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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)

**THE ACQUISITION BY
KOWLOON DEVELOPMENT COMPANY LIMITED
OF A CONTROLLING INTEREST IN
POLYTEC ASSET HOLDINGS LIMITED**

**DISCLOSEABLE AND CONNECTED TRANSACTION FOR
KOWLOON DEVELOPMENT COMPANY LIMITED**

RESUMPTION OF TRADING

Financial adviser to Kowloon Development Company Limited



SOMERLEY LIMITED

The Directors are pleased to announce that KDC and Mr. Or entered into the Agreement on 12 October 2005. Pursuant to the Agreement, KDC has conditionally agreed to acquire the entire issued share capital of, and the shareholder's loan to, Marble King for an aggregate consideration of HK\$826,062,195. The principal asset of Marble King is the aggregate of its interest in approximately 56.84% of the existing issued PAH Shares and all the outstanding CPS. The aggregate consideration for the Acquisition is equivalent to approximately HK\$0.94 per PAH Share on a fully diluted basis, which has been determined by reference to, among others, the adjusted net asset value per PAH Share.

Further to the proposed acquisition of the Shenzhen Properties Group by KDC announced in April 2005 which is expected to be completed in early 2006 subject to the approvals to be obtained from the relevant PRC regulatory authorities, the Acquisition represents another key step in furtherance of the strategy of the KDC Group whereby it will substantially increase its pace of development in the Macau property market. The KDC Group will pursue a three-tier strategy whereby non-listed subsidiaries of the KDC Group will focus on property development and investment activities in Hong Kong, Shenzhen Properties upon completion will become the property investment and development flagship of the KDC Group in the PRC and the PAH Group upon Completion will become the property development and investment flagship in the Macau market. The Directors believe that this new organisation structure will best enable the KDC Group to pursue a development strategy with exposure in three main growing property markets of the Greater China region. The three listed companies will be able to maintain focus on their respective geographical markets and better allocate resources according to their development plans.

By virtue of the interest of the Vendor in KDC, the Vendor is a connected person of KDC and the Acquisition constitutes a connected transaction for KDC which is subject to the approval of the independent Shareholders. The Acquisition also constitutes a discloseable transaction for KDC. An EGM will be convened to consider the Acquisition where the Vendor and his associates will abstain from voting which will be taken by poll.

Trading in KDC Shares was suspended with effect from 9:30 a.m. on 12 October 2005 at the request of KDC pending the issue of this announcement. Application has been made to the Stock Exchange for the resumption of trading in KDC Shares on the Stock Exchange from 9:30 a.m. on 14 October 2005.

THE AGREEMENT

1. Date

12 October 2005

2. Parties

Purchaser : KDC

Vendor : Mr. Or

3. Assets to be acquired

The entire issued share capital of, and the shareholder's loan to, Marble King free from all encumbrances or third party rights of whatsoever nature and with all rights as of the date of the Agreement or thereafter (including the right to receive all dividends and distributions declared, made or paid on or after the date of Completion).

The principal asset of Marble King is the aggregate of 698,975,374 PAH Shares and 3,703,590,076 CPS. The 698,975,374 PAH Shares represent approximately 56.84% of the existing issued PAH Shares. The 3,703,590,076 CPS represent all the CPS in issue. Details relating to the issue of the CPS have been set out in the joint announcement and the circular of PAH and Marble King dated 4 August 2001 and 20 August 2001 respectively.

The CPS have a subscription price of HK\$0.02 per CPS and are currently partly paid-up as to 10% of such subscription price. The CPS are convertible into PAH Shares up to 14 September 2006 at the current rate of approximately 14.771 fully paid-up CPS for one PAH Share. On this basis, the aggregate of 3,703,590,076 CPS are, when fully paid-up, convertible into 250,734,005 PAH Shares, representing approximately 20.39% of the existing issued PAH Shares. To fully pay-up the CPS, a further aggregate subscription price of HK\$66,664,621 or approximately HK\$0.018 per CPS, representing 90% of the subscription price of HK\$0.02 per CPS, has to be paid upon conversion at the sole discretion of Marble King, which has informed PAH in writing that it has no intention to redeem the CPS. Immediately upon Completion and assuming full conversion of the CPS, KDC will hold approximately 64.15% of the issued share capital of PAH as enlarged by such conversion.

