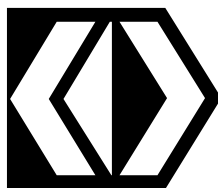


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KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

**MAJOR TRANSACTION:
PROPOSED INVESTMENT IN
A DEVELOPMENT SITE IN TIANJIN CITY BY A JOINT VENTURE COMPANY,
PROPOSED RIGHTS ISSUE ON THE BASIS OF
ONE RIGHTS SHARE FOR EVERY TWO SHARES HELD,
INCREASE IN AUTHORISED SHARE CAPITAL
AND
RESUMPTION OF TRADING**

THE INVESTMENT

On 13 December 2006, the Company entered into the Agreement with the Partner pursuant to which (i) the Company and the Partner will jointly establish the Project Co; and (ii) the Company will pay to the Partner the Consideration of RMB3,500 million (equivalent to approximately HK\$3,465 million) for the interest in the Property. Subsequent to the formation of the Project Co, the Partner will transfer its title to the Property to the Project Co. Accordingly, the principal asset of the Project Co will be the Property, being a composite property development site located in the central business district of the Hedong District, fronting onto Haihe, Tianjin City, the PRC.

The Property has a total site area of approximately 137,940 sqm. The Company plans to develop the Property into a composite residential and commercial complex comprising of serviced apartments, office towers and a commercial podium with a total GFA of approximately 930,000 sqm.

The Investment constitutes a major transaction for the Company under the Listing Rules. Accordingly, the Investment is subject to the approval of the Shareholders. A written certificate has been obtained from Intellinsight who in aggregate own 448,238,083 Shares, representing approximately 58.43% of the issued share capital of the Company as at the date of this announcement, consenting to the entering of the Agreement.

CAPITAL INCREASE

To facilitate the implementation of the proposed Rights Issue, the Directors propose to increase the authorized share capital of the Company from HK\$100 million to HK\$500 million by the creation of 4,000,000,000 new Shares of HK\$0.10 each. The Capital Increase is conditional on the approval of Shareholders at the EGM.

THE RIGHTS ISSUE

The Company proposes to raise approximately HK\$5,293 million of gross proceeds by issuing 383,560,425 Rights Shares at a price of HK\$13.80 per Rights Share. Qualifying Shareholders will be offered 1 Rights Share for every 2 Shares held on the Record Date. The Rights Issue is not available to the Excluded Shareholders. Fractional entitlements will not be allotted but will be aggregated and sold for the benefit of the Company.

The Company has loans in the amount of HK\$2,256 million outstanding due to Polytec Holdings as at 14 December 2006. The Loan will be settled by setting off an equivalent amount of the subscription price to be paid by Intellinsight for subscribing for its entitlement to the Rights Shares.

Net proceeds from the Rights Issue, after deduction of expenses and setting off the Loan, are expected to amount to approximately HK\$3,003 million and is intended to be applied as to approximately (i) HK\$1,100 million to satisfy part of the Consideration; and (ii) HK\$1,903 million for investments and further acquisition of property projects in the PRC and as general working capital.

The Rights Issue is conditional. In particular, it is subject to, among other things, the Underwriting Agreement becoming unconditional and the Underwriter not terminating the Underwriting Agreement in accordance with its terms. Accordingly, the Rights Issue may or may not proceed. Shareholders and potential investors should therefore exercise caution when dealing in the Shares.

Any Shareholders or other persons contemplating selling or purchasing Shares and/or nil-paid Rights Shares up to the date when the conditions of the Rights Issue are fulfilled will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on Thursday, 14 December 2006 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Shares with effect from 9:30 a.m. on Wednesday, 20 December 2006.

THE COOPERATION AGREEMENT

Date: 13 December 2006

Parties: (a) the Company; and
(b) Tianjin Binhai Mass Transit Development Co., Ltd. (天津濱海快速交通發展有限公司)

Purpose: Sets out the terms and conditions pursuant to which the Company and the Partner agree to cooperate with each other in respect of the development of a composite property site located in the central business district of the Hedong District, fronting onto Haihe, Tianjin City, the PRC.

