,902 paid by the Company to Polytec Holdings with an interest at the rate of PRIME plus 2% for the period from the date of the Huizhou Agreement to the date of actual receipt of the deposit of HK\$128,024,902 by Polytec Holdings to the Company without prejudice to the Company's rights thereunder in respect of antecedent breach on the part of Polytec Holdings of any provision thereof.

LETTER FROM THE BOARD

The Company may at its sole discretion at any time by notice in writing to Polytec Holdings waive any of the above conditions (in whole or in part) (other than condition (c) above). The Directors (including the Independent Non-executive Directors) are of the view that the Company will have more flexibility to consider whether it will exercise its sole discretion to waive any of the conditions (in whole or in part) (other than condition (c) above) to proceed with the Huizhou Acquisition taking into account the benefits and risks of the Huizhou Acquisition. Accordingly, the Directors (including the Independent Non-executive Directors) are of the view that it is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole that all conditions (except for condition (c)) could be waived. Nevertheless, as at the Latest Practicable Date, conditions (a), (d) and (e) have been fulfilled and the due diligence investigation as mentioned in condition (b) above has been completed.

Information on New Basic

New Basic is a company incorporated in the British Virgin Islands with limited liability on 15 May 2013 and is wholly-owned by Polytec Holdings as at the Latest Practicable Date. It is principally engaged in the investment and financing in accordance with the Co-Investment Agreement. Based on the unaudited management accounts of New Basic as at 31 July 2013, New Basic had a net asset value of HK\$8 as at 31 July 2013 and recorded no profit or loss for the period since its incorporation and up to 31 July 2013.

New Basic does not own any assets apart from its rights and interests under the Co-Investment Agreement. New Basic has entered into the Co-Investment Agreement with Polytec Holdings with respect to its investment in and financing of the Development.

The Co-Investment Agreement

On 22 August 2013, New Basic entered into the Co-Investment Agreement with Polytec Holdings pursuant to which New Basic has agreed to co-invest with Polytec Holdings in the Development and that New Basic and Polytec Holdings will share 60% and 40% of the net profit or loss of the Development, respectively.

Pursuant to the terms of the Co-Investment Agreement:

- (a) Polytec Holdings shall procure Polytec (Huizhou):
 - (i) to make available to New Basic all receipts, invoices, accounts and all other documents reasonably satisfactory to New Basic evidencing the incurring of the relevant expenditure of the Development and the Receipts respectively for inspection by New Basic;
 - (ii) to submit the Business Plan with respect to the Land to New Basic for approval from time to time; and
 - (iii) that the construction of the Development shall not be commenced until and unless the Business Plan has been duly approved by New Basic before the relevant construction.

LETTER FROM THE BOARD

- (b) during the Development Period and up to completion of the sale of all the Units, New Basic will provide funding equal to 60% and Polytec Holdings will simultaneously provide 40% to cover any shortfall in the funding for the Development as shown in the cashflow forecast of the Development to the extent that the Receipts, bank financing and other financing methods do not cover the expenditure of the Development (excluding the Land Costs which will be borne by Polytec Holdings exclusively). If the Receipts, bank financing and other financing methods cover the expenditure of the Development (excluding the Land Costs which will be borne by Polytec Holdings exclusively), it is not necessary for New Basic and Polytec Holdings to provide additional funding for the Development;
- (c) total funding provided by New Basic to Polytec Holdings is subject to an aggregate maximum amount of HK\$500,000,000, which was determined after arm's length negotiation between the parties based on the parties' entitlement ratio of 60% and 40% to the net profit or loss and the funding ratio of the Development, the funding requirement of the Development and the Company's assessment on the maximum risk of investment in the Development, and is applied to the repayment of the expenditure incurred by Polytec Holdings in connection with the Development in the manner as set out in (b) above. The investment amount invested by New Basic through Polytec Holdings will not be returned by Polytec Holdings until there is surplus in the cashflow forecast of the Development and the return of such investment amount by Polytec Holdings is to be mutually agreed by New Basic and Polytec Holdings according to the profit and loss sharing arrangement as specified in the paragraph headed "Profit and Loss Sharing Arrangement" below;
- (d) once the aggregate maximum investment amount of HK\$500,000,000 provided by New Basic has been drawn, any additional funding required for the Development will be supplied by Polytec Holdings. For the avoidance of doubt, any additional funding required for the Development which is provided by Polytec Holdings will not affect the parties' entitlement ratio to the profit or loss, i.e. New Basic and Polytec Holdings will share 60% and 40% of the net profit or loss of the Development, respectively; and
- (e) Polytec Holdings will pay to New Basic such amount as representing 60% of the net profit from the Development according to the formula set out in the Co-Investment Agreement.

Apart from the maximum investment amount of HK\$500,000,000, there is no other committed investment amount payable by New Basic under the Co-Investment Agreement.

The parties' entitlement ratio of 60% and 40%, together with the aggregate maximum investment amount of HK\$500,000,000 were determined following arm's length negotiation between the parties with reference to (1) the respective roles of Polytec Holdings as the ultimate controlling shareholder of Polytec (Huizhou), the developer and the sole legitimate owner of the Land, and New Basic as the investor to provide financing to Polytec Holdings in the Development; (2) the associated risk of New Basic as an

LETTER FROM THE BOARD

unsecured creditor of Polytec Holdings under the Co-Investment Agreement; (3) the respective monetary commitments of New Basic and Polytec Holdings for the Development; and (4) the associated potential benefits from the Development. The Company's original intention was to have a higher share of investment in the Development. Taking into account the capital requirements of the Development and the motivation for Polytec Holdings to maximize the interests of the Development through Polytec (Huizhou) as a developer by retaining a relatively high share of investment in the Development, the parties' entitlement ratio of 60% and 40% were eventually agreed by New Basic and Polytec Holdings following their arm's length negotiation.

Profit and Loss Sharing Arrangement

(i) *Prior to completion of the sale of all the Units comprised in the Development*

Pursuant to the Co-Investment Agreement, to the extent that the Receipts are not required to satisfy the budgeted cashflow requirement for the expenditure of the Development (as shown in the Project Accounts) and, as agreed by Polytec Holdings and New Basic, there is any excess of the Receipts (as shown in the Project Accounts) over the budgeted cashflow requirement for the expenditure of the Development (as shown in the Project Accounts), 60% of the excess amount will be received by New Basic and the timing of which is not fixed as it will depend on the funding requirement and the progress of the Development which is in line with the market practice.

(ii) *After completion of the sale of all the Units comprised in the Development*

Pursuant to the Co-Investment Agreement, New Basic shall share 60% of the net profit or loss from the Development according to the following formula which shall be payable within 30 business days after the delivery of the Final Accounts:

$$60\% (A - B) + C + D$$

Where

A = the Receipts (as shown in the Final Accounts) – the expenditure of the Development (as shown in the Final Accounts) – the Land Costs

B = the profits tax payable by Polytec (Huizhou) in respect of the Development

C = 60% of the Land Costs

D = the investment amount of the Development paid by New Basic under the Co-Investment Agreement

The amounts shown in the Final Accounts shall be final and conclusive.

LETTER FROM THE BOARD

Termination and Liability of Co-Investment Agreement

Pursuant to the Co-Investment Agreement, Polytec Holdings represents, warrants and undertakes to New Basic, inter alia, that as at the date of the Co-Investment Agreement, and shall, on each day during the term of the Co-Investment Agreement, there shall be no Event of Default or Potential Event of Default outstanding or shall result from the execution of, or the performance of any transaction contemplated by, the Co-Investment Agreement. If an Event of Default occurs and is continuing, New Basic may, by notice to Polytec Holdings, declare that (i) New Basic be released from the funding obligations under the Co-Investment Agreement and not be obliged to provide any further investment amount to Polytec Holdings; (ii) all investment amount paid by New Basic becomes immediately due and payable by Polytec Holdings and any outstanding sum shall have interest at an annual interest rate of 2% over PRIME calculated from its due date to its payment by Polytec Holdings in full.

Polytec (Huizhou), as the developer and sole legitimate owner of the Land, will be responsible for the quality control, marketing or sales of the Development.

New Basic, as the investor and fund provider, will be involved in cost control indirectly through approval of the Business Plan, design and building plan as per the provisions of the Co-Investment Agreement. Moreover, the Company will exercise financial control over the Development through joint control of the bank account into which all the Receipts are required to be deposited and approval of the sale price of the Units by New Basic is necessary. The Company will also monitor the progress of the Development and protect its interest in the Development by (i) inspecting documentary evidence of all Receipts and expenditures in relation to the Development which Polytec Holdings has undertaken to collate on a monthly basis; (ii) reviewing the monthly work progress report which Polytec Holdings has agreed to procure Polytec (Huizhou) to provide containing (among other things) a breakdown of the costs and expenses incurred by Polytec (Huizhou) in connection with works to date; (iii) reviewing the monthly sales status reports to be provided by Polytec Holdings or Polytec (Huizhou); (iv) reviewing the monthly project accounts with respect to the Receipts and the expenditures which Polytec Holdings has undertaken to procure Polytec (Huizhou) to prepare and furnish on an ongoing basis; (v) requesting information on a regular basis from Polytec Holdings in accordance with its undertaking to keep New Basic informed on a timely and regular basis of the progress of the Development and sales of the Units; (vi) attending project or site meetings where appropriate; (vii) through review of such financials ensuring compliance by Polytec Holdings to procure Polytec (Huizhou) of its financial covenants under the Co-Investment Agreement including incurrence of indebtedness, extension of loans or giving of guarantees which are not related to the Development; and (viii) reviewing the Final Accounts with respect to the Receipts and expenditures to be produced after completion of the sale of the Development.

The principal obligation of Polytec Holdings is to procure Polytec (Huizhou) to complete the Development in accordance with all plans, consents, laws and regulations, and applicable restrictions, covenants and encumbrances and to maximize the gross floor area and the plot ratio of the Land according to the State-owned Land Use Rights Grant Contract, and as soon as practicable to commence the pre-sale of the Units. Apart from the

LETTER FROM THE BOARD

covenants relating to information and accounts mentioned above, Polytec Holdings also has obligations to procure Polytec (Huizhou) to ensure that it will not incur non-development related indebtedness, extend loans or guarantees to third parties, declare dividends, make any acquisitions or change its business, unless prior written consent has been obtained from the Company and to the extent that it would not prejudice the interest of New Basic in the Development.

Information on the Land and the Development

The Land comprises three parcels of nearby land located at Dongjiang North Shore Wangjiang Lot, Huizhou, Guangdong Province, the PRC (中國廣東省惠州市東江北岸望江地段) with a total site area of 146,055.7 sq. m.. The land use rights of the Land have been granted for terms due to expire on 29 October 2052 for commercial use and 29 October 2082 for residential use. The book value as at 31 July 2013 of the Land is RMB850,700,000. The Land will be ready for development subject to all outstanding approvals for the construction of the first phase of the Development being obtained and is currently planned to be developed by three phases into the Development which will be a luxury residential and commercial complex with the gross floor area of approximately 519,867 sq. m.. The first phase of the Development will have the gross floor area of approximately 129,076 sq. m. comprising approximately 437 Units. Save for the Planning Permit on Construction Works (architectural plan) (建設工程規劃許可證) and the Working Permit on Construction Works (建築工程施工許可證) which will be obtained by the end of 2013, all necessary approvals for the construction of the first phase of the Development have been obtained. The construction of the first phase of the Development is expected to be commenced before end of 2013 and is expected to be completed in 2016. The expected construction cost for the first phase of the Development is approximately RMB450,000,000. The pre-sale of the first phase of the Development is expected to be commenced in the first half of 2014. The construction, completion and pre-sale plan of the later phases of the Development have not yet been confirmed and will depend on the progress of the pre-sale of the first phase of the Development.

Reasons for the Structure of the Huizhou Acquisition

As at the Latest Practicable Date, the Group is interested in seven property projects in the PRC which are currently under planning and development. As opposed to the Huizhou Acquisition, the Group held equity interests in the project companies established in the PRC which directly held the legal titles of the relevant pieces of land which are the subjects of such property projects in the PRC. As advised by the Company's PRC legal adviser, the Company is unable to direct invest and/or hold any interests and legal title of the Land, the Development and the Units to be developed because:

- (a) the transfer of the Land by Polytec (Huizhou) is subject to the following conditions under the Law of the People's Republic of China on Urban Real Estate Administration (中華人民共和國城市房地產管理法) (as amended on 30 August 2007) including (i) the full payment of the land premium (土地使用權出讓金) of the Land by Polytec (Huizhou) pursuant to the State-owned Land Use Rights Grant Contract (國有建設用地使用權出讓合同) of the Land and the Certificate for the Use of State-owned Land (國有土地使用證) of the Land to Polytec (Huizhou) being

LETTER FROM THE BOARD

obtained; and (ii) the injection of not less than 25% of the total investment amount for the Development. As at the Latest Practicable Date, condition (i) has been fulfilled and the land premium has been paid to the relevant PRC government authority. As advised by the Company's PRC legal adviser, as at the Latest Practicable Date, condition (ii) has not been fulfilled and therefore Polytec (Huizhou) cannot transfer the Land to any other party and the Company cannot acquire the Land through its PRC subsidiary. The Group has no intention to acquire the Land or to set up a joint venture company with Polytec (Huizhou) to acquire the Land even if condition (ii) is fulfilled in the future as the Company is of the view that it is more effective and cost-efficient for Polytec (Huizhou) to manage the Development;

- (b) according to the Opinions on Regulating the Entry of Foreign Investment into the Real Property Market and the Administration Thereof (關於規範房地產市場外資准入和管理的意見) jointly promulgated by the Ministry of Construction, Ministry of Commerce, National Development and Reform Commission, the People's Bank of China, the State Administration for Industry and Commerce and the State Administration of Foreign Exchange of the PRC on 11 July 2006 (Jian Zhu Fang [2006] No.171) (the "**Opinion**"), the Company cannot become the legal owner of the Land as it is a non-PRC company which cannot directly hold the land use rights of the Land; and
- (c) according to the Opinion, the Company cannot become the legal owner of the Development and the Units to be developed as non-PRC company cannot directly purchase commercial houses (including but not limited to residential, office and commercial properties) that are not for self-use or self-occupation purposes.