4. Consideration for the Acquisition

HK\$826,062,195, comprising HK\$368,236,168 representing the face value of the shareholder's loan owing by Marble King to Mr. Or and the remainder for the entire issued share capital of Marble King. The aggregate consideration is equivalent to approximately HK\$0.94 per PAH Share on a fully diluted basis.

A price of HK\$0.94 represents a discount of approximately 6.9% to the closing price of the PAH Shares on 10 October 2005 (being the last trading day prior to suspension of trading in the PAH Shares before release of this announcement) of HK\$1.01 per PAH Share and a discount of approximately 9.6% to the average of the closing prices of the PAH Shares for the last 30 trading days ended on 10 October 2005 of approximately HK\$1.04 per PAH Share. Based on the closing price of HK\$1.01 per PAH Share on 10 October 2005, the aggregate of 698,975,374 PAH Shares (valued at approximately HK\$706 million) currently held by Marble King and the 250,734,005 PAH Shares to be issued upon full conversion of the CPS is valued at approximately HK\$959.2 million.

The terms of the Agreement including the consideration have been reached and determined based on arm's length negotiations with reference to the unaudited consolidated net assets of the PAH Group as at 30 June 2005 of approximately HK\$1,056 million, the outstanding shareholder's loan due from Marble King to Mr. Or, which is unsecured, interest-free and repayable on demand, as at 30 September 2005 of approximately HK\$368 million and the independent valuation done by DTZ Debenham Tie Leung Limited of the property interests of the PAH Group as at 30 September 2005 which gives rise to a revaluation surplus of approximately HK\$402 million as compared to the book value of such property interests as at 30 June 2005 (the relevant valuation report will be included in the circular to be despatched to the Shareholders), and assuming full conversion of the CPS into PAH Shares.

5. Payment terms

The aggregate consideration for the Acquisition is HK\$826,062,195 which has been or will be paid by KDC in the following manner:

- (a) HK\$206,515,549, representing 25% of the consideration, has been paid in cash as an initial deposit upon the signing of the Agreement; and
- (b) the balance of HK\$619,546,646 will be payable in cash at Completion, or at the discretion of the Vendor, by the issuance of a zero-interest promissory note by KDC to the Vendor in the same amount payable not later than 31 December 2006.

The KDC Group intends to finance the Acquisition from its internal resources. The Directors consider that no additional fund raising will be required to enable the KDC Group to fulfill the obligations under the Agreement.

6. Warranties given by the Vendor

The Vendor has given certain warranties in favour of KDC pursuant to the terms of the Agreement to protect the interest of KDC, among which, the Vendor has warranted that there has not been any material adverse change to the operating and financial position of the PAH Group since the date of its latest audited financial statements, which is 31 December 2004.

7. Conditions precedent

Completion of the Agreement is conditional upon, among other things, the fulfillment and remaining satisfied or waiver of the following conditions on or before 31 December 2005, or such other date as the parties may agree:

- (a) the Executive having granted a waiver to KDC from the obligation to make a general offer for the PAH Shares not already owned or agreed to be acquired by KDC and parties acting in concert with it or a confirmation that no such obligation would arise as a result of the Completion;
- (b) the passing at a general meeting of the independent Shareholders of a resolution to approve the transactions contemplated under the Agreement;
- (c) the listing and trading of the PAH Shares having been resumed following the publication of the announcement relating to the Agreement, and the PAH Shares thereafter remaining so listed and traded on the date of Completion and no indication being received on or before the date of Completion from the SFC or the Stock Exchange to the effect that the listing of the PAH Shares on the Main Board of the Stock Exchange shall or may be withdrawn or objected to (or conditions shall or may be attached thereto) for whatever reason, including as a result of Completion or in connection with the terms of or any transaction contemplated by the Agreement, or in connection with any allegation that PAH is no longer suitable for listing;
- (d) the warranties given by the Vendor in favour of KDC under the Agreement remaining true and not misleading in any respect at Completion, as if repeated at Completion and at all times between the date of the Agreement and Completion; and
- (e) there being no material adverse change (or effect) which has a material adverse effect on the financial position, results of operation, business prospects or assets of Marble King and the PAH Group as a whole since the date of signing of the Agreement.

Regarding condition (a) above, application has been made on behalf of KDC to the Executive seeking the Executive's confirmation, and the Executive has confirmed, that no obligation on the part of KDC and its concert parties (including Mr. Or) to make a general offer for the PAH Shares not already owned or agreed to be acquired by KDC and its concert parties as a result of the Completion.

