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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)**



**POLYTEC ASSET HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 208)**

**VERY SUBSTANTIAL ACQUISITION  
AND  
CONNECTED TRANSACTION**

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AND  
CONNECTED TRANSACTION**

**POSSIBLE ACQUISITION OF TARGET,  
CO-INVESTMENT IN PROPERTY PROJECTS IN MACAU  
AND  
PROVISION OF FINANCIAL ASSISTANCE  
AND  
RESUMPTION OF TRADING**

## **SUMMARY**

The Purchaser, a wholly-owned subsidiary of PAH, has entered into the Agreement for participation in the development of three property projects in Macau. After Completion, PAH will have property trading, development and investment projects in Macau comprising more than 11.4 million sq. ft. GFA of residential, retail and commercial properties and approximately 5,300 car parking spaces as compared to the current 0.9 million sq. ft. GFA of residential, retail and commercial properties and approximately 700 car parking spaces. The KDC Group is committed to become a major property development company in Hong Kong, Macau and the PRC. The Acquisition will allow PAH to become one of the leading property development and investment companies in Macau. The development plans for the Acquisition are intended for the construction of high-end residential units, including retail, recreational and car parking facilities.

## **THE ACQUISITION**

The Purchaser and the Vendor entered into the Agreement on 8 April 2006, pursuant to which the Purchaser has conditionally agreed to acquire from the Vendor the entire issued share capital of Target. The consideration for the Acquisition is HK\$8,448 million which represents a discount of 20% to 80% of the independent valuation conducted by valuer DTZ Debenham Tie Leung Limited.

The Acquisition constitutes a very substantial acquisition and connected transaction for KDC and a very substantial acquisition and connected transaction for PAH under the Listing Rules. The provision of loans by Target to the First Macau Company under the First Co-Investment Agreement and to the Second Macau Company under the Second Co-Investment Agreement after Completion constitutes connected transactions for KDC and PAH under the Listing Rules. The Acquisition and the provision of loans by Target to the First Macau Company under the First Co-Investment Agreement and to the Second Macau Company under the Second Co-Investment Agreement are subject to the approval of the KDC Independent Shareholders and the PAH Independent Shareholders. Voting on the Acquisition will be conducted by way of poll.

## **GENERAL**

A circular containing (among other things) the notice of an extraordinary general meeting of KDC, further details of the Acquisition, the First Co-Investment Agreement and the Second Co-Investment Agreement, a letter from the independent board committee of KDC to the KDC Independent Shareholders and a letter of advice from the independent financial adviser to the independent board committee of KDC and the KDC Independent Shareholders will be despatched to shareholders of KDC as soon as practicable in accordance with the requirements of the Listing Rules.

A circular containing (among other things) the notice of an extraordinary general meeting of PAH, further details of the Acquisition, the First Co-Investment Agreement and the Second Co-Investment Agreement, a letter from the independent board committee of PAH to the PAH Independent Shareholders and a letter of advice from the independent financial adviser to the independent board committee of PAH and the PAH Independent Shareholders will be despatched to shareholders of PAH as soon as practicable in accordance with the requirements of the Listing Rules.

**Completion of the Acquisition is subject to conditions that may or may not be fulfilled. Shareholders of KDC and PAH should exercise caution in dealing in the securities of KDC and PAH.**

**Trading in the shares of KDC and PAH on the Stock Exchange was suspended at the request of KDC and PAH with effect from 9:30 am on 4 April 2006 pending the release of this announcement. An application has been made by KDC and PAH for the resumption of trading in the shares on the Stock Exchange from 9:30 am on 11 April 2006.**