In addition, as Polytec (Huizhou) also holds other businesses and assets which are not in line with the principal business of the Company, the Company did not intend to acquire 60% of the equity interest of Polytec (Huizhou). Accordingly, the Company structured the Huizhou Acquisition with Polytec Holdings and Polytec (Huizhou) through the Co-Investment Agreement instead of any direct acquisition of the Land and the Development by the Company. The Directors (including the Independent Non-executive Directors) are of the view that since the current structure of the Huizhou Acquisition would allow the Company to participate in the investment in the Development without acquiring the equity interests of Polytec (Huizhou) and is therefore the best structure which is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

Reasons for and Benefits of Entering into the Huizhou Agreement and the Co-Investment Agreement

The entering into of the Huizhou Agreement and the Co-Investment Agreement will enable the Group to participate in the investment in a property development project in Huizhou which will be ready for development subject to all outstanding approvals for the construction of the first phase of the Development being obtained and is managed by Polytec Holdings as an experienced property developer and to further strengthen its

LETTER FROM THE BOARD

property business in the PRC. Below are the benefits for the Group to enter into the Huizhou Agreement and the Co-Investment Agreement:

- (1) Since all outstanding approvals for the construction of the first phase of the Development will be obtained by the end of 2013, this has substantially shortened the time for the Group to go through all the application and approval procedures required by the relevant PRC government authorities before the construction work of the Development could be commenced.
- (2) The Land has a high potential for growth as it is well located at a high-end residential area in Huizhou and it has a permanent natural river view at its south east side, with provincial park facilities and it only takes three minutes to travel by motor vehicle to the central business district of Dongjiang North Shore in Huizhou.
- (3) Given the potential of the Land, the project is expected to generate a satisfactory return for the Company taking into account (i) the Land Costs of RMB1,700,000,000 and the gross floor area of the Development of approximately 519,867 sq. m. as described in the valuation report set out in Appendix I to this circular; (ii) the expected construction cost of approximately RMB450,000,000 for the first phase of the Development of approximately 129,076 sq. m. which is in line with the Company's past project experience although the estimation of the total construction cost of all three phases of the Development cannot be ascertained as at the Latest Practicable Date since the maximum investment amount to be provided by New Basic is capped at HK\$500,000,000; and (iii) the selling price of the market comparable development projects of the same area (ranging between RMB10,000 and RMB12,000 per sq. m.) and on the assumption of no unforeseen circumstances and by reference to the project being sold at a price within the aforesaid price range on a per sq. m. basis.

According to the Co-Investment Agreement, Polytec Holdings will pay back New Basic its fund injected (in the form of investment amount for the expenditure of the Development) and investment in the cost of the Land (in the form of the Huizhou Acquisition Consideration) before the share of profit and loss and as soon as the Final Accounts have been delivered pursuant to the Co-Investment Agreement. During the Development Period, Polytec Holdings will pay back investment amount of New Basic upon there being surplus in the cash flow forecasts and to be mutually agreed by New Basic and Polytec Holdings based on the parties' agreement on the distribution of profit and loss. As mentioned above, the amounts shown in the Final Accounts under the profit and loss sharing arrangements are final and conclusive and such repayment of the investment amount to New Basic cannot be disapproved of by Polytec Holdings. It also provides better cash flow to the Group and more safety to its investment as the pre-sale of the first phase of the Development is expected to be commenced in 2014 according to the profit and loss sharing arrangement specified above.

Although the Company and/or New Basic will not hold the legal title or ownership to the Land, the Development and the Units upon completion of the Huizhou Acquisition, Polytec Holdings, through Polytec (Huizhou) as the legal owner of the Land, the Development and the Units, is obliged under the Co-Investment Agreement to share the

LETTER FROM THE BOARD

profit of the Development with New Basic. Accordingly, the Company is of the view that the lack of the legal title or ownership to the Land, the Development and the units will not increase the associated risk level of the Company under the terms of the Huizhou Acquisition. The associated risks to the Company under the terms of the Huizhou Acquisition are the market risk of the PRC property development project and the non-performance by Polytec Holdings under the Co-Investment Agreement. The Company has no control of the market risk whilst the interests of the Company and the Independent Shareholders will be protected by the legally binding Co-Investment Agreement entered into between New Basic and Polytec Holdings in which Polytec Holdings is obliged to make payments to New Basic pursuant to the terms of the Co-Investment Agreement. In the event if Polytec Holdings is in breach of its obligations under the Co-Investment Agreement, New Basic is entitled to rely on the dispute resolution provisions under the Co-Investment Agreement against Polytec Holdings which, to the best knowledge and belief of the Directors, has sufficient assets to satisfy any judgment against it. Similar to other property development projects in the PRC, there is no guarantee on the amount of return and it is a norm that the fund is provided without any security or pledge and therefore the lack of security or pledge on the investment amount will not increase the associated risk level of the Company under the terms of the Huizhou Acquisition.

Since the Huizhou Acquisition Consideration is equivalent to 60% of the Land Costs which in turn represents New Basic's entitlement ratio to the profit or loss and the funding requirement of the Development and taking into account the expected return as disclosed in the paragraph headed "Reasons for and Benefits of Entering into the Huizhou Agreement and the Co-Investment Agreement", the above benefits, associated risks of the investment in the Huizhou Acquisition and the structure of the Huizhou Acquisition, the Directors (including the Independent Non-executive Directors) are of the view that the terms of the Huizhou Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

II. THE HK AGREEMENT

Date: 23 August 2013

Parties to the HK Agreement:

- (1) Brilliant Idea, a wholly-owned subsidiary of the Company; and
- (2) Partner Talent, a wholly-owned subsidiary of Polytec Holding which is ultimately wholly-owned by Mr Or, an Executive Director and the controlling shareholder of the Company, and his family members. Partner Talent is therefore an associate of a connected person of the Company and the HK Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

The HK Acquisition

Pursuant to the HK Agreement, Partner Talent has conditionally agreed to sell and Brilliant Idea has conditionally agreed to purchase the Top Sail Sale Share together with

LETTER FROM THE BOARD

the assignment of the Top Sail Sale Loan for an aggregate consideration of HK\$368,557,890. The Top Sail Sale Share represents the entire issued share capital of Top Sail. Upon completion of the HK Acquisition, Top Sail will become an ultimate wholly-owned subsidiary of the Company and the accounts of which will be consolidated with the Group's accounts upon completion of the HK Agreement.

Consideration

The HK Acquisition Consideration is HK\$368,557,890, comprising the consideration for the transfer of the Top Sail Sale Share in the sum of HK\$185,805,770 and the face value of the Top Sail Sale Loan of HK\$182,752,120, which was determined after arm's length negotiations between the parties based on (i) a valuation report on the HK Property prepared by DTZ for the valuation of the HK Property conducted on 31 July 2013 using the Direct Comparison Approach by making reference to comparable sales transactions as available in the market (the final valuation report of the HK Property is set out in Appendix II of this circular); and (ii) have taken into account its redevelopment potential (details of which are set out in the paragraph headed "Redevelopment Plan of the HK Property" below) and is equivalent to the adjusted net asset value of Top Sail after the tax effect on the appreciation of the HK Property of HK\$368,557,890 based on Top Sail's unaudited management accounts as at 31 July 2013. The HK Acquisition Consideration is not subject to any downward or upward adjustment.

The HK Acquisition Consideration is payable by Brilliant Idea in cash in accordance with the following schedule:

- 10% of the HK Acquisition Consideration, equivalent to HK\$36,855,789, has been paid by Brilliant Idea to Partner Talent upon the signing of the HK Agreement as a deposit; and
- the remaining balance of 90% of the HK Acquisition Consideration, equivalent to HK\$331,702,101, shall be payable by Brilliant Idea to Partner Talent at completion of the HK Agreement.

A delay payment interest of PRIME plus 2% per annum will be charged and be payable by Brilliant Idea if it fails to pay the relevant instalment of the HK Acquisition Consideration pursuant to the HK Agreement when it falls and becomes due.

The Directors (including the Independent Non-executive Directors) are of the view that the HK Acquisition Consideration is on normal commercial terms and is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole given that the HK Acquisition Consideration is equivalent to the adjusted net asset value of Top Sail after tax effect on the appreciation of the HK Property.

10% of the HK Acquisition Consideration has been satisfied by the internal resources of the Group and 90% of the HK Acquisition Consideration will be satisfied by a loan from Polytec Holdings bearing an interest at the current rate of HIBOR plus 1.3% per annum (which is subject to annual review with reference to prevailing market rate) with no fixed term of repayment and neither secured nor guaranteed. The Company has not tried to

LETTER FROM THE BOARD

obtain independent third party debt financing for the HK Acquisition because, through their experience with independent third party financial institutions, any sizable loans will be required to provide certain kind of security as collateral, and such loan may be subject to annual review or even repayable at any time at the discretion of the independent third party institutions. The Company also has not considered to raise equity financing for the HK Acquisition or even discussed with any securities firms about any equity fund raising exercise, because the Share price of the Company were traded at a discount to its net asset value, any further issue of equity will either dilute the existing shareholders interests or even if the existing Shareholders has the right to participate and preserve its shareholdings percentage, there is no guarantee that the Shares will be issued at or above net asset value when the Share price is trading at below net asset value, then the net asset value per Share basis will inevitably be diluted. Having considered the Group's cash flow availability for the payment of the HK Acquisition Consideration, the loan from Polytec Holdings which is readily available and at better terms than those offered by third party financial institutions and the disadvantages of equity financing as explained above, the Directors (including the Independent Non-executive Directors) considered that such funding arrangement is on normal commercial terms, is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Conditions

Completion of the HK Agreement is conditional upon the fulfillment or waiver (as the case may be) of the following conditions:

- (a) the compliance by the Company, of all applicable requirements of the Listing Rules in relation to the transactions contemplated under the HK Agreement, including where necessary, the obtaining of Independent Shareholders' approval with respect to the transaction;
- (b) Brilliant Idea being satisfied with the results of the due diligence on the Top Sail Sale Share and the Top Sail Sale Loan;
- (c) the receipt to the satisfaction of Brilliant Idea a valuation report on the HK Property issued by an independent valuer with the appraised value of not less than HK\$400,000,000;
- (d) if applicable, the obtaining of all other consents, approvals and authorizations in relation to the transactions contemplated under the HK Agreement; and
- (e) the warranties of the HK Agreement being true, accurate and correct in all respects.

If the conditions specified above are not fulfilled or waived (other than condition (a) above which cannot be waived) before 30 November 2013, the HK Agreement shall forthwith become null and void and cease to have any effect whatsoever save for any antecedent breach and Partner Talent shall return the deposit of HK\$36,855,789 to Brilliant Idea accordingly.

LETTER FROM THE BOARD

Information on Top Sail

Top Sail is a company incorporated in the British Virgin Islands with limited liability on 13 May 2009 and is beneficially wholly-owned by Polytec Holdings as at the Latest Practicable Date. It is principally engaged in investment holdings. The only asset of significance of Top Sail is its interest in the HK Property.

The net asset value of Top Sail was HK\$26,369,697 as at 31 July 2013 based on its unaudited management accounts. The before and after tax profits of Top Sail for the two years ended 31 December 2011 and 31 December 2012 including HK\$12,866,400 and HK\$19,045,892 gains on the revaluation of the HK Property respectively were as follows:

	Year ended 31 December 2011 <i>HK\$</i>	Year ended 31 December 2012 <i>HK\$</i>
Profit before tax	11,752,583	13,344,341
Profit after tax	11,752,583	13,344,341

The adjusted net asset value of Top Sail after the tax effect on the appreciation of the HK Property based on Top Sail's unaudited management accounts as at 31 July 2013 is HK\$368,557,890.

As at 31 July 2013, the amount of the Top Sail Sale Loan was HK\$182,752,120, which will be assigned by Partner Talent to Brilliant Idea upon completion of the HK Agreement.

Information on the HK Property

The HK Property is a site located in Aberdeen, Hong Kong, with a registered site area of approximately 738.29 sq. m.. It was acquired by Top Sail during May 2010 to July 2013 comprising 30 domestic units and six shop units in six 6-storey tenement buildings all completed in 1958. The HK Property is held under Government leases for 999 years from 1888 and is currently vacant.

As at 31 July 2013, Top Sail has incurred aggregate cost and expenses on the HK Property amounted to HK\$182,688,906. The total original acquisition cost of the HK Property paid by Top Sail was HK\$167,169,600. As at 31 July 2013, the book value including accumulated gains on the revaluation of the HK Property is HK\$209,058,595.

Redevelopment Plan of the HK Property

Subject to the approval by the relevant government authorities, it is currently expected that the HK Property will be demolished by the end of 2013 and the construction work will be commenced in early 2014. The site is expected to be redeveloped into a 29-storey residential building with approximately 150 residential units with the gross floor area of approximately 5,986.56 sq. m.. It is expected that the redevelopment will be completed in 2016 and pre-sale of the units will be commenced in 2014. The estimated construction cost of the redevelopment is about HK\$250,000,000.

LETTER FROM THE BOARD

Reasons for the HK Acquisition

The HK Acquisition is in line with the business activities of the Group and will enable the Group to expand its portfolio of development projects in Hong Kong. The HK Acquisition will also facilitate the Group to acquire old building units ready for redevelopment. As the HK Property is ready for the redevelopment plan and the sales programme could commence as soon as the relevant approval is obtained, the HK Acquisition not only save substantial time, but also avoid potential risks and uncertainties associated with the assembly of the old building units where the Group may not be able to acquire all the units in a potential site within a short period of time. It can also save the monies in tightening up the working capital for a long time and is thus beneficial to the Group. The Directors (including the Independent Non-executive Directors) are of the view that the Group will earn a satisfactory return from the HK Acquisition taking into account (i) the HK Acquisition Consideration of HK\$368,557,890 and the proposed gross floor area of the redevelopment of approximately 64,439 sq. ft. as described in the valuation report set out in Appendix II to this circular; (ii) the estimated construction cost of approximately HK\$250,000,000 which is in line with the Company's past project experience; and (iii) the selling price of the market comparable development projects of the same area (ranging from HK\$12,000 and HK\$14,000 per sq. ft.) and on the assumption of no unforeseen circumstances and by reference to the project being sold at a price within the aforesaid price range on a per sq. ft. basis and the terms of the HK Agreement are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

INFORMATION ON THE COMPANY AND BRILLIANT IDEA

The Company is principally engaged in property investment and development in Hong Kong, Macau and the PRC. Brilliant Idea is a wholly-owned subsidiary of the Company and is principally engaged in investment holding.