KDC may at its absolute discretion at any time waive conditions (d) and (e) above. The other conditions are non-waivable by either party. If the conditions shall not have been fulfilled or, as the case may be, waived on or before 31 December 2005 or such other date as the parties may agree,

the obligation of the parties under the Agreement shall, unless the Agreement otherwise provides, immediately cease and terminate and of no further effect, and no party to the Agreement shall have any claim against or liability to the other parties, save in respect of any antecedent breaches of the Agreement and the return to KDC of the HK\$206,515,549 deposit with interest at the deposit rate offered by The Hongkong and Shanghai Banking Corporation Limited paid by KDC at the time of signing the Agreement.

Completion of the Agreement shall take place within three business days after condition (b) is fulfilled or such other date as the parties to the Agreement shall agree in writing.

INFORMATION ON KDC

The KDC Group is principally engaged in property development and investment, property management, financial services and investments in Hong Kong and Macau as well as local and overseas financial investments.

INFORMATION ON PAH

The PAH Group is principally engaged in securities investment and trading, property investment, development and trading, as well as ice manufacturing and provision of cold storage services. Since being taken over by the Vendor in 2001, the businesses and operations of the PAH Group has grown and diversified significantly. In the last two years, the PAH Group has made a number of acquisitions of properties interests in Macau to strengthen its revenue and asset base. Currently, the property related segment is the main performance driver of the PAH Group, the operating profit of which for the six months ended 30 June 2005 amounting to approximately HK\$24.6 million was mainly derived from the sales of certain properties in Macau and accounted for approximately 94% of its unaudited operating profit for the same period. The PAH Group has turned around from a loss position to a profitable position in the last two years.

Based on the closing price of the PAH Shares on the Stock Exchange on 10 October 2005 (being the last trading day prior to suspension of trading in the PAH Shares before release of this announcement) of HK\$1.01 per PAH Share, the market capitalisation of PAH was approximately HK\$1,242.1 million.

Given the principal asset of Marble King is the aggregate of its interest in approximately 56.84% of the existing issued PAH Shares and all the outstanding CPS, the financial information of the PAH Group which has been extracted from its audited financial statements for the 13 months ended 31 December 2004 and the year ended 30 November 2003 and its unaudited financial statements for the six months ended 30 June 2005 is as follows:

	Unaudited 6 months ended 30 June 2005 HK\$'000	Audited 13 months ended 31 December 2004 HK\$'000	Audited Year ended 30 November 2003 HK\$'000
Total revenue	95,808	152,882	17,672
Profits before tax	462,851	24,794	15,590
Profits after tax and minority interest	438,817	17,119	15,590
Earnings per PAH Share (<i>Note</i>)	HK\$0.3124	HK\$0.0263	HK\$0.0392 (<i>restated</i>)

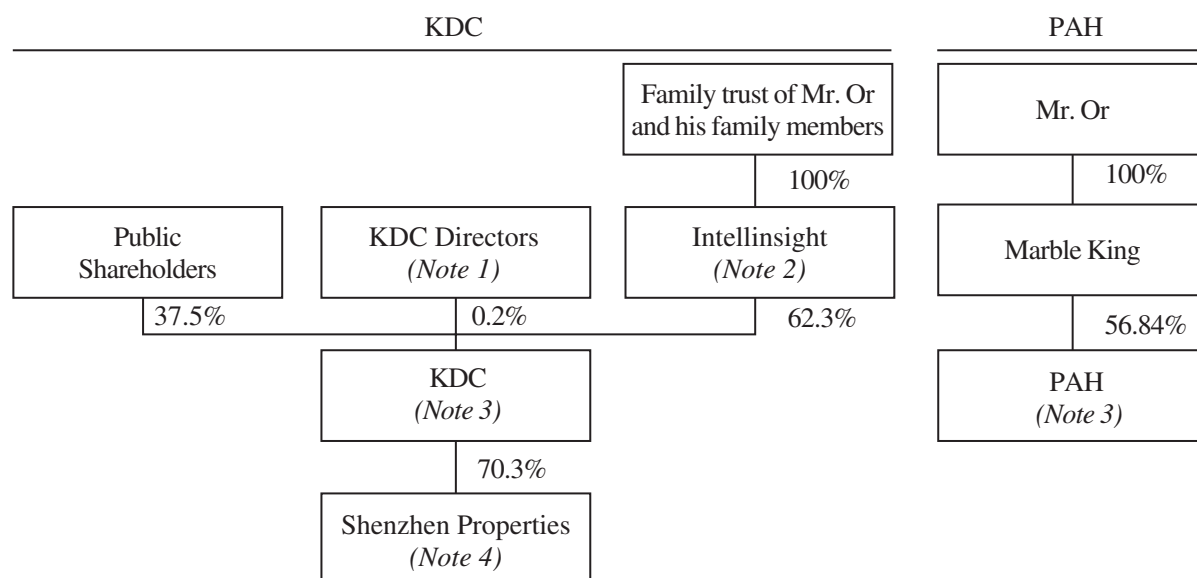
	As at 30 June 2005 HK\$'000	As at 31 December 2004 HK\$'000	As at 30 November 2003 HK\$'000
Total assets	1,299,826	863,199	52,795
Shareholders' equity	1,056,497	615,829	51,183

