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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, 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 to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the 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 TRANSACTION
FORMATION OF A JOINT VENTURE COMPANY
ACQUISITION OF LAND IN FOSHAN**

13 October 2006

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DEFINITIONS

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

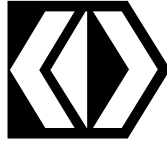
“Acquisition”	the acquisition of the Properties pursuant to the Tender and the formation of a joint venture company for the development of the Properties
“associate”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of directors of the Company
“CITIC South China”	中信華南（集團）有限公司 (CITIC South China (Group) Co., Ltd.), a domestic company incorporated in the PRC and an Independent Third Party. It is principally engaged in property development in the PRC
“Company”	Kowloon Development Company Limited, a company incorporated in Hong Kong, the shares of which are listed on the main board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Independent Third Party”	an independent third party not connected with the Company or any of its subsidiaries or any of their respective directors, chief executive or substantial shareholders or any of their respective associates
“Joint Bid Agreement”	the agreement dated 30 August 2006 entered into between the Company and CITIC South China and pursuant to which the parties agreed to bid for the Properties subject to the terms and conditions therein
“Land Exchange Centre”	佛山市南海區土地交易中心 (Land Exchange Centre of Nanhai District, Foshan City)

DEFINITIONS

“Latest Practicable Date”	10 October 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Or”	Mr. Or Wai Sheun, the Chairman of the Company
“PAH”	Polytec Asset Holdings Limited, a company incorporated with limited liability in the Cayman Islands, the shares of which are listed on the main board of the Stock Exchange
“PAH Group”	PAH and its subsidiaries
“PRC”	the People’s Republic of China (for the purpose of this circular, excludes Hong Kong, Macau and Taiwan)
“Properties”	7 pieces of land located in Foshan, the PRC with a total area of approximately 4,020,743.19 square metres to be acquired jointly by the Company and CITIC South China pursuant to the Acquisition
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of par value of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tender”	the tender for the Properties arranged by the Land Exchange Centre
“%”	per cent.

Unless otherwise stated, amounts denominated in RMB have been converted into HK\$ in this circular at a rate of RMB1.018 = HK\$1.00.

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*)
Ms. Ng Chi Man
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*)
Mr. Tam Hee Chung
Mr. Yeung Kwok Kwong

Independent Non-executive Directors:

Mr. Li Kwok Sing, Aubrey
Mr. Lok Kung Chin, Hardy
Mr. Seto Gin Chung, John

13 October 2006

To the Shareholders

Dear Sir or Madam

DISCLOSEABLE TRANSACTION
FORMATION OF A JOINT VENTURE COMPANY
ACQUISITION OF LAND IN FOSHAN

INTRODUCTION

The Board announced on 22 September 2006 that the Company, together with CITIC South China, have successfully tendered for the Properties for RMB3,030 million (equivalent to approximately HK\$2,976 million). The Company and CITIC South China will form a joint venture company in equal shares to hold and develop the Properties.

LETTER FROM THE BOARD

The Acquisition of part interest in the Properties by the Company by way of the Tender constitutes a discloseable transaction for the Company under Rule 14.06 of the Listing Rules. The purpose of this circular is to provide you with further information with regard to the Acquisition.

THE ACQUISITION

Date of the Tender

21 September 2006

Parties involved in the Tender

- (1) the Land Exchange Centre;
- (2) CITIC South China; and
- (3) the Company.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, each of the Land Exchange Centre, CITIC South China and its ultimate beneficial shareholder is an Independent Third Party.

Pursuant to the Tender, the Company and CITIC South China have acquired the Properties.

Formation of the joint venture company

On 30 August 2006, the Company and CITIC South China entered into the Joint Bid Agreement pursuant to which the parties agreed to contribute the price of the Properties in equal shares and jointly submit an application for the Tender to the Land Exchange Centre.

The Tender was confirmed by an auction confirmation signed by the Land Exchange Centre, the Company and CITIC South China dated 21 September 2006.