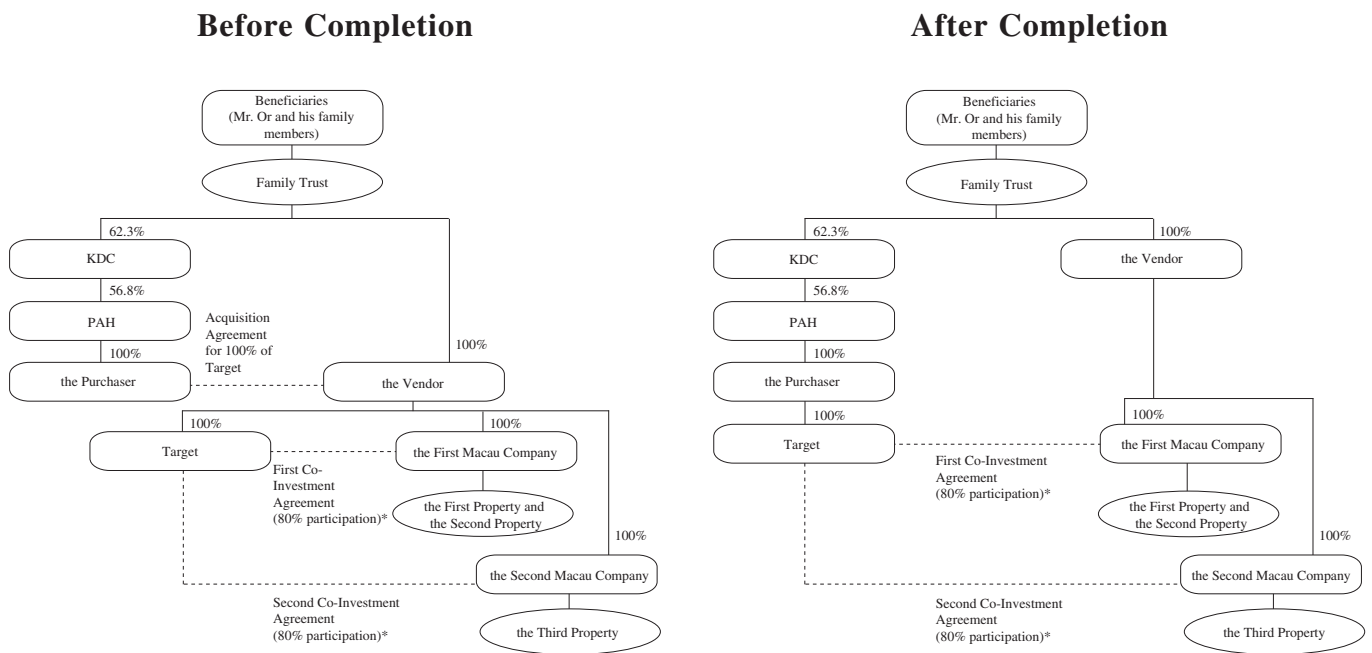
## **I SUMMARY OF THE ACQUISITION**

The Purchaser, a wholly-owned subsidiary of PAH, agreed on 8 April 2006, to conditionally acquire from the Vendor the entire issued share capital of Target. The Consideration will be satisfied by cash (1) at Completion, or (2) after Completion on any business day before the first anniversary of the date of Completion, at the option of the Purchaser. If the Purchaser elects option (2), it will have a further right to extend the time for payment by 24 months from the first anniversary of the date of Completion by notifying the Vendor not less than 30 business days before the first anniversary of the date of Completion. If the Purchaser elects to pay the consideration after Completion, interest calculated at HIBOR plus 0.5% will be charged on the outstanding consideration due to the Vendor until payment. The principal business of the Purchaser is investment holding.

Target has entered into (1) the First Co-Investment Agreement with the First Macau Company with respect to its investment in and financing of the development of the First Project and the Second Project, and (2) the Second Co-Investment Agreement with the Second Macau Company with respect to its investment in and financing of the development of the Third Project.

Target will be entitled to receive (1) 80% of the excess of the receipts from the sale of the units in the First Project, the Second Project and the Third Project over the development costs relating to development of the First Project, the Second Project and the Third Project (including tax expenses and interest on loans but excluding land costs) and (2) the Discounted Value. Target will also provide certain loans to the First Macau Company and the Second Macau Company, details of which are set out below under “The First Co-Investment Agreement” and “The Second Co-Investment Agreement”.

The following diagrams illustrate the corporate and shareholding structure of KDC and PAH before Completion and of KDC and PAH immediately after Completion:



\* The Target’s 80% participation in the development (whether in terms of financing commitment or share of profits or share of losses) pursuant to the First Co-Investment Agreement or the Second Co-Investment Agreement as the case may be is detailed below in the section headed “Information on the Property Development Projects”. The remainder 20% participation is attributable to the First Macau Company or the Second Macau Company as the case may be.

## II THE AGREEMENT

Date:

8 April 2006

Parties:

Profit Sphere International Limited — as purchaser, a wholly-owned subsidiary of PAH

Polytec Holdings International Limited — as seller

Subject matter:

Under the Agreement, the Purchaser will conditionally acquire from the Vendor the entire issued share capital of Target.

### **Consideration**

The consideration for the Acquisition is HK\$8,448 million. On the date the Agreement was signed, the Purchaser paid a deposit of HK\$200 million to the Vendor.

The consideration of the Acquisition was negotiated between the parties on an arm's length basis with reference to (1) the valuation of the First Property of HK\$9,000 million, the Second Property of HK\$1,800 million and the Third Property of HK\$2,400 million as valued by DTZ Debenham Tie Leung Limited, as at 31 March 2006 on an open market basis, (2) Target's entitlement to share the profits derived from the sale of units comprised in the First Project, the Second Project and the Third Project, and (3) the anticipated costs of funding the construction of the First Project, the Second Project and the Third Project.

Target's share of the profits derived from the sale of units comprised in the First Project, the Second Project and the Third Project will be the aggregate of (1) 80% of the gross sale proceeds less development costs, the Discounted Value (i.e. 64% of the independent valuation by DTZ Debenham Tie Leung Limited) and taxes, (2) the Discounted Value and (3) loans extended by Target with interest accrued thereon. In the event that the gross sale proceeds less development costs and the Discounted Value but before taxes is equal to zero, then Target will be paid only items (2) and (3). In the event that the gross sale proceeds less development costs and the Discounted Value but before taxes is negative, then Target will be paid items (2) and (3) less 80% of such negative figure. The final agreed consideration of the Acquisition represents a discount of 20% on the 80% interest shared by the Target of the independent valuation conducted by valuer DTZ Debenham Tie Leung Limited. The discount was determined after negotiation between the parties.

DTZ Debenham Tie Leung Limited is an independent valuer not connected with any of the directors, chief executive and substantial shareholders of any of KDC, PAH and the Vendor and their respective subsidiaries and associates.

The consideration for the Acquisition will be satisfied by cash (1) at Completion or (2) after Completion on any business day before the first anniversary of the date of Completion, at the option of the Purchaser. If the Purchaser elects option (2), it will have a further right to extend the time for payment by 24 months from the first anniversary of the date of Completion by notifying the Vendor not less than 30 business days before the first anniversary of the date of Completion. If the Purchaser elects to pay the consideration after Completion, interest calculated at HIBOR plus 0.5% will be charged on the outstanding consideration due to the Vendor until payment. No security or guarantee is required to be given in respect of the outstanding consideration.

The directors of PAH including its independent non-executive directors consider, on the basis of the valuation by DTZ Debenham Tie Leung Limited and the 20% discount thereto, that the Agreement was entered into between the Purchaser and the Vendor on an arm's length basis and on normal

commercial terms. The directors of KDC including its independent non-executive directors also consider, on the basis of the valuation by DTZ Debenham Tie Leung Limited and the 20% discount thereto, that the Agreement was entered into between the Purchaser and the Vendor on an arm's length basis and on normal commercial terms.

## **Funding**

The Deposit paid to the Vendor on the signing date of the Agreement was funded by a HK\$200 million shareholder's loan from KDC to PAH. Interest calculated at HIBOR plus 0.5% is payable on this shareholder's loan, which has no fixed term for repayment and is neither secured nor guaranteed.

The balance of the consideration (the payment of which is permitted under the terms of the Agreement to be deferred for up to 36 months at the Purchaser's election) and the loans committed to be made by Target to the First Macau Company and the Second Macau Company to fund the development of the First Project, the Second Project and the Third Project under the First Co-Investment Agreement and the Second Co-Investment Agreement made by the Target (which are capped at HK\$700 million) will be funded by PAH and/or KDC through internal resources and/or bank borrowings and/or issue of equity securities and/or debt securities and/or convertible securities. PAH and/or KDC as the case may be may finance all or part of the consideration through the placing of new shares. However, the timing and terms of such issue have yet to be decided.