Note: Earnings per PAH Share are on a fully diluted basis.

Upon Completion, KDC will become the holding company of Marble King which is in turn the holding company of PAH. Accordingly, the accounts of Marble King and the PAH Group will be consolidated into the KDC Group's financial statements.

SHAREHOLDING STRUCTURES

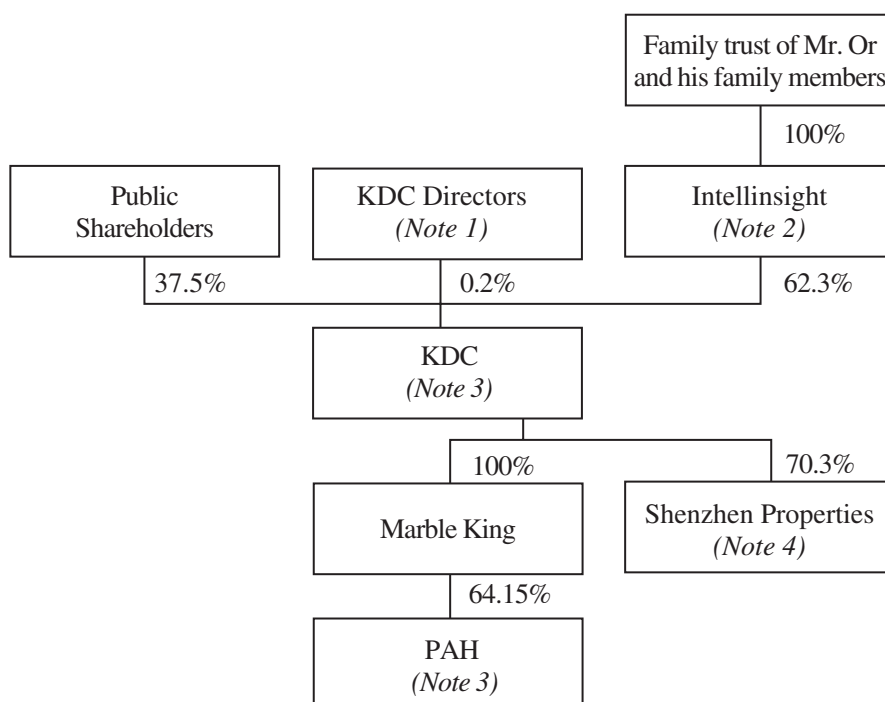
The following are the shareholding structures of KDC and PAH prior to Completion:



Notes:

- Mr. Or, Mr. Or Pui Kwan, Mr. Keith Alan Holman, Mr. Lai Ka Fai, Mr. Lok Kung Chin, Hardy, Mr. Tam Hee Chung and Mr. Yeung Kwok Kwong.*
- Intellinsight is ultimately and wholly-owned by the discretionary family trust of the Or family of which Mr. Or, Ms. Ng Chi Man (an executive Director), Mr. Or Pui Kwan (an executive Director) and their family members are beneficiaries. Ms. Ng is the spouse of Mr. Or, and Mr. Or Pui Kwan is the son of Mr. Or and Ms. Ng.*
- Listed on the Main Board of the Stock Exchange.*
- Listed on the Shenzhen Stock Exchange and the acquisition of which is expected to be completed in early 2006 subject to the approvals to be obtained from the relevant PRC regulatory authorities.*

The following is the shareholding structure of KDC and PAH upon Completion and assuming full conversion of the CPS:



Notes:

1. *Mr. Or, Mr. Or Pui Kwan, Mr. Keith Alan Holman, Mr. Lai Ka Fai, Mr. Lok Kung Chin, Hardy, Mr. Tam Hee Chung and Mr. Yeung Kwok Kwong.*
2. *Intellinsight is ultimately and wholly-owned by the discretionary family trust of the Or family of which Mr. Or, Ms. Ng Chi Man (an executive Director), Mr. Or Pui Kwan (an executive Director) and their family members are beneficiaries. Ms. Ng is the spouse of Mr. Or, and Mr. Or Pui Kwan is the son of Mr. Or and Ms. Ng.*
3. *Listed on the Main Board of the Stock Exchange.*
4. *Listed on the Shenzhen Stock Exchange and the acquisition of which is expected to be completed in early 2006 subject to the approvals to be obtained from the relevant PRC regulatory authorities.*

The following table illustrates the change in shareholding in PAH as a result of the Completion and assuming full conversion of the CPS:

Shareholder	Prior to Completion		Immediately after Completion		After Completion and full conversion of the CPS	
		%		%		%
KDC (Note 1)	—	—	698,975,374	56.84	949,709,379	64.15
Vendor	698,975,374	56.84	—	—	—	—
PAH directors (Note 2)	7,900,000	0.64	7,900,000	0.64	7,900,000	0.53
Public shareholders	522,939,110	42.52	522,939,110	42.52	522,939,110	35.32
Total	<u>1,229,814,484</u>	<u>100.0</u>	<u>1,229,814,484</u>	<u>100.0</u>	<u>1,480,548,489</u>	<u>100.0</u>

Notes:

- 1. Approximately 62.3% of the equity interest of KDC is ultimately and wholly-owned by a discretionary family trust of which Mr. Or, Ms. Ng Chi Man (an executive Director), Mr. Or Pui Kwan (an executive Director) and their family members are beneficiaries. Ms. Ng is the spouse of Mr. Or, and Mr. Or Pui Kwan is the son of Mr. Or and Ms. Ng.*
- 2. The directors of PAH, namely, Messrs. Yeung Kwok Kwong, Wong Yuk Ching and Lai Ka Fai directly beneficially own 1,600,000, 6,000,000 and 300,000 PAH Shares respectively.*

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Directors are optimistic on the long-term prospects of the property market in Macau, especially projects in prime locations. The Acquisition represents a major step for the KDC Group in the reorganisation of the core businesses of the KDC Group where it will substantially increase its pace of development in the Macau property market. After the proposed acquisition of Shenzhen Properties announced in April 2005 which is expected to be completed in early 2006 subject to the approvals to be obtained from the relevant PRC regulatory authorities, the KDC Group will pursue a three-tier strategy whereby non-listed subsidiaries of the KDC Group will be more focused on property development and investment activities in Hong Kong, Shenzhen Properties upon completion will become the property investment and development flagship of the KDC Group in the PRC and the PAH Group upon Completion will become the property development and investment flagship in the Macau market. The Directors believe that this new organisation structure will best enable the KDC Group to pursue a development strategy with exposure in three main growing property markets of the Greater China region. The three listed companies will be able to maintain focus in their respective geographical markets and better allocate resources according to their development plans.

In pursuing a proactive strategy in expanding its presence in the Macau market, it is the intention of the KDC Board to increase its holding of land reserves for development and to actively identify property investment opportunities in Macau through the PAH Group. As a result of the Acquisition, the KDC Group (other than the PAH Group) will seek to invest further in the Macau property market through the PAH Group. The KDC Group intends to maintain the listing status of PAH and utilise it as the flagship entity for developing the Macau property market.

The terms of the Agreement were negotiated on an arm's length basis and were made on normal commercial terms. The Directors consider that the terms of the Agreement are fair and reasonable to KDC and the Acquisition is in the interests of the Shareholders as a whole.

GENERAL

The Acquisition constitutes a discloseable transaction for KDC under the Listing Rules. As at the date of this announcement, Intellinsight, the controlling shareholder of KDC, and its associates beneficially own approximately 62.3% of the issued share capital of KDC. By virtue of Mr. Or's interest in Intellinsight and his interest in the Acquisition as the Vendor, the Acquisition constitutes a connected transaction for KDC under the Listing Rules and therefore, the Acquisition is required to be made conditional on the approval by the independent Shareholders at the EGM.