INFORMATION ON POLYTEC HOLDINGS, POLYTEC (HUIZHOU) AND PARTNER TALENT

Polytec Holdings is a company incorporated in the British Virgin Islands with limited liability which is principally engaged in investment holding and is ultimately wholly-owned by a discretionary trust of which Mr Or is the founder and the discretionary objects of the trust include Mr Or and his family members (of which Ms Ng Chi Man and Mr Or Pui Kwan are also Directors of the Company).

Polytec (Huizhou) is a company established in the PRC with limited liability and is beneficially owned as to 90.82% and 9.18% by Polytec Holdings and an independent third party respectively as at the Latest Practicable Date. It is the sole legal and beneficial owner of the Land.

Partner Talent is a wholly-owned subsidiary of Polytec Holdings and is principally engaged in investment holding.

LETTER FROM THE BOARD

GENERAL

As one of the applicable percentage ratios in respect of the Huizhou Acquisition and the HK Acquisition is, on an aggregated basis, more than 5% but less than 25%, the Huizhou Acquisition and the HK Acquisition constitute discloseable and connected transactions for the Company under Chapter 14 and Chapter 14A of the Listing Rules which are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules. As at the Latest Practicable Date, 830,770,124 Shares, representing approximately 72.20% of the total issued share capital of the Company are held by Intellinsight Holdings Limited ("**Intellinsight**"), a wholly-owned subsidiary of Polytec Holdings which is wholly-owned by Ors Holdings Limited ("**OHL**"). OHL is in turn wholly-owned by a discretionary trust, the trustee of which is HSBC International Trustee Limited. As Mr Or is the founder of the trust and the discretionary objects of the trust include Mr Or, Ms Ng Chi Man (his wife) and Mr Or Pui Kwan (his son), they are taken to be interested in the Shares held by the trust. In addition, 277,500 Shares, representing approximately 0.024% of the total issued share capital of the Company are held by China Dragon Limited ("**China Dragon**") which is wholly-owned by Mr Or and 43,500 Shares, representing approximately 0.0038% of the total issued share capital of the Company, are held by Mr Or Pui Kwan. Accordingly, Intellinsight, China Dragon, Mr Or Pui Kwan and their associates will abstain from voting in the Extraordinary General Meeting to approve the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement. Mr Or, Ms Ng Chi Man and Mr Or Pui Kwan have abstained from voting in the Board resolutions approving the said transactions.

The Independent Board Committee comprising all the Independent Non-executive Directors has been formed to advise the Independent Shareholders in respect of the terms of the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement. None of the members of the Independent Board Committee has any interest in the Huizhou Acquisition and the HK Acquisition. Altus Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the terms of the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement.

Completion of the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement are subject to conditions, which may or may not be fulfilled. Shareholders should exercise caution in dealing in the securities of the Company.

EXTRAORDINARY GENERAL MEETING

The Extraordinary General Meeting will be held on 20 November 2013 for the purpose of considering and, if thought fit, approving the resolutions in relation to the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement.

LETTER FROM THE BOARD

A form of proxy for use at the Extraordinary General Meeting is enclosed. Whether or not you intend to attend the meeting or any adjournment thereof, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof to the share registrars of the Company, Computershare Hong Kong Investor Services Limited of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof if you so wish. In such event, the form of proxy shall be deemed to be revoked.

The votes to be taken at the Extraordinary General Meeting will be by a poll in which Intellinsight, China Dragon and Mr Or Pui Kwan will abstain from voting.

RECOMMENDATION

Your attention is drawn to the letter of advice from the Independent Board Committee and the letter of advice from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement set out on pages 26 to 27 and pages 28 to 52 of this circular, respectively.

The Directors, including the Independent Non-executive Directors, are of the view that the terms of the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement are on normal commercial terms and are fair and reasonable and in the interest of the Company and the Shareholders as a whole. The Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the Extraordinary General Meeting for approving the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement.

FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular and the notice of Extraordinary General Meeting.

Yours faithfully,
For and on behalf of the Board
Kowloon Development Company Limited
Or Wai Sheun
Chairman



九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

30 October 2013

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTIONS

ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL
IN NEW BASIC HOLDINGS LIMITED

AND

ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL
AND RELATED SHAREHOLDER'S LOAN OF
TOP SAIL INTERNATIONAL LIMITED

We refer to the circular of the Company to the Shareholders dated 30 October 2013 (the “**Circular**”), in which this letter forms a part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings given to them in the section headed “Definitions” of the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders whether the terms of the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement are fair and reasonable so far as the Company and the Shareholders are concerned.

We wish to draw your attention to the letter of advice from Altus Capital Limited, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement as set out on pages 28 to 52 of the Circular, and the letter from the Board set out on pages 7 to 25 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered, among other matters, the factors and reasons considered by, and the opinion of Altus Capital Limited as stated in its letter of advice, we consider that the terms of the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the Extraordinary General Meeting for approving the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement.

Yours faithfully,

Independent Board Committee

Kowloon Development Company Limited

**Li Kwok Sing, Aubrey
Seto Gin Chung, John**

**Lok Kung Chin, Hardy
David John Shaw**

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement, which has been prepared for the purpose of incorporation in this circular.

ALTUS CAPITAL LIMITED

21 Wing Wo Street
Central, Hong Kong

30 October 2013

To the Independent Board Committee and the Independent Shareholders
Kowloon Development Company Limited
23rd Floor, Pioneer Centre
750 Nathan Road
Kowloon
Hong Kong

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTIONS
ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL
IN NEW BASIC HOLDINGS LIMITED
AND
ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL
AND RELATED SHAREHOLDER'S LOAN OF
TOP SAIL INTERNATIONAL LIMITED

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the Co-Investment Agreement. Details of the Huizhou Agreement, the Co-Investment Agreement and the HK Agreement are set out in the "Letter from the Board" contained in the circular dated 30 October 2013 (the "**Circular**") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meaning as those defined in the Circular unless the context requires otherwise.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 23 August 2013, the Board announced that (i) the Company entered into the Huizhou Agreement with Polytec Holdings pursuant to which Polytec Holdings conditionally agreed to sell and the Company conditionally agreed to purchase the New Basic Sale Share, representing the entire issued share capital of New Basic for a consideration of HK\$1,280,249,021; and (ii) Brilliant Idea, a wholly-owned subsidiary of the Company entered into the HK Agreement with Partner Talent, a wholly-owned subsidiary of Polytec Holdings, pursuant to which Partner Talent conditionally agreed to sell and Brilliant Idea conditionally agreed to purchase the Top Sail Sale Share, representing the entire issued share capital of Top Sail together with the assignment of the Top Sail Sale Loan for an aggregate consideration of HK\$368,557,890. In addition, on 22 August 2013, New Basic entered into the Co-Investment Agreement with Polytec Holdings pursuant to which New Basic has agreed to co-invest with Polytec Holdings in the Development.

As at the Latest Practicable Date, 830,770,124 Shares, representing approximately 72.20% of the total issued share capital of the Company, are held by Intellinsight Holdings Limited (“**Intellinsight**”), a wholly-owned subsidiary of Polytec Holdings which is wholly-owned by Ors Holdings Limited (“**OHL**”). OHL is in turn wholly-owned by a discretionary trust, the trustee of which is HSBC International Trustee Limited. As Mr Or is the founder of the trust and the discretionary objects of the trust include Mr Or, Ms Ng Chi Man (his wife) and Mr Or Pui Kwan (his son), they are taken to be interested in the Shares held by the trust. In addition, 277,500 Shares, representing approximately 0.024% of the total issued share capital of the Company, are held by China Dragon Limited (“**China Dragon**”) which is wholly-owned by Mr Or and 43,500 Shares, representing approximately 0.0038% of the total issued share capital of the Company, are held by Mr Or Pui Kwan. Accordingly, Intellinsight, China Dragon, Mr Or Pui Kwan and their associates will abstain from voting in the Extraordinary General Meeting to approve the transactions contemplated under the Huizhou Agreement, the HK Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement. Mr Or, Ms Ng Chi Man and Mr Or Pui Kwan have abstained from voting in the Board resolutions approving the said transactions.

As one of the applicable percentage ratios in respect of the Huizhou Acquisition and the HK Acquisition is, on an aggregate basis, more than 5% but less than 25%, the Huizhou Acquisition and the HK Acquisition constitute discloseable and connected transactions for the Company under Chapter 14 and Chapter 14A of the Listing Rules which are subject to reporting, announcement and independent shareholders’ approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the Independent Non-executive Directors, namely Mr Li Kwok Sing, Aubrey, Mr Lok Kung Chin, Hardy, Mr Seto Gin Chung, John and Mr David John Shaw, has been established to give advice and recommendation to the Independent Shareholders as to whether the terms of the Huizhou Agreement, the Co-Investment Agreement and the HK Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and on how to vote on the resolutions to be proposed at the Extraordinary General Meeting.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the Huizhou Agreement, the Co-Investment Agreement and the HK Agreement are in the interests of the Company and the Shareholders as a whole; (ii) whether the Huizhou Agreement, the Co-Investment Agreement and the HK Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the proposed resolutions relating to the Huizhou Agreement, the Co-Investment Agreement and the HK Agreement at the Extraordinary General Meeting.

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background of the Group

1.1 Information on the Group

The Company is principally engaged in property investment and development in Hong Kong, Macau and the PRC.

Brilliant Idea is a wholly-owned subsidiary of the Company and is principally engaged in investment holding.

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1.2 Summary of financial results of the Group

Below is a summary of the financial results of the Group for the two years ended 31 December 2012 and the six months ended 30 June 2013. Details of which are set out in the Company's annual report for the year ended 31 December 2012 dated 27 March 2013 (“**2012 Annual Report**”) and the Company's interim results for the six months ended 30 June 2013 as announced on 28 August 2013 (“**2013 Interim Results**”).

	For the six months ended		For the year ended	
	30 June		31 December	
	2013	2012	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Turnover	358,012	838,105	2,555,824	1,755,293
Profit before taxation	1,024,174	990,223	2,147,571	1,759,584
Income tax	(32,154)	(73,011)	(172,182)	(159,219)
Profit attributable to Shareholders	982,015	872,438	1,886,254	1,526,385

Source: 2012 Annual Report and 2013 Interim Results

For the year ended 31 December 2012

For the year ended 31 December 2012, the audited net profit attributable to Shareholders amounted to approximately HK\$1,886 million compared to approximately HK\$1,526 million recorded in 2011, representing an increase of approximately 23.6%. Excluding revaluation gains from its investment properties, the Group's underlying net profit for the year ended 31 December 2012 amounted to approximately HK\$968 million compared to approximately HK\$807 million recorded in 2011, representing an increase of approximately 19.9%.

As stated in the 2012 Annual Report, it was the Group's business strategy to pursue a three-tier development strategy with exposure in the three major property markets in the PRC, Hong Kong and Macau. Over the past ten years, the Group has built a sizeable and quality development landbank across these three markets with the gross floor area attributable to the Group of approximately 5 million sq. m. as of the end of December 2012. It is the Group's intention to continue to explore additional development projects in all three property markets in order to further strengthen its future growth.

For the six months ended 30 June 2013

For the six months ended 30 June 2013, the unaudited net profit attributable to Shareholders amounted to approximately HK\$982 million compared to approximately HK\$872 million recorded in the corresponding period in 2012, representing an increase of approximately over 12.6%. Excluding revaluation gains

from its investment properties, the Group's underlying net profit for the six months ended 30 June 2013 amounted to approximately HK\$382 million compared to approximately HK\$364 million recorded in the corresponding period in 2012, representing an increase of approximately 5.1%.

During the six months ended 30 June 2013, more restrictive measures were imposed by the Hong Kong Government on property transactions and new laws were introduced by the Macau Government on property sale activities. As a result, as property developers are required to prepare new marketing tools to fulfill the new requirements imposed by the Hong Kong Government, their sales plans have been postponed. On the other hand, according to the Company, it appeared that the overall sentiment in the housing market has been improving in the PRC over the first six months of 2013, with residential transaction volume as well as prices having generally picked up in most regions.

As stated in the 2013 Interim Results, the Group will actively expand its property development business and expedite the development pace of its existing projects in the PRC, aiming to offset the impacts from the slowdown in the sale of projects in Hong Kong and Macau.

1.3 Summary of financial position of the Group

As stated in the 2012 Annual Report, at 31 December 2012, the Group's total bank borrowings were approximately HK\$5,870 million, with approximately HK\$1,604 million repayable within one year and approximately HK\$4,266 million repayable after more than one year. After taking into account cash and cash equivalents of approximately HK\$565 million, the Group's net borrowings position as at 31 December 2012 was approximately HK\$5,305 million. Loan from/amount payable to the ultimate holding company amounted to approximately HK\$6,509 million as at 31 December 2012. The Group's gearing ratio (calculated on the basis of net bank borrowings and payables to the ultimate holding company over equity attributable to Shareholders) remained steady at approximately 56.1% as at 31 December 2012.