Guarantee: Polytec Holdings guaranteed the obligations of the Company and its representations, undertakings and warranties made under the Agreement

The Partner is principally engaged in construction of the light railway system between the urban area and the new coastal area of Tianjin City and the provision of light railway service upon completion of such light railway. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, the Partner and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

Cooperation arrangement

The Company and the Partner will form the Project Co in which the Company will hold a 90% interest and the Partner will hold the remaining 10% interest. The initial registered capital of Project Co. will be RMB10 million, of which the Company will contribute an amount of RMB9 million and the Partner will contribute an amount of RMB1 million in cash. As at the date of this announcement, neither of the Company nor the Partner are committed to contribute any further investment in the Project Co. Upon formation of the Project Co, the Project Co will become a subsidiary of the Group, the results of which will be consolidated into the Group's financial statements.

Subsequent to the formation of the Project Co, the Partner will transfer its title to the Property to the Project Co, accordingly, the principal asset of the Project Co will be the Property, being a composite property development site located in the central business district of the Hedong District fronting onto Haihe in Tianjin City, within the proximity of the Tianjin Railway Station. The Property is currently granted to the Partner pursuant to the Land Grant Contract.

The Partner will:

- (i) deliver the physical possession of the Property to the Company in two stages. Approximately 50,000 sqm of the Property will be delivered to the Company within 6 months of the formation of the Project Co while the remaining portion of the Property of approximately 90,000 sqm will be delivered to the Company within 30 months of the formation of the Project Co;
- (ii) assist the Company to obtain the land use rights certificate, and other legal documents required for the development of the Property; and
- (iii) plan to extend the light railway network to cover the site area of the Property.

The Company will be responsible for:

- (i) the handling the relevant procedures in setting up the Project Co; and
- (ii) planning, design, development, operation and management of and source funding for the Property under the Project Co.

Term

The Project Co is expected to be formed within 10 business days from the date of the Agreement. The cooperation arrangement in relation to the formation of the Project Co will be completed when the last instalment of the Consideration is paid by the Company to the Partner and the entire Property is transferred by the Partner to the Project Co.

Profit sharing

The Company will be entitled to all profits generated by and bear all losses incurred by the Project Co.

The Property

The Property has a total site area of approximately 137,940 sqm. The Property is planned to be developed into a composite residential and commercial complex comprising serviced apartments, office towers and a commercial podium with a total GFA of approximately 930,000 sqm. The Directors expect that the capital expenditure for the development of the Property will be financed by bank financing by the Project Co. The Company will engage an independent firm of professional valuers to carry out an independent valuation of the Property. The project will be developed in phases and completion of the entire project is expected in seven years.

Currently, there are existing structures on the Property. Subsequent to the demolition of those existing structures, the Partner will transfer its interest in the Property to the Project Co. Pursuant to the Agreement, at the date of the Agreement, demolition work for approximately 50,000 sqm of the Property has been completed. Accordingly, the Partner will initially transfer its interest in the Property of approximately 50,000 sqm to the Project Co. Pursuant to the Agreement, the remaining portion of the Property of approximately 90,000 sqm will be delivered to the Company within 30 months of the formation of the Project Co upon completion of the demolition of the remaining structures.

The Partner has been granted the land use rights of the Property by the Tianjin City State-owned Land Resources and Real Estate Bureau pursuant to the Land Grant Contract. The Company has been advised by its PRC legal counsel that pursuant to the terms and conditions of the Land Use Rights Agreement, subject to the payment of consideration in full by the Partner to the Tianjin City State-owned Land Resources and Real Estate Bureau for the grant of the land use rights, the Partner will be entitled to obtain the State-owned land use rights certificate for the Property.

Consideration

The Company will pay a consideration of RMB3,500 million (equivalent to approximately HK\$3,465 million) to the Partner for the Investment. The Consideration is determined based on arm's length negotiations between the Company and the Partner with reference to (i) recent transaction prices for parcels of land in Tianjin City; (ii) the development potential of Tianjin City; (iii) premium town planning of Hedong District of Tianjin City; and (iv) prospect of the PRC economy.