In the event that PAH is unable, within the 36 months, to raise sufficient funds to fund the Purchaser in respect of the payment of the balance of the consideration, the Purchaser will be entitled to elect under the Agreement to further defer the payment of the Consideration against the Vendor for an unlimited further period until such time the liquidity of the PAH Group permits payment of the balance of the consideration. Interest calculated at HIBOR plus 0.5% will be charged on the outstanding consideration due to the Vendor until payment. There is no fixed term for repayment. No security or guarantee is required to be given in respect of the outstanding Consideration.

In the event that PAH is unable at any time from time to time to raise sufficient funds to fund the Purchaser in respect of the making by Target of the loans to the First Macau Company and Second Macau Company to finance the development of the First Project, the Second Project and the Third Project under the First Co-Investment Agreement and the Second Co-Investment Agreement, then the Purchaser shall be entitled to require the Vendor to provide the relevant loan(s) on behalf of Target to the First Macau Company and/or the Second Macau Company. Interest shall be charged on the principal amounts lent by the Vendor on Target's behalf calculated at HIBOR plus 0.5%, but the indebtedness of Target to the Vendor in respect of such loan(s) will not be secured or guaranteed in favour of the Vendor. Such indebtedness will, on the basis of the interest rate of HIBOR plus 0.5%, be exempt under Rule 14A.65(4) of the Listing Rules. Should such exemption no longer apply, PAH will ensure compliance with the relevant provision on the Listing Rule.

The Acquisition has no significant effect on the PAH Group's current liquidity as the only outlay at the moment has been funded out of the KDC shareholder's loan. The Acquisition will increase assets and liabilities and increase the gearing of the PAH Group. The Consideration paid for the Acquisition of the Target will be taken up in the balance sheet of the Purchaser as "Interest in subsidiaries". Upon consolidation, the PAH Group's interest in the First Co-Investment Agreement and the Second Co-

Investment Agreement will be treated as “Interest in Property Development”. In accordance with Hong Kong Accounting Standard 39 (Financial Instruments: Recognition and Measurement), the interest in property development will be classified as available-for-sale financial assets and carried at fair value. Changes in fair value of the interest in property development will be recognized in the fair value reserve. The shareholders’ loan from KDC will be recorded by PAH as non-current liabilities of PAH. The “available-for-sale financial assets” will be recorded as non-current assets of PAH. The auditors of PAH have confirmed the above accounting treatment.

KDC funded the HK\$200 million shareholder’s loan to PAH for the payment of the Deposit by drawing on its unutilized bank facilities, the available amount of which was greater than HK\$200 million. Consequently, as a result of the Acquisition the KDC Group has drawn on its existing available liquidity and increased its gearing. The loan to PAH has no fixed terms of repayment and will be recorded as non-current assets of KDC as KDC has no intention to recall the loan within one year. The “available-for-sale financial assets” will be recorded as non-current assets of KDC. The auditors of KDC have confirmed the above accounting treatment.

### **The conditions of the Acquisition**

Completion is subject to the following conditions being either satisfied or waived (in part or in whole (except for (b) and (c)) by the Purchaser in writing:

- (a) completion of the due diligence investigation on Target to the satisfaction of the Purchaser;
- (b) (1) the passing of the resolution(s) by the KDC Independent Shareholders in general meeting taken on a poll to approve the Agreement, the transactions contemplated in the Agreement, and the provision of loans to the First Macau Company and the Second Macau Company on the terms as set out in the First Co-Investment Agreement and the Second Co-Investment Agreement;
- (2) the passing of the resolution(s) by the PAH Independent Shareholders in general meeting taken on a poll to approve the Agreement, the transactions contemplated in the Agreement, and the provision of loans to the First Macau Company and the Second Macau Company on the terms as set out in the First Co-Investment Agreement and the Second Co-Investment Agreement;
- (c) all necessary consents and approval in respect of the Agreement and the transactions contemplated therein required by the Purchaser and/or PAH (as the case may be) being obtained;
- (d) the obtaining of a certificate of good standing and certificate of incumbency issued by the registered agent of Target in form and substance satisfactory to the Purchaser dated no earlier than seven days prior to Completion;
- (e) the obtaining of a legal opinion on the First Property, the Second Property and the Third Property by a firm of lawyers qualified to advise on Macau law acceptable to the Purchaser in form and substance satisfactory to the Purchaser; and
- (f) the warranties set out under the Agreement being true, accurate and correct in all respects.

If the conditions specified in the Agreement have not been fulfilled or waived by the Purchaser on or before 31 July 2006 or such other date as the Purchaser and the Vendor may agree, the Agreement will terminate and the Vendor will return the Deposit with interest calculated at HIBOR plus 0.5% to the Purchaser. No security or guarantee has been taken with respect to such return of the Deposit.

### **Completion**

Completion will take place on the third business day following the satisfaction or waiver of the conditions referred to above (other than (f)). This is expected to take place on or before 15 June 2006. In the event Completion does not take place by 15 June 2006 a further announcement will be made.

## **III INFORMATION ON TARGET**

Target is a company with limited liability incorporated in the British Virgin Islands on 9 March, 2006 and is wholly owned by the Vendor. It is principally engaged in the investment in and financing of the First Project, the Second Project and the Third Project in Macau. Based on the unaudited management accounts of Target, Target had a net asset value of HK\$7.80 as at 31 March 2006 and recorded no profit or loss for the period since its incorporation up to 31 March 2006.

Target does not own any assets apart from its rights and interests under the First Co-Investment Agreement and the Second Co-Investment Agreement. Target has entered into (1) the First Co-Investment Agreement with the First Macau Company with respect to its investment in and financing of the development of the First Project and the Second Project, and (2) the Second Co-Investment Agreement with the Second Macau Company with respect to its investment in and financing of the development of the Third Project. The First Macau Company acquired the First Property and the Second Property from the Macau Government under a Concession Agreement in December 1990 and the Second Macau Company acquired the Third Property from the Macau Government under a Concession Agreement in June 1996.