As stated in the 2013 Interim Results, at 30 June 2013, the Group's total bank borrowings were approximately HK\$4,919 million, with approximately HK\$4,542 million repayable within one year and approximately HK\$377 million repayable after more than one year. The rise in bank borrowings repayable within one year was due to the fact that a substantial portion of the bank loans related to a 3-year term loan with maturity in 2014. Meanwhile, the Group is negotiating with banks for the re-financing arrangements. After taking into account cash and cash equivalents of approximately HK\$794 million, the Group's net borrowings position as at 30 June 2013 was approximately HK\$4,125 million. Loan from/amount payable to the ultimate holding company amounted to approximately HK\$6,632 million as at 30 June 2013. The Group's gearing ratio was approximately 49.3% as at 30 June 2013 being slightly lower than approximately 56.1% recorded as at 31 December 2012.

2. Information on Polytec Holdings, Polytec (Huizhou) and Partner Talent

Details of which are set out in the “Letter from the Board”.

3. Information on New Basic

Details of which are set out in the “Letter from the Board”.

4. Information on Top Sail

Details of which are set out in the “Letter from the Board”.

5. The Huizhou Acquisition

5.1 The Huizhou Agreement

Pursuant to the Huizhou Agreement, Polytec Holdings conditionally agreed to sell and the Company conditionally agreed to purchase the New Basic Sale Share for an aggregate consideration of HK\$1,280,249,021. The New Basic Sale Share represents the entire issued share capital of New Basic. Upon completion of the Huizhou Acquisition, New Basic will become a wholly-owned subsidiary of the Company and the accounts of which will be consolidated with the Group’s accounts upon completion of the Huizhou Agreement. Following the completion of the Huizhou Acquisition, New Basic will be interested in 60% of the profit or loss of the Development pursuant to the Co-Investment Agreement.

5.1.1 Basis of determining the structure of the Huizhou Acquisition

It is noted that as at the Latest Practicable Date, the Group is interested in seven property projects in the PRC which are currently under planning and development. As opposed to the Huizhou Acquisition, the Group held equity interests in the project companies established in the PRC which directly held the legal titles of the relevant pieces of land which are the subjects of such property projects in the PRC.

According to the management of the Company, it is unable to direct invest and/or hold any interests and legal title of the Land, the Development and the Units to be developed because due to (i) the transfer of the Land by Polytec (Huizhou) is subject to two conditions mentioned in the “Letter from the Board”; (ii) the Opinion (as defined in the “Letter from the Board”) that the Company cannot become the legal owner of the Land as it is a non-PRC company which cannot directly hold the land use rights of the Land; (iii) also according to the Opinion that the Company cannot become the legal owner of the Development and the Units to be developed as non-PRC company cannot directly purchase commercial houses (including but not limited to residential, office and commercial properties) that are not for self-use or self-occupation purposes; and (iv) Polytec (Huizhou) also holds other businesses and assets

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which are not in line with the principal business of the Company, the Company has, as an alternative form of investment, acquired the interest of New Basic as a non-PRC company in order to co-invest in the Land with Polytec Holdings. The Company has indicated that it has no intention to acquire the Land even if Polytec (Huizhou) has fulfilled the condition to inject not less than 25% of the total investment amount for the Development in the future as the Company is of the view that it is more effective and cost efficient for Polytec (Huizhou) to manage the Development.

We noted the land transfer conditions and the limitations on direct invest and/or hold any interests and legal title of the Land, the Development and the Units to be developed as mentioned above and have had discussions with the PRC legal advisers. We also noted the Company has no intention to acquire the Land even if in future Polytec (Huizhou) fulfils the condition to transfer the Land. As to the businesses of Polytec (Huizhou), we note that it is principally engaged in other businesses which are not in line with the principal business of the Company. In addition, we have obtained the latest available audited account of Polytec (Huizhou) and noted that the assets of which are not in line with the principal business of the Company.

Although (i) the Group has not invested in property development projects in the PRC via a co-investment arrangement, whereby the Group does not hold equity interests in the project companies established in the PRC which directly held the legal titles of the relevant pieces of land which are the subjects of such property projects in the PRC; and (ii) such kind of co-investment arrangement may not be a norm for the property development industry in the PRC so far we currently are not aware of any property development companies engaged business in the PRC using co-investment arrangement to invest and share the economic benefits of the property development projects (but not directly holding equity interests in the project companies established in the PRC, which in turn, directly held the legal titles of the relevant pieces of land and the subjects of such property projects in the PRC); we are of the view that the Co-Investment Agreement facilitates (i.e. as an alternative form of investment) the Group to overcome the abovementioned limitations and be able to invest and participate in the Development.

Taking into account (i) the abovementioned reasons and information obtained; (ii) the stated business strategy of the Group; (iii) the reasons for and benefits of entering into the Huizhou Agreement and the Co-Investment Agreement as described in paragraph 5.6 below; and (iv) because the Co-Investment Agreement facilitates (i.e. as an alternative form of investment) the Group to overcome the abovementioned limitations and be able to invest and participate in the Development, and to enjoy the benefits of the Huizhou Acquisition, we concur with the views of the Directors that the form of investment under the Huizhou Acquisition via the Co-Investment Agreement is a viable alternative, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

5.2 *The Huizhou Acquisition Consideration*

5.2.1 *Basis of determining*

The Huizhou Acquisition Consideration of HK\$1,280,249,021 was determined after arm's length negotiations between the parties. We note that in arriving at the Huizhou Acquisition Consideration, the parties have taken into account (i) a valuation report on the Land prepared by DTZ and (ii) New Basic's entitlement to 60% of the profit or loss in the Development pursuant to the Co-Investment Agreement. We also note that (i) the Huizhou Acquisition Consideration is not subject to any downward or upward adjustment; and (ii) apart from the Huizhou Acquisition Consideration, there is no other committed consideration payable by the Company under the Huizhou Agreement.

New Basic does not own any assets apart from its rights and interests under the Co-Investment Agreement. Also under paragraph "5.4 The Co-Investment Agreement" below, New Basic has entered into the Co-Investment Agreement with Polytec Holdings with respect to its investment in and financing of the Development and is in effect the investor and fund provider to Polytec Holdings in the Development in the ratio of 60% and 40%.

According to the valuation report issued by DTZ to the Company and set out in Appendix I to the Circular, the Land has a value of RMB1,700,000,000 as at 31 July 2013.

Taking into account (i) the 60:40 co-investment ratio between New Basic and Polytec Holdings under the Co-Investment Agreement which, in turn, stipulates the pay back investment amount and the profit sharing arrangement; (ii) that Polytec Holdings as the ultimate controlling shareholder of Polytec (Huizhou), which in turn, is the sole legal and beneficial owner of the Land; and (iii) that while New Basic does not directly own any interests in the Land, it in effect enjoys the benefits to be derived from the Development on the Land under the Co-Investment Agreement. We concur with the view of the Directors to determine the Huizhou Acquisition Consideration with reference to 60% of the Land's value as at 31 July 2013 and the profit of the Development entitled by New Basic under the Co-Investment Agreement. However, Shareholders should note that the Group's expectation of New Basic's entitlement to 60% of the profit or loss in the Development is not a profit forecast prepared in accordance with Rule 14.61 of the Listing Rules. According to the management of the Company, it is only, for their reference, a preliminary estimation based on the current market information. In particular, the Development is susceptible to market risks as described in the "Letter from the Board".

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In respect of the Land, we have discussed with DTZ and noted that the valuation has adopted the direct comparison approach by making reference to comparable sales transactions available in the market. We consider this methodology and the underlying assumptions to be a commonly adopted approach and justifiable. We have also noted the land value of the same area from previous land auctions and believe the aforesaid information enabled us to concur with the view of DTZ that the valuation represents a fair market value of the Land as at 31 July 2013.

Based on (i) our view that the valuation approach is a fair and reasonable approach for valuing the Land, (ii) the Huizhou Acquisition Consideration is equivalent to 60% of the Land's value as at 31 July 2013; and (iii) the fact that though it is not possible to ascertain at this stage New Basic's entitlement to the share of profit derived from the sale of Units in the Development (due to (aa) the fact that there is no profit forecast to that effect as mentioned above and (bb) the reasons described in paragraph "5.4 The Co-Investment Agreement" below), the Company's investment in the Development via New Basic is capped and Polytec Holdings will pay back New Basic's fund injected and investment in the cost of the Land before the sharing of profit and loss and as soon as the Final Accounts have been delivered (as mentioned in paragraph "5.4 The Co-Investment Agreement" below), we are of the view that the Huizhou Acquisition Consideration is fair and reasonable.

5.2.2 Terms of payment

The Huizhou Acquisition Consideration will be payable by the Company in cash in accordance with the following manner:

- 10% of the Huizhou Acquisition Consideration, equivalent to HK\$128,024,902, has been paid by the Company to Polytec Holdings upon the signing of the Huizhou Agreement as a deposit; and
- the remaining balance of 90% of the Huizhou Acquisition Consideration, equivalent to HK\$1,152,224,119, shall be payable by the Company to Polytec Holdings at completion of the Huizhou Agreement.

A delay payment interest of PRIME plus 2% per annum will be charged and be payable by the Company if it fails to pay the relevant instalment of the consideration pursuant to the Huizhou Agreement when it falls and becomes due.

It is noted that 10% of the Huizhou Acquisition Consideration has been satisfied by the internal resources of the Group and 90% of the Huizhou Acquisition Consideration will be satisfied by a loan from Polytec Holdings bearing an interest at the current rate of HIBOR plus 1.3% per annum (which is subject to annual review with reference to prevailing market rate) with no fixed term of repayment and neither secured nor guaranteed. According to the Company, such funds are readily available.

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As explained in the “Letter from the Board”, such loan is a financial assistance provided by Polytec Holdings, where no security over the assets of the Company is granted in respect of the financial assistance, and it is exempt from reporting, announcement and independent shareholders’ approval requirements under Rule 14A.65(4) of the Listing Rules. We have discussed with the Company and noted that the loans currently provided by Polytec Holdings, the ultimate holding company of the Company, had no fixed repayment term.

As showed in the 2013 Interim Results, the loan from Polytec Holdings is unsecured, interest bearing at HIBOR plus a margin per annum and is not expected to repay within one year. For the six months ended 30 June 2013, the interest was charged at HIBOR plus 1.3% per annum. Accordingly, we believe that the interest to be charged by Polytec Holdings (i.e. HIBOR plus 1.3% per annum) is consistent with the current terms being offered by Polytec Holdings, and because such interest is equivalent to and by reference the amount currently charged by Polytec Holdings, we believe this basis of determination, that is, the interest rate is in line with the Company’s historical benchmark, is justifiable and acceptable.

In addition, Polytec Holdings had confirmed to the Company that sufficient repayment notice period would be provided to the Company and such demand would occur at such time when the repayment would not adversely affect the Group’s cashflow and working capital position. We note that Polytec Holdings has provided financial assistance under such terms to the Company since 2006. Taking into account our discussion with the management of the Company, the financial position of the Group as described in paragraph 1.3 above and in view of the size and unsecured nature of such financial assistance, we believe that it is not practicable to consider seeking any other independent third party financial institutions to provide loan at terms better than the terms offered by Polytec Holdings. The Company confirmed that it has not tried to obtain independent third party debt financing for the Huizhou Acquisition and the HK Acquisition, because through their experience with independent third party financial institutions, any sizable loans will be required to provide certain kind of security as collateral, and such loan may be subject to annual review or even repayable at any time at the discretion of the independent third party financial institutions. We also note that the share price of the Company were traded at a discount to its latest published net assets value; and believe to raise equity funding to finance the Huizhou Acquisition and the HK Acquisition may not be in the interests of the Company and the Shareholders. The Company confirmed that it has not considered to raise equity financing for the Huizhou Acquisition and the HK Acquisition or even discussed with any securities firms about any equity fund raising exercise, because the share price of the Company were traded at a discount to its net assets value, any further issue of equity will either dilute the existing shareholders interests or even if the existing shareholders has the right to participate and preserve its shareholdings percentage, there is no guarantee that the shares will be issued at or above net asset value when the share price is trading at below net asset value, then the net asset value per share basis will inevitably be diluted.

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Although Polytec Holdings is on one hand the vendor of the Huizhou Agreement and a party to the Co-Investment Agreement, and on the other hand the fund provider of the Group for the Huizhou Acquisition and the HK Acquisition, we note the Group has the right to repay Polytec Holdings anytime whenever it can and believe this funding arrangement is reasonable so as to facilitate the acquisitions by the Group and to enjoy the benefits as further explained in paragraph 5.6 below.

To illustrate whether listed companies have obtained financial assistance from its ultimate holding company or related company on an unsecured and interest bearing basis, we have identified 1 company listed on the Main Board of the Stock Exchange which engaged principally in the property development business with market capitalisation of approximately HK\$8.6 billion and obtained financial assistance from its related company (i.e. comparable to the Company), being Emperor International Holdings Limited (stock code: 163). Based upon their latest published financial statements, Emperor International Holdings Limited has obtained financial assistance from its related company on an unsecured and interest bearing basis, but we are not able to identify the purpose of such financial assistance. We note its interest rate is based on HIBOR plus 1.2% per annum and no other terms of this financial assistance are disclosed. We have also identified 1 company listed on the Main Board of the Stock Exchange which engaged principally in the property development business but with smaller market capitalisation of approximately HK\$3 billion and noted it has obtained financial assistance from the non-controlling shareholders and a director on a unsecured and interest bearing (HIBOR plus) basis, being Cheuk Nang (Holdings) Limited (stock code: 131). We believe the above is the exhaustive list. By reference to the above comparable example and the example of a smaller company, we believe this kind of financial assistance is normal and commercial by nature.

Taking into account the reasons above, we concur with the view of the Directors that the funding arrangement as mentioned above is on normal commercial terms, is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

5.3 Completion

Completion of the Huizhou Agreement is conditional upon the fulfilment or waiver, amongst other things, the passing of the resolution(s) by the Independent Shareholders to approve the Huizhou Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement in the manner as required under the Listing Rules. The Company may at any time by notice in writing to Polytec Holdings waive any of the conditions (in whole or in part) other than the abovementioned condition. Details of conditions are set out in the “Letter from the Board”.