The Consideration will be financed as to approximately (i) HK\$1,100 million from the net proceeds from the proposed Rights Issue; and (ii) HK\$2,400 million from internal resources of the Group and future bank financing. The Consideration will be satisfied in cash and payable in eleven instalments in the following manner:

- (i) a sum of RMB500 million (equivalent to approximately HK\$495 million) shall be payable within 15 days from the date of the Agreement; and
- (ii) the remaining balance of RMB3,000 million (equivalent to approximately HK\$2,970 million) shall be payable in 10 equal instalments of RMB300 million (equivalent to approximately HK\$297 million) every six months, and the initial instalment is due before 1 June 2007.

The Partner has agreed to transfer the Property to the Project Co and the Company has agreed that prior to the satisfaction of the Consideration in full, the Partner will hold a 10% interest in the Project Co. Upon the payment of the final instalment by the Company, the Partner shall transfer its 10% interest in the Project Co to the Company so that Project Co will become a wholly-owned subsidiary of the Company. The final instalment is expected to be paid by the Company on or before 1 December 2011. The 10% interest in Project Co initially retained by the Partner represents a term for the protection of the Partner's interest as payment of the Consideration by the Company will only be made on a deferred basis as detailed above.

In the event that an instalment is not paid by the Company in accordance with the above time schedule, the Partner is entitled to a compensation calculated to be equal to 0.05% per day on the amount overdued.

On the other hand, if there is a delay in accordance with the above time schedule for the Partner to effect the transfer of the Property to the Project Co in accordance with the terms of the Agreement, or that the development process of the Property is disrupted as a result of delay in payment of the land purchase cost of the Property by the Partner to Tianjin City State-owned Land Resources and Real Estate Bureau, the Company has the right to defer payment and is also entitled to a compensation calculated to be equal to 0.05% per day on the amount of Consideration payable by the Company during the relevant period. In the event that there is a delay of more than 6 months for the delivery of the physical possession of the Property to the Project Co, the Company is entitled to rescind the Agreement with a refund of all instalments paid to date and in addition, the Partner shall pay a compensation of RMB20 million (equivalent to approximately HK\$20 million) to the Company. Further details regarding the above mentioned compensation will be incurred in the circular to be sent to the shareholders in accordance with the Listing Rules.

Pledge of interest in the Project Co

Before the Consideration has been fully paid by the Company, the Company will (i) pledge its entire interest in the Project Co in favour of the Partner; and (ii) execute a share pledge agreement within 7 working days after the incorporation of the Project Co.

Transfer of the interest in the Project Co

The Company cannot dispose of (in whole or in part) its interest in the Project Co and/or the Property to any other parties without the prior consent of the Partner.

Guarantee

Polytec Holdings has executed a guarantee in favour of the Partner to guarantee the due performance of the obligations of the Company under the Agreement. Under the guarantee, Polytec Holdings has undertaken to the Partner that it will not dispose of its controlling interest in the Company to any third party before the Consideration has been fully paid by the Company.

REASONS FOR THE INVESTMENT

The Investment is part of the Group's development plan to expand its property investment and development activities in the PRC. It is the Group's strategic objective to increase its land bank for development in the future and secure sites with prime location and growth potential. The Investment represents an opportunity for the Group to acquire a piece of land site with prime location in the centre of Tianjin City. Tianjin City is strategically located in the Bohai Rim Region in Northern China. The Directors expect that construction of a new railway network connecting Tianjin and Beijing will complete on or before 2008. Upon the commencement of the new high speed train, the travel time from Tianjin to Beijing will be reduced to about 30 minutes, thus potentially stimulate economic growth in the region. In recent years, Tianjin City has attracted many multinational corporations to set up operations there and as a result, the Directors consider that there are potential prospects for quality residential and commercial property in Tianjin City. The Directors consider the Investment to be in the best interest of the Company and its shareholders as a whole.

STRATEGIC INVESTORS

The Directors are currently in discussion with a number of potential strategic investors in relation to participating in the development of the Property. Participation by such strategic investors may involve a dilution of the Group's interest in the Project Co. Up to the date of this announcement, no agreement has been reached with any strategic investors. The Company will make a further announcement if it reached any agreement with such strategic investors as required by the Listing Rules.