### **Information on The Property Development Projects**

The directors of KDC and PAH believe that the First Project, Second Project and Third Project (together, the “Projects”) share the following characteristics that are compelling to potential investors:

- **Large land site** — The directors of KDC and PAH believe that the Projects will occupy one of the largest sites on the Macau Peninsula available for large-scale high-end residential development. Such large-scale residential development is rare in the Macau Peninsula and will accelerate the creation of a residential cluster in this area of the Macau Peninsula and is expected to generate business for nearby commercial developments. While there are a number of competing residential and commercial projects in Macau, the directors of KDC and PAH do not believe that they provide the scale, location, amenities and convenience of the contemplated Projects.
- **Premium location** — The Projects are situated along the northeastern coastline of the Macau Peninsula and benefit from a panoramic sea view, which the directors of KDC and PAH believe is attractive to residents. The Projects are also located further away from the casino district, creating an ideal living environment for residents. Existing residential areas nearby provide additional

social infrastructure and complementary support. The directors of KDC and PAH believe that, upon completion of the Projects, this will contribute to the creation of a vibrant residential community on the Macau Peninsula.

- ***Proximity to public transportation hubs*** — The Projects are conveniently located approximately 5 minutes drive from the Macau Ferry Terminal and approximately 10 minutes drive from Macau's central business district. The Projects are also located near the Zhuhai border. Furthermore, the directors of KDC and PAH believe that the currently intended landing point of the planned development of the Hong Kong-Zhuhai-Macau Bridge will be situated in very close proximity to the location of the Projects. The directors of KDC and PAH believe that the transportation infrastructure will increase the attractiveness of the Projects for potential residents in the future.

The directors of KDC and PAH also believe that the Projects will provide PAH with a number of strategic and operational benefits, including:

- Completion of earlier phases of a multi-phase development often enhances the desirability of future phases or properties in the surrounding area, as it (1) demonstrates that the developer's concept is appealing to the market and provides the developer with an opportunity to enhance the concept in the following phases, (2) creates a critical mass for various community facilities to create a mature residential area in Macau, and (3) enhances purchasers' confidence in the ability of the developer to complete the development and to maintain the quality of development. Together this will enhance the value of the Projects and reduce PAH's development risk;
- Mobilisation of construction for a subsequent phase of an existing site can also be accomplished more quickly and economically than relocating all plant, equipment, sales offices and show flats to a new site; and
- Large-scale or multi-phase development also often brings cost efficiencies and enables the developer to optimise the use of personal resources, plant and equipment and reduce marketing costs. It also enhances the developer's bargaining power with suppliers particularly in terms of procurement of materials and in negotiating construction/design contracts.

## **The First Project**

The First Property, being the subject of the First Project, is situated at Lote P, Novos Aterros da Areia Preta, Macau, a prime residential area in Macau. It comprises a plot with a site area of approximately 731,963 sq. ft.. The First Project involves the development of various multi-storey high-end residential blocks with retail, recreational and car parking spaces. The total GFA for residential and retail use of the First Property is expected to be approximately 6,326,326 sq. ft. and 1,076,400 sq. ft., respectively, with approximately 3,300 car parking spaces.

As at the date of this Announcement the First Property is occupied by six blocks of single to 3-storey industrial buildings with a total GFA of 360,631 sq. ft., and these structures will be demolished before construction of phase 1 of the First Project starts. The First Project will be developed in three phases. Construction of phase 1 is expected to commence in the second half of 2007 and be completed in 2010. Construction of phases 2 and 3 is expected to commence in 2008, with phase 2 being completed in 2011 and phase 3 in 2012.



Development costs for the First Project are estimated to be approximately HK\$4,442 million based on the latest development cost incurred in recently completed projects in Macau and will be funded using the loans made under the First Co-Investment Agreement, bank loans and the proceeds from sales and pre-sales of units. As at 31 March 2006, the First Property was valued at HK\$9,000 million based on the valuation report prepared by DTZ Debenham Tie Leung Limited (not taking into account remaining land premium of HK\$546 million which is to be funded by the Vendor). The valuation was made on the basis that all the land premium had already been paid. If the unpaid premium had been taken into account the unpaid portion would have to be deducted.

### **The Second Project**

The Second Property, being the subject of the Second Project, is situated at Lote V, Novos Aterros da Areia Preta, Macau, a prime residential area in Macau. It comprises a plot with a site area of approximately 147,456 sq. ft.. The Second Project involves the development of various multi-storey high-end residential blocks with retail, recreational and car parking spaces. The total GFA for residential use and retail use of the Second Property is expected to be approximately 1,306,825 sq. ft. and 53,680 sq. ft., respectively with approximately 500 car parking spaces.

As at the date of this Announcement the Second Property is a bare site with a single storey temporary sales office. Construction of the Second Project is expected to commence in the second half of 2006 and be completed in 2009.

Development costs for the Second Project are estimated to be approximately HK\$816 million based on the latest development cost incurred in recently completed projects in Macau and will be funded using the loans made under the First Co-Investment Agreement, bank loans and the proceeds from sales and pre-sales of units. As at 31 March 2006, the Second Property was valued at HK\$1,800 million based on the valuation report prepared by DTZ Debenham Tie Leung Limited (not taking into account remaining land premium of HK\$95 million which is to be funded by the Vendor). The valuation was made on the basis that all the land premium had already been paid. If the unpaid premium had been taken into account the unpaid portion would have to be deducted.

### **The Third Project**

The Third Property, being the subject of the Third Project, is situated at Lotes T and T1, Novos Aterros da Areia Preta, Macau, a prime residential area in Macau. It comprises a plot with a site area of approximately 193,418 sq. ft.. The Third Project involves the development of various multi-storey high-end residential blocks with retail, recreational and car parking spaces. The total GFA for residential use and retail use of the Third Property is expected to be approximately 1,672,339 sq. ft. and 95,401 sq. ft., respectively, with approximately 800 car parking spaces.

As at the date of this Announcement the Third Property is a bare site. Construction of the Third Project is expected to commence in the first half of 2007 and be completed in 2010.

Development costs for the Third Project are estimated to be approximately HK\$1,061 million based on the latest development cost incurred in recently completed projects in Macau and will be funded using the loans made under the Second Co-Investment Agreement, bank loans and the proceeds from

sales and pre-sales of units. As at 31 March 2006, the Third Property was valued at HK\$2,400 million based on the valuation report prepared by DTZ Debenham Tie Leung Limited. All land premium for the Third Property has already been paid.