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If any of the conditions specified in the Huizhou Agreement (other than the abovementioned Independent Shareholders' approval condition) has not been fulfilled or waived (if applicable) by the Company before 5:00 p.m. on 30 November 2013, or the abovementioned condition is not fulfilled on the completion date of the Huizhou Agreement or waived as the case may be, the Huizhou Agreement shall terminate provided that Polytec Holdings shall return the deposit of HK\$128,024,902 paid by the Company to Polytec Holdings with an interest at the rate of PRIME plus 2% for the period from the date of the Huizhou Agreement to the date of actual receipt of the deposit of HK\$128,024,902 by Polytec Holdings to the Company without prejudice to the Company's rights thereunder in respect of antecedent breach on the part of Polytec Holdings of any provision thereof.

As prescribed in the Huizhou Agreement, the Company may at its sole discretion at any time by notice in writing to Polytec Holdings waive any of the conditions (in whole or in part) (other than the abovementioned Independent Shareholders' approval condition). The other five conditions, in summary, are as follows: (i) having a valuation report issued by DTZ on the Land with a value of not less than RMB1,700,000,000; (ii) completing the due diligence investigation in relation to New Basic and the title of Polytec (Huizhou) to its assets (including without limitation, the Land), to the absolute satisfaction of the Company; (iii) obtaining all necessary consents and approvals in respect of the Huizhou Agreement and the transactions contemplated thereunder including the terms of the Co-Investment Agreement; (iv) obtaining a legal opinion in the form and substance satisfactory to the Company issued by a firm of lawyers qualified to practise PRC laws; and (v) the warranties of the Huizhou Agreement being true, accurate and correct in all respects.

We noted that as at the Latest Practicable Date, the abovementioned conditions (i), (iii) and (iv) have been fulfilled, the abovementioned condition (v) even if not fulfilled by the abovementioned deadline would not affect the completion. The remaining condition (ii) can be waived at the Company's sole discretion at any time prior to the abovementioned deadline.

We believe the interests of the Company and the Independent Shareholders are safeguarded by the fact that (i) the parties to the Huizhou Agreement have made representations and warranties to cover the truth, accuracy and correctness of the information relating to the acquisition; (ii) the independent professional parties (i.e. the valuer and the PRC legal advisers) have given reports to further support the truth, accuracy and correctness of the information (in particular, the material and critical matters) relating to the acquisition; (iii) the Huizhou Agreement and the terms of the Co-Investment Agreement are subject to Independent Shareholders' approval; and (iv) the due diligence investigation as required under the abovementioned condition (ii) has been completed, and concur with the views of the Directors that such arrangement to waive any one of the conditions (including the particular condition (ii)) is to provide flexibility to the Company. As at the Latest Practicable Date, the Company has no intention to exercise the right to waive the particular condition (ii).

5.4 *The Co-Investment Agreement*

Reference is made to the terms of the Co-Investment Agreement set out in the “Letter from the Board”.

We note that New Basic is the 60% investor and fund provider, which will be involved in cost control indirectly through approval of the Business Plan, design and building plan as per the provisions of the Co-Investment Agreement. Moreover, the Company will exercise financial control over the Development through joint control of the bank account into which all the Receipts are required to be deposited and of the approval of the sale price of the Units. The Company will also monitor the progress of the Development and protect its interest in the Development. Whilst the principal obligation of Polytec Holdings is to procure Polytec (Huizhou) to complete the Development in accordance with all plans, consents, laws and regulations, and applicable restrictions, covenants and encumbrances and to maximize the gross floor area and the plot ratio of the Land according to the State-owned Land Use Rights Grant Contract, and as soon as practicable to commence the pre-sale of the Units. Apart from the covenants relating to information and accounts mentioned above, Polytec Holdings also has obligations to procure Polytec (Huizhou) to ensure that it will not incur non-development related indebtedness, extend loans or guarantees to third parties, declare dividends, make any acquisitions or change its business, unless prior written consent has been obtained from the Company and to the extent that it would not prejudice the interest of New Basic in the Development.

We also note that (i) the total funding provided by New Basic to Polytec Holdings is subject to an aggregate maximum amount of HK\$500,000,000 (which was determined after arm’s length negotiation between the parties based on the parties’ entitlement ratio to the profit or loss and the funding ratio of the Development, the funding requirement of the Development and the Company’s assessment on the maximum risk of investment in the Development); (ii) once the aggregate maximum investment amount of HK\$500,000,000 provided by New Basic has been drawn, any additional funding required for the Development will be supplied by Polytec Holdings; and (iii) Polytec Holdings will pay to New Basic such amount as representing 60% of the net profits from the Development according to the formula set out in the Co-Investment Agreement. Shareholders should note that apart from the maximum investment amount of HK\$500,000,000, there is no other committed investment amount payable by New Basic under the Co-Investment Agreement.

According to the Company, the estimation of the total construction cost of all three phases of the Development cannot be ascertained as at the Latest Practicable Date. However, according to the Company, the maximum investment amount to be provided by New Basic is capped at HK\$500,000,000 is in line with the Company’s past project experience and the Company is not liable to any sum exceeding HK\$500,000,000. We noted from the “Letter from the Board” that the construction cost of the first phase of the Development of (approximately 129,076 sq. m. gross floor area) amount to approximately RMB450,000,000. We have compared such amount with the construction cost of the other property development projects of the Group in the PRC and believe the aforesaid amount is fair and reasonable in terms

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of the size of the first phase of the Development (i.e. the gross floor area). Given that the Development is currently planned to be developed by three phases with the gross floor area of approximately 519,867 sq. m. and there is already an estimated amount of the construction cost for the first phase of the Development, we consider it is practical and reasonable for the Company to estimate the maximum investment amount of HK\$500,000,000 (approximately RMB398,100,000) to be provided by New Basic.

The parties' entitlement ratio of 60% and 40%, together with the aggregate maximum investment amount of HK\$500,000,000 were determined after arm's length negotiation between the parties with reference to (i) the respective roles of Polytec Holdings and New Basic; (ii) the associated risk of New Basic as an unsecured creditor of Polytec Holdings under the Co-Investment Agreement; (iii) the respective monetary commitments of New Basic and Polytec Holdings for the Development; and (iv) the associated potential benefits from the Development. According to the Company, the original intention was to have a higher share of investment in the Development. However, in view of the capital requirements of the Development and to motivate Polytec Holdings to maximize the interests of the Development through Polytec (Huizhou) as a developer by retaining a relatively high share of investment in the Development, the parties' entitlement ratio of 60% and 40% were eventually agreed by New Basic and Polytec Holdings following the arm's length negotiations.

The Co-Investment Agreement also formalises the (i) profit and loss arrangements before and after completion of the sale of all the Units comprised the Development; and (ii) the liabilities of the parties to the agreement in the event of termination.

We have discussed with the management of the Company about the Business Plan. Brief description of the Business Plan is set out in the "Letter from the Board". However, Shareholders should note that time and cost of the Development is susceptible to change which will, in turn, affect the business or financial position of the Development. Some of the changes are beyond the control of the Group and some are business risks (such as the change of PRC government policies, regulations and measures intended to curb property speculation may have a negative impact on the business or financial position of the Group; or the PRC government may in future adopt other measures to slow down the growth in the property development sector). Given our understanding from the aforesaid discussions, the current financial position of the Group as described in paragraph "1.3 Summary of the financial position of the Group" above, the 60% stake enables New Basic to be involved in the cost control indirectly through approval of the Business Plan, design and building plan under the Co-Investment Agreement as mentioned above, the Company's intention to motivate Polytec Holdings as mentioned above and the HK\$500,000,000 capped investment amount represents 60% of the funding currently required for the Development, we concur with the Directors that the co-investment ratio of 60% and 40% is fair and reasonable. Also in view of the control and monitor measures put in place for New Basic under the Co-Investment Agreement, we are of the view that the interests of the Company and the Independent Shareholders are safeguarded.

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Taking into account the aforesaid reasons and benefits of the Co-Investment Agreement, we are of the view that the terms of the Co-Investment Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5.5 Information on the Land and the Development

The Land comprises three parcels of nearby land located at Dongjiang North Shore Wangjiang Lot, Huizhou, Guangdong Province, the PRC (中國廣東省惠州市東江北岸望江地段) with a total site area of 146,055.7 sq. m.. The land use rights of the Land have been granted for terms due to expire on 29 October 2052 for commercial use and 29 October 2082 for residential use. Further details are described in the valuation report set out in Appendix I to the Circular. In addition, brief details of the Development Plan are set out in the “Letter from the Board”.

5.6 Reasons for and benefits of entering into the Huizhou Agreement and the Co-Investment Agreement

Below is a summary of the reasons and benefits:

5.6.1 A readily available development project which is expected to generate return

The entering into the Huizhou Agreement and the Co-Investment Agreement will enable the Group to participate in the investment in a property development project in Huizhou which is managed by Polytec Holdings as an experienced property developer, and to further strengthen its property business in the PRC. Below are the benefits considered by the Company:

- (i) Since all necessary approvals for the construction of the first phase of the Development will be obtained by the end of 2013, this has substantially shortened the time for the Group to go through all the application and approval procedures required by the relevant PRC government authorities before the construction work of the Development could be commenced. We note that save for the Planning Permit on Construction Works (architectural plan) (建設工程規劃許可證) and the Working Permit on Construction Works (建築工程施工許可證) which will be obtained by the end of 2013, Polytec (Huizhou) has obtained all the necessary consents and approvals for the construction of the first phase of the Development.
- (ii) The Land is located at a prime location in Huizhou. We have searched the vicinity of the Land and discussed with the valuer the surrounding area as well as the comparable development projects of the same area. We concur with the view of the Directors.
- (iii) The Development is expected to generate a satisfactory return for the Company taking into account the Land Costs, the expected construction cost of the Development and the comparable sales transactions available in the market. We have compared the Company’s expectation

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on the Development with the selling prices of the comparable development projects of the same area. In particular, we have taken into account (i) the Land Cost of RMB1,700,000,000 and the gross floor area of the Development of approximately 519,867 sq. m. as described in the valuation report set out in Appendix I to this circular, (ii) the expected construction costs of approximately RMB450,000,000 for the first phase of the Development of approximately 129,076 sq. m. as described in the “Letter from the Board”; and (iii) the selling prices of the market comparable development projects of the same area (ranging between RMB10,000 and RMB12,000 per sq. m.), we are of the view that on the assumption of no unforeseen circumstances and by reference to the project being sold at a price within the aforesaid price range on a per sq. m. basis, the aforesaid information enable us to concur with the expectation of the Directors on the return. On the basis of the aforesaid assumptions, the Directors consider the expected return as satisfactory with reference to their past track record on property development projects in the PRC and in line with the Company’s past project experience. Based on our discussion with the Company and noted that the construction cost of the Group’s past projects in the PRC, we concur with the Directors’ view of the expected return and believe the expected return to be reasonable.

5.6.2 Associated risk factors, including but not limited to, uncertain amount of return and default repayment by Polytec Holdings are addressed by the Co-Investment Agreement which formalize measures to protect the interests of the Company and the Independent Shareholders

Although the Company and/or New Basic will not hold the legal title or ownership to the Land, the Development and the Units upon completion of the Huizhou Acquisition, Polytec Holdings is obliged under the Co-Investment Agreement to share the profit of the Development with New Basic. The associated risks to the Company in terms of the Huizhou Acquisition are the market risk of the PRC property development project as described in paragraph “5.4 The Co-Investment Agreement” above and the non-performance by Polytec Holdings under the Co-Investment Agreement. The Company has no control of the market risks whilst the interests of the Company and the Independent Shareholders will be protected by the legally binding Co-Investment Agreement entered into between New Basic and Polytec Holdings in which Polytec Holdings is obliged to make payments to New Basic pursuant to the terms of the Co-Investment Agreement. If in case Polytec Holdings breaches its obligations under the Co-Investment Agreement, New Basic is entitled to commence legal proceedings against Polytec Holdings which has sufficient assets to satisfy any judgment against it.

We noted that similar to other property development projects in the PRC, there is no guarantee on the amount of return and it is a norm that the fund is provided without any security or pledge and concur with the Company that the lack of security or pledge on the investment amount will not increase the associated risk level of the Company under the terms of the Huizhou Acquisition.

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In view of the above explanation, we believe that any property developers in the PRC will inevitably face the abovementioned market risks (despite the Group is only an investor as opposed to a property developer under the Huizhou Acquisition, i.e. not owning the Land); but the interests of the Company and the Independent Shareholders will be protected by the legally binding Co-Investment Agreement given the control and monitor measures set out therein (which is described in the “Letter from the Board” and we have discussed in paragraph 5.4 above), and the expected return is reasonable (on the basis of the assumptions and background as explained above).

5.6.3 Arrangement provides better cashflow management to the Group

The Company’s investment in the Development via New Basic is capped since the total funding provided by New Basic to Polytec Holdings is subject to an aggregate maximum amount of HK\$500,000,000. Polytec Holdings will pay back New Basic’s fund injected and investment in the cost of the Land before the sharing of profit and loss and as soon as the Final Accounts have been delivered pursuant to the Co-Investment Agreement. During the Development Period, Polytec Holdings will pay back investment amount of New Basic upon there being surplus in the cashflow forecasts and to be mutually agreed by New Basic and Polytec Holdings based on the parties’ agreement on the distribution of profit and loss. As mentioned above, the amounts shown in the Final Accounts under the profit and loss sharing arrangements are final and conclusive and such repayment of the investment amount to New Basic cannot be disapproved of by Polytec Holdings. Accordingly, the management of the Company believe and we concur that this arrangement secure the return of the investment amount prior to the distribution of any profit (if any); whereby the Group will be able to better manage its cash flow.

5.6.4 Consistent with the Group’s business strategy

While measures to cool down the property market from the PRC Government is expected to continue to affect the property market in the PRC, the management of the Company are of the view and we concur that the long term prospects of the PRC property market shall remain positive as the fundamental drivers of the PRC property market, including, among other things, the overall stability of the PRC’s economic situation, increases in disposable income and savings and rapid urbanisation, remains positive. Also as described in the 2013 Interim Results, the Company noted that over the first six months of 2013, residential transaction volume and prices have generally picked up in most regions.