LISTING RULES IMPLICATIONS IN RELATION TO THE INVESTMENT

The Investment constitutes a major transaction for the Company under the Listing Rules. Pursuant to the Listing Rules, the Investment is conditional on the approval by the Shareholders. Further, under Rule 14.44 of the Listing Rules, in the event that (i) a written Shareholder's approval has been obtained from a Shareholder who holds more than 50% in the issued share capital of the Company; and (ii) no Shareholder is required to abstain from voting at the general meeting of the Company to approve the Investment, a written Shareholder's approval can be accepted in lieu of holding a general meeting of the Company for Shareholders to approve the Investment. No Shareholder is required to abstain from voting in respect of any resolution that would be proposed to approve the Investment in general meeting. A written certificate has been obtained from Intellinsight, which holds approximately 58.43% of the issued Shares, approving the Investment. Accordingly, subject to Rule 14.44 of the Listing Rules, approval of the Investment will be obtained by way of the written approval in lieu of holding a general meeting. A circular containing, among other things, further details regarding the abovementioned compensation and information on the Investment will be sent to the Shareholders in accordance with the Listing Rules.

THE CAPITAL INCREASE

To facilitate the implementation of the proposed Rights Issue, the Directors propose that a resolution be passed at the EGM to increase the authorised share capital of the Company from HK\$100 million to HK\$500 million by the creation of 4,000,000,000 new Shares of HK\$0.10 each. Upon the Capital Increase becoming effective and assuming no further Shares will be issued prior to the EGM, the authorised share capital of the Company will be HK\$500 million divided into 5,000,000,000 Shares of HK\$0.10 each, of which 767,120,850 Shares of HK\$0.10 each will be in issue and fully paid. A circular containing the notice to convene the EGM will be sent to the Shareholders according to the requirements of Listing Rules.

RIGHTS ISSUE

Issue statistics (prepared on the basis of the Company's existing 767,120,850 Shares in issue, without taking into account any Shares which may be issued between the date of this announcement and the Record Date)

Number of existing Shares in issue	—	767,120,850 Shares
Basis of Rights Issue	—	1 Rights Share for every 2 Shares held on the Record Date
Number of Rights Shares	—	383,560,425 Rights Shares
Enlarged issued share capital upon completion of the Rights Issue	—	HK\$115,068,127.50 comprising 1,150,681,275 Shares of HK\$0.10 each

As at the date of this announcement, the Company has no share options and other convertible securities outstanding.

Qualifying Shareholders

The Company will provisionally allot the Rights Shares, and send a Prospectus containing details of the Rights Issue to the Qualifying Shareholders and, for information only, to the Excluded Shareholders. PALs and EAFs will also be sent to the Qualifying Shareholders only.

To qualify for the Rights Issue, Shareholders must at the close of business on the Record Date be registered as a member of the Company. Shareholders having an address in Hong Kong on the register of members of the Company at the close of business on the Record Date are qualified for the Rights Issue. Shareholders having addresses outside Hong Kong on the register of members of the Company at the close of business on the Record Date are qualified for the Rights Issue only if the Board, after making relevant enquiries with lawyers in the relevant jurisdictions, considers that the offer to these Shareholders would not contravene any legal restriction under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place and such offer will not require any relevant registration.

Detailed timetable in relation to the Rights Issue will be announced as soon as practicable.

Subscription Price

HK\$13.80 per Rights Share, which is payable in full when a Qualifying Shareholder accepts the provisional allotment of Rights Shares or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares applies for the relevant Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 14.07% to the closing price of HK\$16.06 per Share as quoted on the Stock Exchange on 13 December 2006, being the last date on which trading took place in the Shares before suspension of trading prior to the release of this announcement;
- (ii) a discount of approximately 9.86% to the theoretical ex-rights price of HK\$15.31 per Share, which is calculated on the basis of the closing price of HK\$16.06 per Share on 13 December 2006;
- (iii) a discount of approximately 14.39% to the average of the closing prices per Share for the 10 trading days ended on 13 December 2006 of approximately HK\$16.12; and
- (iv) a premium of approximately 41.98% to the unaudited consolidated net asset value per Share as at 30 June 2006 of HK\$9.72.