### **The First Co-Investment Agreement**

It is intended that all the units of the First Project and the Second Project will be sold on the market. It is expected that pre-sales of units will begin upon commencement of construction of foundation works. Construction of foundation works for phase 1 of the First Project is expected to commence in the second half of 2007. Construction of foundation works for the Second Project is expected to commence in the second half of 2006.

Under the terms of the First Co-Investment Agreement:

- (a) Target will be given access to:
  - (1) the accounts prepared with respect to the receipts and expenses relating to the First Project and the Second Project; and
  - (2) the First Property and the Second Property to inspect and view the state and progress of the First Project and the Second Project;
- (b) Target and the First Macau Company will provide funding in the ratio of 80% and 20% to cover any shortfall in the funding for the First Project and the Second Project to the extent that the receipts derived from the First Project and the Second Project do not cover the expenses of the First Project and the Second Project (excluding land costs which will be borne by the First Macau Company exclusively);
- (c) The 80% funding provided by Target will take the form of loans extended to the First Macau Company from time to time up to a maximum amount of HK\$500 million calculated at HIBOR plus 0.5% payable monthly to be applied to the payment of the expenditure incurred by the First Macau Company in connection with the First Project and the Second Project in the manner as set out in (b) above. Such loans will have no fixed term for repayment and will not be secured or guaranteed and are expected to provide principal funding for the First Project and the Second Project in their initial stages before pre-sale proceeds are significant;
- (d) Once the maximum principal amount of HK\$500 million has been drawn, any additional funding required for the First Project and the Second Project will be funded by the First Macau Company itself;
- (e) In addition to the repayment of the loans with interest by the First Macau Company, Target will be entitled to receive (i) 80% of the excess of the gross sale proceeds from the sale of the units in the First Project and the Second Project over the development expenses of the First Project and the Second Project (including tax expenses and interest on loans but excluding land costs) and (ii) the Discounted Value in respect of the First Property and the Second Property.

(f) In the event that the receipts fall short of the development expenses and the Discounted Value (but before taxes), Target will bear 80% of the shortfall.

The ratio of 80% and 20% was determined with reference to (1) the respective roles of the First Macau Company as the developer in the First Property and the Second Property, and registered owner of the First Property and the Second Property and Target as the investor to provide financing to the First Macau Company in the development the First Property and the Second Property; (2) the associated risk of Target as an unsecured creditor of the First Macau Company under the First Co-Investment Agreement; (3) the respective monetary commitments of the Target and the First Macau Company for the development of the First Property and the Second Property; and (4) the associated potential benefits from the First Project and the Second Project.

The KDC Group (including the PAH Group) will not be involved in quality control, marketing or sales, and will not be involved in cost control except indirectly through approval of the design and building plan as per the provisions of the First Co-Investment Agreement. However, the KDC Group (including the PAH Group) will exercise financial control over the First Project and the Second Project through joint control of the bank account into which all sale proceeds are required to be deposited and approval of the sale price of the units. The KDC Group (including the PAH Group) will also monitor progress of the development and protect its interest in the development by (1) inspecting documentary evidence of all receipts and expenditures which the First Macau Company has undertaken to collate on a monthly basis; (2) reviewing the monthly work progress report which the First Macau Company has agreed to provide containing (among other things) a breakdown of the costs and expenses incurred by the First Macau Company in connection with works to date; (3) reviewing the monthly sales status reports to be provided by the First Macau Company; (4) reviewing the quarterly accounts with respect to receipts and expenditures which the First Macau Company has undertaken to prepare and furnish on an ongoing basis; (5) requesting information on a regular basis from the First Macau Company in accordance with its undertaking to keep Target informed on a timely and regular basis of the progress of the development and sales; (6) attending project or site meetings where appropriate; (7) reviewing the monthly management, the half-year and the full year audited accounts of the First Macau Company which the First Macau Company has agree to provide; (8) through review of such financials ensuring compliance by the First Macau Company of its financial covenants under the First Co-Investment Agreement including incurrence of non-development indebtedness, extension of loans or giving of guarantees; and (9) reviewing the final audited accounts with respect to receipts and expenditures to be produced after completion of the development.

The Vendor is party to the First Co-Investment Agreement as guarantor for the First Macau Company and in the event that the First Macau Company fails to perform its obligations under the First Co-Investment Agreement, the Vendor will be required to perform them instead, and to indemnify the Purchaser in respect of any loss suffered. The principal obligation of the First Macau Company is to complete the development on the First Property and the Second Property in accordance with all plans, consents, laws and regulations, and applicable restrictions, covenants and encumbrances and in particular with the minimum GFA stated above, and as soon as practicable to commence pre-sales of units. Apart from the covenants relating to information and accounts mentioned above, the First Macau Company also has obligations to ensure that it does not incur non-development related indebtedness, extend loans or guarantees to third parties, declare dividends, make any acquisitions or

change its business. The maximum liability of Target with respect to the 80% financing of the First Project and the Second Project is HK\$500 million as stated above, and the corresponding 20% of HK\$125 million and every other necessary financial expenditure above the sum of such HK\$500 million and HK\$125 million that may be required for the completion of the First Project and Second Project is for the account of the First Macau Company.

### **The Second Co-Investment Agreement**

It is intended that all the units of the Third Project will be sold on the market. It is expected that pre-sales will begin upon commencement of construction of foundation works. Construction of foundation works for the Third Project is expected to commence in the first half of 2007.

Under the terms of the Second Co-Investment Agreement:

- (a) Target will be given access to:
  - (1) the accounts prepared with respect to the receipts and expenses relating to the Third Project;  
and
  - (2) the Third Property to inspect and view the state and progress of the Third Project;
- (b) Target and the Second Macau Company will provide funding in the ratio of 80% and 20% to cover any shortfall in the funding for the Third Project to the extent that the receipts derived from the Third Project do not cover the expenses of the Third Project (excluding land costs which will be borne by the Second Macau Company exclusively);
- (c) The 80% funding provided by Target will take the form of loans extended to the Second Macau Company from time to time up to a maximum amount of HK\$200 million calculated at HIBOR plus 0.5% payable monthly to be applied to the payment of the expenditure incurred by the Second Macau Company in connection with the Third Project in the manner as set out in (ii) above. Such loans will have no fixed term for repayment and will not be secured or guaranteed and are expected to provide principal funding for the Third Project in its initial stages before pre-sale proceeds are significant;
- (d) Once the maximum principal amount of HK\$200 million has been drawn, any additional funding required for the Third Project will be funded by the Second Macau Company itself;
- (e) In addition to the repayment of the loans with interest by the Second Macau Company, Target will be entitled to receive (i) 80% of the excess of the gross sale proceeds from the sale of the units in the Third Project over the development expenses of the Third Project (including tax expenses and interest on loans but excluding land costs) and (ii) the Discounted Value in respect of the Third Property.
- (f) In the event that the receipts fall short of the development expenses and the Discounted Value (but before taxes), Target will bear 80% of the shortfall.