5.6.5 Our view on the reasons for and benefits of the Huizhou Agreement and the Co-Investment Agreement

Taking into account the reasons for and benefits as mentioned above, the Directors believe and we concur that the Huizhou Agreement and the Co-Investment Agreement are in the interests of the Company and the Shareholders as a whole.

5.7 *Possible financial effects to the Group*

5.7.1 *Earnings*

Upon Completion, New Basic will be accounted for as a subsidiary of the Company and its results will be consolidated into the results of the Group. There will not be any impact to the earnings of the Group immediately upon Completion.

5.7.2 *Net asset value*

We note that the Huizhou Acquisition Consideration is in effect equivalent to 60% of the Land costs. New Basic is only an investment holding company with no assets apart from its rights and interests under the Co-Investment Agreement. The Huizhou Acquisition Consideration will be accounted for as “interest in a subsidiary” of the Company, whilst the interests of the Development will be accounted for as an “interest in property development” of the Group. As the interests of the Development is equivalent to 60% of the fair market value of the Land costs, which in turn, is equivalent to the Huizhou Acquisition Consideration, the Huizhou Acquisition will not result in any goodwill, subject to audit, on consolidation; and accordingly, there will be no impact to the net asset value of the Group immediately upon Completion.

However, Shareholders should note that the exact goodwill and net assets value shall only ascertain with determination of the fair value of the net assets of New Basic on the date of Completion.

5.7.3 *Working capital*

We note that the Huizhou Acquisition Consideration will be funded by the internal resources of the Group and a loan from Polytec Holdings under normal commercial terms.

The Directors consider that the Group will have sufficient resources to fulfill its payment obligation under the Huizhou Agreement. As advised by the Company, the loan from Polytec Holdings will have no fixed repayment term. And Polytec Holdings has confirmed to the Company that sufficient repayment notice period will be provided to the Company and such demand will occur at such time when the repayment will not adversely affect the Group’s cashflow and working capital position. Having considered the above and the facilities currently available to and arranged by the Group, we consider that the Huizhou Acquisition and such sources of funding will not have an immediate adverse impact to the Group’s liquidity and working capital position.

5.8 *Our conclusion on the Huizhou Agreement and the Co-Investment Agreement*

Having considered that principal factors and reasons referred to above, we are of the opinion that the Huizhou Acquisition (i.e. the transactions contemplated under the Huizhou Agreement and the Co-Investment Agreement) is in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole, and the terms of the Huizhou Agreement and the Co-Investment Agreement represent normal commercial terms and are fair and reasonable.

6. The HK Acquisition

6.1 *The HK Agreement*

Pursuant to the HK Agreement, Partner Talent has conditionally agreed to sell and Brilliant Idea has conditionally agreed to purchase the Top Sail Sale Share together with the assignment of the Top Sail Sale Loan for an aggregate consideration of HK\$368,557,890. The Top Sail Sale Share represents the entire issued share capital of Top Sail. Upon completion of the HK Acquisition, Top Sail will become an ultimate wholly-owned subsidiary of the Company and the accounts of which will be consolidated with the Group's accounts upon completion of the HK Agreement.

6.2 *The HK Acquisition Consideration*

6.2.1 *Basis of determination*

The HK Acquisition Consideration is HK\$368,557,890, comprising the consideration for the transfer of the Top Sail Sale Share in the sum of HK\$185,805,770 and the face value of the Top Sail Sale Loan of HK\$182,752,120, which was determined after arm's length negotiations between the parties.

As described in the "Letter from the Board", Top Sail is a company beneficially wholly-owned by Polytec Holdings as at the Latest Practicable Date and the only asset of significance of Top Sail is its interest in the HK Property.

According to the valuation report issued by DTZ to the Company and set out in Appendix II to the Circular, the HK Property has a value of HK\$400,000,000 as at 31 July 2013.

We note that in arriving at the aggregate value of the Top Sail Sale Share and the Top Sail Sale Loan, the parties have taken into account (i) the net asset value of Top Sail was HK\$26,369,697 as at 31 July 2013 based on its unaudited management accounts as mentioned in the "Letter from the Board"; (ii) the appreciation in fair value of the HK Property, which is equivalent to the difference between the book value of the HK Property as at 31 July 2013

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and the valuation amount as at 31 July 2013 that was derived from the valuation report prepared by DTZ of HK\$400,000,000; (iii) the potential tax effect on the appreciation of the HK Property; and (iv) the shareholder's loan as at 31 July 2013 of HK\$182,752,120. Based on the above, the aggregate value of the Top Sail Sale Share and the Top Sail Sale Loan amounted to HK\$368,557,890. We also note that the HK Acquisition Consideration is not subject to any downward or upward adjustment.

We believe the above in effect serves to calculate the net asset value of Top Sail, taking into account the market value of the HK Property and adjusting for the Top Sail Sale Loan as equity since it will also form part of the HK Acquisition. Net asset value is a commonly adopted approach for valuation of property company and therefore we are of the view that this approach is fair and reasonable.

In respect of the HK Property, we have discussed with DTZ and noted that the valuation has adopted the direct comparison approach by making reference to comparable sales transactions available in the market and have taken into account its re-development potential. We consider this methodology and the underlying assumptions to be a commonly adopted approach and justifiable. We have also noted the past sales transactions of that area and believe such information gives us a reasonable basis to form a view that the valuation presented by DTZ represents a fair market value of the HK Property as at 31 July 2013.

Based on (i) our view that the valuation approach is a fair and reasonable approach for the valuing the HK Property and (ii) the HK Acquisition Consideration is equivalent to the aggregate of the adjusted net assets value of Top Sail and the face value of the Top Sail Sale Loan, we are of the view that the HK Acquisition Consideration is fair and reasonable.

6.2.2 Terms of payment

The HK Acquisition Consideration will be payable by Brilliant Idea in cash in accordance with the following schedule:

- 10% of the HK Acquisition Consideration, equivalent to HK\$36,855,789, has been paid by Brilliant Idea to Partner Talent upon the signing of the HK Agreement as a deposit; and
- the remaining balance of 90% of the HK Acquisition Consideration, equivalent to HK\$331,702,101, shall be payable by Brilliant Idea to Partner Talent at completion of the HK Agreement.

A delay payment interest of PRIME plus 2% per annum will be charged and be payable by Brilliant Idea if it fails to pay the relevant instalment of the consideration pursuant to the HK Agreement when it falls and becomes due.

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10% of the HK Acquisition Consideration has been satisfied by the internal resources of the Group and 90% of the HK Acquisition Consideration will be satisfied by a loan from Polytec Holdings bearing an interest at the current rate of HIBOR plus 1.3% per annum (which is subject to annual review with reference to prevailing market rate) with no fixed term of repayment and neither secured nor guaranteed. According to the Company, such funds are readily available.

As explained in the “Letter from the Board”, such loan is a financial assistance provided by Polytec Holdings, where no security over the assets of the Company is granted in respect of the financial assistance, and it is exempt from reporting, announcement and independent shareholders’ approval requirements under Rule 14A.65(4) of the Listing Rules. We have discussed with the Company and noted that the loans currently provided by Polytec Holdings had no fixed repayment term.

As showed in the 2013 Interim Results, the loan from Polytec Holdings is unsecured, interest bearing at HIBOR plus a margin per annum and is not expected to repay within one year. For the six months ended 30 June 2013, the interest was charged at HIBOR plus 1.3% per annum. Accordingly, we believe that the interest to be charged by Polytec Holdings (i.e. HIBOR plus 1.3% per annum) is consistent with the current terms being offered by Polytec Holdings, and because such interest is equivalent to and by reference the amount currently charged by Polytec Holdings, we believe this basis of determination, that is, the interest rate is in line with the historical benchmark, is justifiable and acceptable.

In addition, Polytec Holdings had confirmed to the Company that sufficient repayment notice period would be provided to the Company and such demand would occur at such time when the repayment would not adversely affect the Group’s cashflow and working capital position. We note that Polytec Holdings has provided financial assistance under such terms to the Company since 2006. Taking into account our discussion with the management of the Company, the financial position of the Group as described in paragraph 1.3 above and in view of the size and unsecured nature of such financial assistance, we believe that it is not practicable to consider seeking any other independent third party financial institutions to provide loan at terms better than the terms offered by Polytec Holdings. The Company confirmed that it has not tried to obtain independent third party debt financing for the Huizhou Acquisition and the HK Acquisition, because through their experience with independent third party financial institutions, any sizable loans will be required to provide certain kind of security as collateral, and such loan may be subject to annual review or even repayable at any time at the discretion of the independent third party financial institutions. We also note that the share price of the Company were traded at a discount to its latest published net assets value; and believe to raise equity funding to finance the Huizhou Acquisition and the HK Acquisition may not be in the interests of the Company and the Shareholders. The Company confirmed that it has not

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considered to raise equity financing for the Huizhou Acquisition and the HK Acquisition or even discussed with any securities firms about any equity fund raising exercise, because the share price of the Company were traded at a discount to its net assets value, any further issue of equity will either dilute the existing shareholders interests or even if the existing shareholders has the right to participate and preserve its shareholdings percentage, there is no guarantee that the shares will be issued at or above net asset value when the share price is trading at below net asset value, then the net asset value per share basis will inevitably be diluted.

Although Polytec Holdings is on one hand the vendor of the HK Agreement, and on the other hand the fund provider of the Group for the Huizhou Acquisition and the HK Acquisition, we note the Group has the right to repay Polytec Holdings anytime whenever it can and believe this funding arrangement is reasonable so as to facilitate the acquisitions by the Group and to enjoy the benefits as further explained in paragraph 6.5 below.

To illustrate whether listed companies have obtained financial assistance from its ultimate holding company or related company on an unsecured and interest bearing basis, we have identified 1 company listed on the Main Board of the Stock Exchange which engaged principally in the property development business with market capitalisation of approximately HK\$8.6 billion and obtained financial assistance from its related company (i.e. comparable to the Company), being Emperor International Holdings Limited (stock code: 163). Based upon their latest published financial statements, Emperor International Holdings Limited has obtained financial assistance from a related company on an unsecured and interest bearing basis, but we are not able to identify the purpose of such financial assistance. We note its interest rate is based on HIBOR plus 1.2% per annum and no other terms of this financial assistance are disclosed. We have also identified 1 company listed on the Main Board of the Stock Exchange which engaged principally in the property development business but with smaller market capitalisation of approximately HK\$3 billion and noted it has obtained financial assistance from the non-controlling shareholders and a director on a unsecured and interest bearing (HIBOR plus) basis, being Cheuk Nang (Holdings) Limited (stock code: 131). We believe the above is the exhaustive list. By reference to the above comparable example and the example of a small company, we believe this kind of financial assistance is normal and commercial by nature.

Taking into account the reasons above, we concur with the view of the Directors that the funding arrangement as mentioned above is on normal commercial terms, is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

6.3 Conditions of the HK Agreement

Completion of the HK Agreement is conditional upon the fulfillment or waiver (as the case may be), amongst other things, the compliance by the Company, of all applicable requirements of the Listing Rules in relation to the transactions contemplated under the HK Agreement, including where necessary, the obtaining of Independent Shareholders' approval with respect to the transaction.

If the conditions specified in the HK Agreement are not fulfilled or waived (other than the abovementioned condition which cannot be waived) before 30 November 2013, the HK Agreement shall forthwith become null and void and cease to have any effect whatsoever save for any antecedent breach and Partner Talent shall return the deposit of HK\$36,855,789 to Brilliant Idea accordingly.

6.4 Information on the HK Property

The HK Property is a site located in Aberdeen, Hong Kong, with a registered site area of approximately 738.29 sq. m.. It was acquired by Top Sail during May 2010 to July 2013 comprising thirty domestic units and six shop units in six 6-storey tenement buildings all completed in 1958. As at 31 July 2013, Top Sail has incurred aggregate cost and expenses on the HK Property amounted to HK\$182,688,906. The total original acquisition cost of the HK Property paid by Top Sail was HK\$167,169,600. As at 31 July 2013, the book value including accumulated gains on the revaluation of the HK Property is HK\$209,058,595. Further details are described in the valuation report set out in Appendix II to this circular. In addition, brief details of the redevelopment plan are set out in the "Letter from the Board".

6.5 Reasons for and benefits of the HK Acquisition

The HK Acquisition is in line with the business activities of the Group and will enable the Group to expand its portfolio of development projects in Hong Kong.

According to the management of the Company, the HK Acquisition will also facilitate the Group to acquire old building units ready for redevelopment. In addition, the HK Property is ready for the redevelopment plan and the sales programme can commence as soon as the relevant approval is obtained; the HK Acquisition not only save substantial time, but also avoid potential risks and uncertainties associated with the assembly of the old building units where the Group may not be able to acquire all the units in a potential site within a short period of time. It can also save the monies in tightening up the working capital for a long time and is thus beneficial to the Group. The Directors believe that the Group will earn a satisfactory return from the HK Acquisition taking into account the valuation of the HK Property, the expected construction cost and the comparable sales transaction available in the market. Again, Shareholders should note that the Group's expected return is not a profit forecast prepared in accordance with Rule 14.61 of the Listing Rules. According to the management of the Company, it is only, for their reference, a preliminary estimation based on the current market

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information. In particular, the HK Property is susceptible to market risks, including but not limited to, any change of Hong Kong government policies, regulations and measures to further curb property price may have a negative impact on the property development industry in Hong Kong. In particular, we have taken into account (i) the acquisition consideration of HK\$368,557,890 and the proposed gross floor area of the redevelopment of approximately 64,439 sq. ft. as described in the valuation report set out in Appendix II to this circular; (ii) the estimated construction costs of approximately HK\$250,000,000 as described in the “Letter from the Board”; and (iii) the selling prices of the market comparable development projects of the same area (ranging between HK\$12,000 and HK\$14,000 per sq. ft.), we are of the view that on the assumption of no unforeseen circumstances and by reference to the project being sold at a price within the aforesaid price range on a per sq. ft. basis, the aforesaid information enabled us to concur with the expectation of the Directors on the return. On the basis of the aforesaid assumptions, the Directors consider the expected return as satisfactory with reference to their past track record on property development projects in the Hong Kong and in line with the Company’s past project experience. Based on our discussion with the Company and noted that the construction cost of the Group’s past projects in Hong Kong, we concur with the Directors’ view of the expected return and believe the expected return to be reasonable.