The Subscription Price for the Rights Shares has been determined based on arm's length negotiations between the Company and the Underwriter. The Directors consider the terms of the Rights Issue to be fair and reasonable so far as the Shareholders are concerned.

Status of the Rights Shares

When fully paid, the Rights Shares will rank pari passu in all respects with the then existing Shares. Holders of the fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of issue and allotment of the fully-paid Rights Shares.

Overseas Shareholders

The Board will make enquiries as to whether the issue of Rights Shares to Overseas Shareholders may contravene the applicable securities legislation of the relevant overseas jurisdictions or the requirements of any relevant regulatory body or stock exchange pursuant to Rule 13.36(2)(a) of the Listing Rules and the result of the enquiries will be included in the Prospectus. If, after making such enquiries, the Board is of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place, not to offer Rights Shares to such Overseas Shareholders, no provisional allotment of nil-paid Rights Shares or allotment of fully-paid Rights Shares will be made to such Overseas Shareholders. Accordingly, the Rights Issue will not be extended to Excluded Shareholders and no Rights Shares will be provisionally allotted to them. The Company will send the Prospectus to the Excluded Shareholders for their information only but will not send PALs or EAFs to them. The basis of exclusion of the Excluded Shareholders, if any, from the Rights Issue will be disclosed in the Prospectus.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence on the Stock Exchange and in any event before the last date for dealings in nil-paid Rights Shares, if a premium (net of expenses) can be obtained. Proceeds of each sale, less expenses and stamp duty, of HK\$100 or more will be paid to the relevant Excluded Shareholder in Hong Kong dollars. The Company will retain individual amounts of less than HK\$100 for the benefit of the Company.

Fractions of the Rights Shares

The Company will not provisionally allot fractions of Rights Shares in nil-paid form. All fractions of Rights Shares will be aggregated and all nil-paid Rights Shares arising from such aggregation will be sold in the market and the Company will keep the proceeds for its own benefit.

Application for excess Rights Shares

Qualifying Shareholders may apply for any unsold entitlements of Excluded Shareholders and any Rights Shares provisionally allotted but not accepted by Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares. Application can be made by completing the EAF and lodging the same with remittance for the excess Rights Shares. The Directors will allocate the excess Rights Shares at their discretion and on a fair and equitable basis and will give preference to topping up odd lots to whole board lots.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms. The nil-paid Rights Shares shall have the same board lot size as the Shares, i.e. 1,000 Shares in one board lot.

Dealings in the Rights Shares in their nil-paid and fully-paid forms will be subject to the payment of stamp duty in Hong Kong.

UNDERWRITING AGREEMENT DATED 19 DECEMBER 2006

Underwriter:	Intellinsight
Number of Rights Shares underwritten (on the basis of the Shares in issue as at the date of the Underwriting Agreement):	158,230,384 Rights Shares
Commission:	1.5% of the aggregate Subscription Price of the actual number of Rights Shares underwritten by the Underwriter

Intellinsight is principally engaged in investment holdings. As at the date of the Underwriting Agreement, Intellinsight, the controlling shareholder of the Company, is interested in 448,238,083 Shares, representing approximately 58.43% of the existing issued share capital of the Company. Mr. Or, Mr. Or Pui Kwan, Mr. Tam Hee Chung, Mr. Lai Ka Fai, Mr. Lok Kung Chin, Hardy, Mr. Keith Alan Holman and Mr. Yeung Kwok Kwong are Directors and are in aggregate interested in 2,422,000 Shares (without taking into account the Shares directly held by Intellinsight), representing approximately 0.32% of the existing issued share capital of the Company.

Undertaking by the controlling Shareholder and the Directors

Intellinsight is interested in 448,238,083 Shares. Intellinsight has undertaken to the Company that it will subscribe or procure the subscription of the 224,119,041 Rights Shares that will be provisionally allotted to it under the Rights Issue (the “Controlling Shareholder Undertaking”). The Interested Directors, who in aggregate own 2,422,000 Shares, representing approximately 0.32% of the issued Shares, have also undertaken to the Company and the Underwriter that they will subscribe or procure the subscription of the 1,211,000 Rights Shares that will be provisionally allotted to them under the Rights Issue. Intellinsight intends to hold the Rights Shares it will take up pursuant to its proportionate entitlement and under the Underwriting Agreement as long term investment.