The ratio of 80% and 20% was determined with reference to (1) the respective roles of the Second Macau Company as the developer of the Third Property and registered owner of the Third Property, and Target as the investor to provide financing to the Second Macau Company in the development the Third Property; (2) the associated risk of Target as an unsecured creditor of the Second Macau Company under the Second Co-Investment Agreement; (3) the respective monetary commitments of Target and the Second Macau Company for the Third Project; and (4) the associated potential benefits from the Third Project.

The KDC Group (including the PAH Group) will not be involved in quality control, marketing or sales, and will not be involved in cost control except indirectly through approval of the design and building plan as per the provisions of the Second Co-Investment Agreement. However, the KDC Group (including the PAH Group) will exercise financial control over the Third Project through joint control of the bank account into which all sale proceeds are required to be deposited and approval of the sale price of the units. The KDC Group (including the PAH Group) will also monitor progress of the development and protect its interest in the development by (1) inspecting documentary evidence of all receipts and expenditures which the Second Macau Company has undertaken to collate on a monthly basis; (2) reviewing the monthly work progress report which the Second Macau Company has agreed to provide containing (among other things) a breakdown of the costs and expenses incurred by the Second Macau Company in connection with works to date; (3) reviewing the monthly sales status reports to be provided by the Second Macau Company; (4) reviewing the quarterly accounts with respect to receipts and expenditures which the Second Macau Company has undertaken to prepare and furnish on an ongoing basis; (5) requesting information on a regular basis from the Second Macau Company in accordance with its undertaking to keep Target informed on a timely and regular basis of the progress of the development and sales; (6) attending project or site meetings where appropriate; (7) reviewing the monthly management, the half-year and the full year audited accounts of the Second Macau Company which the Second Macau Company has agree to provide; (8) through review of such financials ensuring compliance by the Second Macau Company of its financial covenants under the Second Co-Investment Agreement including incurrence of non-development indebtedness, extension of loans or giving of guarantees; and (9) reviewing the final audited accounts with respect to receipts and expenditures to be produced after completion of the development.

The Vendor is party to the Second Co-Investment Agreement as guarantor for the Second Macau Company and in the event that the Second Macau Company fails to perform its obligations under the Second Co-Investment Agreement the Vendor will be required to perform them instead, and to indemnify the Purchaser in respect of any loss suffered. The principal obligation of the Second Macau Company is to complete the development on the Third Property in accordance with all plans, consents, laws and regulations, and applicable restrictions, covenants and encumbrances and in particular with the minimum GFA stated above, and as soon as practicable to commence pre-sales of units. Apart from the covenants relating to information and accounts mentioned above, the First Macau Company also has obligations to ensure that it does not incur non-development related indebtedness, extend loans or guarantees to third parties, declare dividends, make any acquisitions or change its business. The maximum liability of Target with respect to the 80% financing of the Third Project is HK\$200 million as stated above, and the corresponding 20% of HK\$50 million and every other necessary financial expenditure above the sum of such HK\$200 million and HK\$50 million that may be required for the completion of the Third Project is for the account of the Second Macau Company.

#### **IV INFORMATION ON KDC**

KDC and its subsidiaries are principally engaged in property development and investment, property management, financial services, investments in Hong Kong and Macau as well as local and overseas financial investments.

KDC has several projects under development at this time, including (1) the La Baie du Noble project located at the Orient Pearl District in Macau, which is a residential and retail development with total GFA of 1,603,000 sq. ft. that is expected to be completed in the first half of this year; (2) the Mount Davis 33 project located at Kennedy Town in Hong Kong, which is a residential joint venture with the Urban Renewal Authority with a total GFA of 78,000 sq. ft. that is expected to be completed in the first half of this year; (3) the 31 Robinson Road project located at the Mid-Levels in Hong Kong, which is a residential development with total GFA of 128,000 sq. ft. that is expected to be completed in 2007; and (4) the 35 Clear Water Bay Road project located in Hong Kong, which is a residential and retail development with total GFA of 2,163,000 sq. ft. that is expected to be completed in 2008 or 2009. All of such projects are developed for sale except that the retail portion of the 35 Clear Water Bay Road project will be retained as an investment property upon completion of the project.

KDC Group's existing investment properties, excluding those of the PAH Group, have an aggregate GFA of 649,000 sq. ft. as at 31 December 2005, with 44% in office space and 54% in retail space. The KDC Group (excluding associated companies) managed over 841,000 sq. ft. of residential and commercial premises as at 31 December 2005.

#### **V INFORMATION ON PAH**

PAH and its subsidiaries are principally engaged in property investment, development and trading, ice manufacturing and provision of cold storage services as well as securities investment and trading.

The PAH Group currently has another residential and commercial project under development in Macau located at Taipa, which on completion will consist of two buildings with a total of 294 residential units and a number of retail shops on the ground floor with a total GFA of approximately 386,000 sq. ft.. Site formation works began in February 2006 and the project is being developed for sale.

The PAH Group also has two investment properties in Macau, namely The Macau Square and Va Iong. The Macau Square, in which the PAH Group holds a 50% interest, is a commercial property situated at Avenida Do Infante D. Henrique with total GFA of approximately 393,000 sq. ft.. The renovation of the retail portion, with GFA of approximately 90,000 sq. ft. has just been completed and the renovation of the office portion, with GFA of approximately 303,000 sq. ft. will shortly begin. The renovation of certain retail shops at Va Iong, which is situated at Praca da Amizade with an aggregate GFA of 20,300 sq. ft., will commence soon and is expected to be completed in the second half of 2006.

The PAH has certain trading properties at China Plaza which is located at a prime area in Macau and intends to dispose of these properties gradually.