In view of the above explanation, we believe that any property developers in the Hong Kong will inevitably face the abovementioned market risks; but the expected return is reasonable (on the basis of the assumptions and background as explained above).

Taking into account the reasons for and benefits as mentioned above, the Directors believe and we concur that the HK Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

6.6 Possible financial impact to the Group

6.6.1 Earnings

Upon Completion, Top Sail will be accounted for as a subsidiary of the Company and its results will be consolidated into the results of the Group. There will not be any impact to the earnings of the Group immediately upon Completion.

6.6.2 Net asset value

We note that the HK Acquisition Consideration is in effect equivalent to the aggregate of the adjusted net asset value of Top Sail and the face value of the shareholder’s loan in the books of Top Sail. Accordingly, the HK Acquisition would not result in any goodwill, subject to audit, on consolidation; and there will be no impact to the net asset value of the Group immediately upon Completion.

However, Shareholders should note that the exact goodwill and net assets value shall only ascertain with determination of the fair value of the net assets of Top Sale on the date of Completion.

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this circular received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with its opinion of market value of the Property located in the People's Republic of China as at 31 July 2013.



16/F Jardine House
1 Connaught Place
Central
Hong Kong

30 October 2013

The Board of Directors
Kowloon Development Company Limited
23rd Floor, Pioneer Centre
750 Nathan Road
Kowloon
Hong Kong

Dear Sirs,

Re: The Land (three parcels of land, Lot Nos. 0010080454, 0010080457 & 0010080458, with a total site area of 146,055.7 sq. m.) located at Dongjiang North Shore Wangjiang Lot, Huizhou, Guangdong Province, the PRC

INSTRUCTIONS, PURPOSE & DATE OF VALUATION

In accordance with the instruction of Kowloon Development Company Limited (the “**Company**”) for us to carry out market valuation of the property (the “**Property**”) located in the People’s Republic of China (the “**PRC**”), we confirm that we have carried out site inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 31 July 2013 (the “**date of valuation**”).

DEFINITION OF MARKET VALUE

Our valuation of the Property represents its market value which in accordance with The HKIS Valuation Standards 2012 Edition published by the Hong Kong Institute of Surveyors is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion”.

VALUATION BASIS AND ASSUMPTION

Our valuation of the Property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In the course of our valuation of the Property, we have assumed that transferable land use rights in respect of the Property for its specific term at nominal annual land use fee have been granted and that any premium payable has already been fully paid. We have relied on the information and advice given by the Company and the PRC legal opinion of the legal adviser, Dacheng Law Offices (大成律師事務所), regarding the titles to the Property and the interests in the Property. In valuing the Property, we have assumed that the owner has enforceable title to the Property and have free and uninterrupted rights to use, occupy or assign the Property for the whole of the unexpired term as granted.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have valued the whole interest in the Property.

METHODS OF VALUATION

In valuing the Property, which is held for sale in the PRC, we have adopted the Direct Comparison Approach by making reference to comparable sales transactions as available in the market.

In valuing the Property, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards 2012 Edition published by the Hong Kong Institutes of Surveyors.

SOURCE OF INFORMATION

We have relied to a very considerable extent on the information given by the Company and the opinion of the PRC legal adviser as to the PRC laws. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of the Property, particulars of occupancy, development scheme, construction costs, site and floor areas and all other relevant matters.

Dimension, measurements and areas included in this valuation report are based on the information provided to us and are therefore only approximation. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to the valuation. We were also advised that no material facts have been omitted from the information supplied.

We would point out that certain of the copies of documents provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise the Company to make reference to the original Chinese edition of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

TITLE INVESTIGATION

We have been provided by the Company with copies or extracts of documents in respect of the Property. We have not been able to cause title search for the Property in the PRC; we have made reference to the opinion of the PRC legal adviser in respect of the interest in the Property. However, we have not searched the original documents to verify ownership or to ascertain any amendments to any documents. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

SITE INSPECTION

Our valuer of DTZ Guangzhou Office, Mr Andy He (a Surveyor), has inspected the exterior and, wherever possible, the interior of the Property on 5 September 2013. However, we have not carried out any soil investigations to determine the suitability of the soil conditions and the services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the Property and we have assumed that the areas shown on the documents handed to us are correct.

CURRENCY

Unless otherwise stated, all sums stated in our valuation are in Renminbi, the official currency of the PRC.

We attach herewith the valuation certificate.

Yours faithfully,
For and on behalf of
DTZ Debenham Tie Leung Limited
Philip C Y Tsang
Registered Professional Surveyor
(General Practice)
Registered China Real Estate Appraiser
MSc, MRICS, MHKIS
Director

Note: Mr Philip C Y Tsang is a Registered Professional Surveyor (General Practice) who has over 20 years' experience in the valuation of properties in the PRC.

VALUATION CERTIFICATE

Property to be held for sale in the PRC

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 July 2013
<p>The Land (three parcels of land, Lot Nos. 0010080454, 0010080457 & 0010080458, with a total site area of 146,055.7 sq. m.) located at Dongjiang North Shore Wangjiang Lot, Huizhou, Guangdong Province, the PRC</p>	<p>The Property comprises the Land which has three parcels of nearby land with a total site area of 146,055.7 sq. m..</p> <p>According to the information provided by the Company, the Property is intended to be developed into a luxury residential and commercial complex in phases, with a planned total plot ratio gross floor area of 519,867 sq. m.. Planning Permit for Construction Use of Land has been obtained for the proposed development. The Land is restricted to commercial/residential use as granted. No architectural plan has been approved.</p> <p>The Property is located at Dongjiang North Shore Wangjiang Lot, Huizhou, Guangdong Province. Developments nearby are mainly residential and commercial development. According to the Group, the Property will be used for commercial/residential use; there is no environmental issues and litigation dispute; there is no plan to dispose of or change the use of the Property.</p> <p>The land use rights of the Property have been granted for terms due to expire on 29 October 2052 for commercial use and 29 October 2082 for residential use.</p>	<p>As at the date of valuation, the Property was a vacant land pending for development.</p> <p>As advised, Land Resources Bureau of Huizhou has not actually delivered the Property to Polytec (Huizhou) Investments Development Limited (保利達(惠州)投資發展有限公司) yet.</p>	RMB1,700,000,000

Notes:

- (1) According to 3 Certificates for the Use of State-owned Land dated 27 April 2013, the land use rights of the Property, comprising a total site area of 146,055.7 sq. m., have been granted to Polytec (Huizhou) Investments Development Limited (保利達(惠州)投資發展有限公司):

Certificate No.	Lot No.	Location	Site Area (sq. m.)	Uses	Expiry Date
(2013)13020100005	0010080454	Huizhou Dongjiang North Shore Wangjiang Lot	26,682.9	Commercial/ residential	29 October 2052/ 29 October 2082
(2013)13020100006	0010080458	Huizhou Dongjiang North Shore Wangjiang Lot	78,309.2	Commercial/ residential	29 October 2052/ 29 October 2082
(2013)13020100007	0010080457	Huizhou Dongjiang North Shore Wangjiang Lot	41,063.6	Commercial/ residential	29 October 2052/ 29 October 2082
Total			146,055.7		

- (2) According to State-owned Land Use Rights Grant Contract No. 441301-2012-000006 dated 29 February 2012:

(i)	Grantee	:	Polytec (Huizhou) Investments Development Limited (保利達(惠州)投資發展有限公司)
(ii)	Location	:	Huizhou Dongjiang North Shore Wangjiang Lot
(iii)	Site Area	:	146,055.80 sq. m.
(iv)	Plot Ratio	:	Not more than 3.6 (JBN35-4#), not more than 3.6 (JBN36-5#), not more than 3.5 (JBN36-8#) and not less than 1.
(v)	Gross Floor Area	:	Total 519,867 sq. m., in which: 96,059 sq. m. (JBN35-4#), 145,792 sq. m. (JBN36-5#), 278,016 sq. m. (JBN36-8#).
(vi)	Land Use	:	Commercial, residential
(vii)	Land Premium	:	RMB745,400,000
(viii)	Land Use Term	:	40 years for commercial use and 70 years for residential use.
(ix)	Building Covenant	:	To commence construction before 29 April 2013 and to complete the construction before 29 April 2016 (Please see Notes 3 and 6 (iv) below).

- (3) According to Reply to the Request for Extension of Date of Commence Construction and Complete Construction dated 10 May 2013, Land Resources Bureau of Huizhou agreed to extend the date of commencement of construction work to six months after the actual delivery of the land and the date of completion of construction work will be extended accordingly.

Since Land Resources Bureau of Huizhou still has to process its internal government approval procedures to sign the land delivery agreement before the vacant possession of the Property can be actually (physically) delivered to Polytec (Huizhou) Investments Development Limited (保利達(惠州)投資發展有限公司) for development, the extension of time will provide enough time for Polytec (Huizhou) Investments Development Limited (保利達(惠州)投資發展有限公司) to complete the development according to requirement.

As advised by the Company, an agreement of actual delivery of the Property will be signed by Land Resources Bureau of Huizhou and Polytec (Huizhou) Investments Development Limited (保利達(惠州)投資發展有限公司). Estimated delivery time of the Property will be within the forthcoming 6 months.

- (4) According to Planning Permit for Construction Use of Land No. 441302 (2013) 10034 dated 18 April 2013, the commercial residential land at Dongjiang North Shore Wangjiang Lot is in compliance with urban planning requirements:

	Plot Ratio	Plot Ratio Gross Floor Area (sq. m.)
JBN35-4#	3.6	96,059
JBN36-5#	3.6	145,792
JBN36-8#	3.5	278,016
Total:		519,867

- (5) According to Business Licence No. 441300400004722 dated 25 September 2012, Polytec (Huizhou) Investments Development Limited (保利達(惠州)投資發展有限公司) was established as a limited liability company with a registered capital of USD77,000,000 for a valid operation period from 3 August 2007 to 3 August 2057.

- (6) According to the PRC legal opinion:

- (i) Polytec (Huizhou) Investments Development Limited (保利達(惠州)投資發展有限公司) is legally established;
- (ii) Polytec (Huizhou) Investments Development Limited (保利達(惠州)投資發展有限公司) has legally obtained the Certificate for the Use of State-owned Land and is the registered land owner;
- (iii) Polytec (Huizhou) Investments Development Limited (保利達(惠州)投資發展有限公司) has rights to occupy, use, mortgage, transfer, lease of the land use rights;
- (iv) Polytec (Huizhou) Investments Development Limited (保利達(惠州)投資發展有限公司) can commence the construction work within the time limit mentioned in State-owned Land Use Rights Grant Contract, although the construction work has not commenced before 29 April 2013, Polytec (Huizhou) Investments Development Limited (保利達(惠州)投資發展有限公司) has obtained Land Resources Bureau of Huizhou consent to extend the date of commencement of construction work to six months after the actual delivery of the land and the date of completion of construction work will be extended accordingly. Therefore, the extension of commencement of construction works of Polytec (Huizhou) Investments Development Limited (保利達(惠州)投資發展有限公司) will not constitute breach of contract and no liability of breach of contract; and
- (v) The Property is neither subject to any pledge nor seal up.

- (7) The status of the title and grant of major approvals and licence in accordance with the information provided by the Company and the opinion of the PRC legal adviser:

Certificate for the Use of State-owned Land	Yes
State-owned Land Use Rights Grant Contract	Yes
Reply to the Request for Extension of Date of Commence Construction and Complete Construction	Yes
Planning Permit for Construction Use of Land	Yes
Business Licence	Yes

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this document received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with its opinion of market value of the Property in Hong Kong as at 31 July 2013.



16/F Jardine House
1 Connaught Place
Central
Hong Kong

30 October 2013

The Board of Directors
Kowloon Development Company Limited
23rd Floor, Pioneer Centre
750 Nathan Road
Kowloon
Hong Kong

Dear Sirs,

Re: 1, 3, 5, 7, 9 and 11 Tang Fung Street, Aberdeen, Hong Kong

INSTRUCTIONS, PURPOSE & DATE OF VALUATION

In accordance with the instruction of Kowloon Development Company Limited (the “**Company**”) for us to carry out market valuation of 1, 3, 5, 7, 9 and 11 Tang Fung Street (the “**Property**”) located in Hong Kong, we confirm that we have carried out site inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 31 July 2013 (the “**date of valuation**”).

DEFINITION OF MARKET VALUE

Our valuation of the Property represents its market value which in accordance with the HKIS Valuation Standards 2012 Edition published by the Hong Kong Institute of Surveyors is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion”.

VALUATION BASIS AND ASSUMPTION

Our valuation of the Property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

METHODS OF VALUATION

In valuing the Property which is held for sale in Hong Kong, we have adopted the Direct Comparison Approach by making reference to comparable sales transactions as available in the market and have taken into account its re-development potential.

In valuing the Property, we have complied with the requirements set out in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards 2012 Edition published by the Hong Kong Institutes of Surveyors.

SOURCE OF INFORMATION

We have relied to a very considerable extent on the information given by the Company. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of Property, particulars of occupancy, proposed redevelopment scheme, estimated construction cost, site and floor areas and all other relevant matters.

Dimension, measurements and areas included in this valuation report are based on the information provided to us and are therefore only approximation. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to the valuation. We were also advised that no material facts have been omitted from the information supplied.

TITLE INVESTIGATION

We have not been provided with copies of the title documents relating to the Property but have caused searches to be made at the Land Registry in Hong Kong. However, we have not searched the original documents to verify ownership or to ascertain any amendments to any documents. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

SITE INSPECTION

Our valuer, Mr Enoch Chan who is a member of the Hong Kong Institute of Surveyors, has inspected the exterior of the Property on 6 August 2013. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not able to report whether the Property is free of rot, infestation and any other structural defects; no tests were carried out to any of the services. Moreover, we have not carried out any soil investigations to determine the suitability of the soil conditions and the services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the Property and we have assumed that the areas shown on the documents handed to us are correct.