Underwriting

Subject to the fulfillment of the conditions contained in the Underwriting Agreement, the Underwriter has agreed to underwrite 158,230,384 Rights Shares and will receive an underwriting commission of 1.5% on the aggregate subscription price of the actual number of Rights Shares underwritten. The Underwriter is the controlling Shareholder of the Company and thus a connected person of the Company. The Underwriting Agreement constitutes a connected transaction for the Company which is exempted from reporting, announcement and independent Shareholders’ approval requirement pursuant to Rule 14A.31(3)(c) of the Listing Rules. The Directors (including independent non-executive Directors) consider that the Underwriting Agreement is (i) on normal commercial terms; and (ii) fair and reasonable so far as the Shareholders are concerned.

SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (prepared on the basis of the existing 767,120,850 Shares in issue) is as follows:

	Existing Shareholding		Shareholding upon completion of the Capital Increase and the Rights Issue			
	Shares	%	Assuming no public Shareholder subscribing		Assuming all public Shareholders subscribing	
	Shares	%	Shares	%	Shares	%
Intellinsight	448,238,083	58.43	830,587,508	72.18	672,357,124	58.43
Directors	2,422,000	0.32	3,633,000	0.32	3,633,000	0.32
Public	316,460,767	41.25	316,460,767	27.50	474,691,151	41.25
Total	<u>767,120,850</u>	<u>100.00</u>	<u>1,150,681,275</u>	<u>100.00</u>	<u>1,150,681,275</u>	<u>100.00</u>

Termination of the Underwriting Agreement

Shareholders should note that the Underwriting Agreement contains provisions granting the Underwriter the rights, which may be exercised by the Underwriter at any time prior to 4:00 p.m. on the Settlement Date, to terminate the obligations of the Underwriter if there occurs:

- (a) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or**
- (b) any local, national or international event or change (whether or not forming part of series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not ejusdem generis with any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or**
- (c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;**

and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue.

If, at or prior to 4:00 p.m. on the Settlement Date following the Acceptance Date:

- (i) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or**
- (ii) the Underwriter shall receive notification pursuant to the Underwriting Agreement of, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or**

- (iii) the Company shall, after any matter or event comes to the attention of the Company as a result of which any representation or warranty, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any material respect or which would or might render any statement untrue, inaccurate in any material respect or misleading, whether of fact or opinion, contained in the Prospectus Documents if the same were issued immediately after such occurrence has occurred or come to the Underwriter's attention, fail promptly to send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents) as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

The Underwriter shall be entitled (but not bound) by notice in writing to the Company to elect to treat such matter or event as releasing and discharging the Underwriter from obligations under the Underwriting Agreement.

If the Underwriter exercises such right, the obligation of the Underwriter under the Underwriting Agreement shall cease and determine and the Rights Issue will not proceed.

CONDITIONS OF THE UNDERWRITING AGREEMENT

The Underwriting Agreement is conditional, among other things, on the following conditions being fulfilled:

- (i) the passing by Shareholders of the necessary resolutions in general meeting to approve the Capital Increase on or before the date of despatch of the Prospectus Documents and all necessary approvals being obtained, if any;
- (ii) the Listing Committee of the Stock Exchange agreeing to grant and not having withdrawn or revoked listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms prior to the date on which the nil-paid Rights Shares commence trading; and
- (iii) compliance with and performance of all the obligations of the Company as specified in the Underwriting Agreement.

If the above conditions are not satisfied and/or waived in whole or in part by the Underwriter on or before the time and dates as specified in the Underwriting Agreement (or such other date as the Company and the Underwriter may mutually agree) or if the Underwriting Agreement shall be terminated as described above, all obligations and liabilities of the parties hereto shall cease and determine. The Rights Issue is subject to the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms.

The Underwriting Agreement and the Rights Issue are not conditional on the completion of the Agreement.