Pursuant to the terms of the Tender, the Company and CITIC South China have jointly acquired the Properties and will form a joint venture company in equal shares to take up the land use rights of the Properties. The joint venture company will be accounted for as a jointly controlled entity in the consolidated account of the Group under the equity method. The Company and CITIC South China are required to set up the joint venture company within 60 days from the date of confirmation of the Tender, and the newly set up joint venture company will, within 10 days from the date of its establishment, sign the relevant land use right transfer agreement with the State Land Resources Bureau of Foshan (佛山市國土資源局).

LETTER FROM THE BOARD

Consideration

The consideration for the Properties is an aggregate amount of RMB3,030 million (equivalent to approximately HK\$2,976 million), which is determined after a public bidding process and the Board considers that the consideration is fair and reasonable having taking into account the market price of low-rise building and estimated development costs together with location and development potential of the Properties.

CITIC South China has paid an earnest money of RMB300 million to the Land Exchange Centre, and such amount will be applied as part payment of the consideration as detailed below.

As the Company and CITIC South China have jointly acquired the Properties and will form a joint venture company in equal shares to hold and develop the Properties, the Company and CITIC South China both are required to finance in equal proportions. The Company's contribution will be satisfied by the internal resources of the Group. The total consideration of the Acquisition will be made by three installments as to RMB909 million (equivalent to approximately HK\$893 million and representing 30% of the total consideration) payable within five days after the execution of the relevant land use right transfer agreement, as to RMB909 million (equivalent to approximately HK\$893 million and representing 30% of the total consideration) payable within 210 days after the execution of the relevant land use right transfer agreement, and as to RMB1,212 million (equivalent to approximately HK\$1,190 million and representing 40% of the total consideration) payable within 540 days after the execution of the relevant land use right transfer agreement.

Within 10 days after execution of the relevant land use right transfer agreement, the joint venture company will execute a compensation land use right contract with the local government and the joint venture company will pay a land use fees of RMB62,409,200 (equivalent to approximately HK\$61,306,000) to the local government within one month after execution of such contract. The land use fees will be borne by the Company and CITIC South China equally. The Company will finance its share of land use fees by the internal resources of the Group.

LETTER FROM THE BOARD

The Properties

The Properties consist of seven pieces of land located in 佛山市南海區里水鎮和順美景水庫地段 (Heshun Meijing Shuiku Sector, Lishui Town, Nanhai District, Foshan, the PRC) with an aggregate area of approximately 4,020,743.19 square metres, details of which are set out as follows:

Transaction no.	Area of the plot	Approved purposes of the relevant plot	Term of the land use rights granted
2006-G0179	Approximately 1,335,590.10 square metres	Forest and park	50 years
2006-G0180	Approximately 1,045,152.15 square metres	Recreational, cultural and entertainment	50 years
2006-G0181	Approximately 233,333.53 square metres	Restaurants and hotels	40 years
2006-G0182	Approximately 122,666.76 square metres	Commercial	40 years
2006-G0183	Approximately 1,194,000.37 square metres	Composite residential area for city and town	70 years for residential area 40 years for commercial area 50 years for others
2006-G0184	Approximately 80,000.25 square metres	Educational and ancillary	50 years
2006-G0185	Approximately 10,000.03 square metres	Sewage treatment plant	50 years

The Group intends to develop the Properties in accordance with their respective approved purposes as set out above.

The Group has no definite immediate financing plan for development of the Properties as the Group has not finalized details of the joint venture company with CITIC South China. If the contribution to the joint venture company to be made by the Group exceeds the consideration of the Properties to be contributed by the Group, the Company will comply with the Listing Rules requirements, if applicable.

LETTER FROM THE BOARD

Reason for the Transaction

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

The Board believes that the acquisition of part interest in the Properties will increase the land bank of the Group, enhance the Group's position in the PRC property market and provide the Group with a better opportunity for project development in Foshan, the PRC. The Directors (including the independent non-executive Directors) consider that the Acquisition has been made on normal commercial terms and that such terms are fair and reasonable so far as the Company and the Shareholders are concerned and that the Acquisition is in the interest of the Company and the Shareholders as a whole.