## VI REASONS FOR THE ACQUISITION

Macau has experienced strong economic development since 1999, with GDP growing at a average real growth rate of 12.1% between 2000 and 2005.\* GDP per capita has risen from approximately MOP125,100 in 2002 to MOP181,900 in 2004,\* a compounded increase of more than 20.5% per annum. Macau's strong economic growth in recent years can be attributed to the growth in the gaming, tourism and construction industries. This growth is reflected through the city's double-digit GDP growth rates, low unemployment rates and continued interest in real asset investments, in particular real estate.

\* *Direcção de Serviços de Estatística e Censos (DSEC)*

Macau is regarded as one of the largest and fastest growing gaming markets in the world and represents the only legalized gaming destination in China. Residential development sales and rental markets have remained optimistic in recent months as the construction of new casinos, hotels and entertainment complexes have spurred the arrival of tourists and new immigrants and materially increased the purchasing power of local residents. Due to the sustained economic growth in the city and the continued inflow of foreign direct investment, the demand for quality accommodation, and in particular, brand-new units in large-scale housing estates equipped with a full range of facilities, has been buoyant.\* In addition, as world-class casinos are completed over the next few years, senior staff posted in Macau and visitors on extended vacation will demand premium residential units as their second home. Given the strong fundamentals of the Macau economy and its positive outlook, the directors of KDC and PAH believe that the residential housing market provides an attractive property development opportunity for PAH, and, through PAH, KDC.

The Acquisition represents an attractive opportunity for PAH to consolidate its strong position and further capitalise on the growth potential of the Macau property market. The directors of PAH believe that the Acquisition offers PAH a good opportunity to participate in the First Project, the Second Project and the Third Project and that the Acquisition will further consolidate PAH's overall market position.

After Completion, PAH will have property trading, development and investment projects in Macau comprising more than 11.4 million sq. ft. GFA of residential and commercial properties and approximately 5,300 car parking spaces as compared to the current 0.9 million sq. ft. GFA of residential, retail and commercial properties and approximately 700 car parking spaces. On the back of robust and accelerating economic and population growth, household formation rate, and the launch of new casinos and the proposed Hong Kong-Zhuhai-Macau bridge, it is expected that the Macau property market will continue to grow at a fast pace. The directors of KDC and PAH believe that these factors provide compelling reasons to further invest in property development in Macau.

The benefits which will flow to the PAH Group from the Acquisition will also benefit the KDC Group. The KDC Group is committed to becoming a major property development company in Hong Kong, Macau and the PRC. The Acquisition will allow PAH to become one of the leading property development and investment companies in Macau. The development plans for the Acquisition are intended for the construction of high-end residential units, including retail, recreational and car parking facilities.

## VII RELATIONSHIP BETWEEN THE VENDOR, KDC AND PAH

The Vendor is ultimately and wholly owned by a discretionary family trust, of which Mr. Or, Ms. Ng Chi Man (Mr. Or's wife and an executive director of KDC), Mr. Or Pui Kwan (son of Mr. Or and Ms. Ng Chi Man and an executive director of KDC) and their family members are beneficiaries. As at the date of this announcement Mr. Or's family trust is interested in 62.3% of the issued share capital of KDC and KDC holds approximately 56.8% of the issued share capital of PAH. The family trust first acquired control of KDC in December 2001 when it purchased 51.5% of the issued share capital of KDC followed by a mandatory unconditional cash offer for the remaining shares and share options of KDC in January 2002. Mr. Or became the single largest shareholder of PAH in August 2000 and acquired control of PAH (56.1%) in September 2001. He injected his interests in PAH into KDC in November 2005, from which time PAH has been a subsidiary of KDC.

Each of the First Macau Company and the Second Macau Company is a wholly-owned subsidiary of the Vendor. The First Macau Company was already wholly-owned by Mr. Or and his family members at the time it acquired the First Property and the Second Property from the Macau Government in December 1990. Since 1994, the Vendor has been wholly owned by trusts in favour of Mr. Or and his family members and the First Macau Company has been wholly owned by the Vendor.

The Second Macau Company acquired the Third Property from the Macau Government in June 1996 and the Vendor acquired the Second Macau Company through a series of acquisitions over 2004 to 2005 from the 4 previous capital holders of the Second Macau Company. One of the 4 previous capital holders of the Second Macau Company is controlled by a controlling shareholder of a substantial shareholder of a non-wholly owned subsidiary of PAH. The other 3 previous capital holders are third parties unrelated to the KDC Group, the PAH Group or their respective connected persons. The total costs that the Vendor has incurred in connection with the Third Property is approximately HK\$825 million.

The Acquisition constitutes a very substantial acquisition and connected transaction for KDC and a very substantial acquisition and connected transaction for PAH under the Listing Rules. The provision by Target of loans to the First Macau Company under the First Co-Investment Agreement and to the Second Macau Company under the Second Co-Investment Agreement after Completion amounts to the granting of financial assistance to connected persons by KDC and PAH under the Listing Rules and the transactions contemplated under the First Co-Investment Agreement and the Second Co-Investment Agreement, including such financial assistance, will be connected transactions for KDC and PAH respectively. The Acquisition and the provision by Target of loans to the First Macau Company under the First Co-Investment Agreement and to the Second Macau Company under the Second Co-Investment Agreement after Completion require approval of the KDC Independent Shareholders and the PAH Independent Shareholders. While the financial assistance to be provided to the First Macau Company and the Second Macau Company will not be in the ordinary and usual course of business for the purpose of Rule 14A.10(9), such loans are in the ordinary and usual course of business of the KDC Group and the PAH Group as being part of the scope of their respective property investment and development business.



## VIII GENERAL

A circular containing (among other things) the notice of an extraordinary general meeting of KDC, further details of the Acquisition, the First Co-Investment Agreement and the Second Co-Investment Agreement, a letter from the independent board committee of KDC and a letter of advice from the independent financial adviser to the independent board committee of KDC and the KDC Independent Shareholders will be despatched to shareholders of KDC as soon as practicable in accordance with the requirements of the Listing Rules. An independent committee of the board will be formed to give advice to the KDC Independent Shareholders on how they should vote in relation to the Agreement and the provision of financing under the First Co-Investment Agreement and the Second Co-Investment Agreement. An independent financial adviser will be retained to advise the independent committee of the board and the KDC Independent Shareholders.