WARNING OF THE RISKS OF DEALING IN SHARES

If the conditions of the Rights Issue are not fulfilled or waived, the Rights Issue will not proceed.

Any Shareholders or other persons contemplating selling or purchasing Shares and/or Rights Shares in their nil-paid form are advised to exercise caution when dealing in the Shares. Any person who is in any doubt about his/her position are recommended to consult his/her own professional adviser.

The expected timetable for events regarding the Rights Issue will be announced as soon as practicable.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Group and its subsidiaries are principally engaged in property development and investment, property management, financial services, investment in Hong Kong, Macau and the PRC as well as local and overseas financial investments. The strategy of the Group is to diversify into major cities in the PRC in identifying property investment and development opportunities. The Directors consider that the Investment represents a major strategic step of the Group in securing a quality land bank with prime location in Tianjin and the development of the Property will require significant financial resources. The Group has also recently acquired a significant amount of development sites in other cities in the PRC as well as considering making further acquisitions. Accordingly, the Directors consider that it is desirable for the Group to strengthen its capital base and at the same time utilise equity capital in sourcing the necessary funding. The Directors consider the Rights Issue will enable all Shareholders to participate in the fund raising by subscribing to the Rights Shares and at the same time give Shareholders a choice of realizing their nil-paid Rights Shares should they not want to participate.

The Company has loans in the amount of HK\$2,256 million outstanding due to Polytec Holdings as at 14 December 2006. The Loan was drawn mainly for (i) subscription of new shares of PAH in 2006; and (ii) general working capital purposes. The Loan bears interest with reference to Hong Kong inter-bank borrowing rate and without fixed terms of repayment. The Loan will be settled by setting off an equivalent amount of the subscription price to be paid by Intellinsight for subscribing for its entitlement to the Rights Shares. Particulars of subscription of new shares of PAH are set out in the announcement and the circular of the Company dated 8 May 2006 and 23 May 2006 respectively.

Net proceeds from the Rights Issue, after deduction of expenses and setting off the Loan, are expected to amount to approximately HK\$3,003 million and is intended to be applied as to approximately (i) HK\$1,100 million to satisfy part of the Consideration; and (ii) HK\$1,903 million for investments and further acquisition of property projects in the PRC and general working capital.

FUND RAISING ACTIVITIES IN PAST TWELVE MONTHS

Set out below is the summary of the fund raising activities of the Group in the past twelve months:

Date of announcement	Capital raising activities	Issue price	Net proceeds HK\$	Use of proceeds as set out in the announcement	Actual use of proceeds
8 May 2006	Top-up placing of 113,353,000 Shares	HK\$12.4 per Share	Approximately 1,377 million	Net proceeds was to be used as to 70% to fund the subscription of the shares of PAH and 30% for business development and expansion.	Approximately HK\$970 million was used to fund the subscription of shares in PAH, the details of which have been summarized in the Company's announcement dated 8 May 2006 and the Company's circular dated 23 May 2006. The remainder of approximately HK\$407 million was used for business development and expansion.
15 September 2006	Top-up placing of 87,000,000 Shares	HK\$13.25 per Share	Approximately 1,133 million	Approximately HK\$1,133 million for the expansion of its property investment and development business in the PRC.	For property investment and development business in the PRC.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on Thursday, 14 December 2006 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Shares with effect from 9:30 a.m. on Wednesday, 20 December 2006.

TERMS USED IN THE ANNOUNCEMENT

“Acceptance Date”	the date for acceptance of, and payment of, Rights Shares;
“Agreement”	the cooperation agreement dated 13 December 2006 entered into between the Company and the Partner in relation to the Investment
“Board”	Board of Directors
“Business Day”	any day (other than a Saturday and Sunday) on which licensed banks are open for business in Hong Kong;
“Capital Increase”	the proposed increase in authorised share capital of the Company from HK\$100 million to HK\$500 million by the creation of 4,000,000,000 new Shares