As at the date of this announcement, Intellinsight is ultimately and wholly-owned by a discretionary family trust of which Mr. Or, Ms. Ng Chi Man (an executive Director), Mr. Or Pui Kwan (an executive Director) and their family members are beneficiaries. Ms. Ng is the spouse of Mr. Or, and Mr. Or Pui Kwan is the son of Mr. Or and Ms. Ng. Messrs. Or, Ms. Ng, Intellinsight and their respective associates are required to abstain from voting in respect of any resolution that would be proposed to approve the Acquisition at the EGM. The voting in respect of the approval of the resolutions regarding the Acquisition will be taken by poll.

An independent board committee of KDC comprising the independent non-executive Directors, being Mr. Chau Cham Son, Mr. Li Kwok Sing, Aubrey, Mr. Lok Kung Chin, Hardy and Mr. Seto Gin Chung, John, will be constituted to consider the Acquisition and give a recommendation to the independent Shareholders in respect of the Acquisition. An independent financial adviser will be appointed to advise the independent board committee of KDC and the independent Shareholders in this regard.

A circular containing further information on the Acquisition, the recommendation of the independent board committee of KDC and the advice of the independent financial adviser appointed will be despatched to Shareholders as soon as practicable.

SUSPENSION AND RESUMPTION OF TRADING

At the request of KDC, trading in KDC Shares was suspended with effect from 9:30 a.m. on 12 October 2005 pending the release of this announcement. Application has been made by KDC to the Stock Exchange for resumption of trading in KDC Shares with effect from 9:30 a.m. on 14 October 2005.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires.

“Acquisition”	:	The proposed acquisition by KDC from the Vendor of the entire issued share capital of, and the shareholder’s loan to, Marble King in accordance with the terms and conditions of the Agreement
“Agreement”	:	The sale and purchase agreement dated 12 October 2005 in connection with the Acquisition
“Board”	:	The board of Directors
“Completion”	:	Completion of the Acquisition in accordance with the terms and conditions of the Agreement
“CPS”	:	Partly paid non-voting convertible redeemable preference shares of PAH with a subscription price of HK\$0.02 each
“Director(s)”	:	Director(s) of KDC

“EGM”	:	An extraordinary general meeting of KDC to be convened to consider and, if thought fit, approve the Acquisition, notice of which is expected to be contained in the circular to be despatched to the Shareholders
“Executive”	:	The Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“HK\$”	:	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	:	The Hong Kong Special Administrative Region of the PRC
“Intellinsight”	:	Intellinsight Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which holds approximately 62.3% of the entire issued share capital of KDC and which is ultimately and wholly-owned by a discretionary family trust of which Mr. Or, Ms. Ng Chi Man (an executive Director), Mr. Or Pui Kwan (an executive Director) and their family members are beneficiaries. Ms. Ng is the spouse of Mr. Or, and Mr. Or Pui Kwan is the son of Mr. Or and Ms. Ng.
“KDC”	:	Kowloon Development Company Limited, a company incorporated in Hong Kong with limited liability whose issued shares are listed on the Main Board of the Stock Exchange
“KDC Group”	:	KDC and its subsidiaries
“KDC Shares”	:	Ordinary shares of HK\$0.10 each in the issued share capital of KDC
“Listing Rules”	:	The Rules Governing the Listing of Securities on the Stock Exchange
“Marble King”	:	Marble King International Limited, a company incorporated in the British Virgin Islands, which is beneficially wholly-owned by the Vendor
“Mr. Or” or “Vendor”	:	Mr. Or Wai Sheun, the Chairman of KDC, and the vendor in the Agreement
“PAH”	:	Polytec Asset Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose ordinary shares are listed on the Main Board of the Stock Exchange
“PAH Group”	:	PAH and its subsidiaries
“PAH Shares”	:	Ordinary shares of HK\$0.10 each in the issued share capital of PAH
“PRC”	:	The People’s Republic of China

“Sale Shares”	:	The entire issued share capital of Marble King
“SFC”	:	The Hong Kong Securities and Futures Commission
“Shareholders”	:	Holder(s) of KDC Shares
“Shenzhen Properties”	:	Shenzhen Properties & Resources Development (Group) Limited, a joint stock limited company incorporated in the PRC, the securities of which are listed on the Shenzhen Stock Exchange
“Shenzhen Properties Group”	:	Shenzhen Properties and its subsidiaries
“Stock Exchange”	:	The Stock Exchange of Hong Kong Limited

By Order of the Board
KOWLOON DEVELOPMENT COMPANY LIMITED
Wai Yuk Hing, Monica
Company Secretary

Hong Kong, 13 October 2005

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

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