Mr. Or, his family members, the Or family trust and their associates will abstain from voting at the extraordinary general meeting of KDC in this connection.

The directors of KDC including its independent non-executive directors are of the opinion that the Acquisition (including the commitments of the Target under the First Co-Investment Agreement and the Second Co-Investment Agreement) and the terms and conditions of the Agreement and the First Co-Investment Agreement and the Second Co-Investment Agreement are fair and reasonable and in the interest of KDC and its shareholders as a whole.

A circular containing (among other things) the notice of an extraordinary general meeting of PAH, further details of the Acquisition, the First Co-Investment Agreement and the Second Co-Investment Agreement, a letter from the independent board committee of PAH to the PAH Independent Shareholders and a letter of advice from the independent financial adviser to the independent board committee of PAH and the PAH Independent Shareholders will be despatched to shareholders of PAH as soon as practicable in accordance with the requirements of the Listing Rules. An independent committee of the board will be formed to give advice to PAH Independent Shareholders on how they should vote in relation to the Agreement and the provision of financing under the First Co-Investment Agreement and the Second Co-Investment Agreement. An independent financial adviser will be retained to advise the independent committee of the board and the PAH Independent Shareholders

KDC, Mr. Or, his family members, the Or family trust and their associates will abstain from voting at the extraordinary general meeting of PAH in this connection.

The directors of PAH including its independent non-executive directors are of the opinion that the Acquisition (including the commitments of the Target under the First Co-Investment Agreement and the Second Co-Investment Agreement) and the terms and conditions of the Agreement and the First Co-Investment Agreement and the Second Co-Investment Agreement are fair and reasonable and in the interest of PAH and its shareholders as a whole.

**Completion of the Acquisition is subject to conditions, which may or may not be fulfilled. Shareholders of KDC and PAH should exercise caution in dealing in the securities of KDC and PAH.**

**Trading in the shares of KDC and PAH on the Stock Exchange was suspended at the request of KDC and PAH with effect from 9:30 am on 4 April 2006 pending the release of this announcement. An application has been made by KDC and PAH for the resumption of trading in the shares on the Stock Exchange from 9:30 am on 11 April 2006.**

## **IX DEFINITIONS**

In this Announcement, save the context otherwise requires, the defined terms will have the following meanings:

“Acquisition”	the acquisition of the entire issued share capital of Target;
“Agreement”	the agreement dated 8 April 2006 between the Vendor and the Purchaser in respect of the Acquisition;
“associate”	has the meaning given to that term in the Listing Rules;
“Completion”	completion of the Acquisition pursuant to the Agreement;
“Deposit”	an amount of HK\$200 million;
“Discounted Value”	80% of 80% of the independent valuation conducted by the independent valuer DTZ Debenham Tie Leung Limited on the First Property, Second Property and Third Property;
“First Co-Investment Agreement”	the agreement dated 8 April 2006 between Target and the First Macau Company relating to Target’s participation in the First Project and the Second Project;
“First Macau Company”	Polytex Corporation Limited, a company incorporated in Macau and a wholly-owned subsidiary of the Vendor. The First Macau Company is the registered owner of the First Property and the Second Property;
“First Project”	the development of the First Property as described in the paragraph headed “the First Project” in this announcement;
“First Property”	a site at Lote P, Novos Aterros da Areia Preta, Macau;
“GFA”	gross floor area;
“HIBOR”	Hong Kong Interbank Offered Rate;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;

“KDC”	Kowloon Development Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
“KDC Group”	KDC and its subsidiaries (including the PAH Group unless the context otherwise requires);
“KDC Independent Shareholders”	shareholders of KDC other than Mr. Or and his associates;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Macau”	the Macau Special Administrative Region of the People’s Republic of China;
“MOP”	Macau Pataca, the lawful currency of Macau;
“Mr. Or”	Mr. Or Wai Sheun, the chairman and a director of each of KDC and PAH;
“PAH”	Polytec Asset Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange;
“PAH Group”	PAH and its subsidiaries;
“PAH Independent Shareholders”	shareholders of PAH other than KDC and its associates;
“PRC”	the People’s Republic of China and for the purpose of this announcement, excludes Hong Kong and Macau;
“Purchaser”	Profit Sphere International Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of PAH;
“sq. ft.”	square feet;
“Second Co-Investment Agreement”	the agreement dated 8 April 2006 between Target and the Second Macau Company relating to Target’s participation in the Third Project;
“Second Macau Company”	Fok Kiu — Properties Investment Company Limited, a company incorporated in Macau and an indirect wholly-owned subsidiary of the Vendor. The Second Macau Company is the registered owner of the Third Property;
“Second Project”	the development of the Second Property as described in the paragraph headed “The Second Project” in this announcement;

“Second Property”	a site at Lote V, Novos Aterros da Areia Preta, Macau;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Target”	New Bedford Properties Limited, a company incorporated in the British Virgin Islands with limited liability;
“Third Project”	the development of the Third Property as described in the paragraph headed “The Third Project” in this announcement;
“Third Property”	a site at Lotes T and T1, Novos Aterros da Areia Preta, Macau; and
“Vendor”	Polytec Holdings International Limited, the company incorporated in the British Virgin Islands.

By order of the board of  
**Kowloon Development Company Limited**  
**Or Wai Sheun**  
*Chairman*

By order of the board of  
**Polytec Asset Holdings Limited**  
**Or Wai Sheun**  
*Chairman*

Hong Kong, 10 April 2006

*As at the date of this announcement, the board of KDC comprises four executive directors, being Mr. Or Wai Sheun (Chairman), Ms. Ng Chi Man, Mr. Lai Ka Fai and Mr. Or Pui Kwan; three non-executive directors, 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.*

*As at the date of this announcement, the board of PAH comprises five executive directors, being Mr. Or Wai Sheun (Chairman), Mr. Yeung Kwok Kwong, Mr. Lam Chi Chung, Tommy, Ms. Chio Koc Ieng and Ms. Wong Yuk Ching, one non-executive director, being Mr. Lai Ka Fai; and three independent non-executive directors, Mr. Anthony Francis Martin Conway, Mr. Siu Leung Yau and Mr. Liu Kwong Sang.*

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