GENERAL

The Acquisition of part interest in the Properties by the Company by way of the Tender constitutes a discloseable transaction for the Company under Rule 14.06 of the Listing Rules. The purpose of this circular is to provide you with further information with regard to the Acquisition.

Your attention is drawn to the general information set out in the appendix to this circular.

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

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short position

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO which (a) were required 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); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

Interests in Shares, Underlying Shares and Debentures of Company

Name of Director	Nature of Interest	Number of Shares		Approximate percentage of existing issued share capital of the Company (Note 1)
		Long Position	Short Position	
Or Wai Sheun	As Beneficiary (Note 2)	433,338,083	Nil	56.49%
	Corporate (Note 3)	185,000	Nil	0.02%
Ng Chi Man	As Beneficiary (Note 4)	433,338,083	Nil	56.49%

Name of Director	Nature of Interest	Number of Shares		Approximate percentage of existing issued share capital of the Company (Note 1)
		Long Position	Short Position	
Or Pui Kwan	As Beneficiary (Note 4)	433,338,083	Nil	56.49%
	Personal	7,000	Nil	0.001%
Tam Hee Chung	Corporate (Note 5)	500,000	Nil	0.07%
Lai Ka Fai	Personal	312,000	Nil	0.04%
Lok Kung Chin, Hardy	Under Trust (Note 6)	950,000	Nil	0.12%
Keith Alan Holman	Personal	168,000	Nil	0.02%
Yeung Kwok Kwong	Personal	110,000	Nil	0.01%

Notes:

1. As at the Latest Practicable Date, the total number of issued shares of the Company was 767,120,850 Shares.
2. As founder and one of the beneficiaries of The Or Family Trust which ultimately owns such Shares.
3. By virtue of a 100% interest in China Dragon Limited which owns such Shares.
4. As a beneficiary under The Or Family Trust which ultimately owns such Shares.
5. By virtue of a 48% interest in Larry H. C. Tam & Associates Limited which owns such Shares.
6. As founder and as beneficiary of respective discretionary trusts which own such Shares.

Interests in Shares, Underlying Shares and Debentures of PAH

Name of Director	Nature of Interest	Number of Shares or Underlying Shares		Approximate percentage of existing issued share capital of PAH (Note 1)
		Long Position	Short Position	
Or Wai Sheun	As Beneficiary (Note 2)	2,572,167,275	Nil	59.59%
	As Beneficiary (Note 3)	69,897,537	Nil	1.62%
Ng Chi Man	As Beneficiary (Note 2)	2,572,167,275	Nil	59.59%
	As Beneficiary (Note 3)	69,897,537	Nil	1.62%
Or Pui Kwan	As Beneficiary (Note 2)	2,572,167,275	Nil	59.59%
	As Beneficiary (Note 3)	69,897,537	Nil	1.62%
Yeung Kwok Kwong	Personal	1,700,000	Nil	0.04%
	Personal (Note 4)	160,000	Nil	0.004%
Tam Hee Chung	Corporate (Note 5)	1,000,000	Nil	0.02%
	Corporate (Note 6)	100,000	Nil	0.002%
Keith Alan Holman	Personal	520,000	Nil	0.01%
	Personal (Note 7)	52,000	Nil	0.001%
Lai Ka Fai	Personal	400,000	Nil	0.01%
	Personal (Note 8)	30,000	Nil	0.001%

Notes:

1. As at the Latest Practicable Date, the total number of issued shares of PAH was 4,316,425,177 ordinary shares.
2. As beneficiary under The Or Family Trust which ultimately owns 433,338,083 Shares (56.49%) of the Company. The Company holds 100% of Marble King International Limited, an immediate holding company of PAH, which in turn holds the said 2,572,167,275 ordinary shares of PAH (59.59%).
3. As beneficiary under The Or Family Trust which ultimately owns 433,338,083 Shares, representing approximately 56.49% of the Company. The Company holds 69,897,537 units of warrants which entitle the Company to subscribe for 69,897,537 ordinary shares of PAH upon full exercise of the right under the warrants.
4. Mr. Yeung Kwok Kwong holds 160,000 units of warrants which entitle him to subscribe for 160,000 ordinary shares of PAH upon full exercise of the right under the warrants.
5. By virtue of a 48% interest in Larry H. C. Tam & Associates Limited which owns such Shares.
6. Larry H.C. Tam & Associates Limited holds 100,000 units of warrants which entitle it to subscribe for 100,000 ordinary shares of PAH upon full exercise of the rights under the warrants. As Mr. Tam Hee Chung holds 48% interests in Larry H.C. Tam & Associates Limited, he is deemed to be interested in the warrants.
7. Mr. Keith Alan Holman holds 52,000 units of warrants which entitle him to subscribe for 52,000 ordinary shares of PAH upon full exercise of the rights under the warrants.
8. Mr. Lai Ka Fai holds 30,000 units of warrants which entitle him to subscribe for 30,000 ordinary shares of PAH upon full exercise of the rights under the warrants.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of the SFO), which were required 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) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at the Latest Practicable Date, none of the directors of the Company nor any of their spouse or minor children was granted or held options to subscribe for Shares in the Company (within the meaning of Part XV of the SFO), or had exercised such rights.

(b) Particulars of Directors' Service Contracts

As at the Latest Practicable Date, there is no existing or proposed service contract between any of the Directors and any member of the Group other than service contracts that are expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

(c) Directors' interests in competing businesses

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 International Limited ("PHIL"), a company 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, is engaged in property investment and development in Macau and the PRC and has interest in certain investment properties and properties held for development in Macau. As a result, Mr. Or, Mr. 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. PHIL 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 Macau and the PRC.

3. SUBSTANTIAL SHAREHOLDERS

- (a) As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company and according to the register kept by the Company under Section 336 of the SFO, the following persons (other than the Directors or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying shares of the Company, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO:

Long positions in the Shares and underlying shares of the Company

Name of Shareholder	Nature of Interest	Number of Shares		Approximate percentage of existing issued share capital of the Company (Note 1)
		Long Position	Short Position	
The Or Family Trustee Limited Inc.	Trust	433,338,083 (Note 2)	Nil	56.49%
HSBC International Trustee Limited	Trustee	433,716,083 (Note 3)	Nil	56.54%

Notes:

- As at the Latest Practicable Date the total number of issued shares of the Company was 767,120,850 Shares.
- As trustee for The Or Unit Trust, owning all the shares of PHIL, which in turn owns all the shares of Intellinsight Holdings Limited, which in turn owns 433,338,083 Shares in the Company.
- Out of which 433,338,083 Shares are attributable to a discretionary trust under Mr. Or and his family members are beneficiaries and which owns all the units of The Or Unit Trust.

- (b) As at the Latest Practicable Date, so far as is known to the Directors, the following persons and companies (other than the Director or chief executive of the Company) 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 member of the Group:

Members of the Group (excluding the PAH Group):-

Name of subsidiary	Name of shareholder	Approximate percentage of issued share capital of the subsidiary %
Brilliant Idea Investments Limited	Mr. Lau Wai Chi	15
Golden Princess Amusement Company Limited	Mr. Fung Ping Chung	15

Members of the PAH Group:-

Name of subsidiary	Name of shareholder	Approximate percentage of issued share capital of the subsidiary %
New Cosmos Holdings Limited	Sino-Asia Investments Limited	15
	JHK International Limited	10
	CSC Investment Company Limited	10
Think Bright Limited	Mr. U Sio Man	29.5

Save as disclosed above, the Directors are not aware of any person (other than the Directors and Chief Executive of the Company) who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company

under the provisions of Division 2 and 3 of Part XV of the SFO or who was, as at the Latest Practicable Date, 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 meeting of any member of the Group or in any options in respect of such capital.

4. LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Group.

5. GENERAL

- (a) The registered office of the Company is 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong. The share registrar of the Company is Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (b) The qualified accountant and secretary of the Company is Ms. Wai Yuk Hing, Monica. Ms. Wai holds a Bachelor of Business degree from the Monash University, Melbourne, Australia, and is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and an associate member of CPA Australia.
- (c) The English text of this circular will prevail over the Chinese text.