“Company”	Kowloon Development Company Limited, a company incorporated in Hong Kong with its Shares listed on the Stock Exchange
“connected persons”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	the aggregate consideration of RMB3,500 million (equivalent to approximately HK\$3,465 million) payable to the Partner in relation to the Investment pursuant to the Agreement
“Directors”	directors of the Company
“EAF”	the excess application forms being issued to Qualifying Shareholders in respect of applications for excess Rights Shares pursuant to the Rights Issue
“EGM”	an extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Capital Increase
“Excluded Shareholders”	Overseas Shareholders whom the Directors, after making relevant enquiry pursuant to Rule 13.36(2)(a) of the Listing Rules, consider it necessary or expedient to exclude from the Rights Issue on account either of the legal restrictions under the laws of the relevant place or the requirements of any relevant regulatory body or stock exchange in that place
“GFA”	gross floor area
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Intellinsight” or “Underwriter”	Intellinsight Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and holding approximately 58.43% of the issued Shares as at the date of this announcement and which in turn is ultimately wholly-owned by a discretionary 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
“Investment”	the proposed investment by the Company in the Project Co pursuant to the Agreement

“Land Grant Contract”	a contract dated 29 September 2006 between the Partner and the Tianjin City State-owned Land Resources and Real Estate Bureau relating to the transfer of the land use rights for the Property
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the outstanding amount of the loan of HK\$2,256 million owed by the Company to Polytec Holdings as at 14 December 2006
“Macau”	The Macau Special Administrative Region of the PRC
“Mr. Or”	Mr. Or Wai Sheun, the chairman of the Company
“Overseas Shareholders”	Shareholders whose addresses on the register of members of the Company on the Record Date are outside Hong Kong
“PAH”	Polytec Asset Holdings Limited, a company incorporated in the Cayman Islands with its Shares listed on the Stock Exchange
“PAL”	the provisional allotment letters being issued to Qualifying Shareholders in respect of their assured entitlements under the Rights Issue
“Partner”	Tianjin Binhai Mass Transit Development Co., Ltd. (天津濱海快速交通發展有限公司), a domestic company incorporated in the PRC
“Polytec Holdings”	Polytec Holdings International Limited, a company incorporated in the British Virgin Islands with limited liability which holds the entire issued share capital of Intellinsight and which in turn is ultimately wholly-owned by a discretionary 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
“PRC”	the People’s Republic of China (for the purpose of this announcement, excludes Hong Kong, Taiwan, and the Macau)
“Project Co”	a sino-foreign equity joint venture enterprise to be established in the PRC to acquire the Property pursuant to the Agreement
“Property”	the composite property development site located in the intersection of Shiyijing Road and Liuwei Road, Hedong District, Tianjin City, the PRC

“Prospectus Documents”	the prospectus, the PAL and the EAF to be issued by the Company to the Qualifying Shareholders in relation to the Rights Issue
“Qualifying Shareholders”	Shareholders who, at the close of business on the Record Date, have their names on the register of members of the Company, other than the Excluded Shareholders
“Record Date”	the date by reference to which entitlement under the Rights Issue will be determined
“Rights Share(s)”	383,560,425 new Share(s) proposed to be issued under the Rights Issue
“Rights Issue”	the proposed offer by way of the Rights Issue of the Rights Shares to Qualifying Shareholders on the terms set out in this announcement and in the Prospectus Documents
“RMB”	Renminbi, the lawful currency of the PRC
“Settlement Date”	the date being the second Business Day following the Acceptance Date
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“sqm”	square meter(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$13.80 per Rights Share pursuant to the Rights Issue
“Undertaking Directors”	Directors who hold Shares and have undertaken to subscribe or procure the subscription of their assured entitlements in full
“Underwriting Agreement”	the underwriting agreement entered into among the Underwriter, the Company and the Undertaking Directors dated 19 December, 2006 in relation to the subscription of Rights Shares under, and the underwriting of, the Rights Issue

“Underwritten Shares” 158,230,384 Rights Shares, being all the Rights Shares to be issued under the Rights Issue (on the basis of the issued share capital of the Company as at the date of the Underwriting Agreement) less the Rights Shares to be provisionally allotted to Intellinsight and the Undertaken Directors

“%” per cent.

Amounts denominated in RMB have been converted into HK\$ at a rate of RMB1.01 = HK\$1.

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

19 December 2006

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 three independent non-executive Directors, being 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.