We attach herewith the valuation certificate.

Yours faithfully,
For and on behalf of
DTZ Debenham Tie Leung Limited
K B Wong
Registered Professional Surveyor
(General Practice)
MRICS, MHKIS
Senior Director

Note: Mr K B Wong is a Registered Professional Surveyor (General Practice) who has over 25 years property valuation experience in Hong Kong.

VALUATION CERTIFICATE

Property held for sale in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 July 2013
1, 3, 5, 7, 9 and 11 Tang Fung Street, Aberdeen, Hong Kong Aberdeen Inland Lot Nos. 269, 270, 271, 272, 273 and 274	The Property comprises six existing 6-storey tenement buildings all completed in 1958. The total registered site area of 1-11 Tang Fung Street is approximately 7,947 sq. ft. (738.29 sq. m.). The Property is held under Government Leases all for the same term of 999 years from 13 December 1888. The current Government Rent payable for each lot is HK\$2 per annum respectively.	As at the date of valuation, the Property was vacant.	HK\$400,000,000

Notes:

- (1) The Property comprises 30 upper domestic units and 6 shop units on the ground floor of 1, 3, 5, 7, 9 and 11 Tang Fung Street with a total saleable area of approximately 23,643 sq. ft. (2,196.48 sq. m.). The register owner of the Property is Top Sail International Limited.
- (2) The Property is subject to various Building Orders under sections (24) (unauthorized building works), (26A) (defective buildings) and (28) (drainage) of the Buildings Ordinance issued by the Building Authority.
- (3) The Property falls within the land use zone of "Residential (Group A) 2" under the Approved Aberdeen and Ap Lei Chau Outline Zoning Plan No. S/H15/27.
- (4) The use and development of the property are principally governed by the Government Leases of Aberdeen Inland Lot Nos. 269, 270, 271, 272, 273 and 274. The whole of the documents should be noted, but the following conditions are of particular relevance:

"...And that the said Lessees or any other person or persons will not during the continuance of this demise us exercise or follows in or upon the demised premises or any part thereof the trade or business of a Brazier, Slaughterman, Soap-maker, Sugar-baker, Fellmonger, Melter of tallow, Oilman, Butcher, Distiller, Victualler or Tavern-keeper, Blacksmith, Nightman, Scavenger or any other noisy noisome or offensive trade or business without the previous licence of Her said Majesty signified in writing by the governor or other person duly authorized in that behalf..."

The Government Leases of the Property are virtually unrestricted except certain trades as stipulated in the Leases the relevant provisions are extracted and shown above.

- (5) According to the information provided by the Company, the Property would be redeveloped into a 29-storey residential building. The total proposed gross floor area of the redevelopment is approximately 64,439 sq. ft. (5,986.56 sq. m.) and the total estimated construction cost is about HK\$250,000,000.
- (6) In arriving at our valuation of the Property, we have taken into account the proposed redevelopment scheme and the estimated construction cost provided by the Company. We have assumed that the proposed redevelopment scheme provided by the Company is in compliance with the relevant development and statutory regulatory requirements, conditions of the Government Leases, and all the necessary approvals and permissions for the redevelopment have been or will be obtained.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company or any of their respective associates in any Shares, underlying Shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

(i) *Interests in Shares, underlying Shares and debentures of the Company*

Name of Director	Nature of interests	Number of ordinary Shares		Approximate percentage of total issued Shares (Note 1)
		Long position	Short position	
Or Wai Sheun	Founder and beneficiary of a trust (Note 2)	830,770,124	Nil	72.20%
	Corporate (Note 3)	277,500	Nil	0.02%
Ng Chi Man	Beneficiary of a trust (Note 2)	830,770,124	Nil	72.20%
Or Pui Kwan	Beneficiary of a trust (Note 2)	830,770,124	Nil	72.20%
	Personal	43,500	Nil	0.00%
Lok Kung Chin, Hardy	Founder and beneficiary of trusts (Note 4)	1,425,000	Nil	0.12%
Lai Ka Fai	Personal	751,000	Nil	0.07%
Keith Alan Holman	Personal	688,000	Nil	0.06%
David John Shaw	Personal	133,500	Nil	0.01%
	Family (Note 5)	67,000	Nil	0.01%
Yeung Kwok Kwong	Personal	180,000	Nil	0.02%

Notes:

1. The percentage of shareholding is calculated based on 1,150,681,275 Shares, being the total number of issued ordinary Shares as at the Latest Practicable Date.
2. Such interest in Shares is held by Intellinsight Holdings Limited (“**Intellinsight**”), a wholly-owned subsidiary of Polytec Holdings International Limited (“**Polytec Holdings**”) which is wholly-owned by Ors Holdings Limited (“**OHL**”). OHL is in turn wholly-owned by a discretionary trust, the trustee of which is HSBC International Trustee Limited.

As Mr Or Wai Sheun is the founder of the trust and the discretionary objects of the trust include Mr Or Wai Sheun, Ms Ng Chi Man (his wife) and Mr Or Pui Kwan (his son), they are taken to be interested in the same block of Shares held by the trust.
3. Such interest in Shares is held by China Dragon Limited which is wholly-owned by Mr Or Wai Sheun.
4. Such interest in Shares is owned by discretionary trusts of which Mr Lok Kung Chin, Hardy is the founder and a beneficiary respectively.
5. Such interest in Shares is held by the spouse of Mr David John Shaw.

(ii) *Interests in shares, underlying shares and debentures of the associated corporation — Polytec Asset Holdings Limited (“Polytec Asset”)*

Name of Director	Nature of interests	Number of ordinary shares		Approximate percentage of total issued shares (Note 1)
		Long position	Short position	
Or Wai Sheun	Founder and beneficiary of a trust (Note 2)	3,260,004,812	Nil	73.44%
Ng Chi Man	Beneficiary of a trust (Note 2)	3,260,004,812	Nil	73.44%
Or Pui Kwan	Beneficiary of a trust (Note 2)	3,260,004,812	Nil	73.44%
Yeung Kwok Kwong	Personal	2,000,000	Nil	0.05%
Keith Alan Holman	Personal	722,000	Nil	0.02%
Lai Ka Fai	Personal	430,000	Nil	0.01%

Notes:

1. The percentage of shareholding is calculated based on 4,438,967,838 shares, being the total number of issued ordinary shares of Polytec Asset as at the Latest Practicable Date.
2. Through their respective interests in the Company disclosed under the subsection on “Interests in Shares, underlying Shares and debentures of the Company” of “Directors’ interest and short positions”, and by virtue of 100% interest in Marble King International Limited, the immediate holding company of Polytec Asset, held by the Company, Mr Or Wai Sheun, Ms Ng Chi Man and Mr Or Pui Kwan were deemed to be interested in 3,260,004,812 ordinary shares in Polytec Asset.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

(b) Interests of substantial shareholders and other persons in the Company and other members of the Group

As at the Latest Practicable Date, according to the register of interests maintained by the Company pursuant to section 336 of the SFO and so far as is known to the Directors, the persons, other than Directors or the chief executive of the Company, who had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company and any other members of the Group and the amount of each of such persons' interest in such securities, together with any options in respect of such capital, were as follows:

(i) The Company

Name	Nature of interests	Number of ordinary Shares		Approximate percentage of total issued Shares (Note 1)
		Long position	Short position	
HSBC International Trustee Limited	Trustee	832,016,474 (Note 2)	Nil	72.30%
Ors Holdings Limited	Corporate	830,770,124 (Note 2)	Nil	72.20%

Notes:

- The percentage of shareholding is calculated based on 1,150,681,275 Shares, being the total number of issued ordinary Shares as at the Latest Practicable Date.
- Out of the 832,016,474 ordinary Shares held by HSBC International Trustee Limited, 830,770,124 ordinary Shares are owned by a company. Such interest in the Shares relates to the same block of Shares as described in note 2 under subsection on "Interests in Shares, underlying Shares and debentures of the Company" of "Directors' interests and short positions".

(ii) Subsidiaries (excluding Polytec Asset and its subsidiaries) of the Company

Name of subsidiary	Name of shareholder	Approximate percentage of issued share capital of the subsidiary
Golden Princess Amusement Company Limited	Variety Entertainment Company Limited	15.00%
Ideaplan Investments Limited	Greatpath Group Limited	15.00%
San Iao Lek Development Company Limited	All Virtue International Limited	30.00%

(iii) Polytec Asset and its subsidiaries

Name of subsidiary	Name of shareholder	Approximate percentage of issued share capital of the subsidiary
New Cosmos Holdings Limited	Dak Tai Luen Limited	15.00%
	JHK International Limited	10.00%
	Matrix Era Limited	17.00%
Think Bright Limited	U Sio Man	29.50%

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other persons or corporations (other than Directors or the chief executive of the Company and the respective companies controlled by them whose interests have been disclosed above) who had an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or in any options in respect of such capital.

3. COMPETING INTEREST

As at the Latest Practicable Date, save as disclosed below, none of the Directors or any of their respective associates had any business or interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Polytec Holdings, a company ultimately and wholly-owned by a discretionary trust of which Mr Or Wai Sheun (the Chairman of the Company) is the founder and the discretionary objects of the trust include Mr Or Wai Sheun, Ms Ng Chi Man (a Non-executive Director) and Mr Or Pui Kwan (an Executive Director), is engaged in property investment and development business in Hong Kong, Macau and the PRC. As a result, Mr Or Wai Sheun, Ms Ng Chi Man and Mr Or Pui Kwan are considered to have interest in a business which competes, or is likely to compete, either directly or indirectly, with the business of the Group. Polytec Holdings had granted a right of first refusal in favour of the Group in respect of properties or property projects that will be made available to it to acquire or participate in development in Hong Kong, Macau and the PRC.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, the date to which the latest published audited accounts of the Company were made up.

6. QUALIFICATION AND CONSENT OF EXPERTS

The followings are the qualifications of the experts who have been named in this circular or have given opinions, letters or advice contained in this circular:

Name	Qualification
Altus Capital Limited	a licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
DTZ	Registered professional surveyors, valuers and property advisers

Each of Altus Capital Limited and DTZ has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of Altus Capital Limited and DTZ did not have any direct or indirect interest in any asset which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 December 2012, the date to which the latest audited financial statements of the Group was made up; and was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

7. GENERAL

- (a) Save for the Huizhou Acquisition and the HK Acquisition disclosed herein, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or proposed to be so acquired, disposed of by or leased to any member of the Group since 31 December 2012, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practicable Date.
- (b) As at the Latest Practicable Date, save for the loan amount to the Group from Polytec Holdings of approximately HK\$7.9 billion in which Mr Or Wai Sheun and Ms Ng Chi Man are directors of Polytec Holdings, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting and was significant in relation to the business of the Group.
- (c) The registered office of the Company is situated at 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong. The share registrars of the Company is Computershare Hong Kong Investor Services Limited of Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (d) The secretary of the Company is Mr Lee Kuen Chiu, an associate member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.
- (e) The English text of this circular shall prevail over the Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company’s principal place of business in Hong Kong at 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong during normal business hours from the date of this circular up to and including 20 November 2013:

- (a) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 26 to 27 of this circular;

- (b) the letter from Altus Capital Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 28 to 52 of this circular;
- (c) the property valuation report of the Land from DTZ, the text of which is set out in Appendix I to this circular;
- (d) the property valuation report of the HK Property from DTZ, the text of which is set out in Appendix II to this circular;
- (e) the written consents referred to in the paragraph headed “Qualification and Consent of Experts” in this Appendix;
- (f) the Huizhou Agreement;
- (g) the HK Agreement; and
- (h) the Co-Investment Agreement.

NOTICE OF EXTRAORDINARY GENERAL MEETING



九龍建業有限公司 KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 34)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Kowloon Development Company Limited (the “**Company**”) will be held at Crystal Ballroom, Basement 3, Holiday Inn Golden Mile Hong Kong, 50 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Wednesday, 20 November 2013 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company (with or without amendments):

ORDINARY RESOLUTIONS

“**THAT:**

1. the agreement dated 23 August 2013 entered into between the Company and Polytec Holdings International Limited (“**Polytec Holdings**”) in relation to the acquisition by the Company of one share in the issued share capital of New Basic Holdings Limited (“**New Basic**”), representing the entire issued share capital of New Basic (the “**Huizhou Agreement**”) and the transactions contemplated thereunder including the terms of the co-investment agreement dated 22 August 2013 entered into between Polytec Holdings and New Basic in relation to the investment in and financing of the Development (as defined in the circular of the Company dated 30 October 2013) by New Basic (the “**Co-Investment Agreement**”) be and are hereby approved and confirmed and that any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in or relating to the Huizhou Agreement and the Co-Investment Agreement and completion thereof as he/she may consider necessary, desirable or expedient; and
2. the agreement dated 23 August 2013 entered into between Brilliant Idea Investments Limited (“**Brilliant Idea**”), a wholly-owned subsidiary of the Company and Partner Talent Limited (“**Partner Talent**”) in relation to the acquisition of one share in the issued share capital of Top Sail International Limited (“**Top Sail**”), representing the entire issued share capital of Top Sail together with the assignment to Brilliant Idea of the shareholder’s loan of Top Sail in the amount of HK\$182,752,120 advanced by Partner Talent to Top Sail as at 31 July 2013 (the “**HK Agreement**”) and the transactions contemplated thereunder be and are hereby approved and confirmed and that any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in or relating to the HK Agreement and completion thereof as he/she may consider necessary, desirable or expedient.”

By Order of the Board
Kowloon Development Company Limited
Lee Kuen Chiu
Company Secretary

Hong Kong, 30 October 2013

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. Any member entitled to attend and vote at the meeting of the Company is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
2. To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. The votes of the shareholders to be taken at the meeting will be by a poll in which Intellinsight Holdings Limited, China Dragon Limited, Mr Or Pui Kwan and their associates will abstain from voting.
4. The English text of this notice shall prevail over the Chinese text.