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If you are in any doubt as to any aspect about this document, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

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

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KOWLOON DEVELOPMENT COMPANY LIMITED

九龍建業有限公司

(Incorporated in Hong Kong with limited liability)

**DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF INTERESTS IN PROPERTIES**

**Financial adviser to
Kowloon Development Company Limited**

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

**Independent financial adviser to the independent board committee of
Kowloon Development Company Limited**



SOUTH CHINA CAPITAL LIMITED

A notice convening an extraordinary general meeting of Kowloon Development Company Limited to be held at 11:00 a.m. on Monday, 15th April, 2002 at The Four Seasons, Lobby Floor, New World Renaissance Hotel, 22 Salisbury Road, Kowloon, Hong Kong is set out on page 36 of this circular. Whether or not you intend to attend and vote at the extraordinary general meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar, Central Registration Hong Kong Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the extraordinary general meeting or any adjourned meeting should you so wish.

28th March, 2002

CONTENTS

	<i>Page</i>
Definitions	1
 Letter from the board of Kowloon Development	
Introduction	4
The sale and purchase agreement	6
Information on the properties	8
Information on Kowloon Development group	10
Reasons for the acquisition	10
Extraordinary general meeting	10
Further information	11
 Letter from the independent board committee	 12
 Letter from South China	 13
 Appendix I – Property valuation	 20
 Appendix II – General information	 31
 Notice of extraordinary general meeting	 36
 Accompanying document	
– Form of proxy	

DEFINITIONS

Unless the context requires otherwise, the following expressions have the following meanings in this circular:

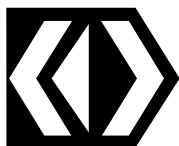
“acquisition”	the proposed acquisition by Kowloon Development from Polytec Holdings of the entire issued share capital of each of Elegant Florist and Jumbo Star, and the proposed assignment of shareholders’ loans to Kowloon Development;
“associate(s)”	has the meaning ascribed thereto in the listing rules;
“board”	the board of directors;
“completion accounts”	audited consolidated financial statements of Elegant Florist and its subsidiaries and Jumbo Star and its subsidiary as at the date of completion, adjusted to take into account the independent valuation of the property interests and development rights held by them as at 8th March, 2002 as described in this circular;
“completion”	completion of the sale and purchase agreement;
“directors”	the directors of Kowloon Development;
“Elegant Florist”	Elegant Florist Limited, a company incorporated in the British Virgin Islands with limited liability and which is a wholly-owned subsidiary of Polytec Holdings;
“extraordinary general meeting”	an extraordinary general meeting of the shareholders of Kowloon Development to be convened at The Four Seasons, Lobby Floor, New World Renaissance Hotel, 22 Salisbury Road, Kowloon, Hong Kong, at 11:00 a.m. on 15th April, 2002 or any adjourned meeting, to consider and, if thought fit, approve the acquisition, the notice of which is set out on page 36 of this circular;
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong;
“independent board committee”	the independent committee of the board, comprising Mr. Chau Cham Son, Mr. Seto Gin Chung, John, Mr. Lok Kung Chin, Hardy and Mr. Li Kwok Sing, being all of the independent non-executive directors;

DEFINITIONS

“independent shareholders(s)”	shareholders of Kowloon Development, being those shareholders other than Intellinsight Holdings and China Dragon Limited and their respective associates;
“Intellinsight Holdings”	Intellinsight Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Polytec Holdings;
“Jumbo Star”	Jumbo Star Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Polytec Holdings;
“Jumbo Power”	Jumbo Power Enterprises Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of Polytec Holdings;
“Knight Frank”	Knight Frank, an independent professional property valuer;
“Kowloon Development group”	Kowloon Development and its subsidiaries;
“Kowloon Development”	Kowloon Development Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
“latest practicable date”	25th March, 2002, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein;
“listing rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Polytec Holdings”	Polytec Holdings International Limited, a company incorporated in the British Virgin Islands with limited liability and ultimately wholly-owned by the family trust of the family of Mr. Or Wai Sheun, the Chairman of the board;
“PRC”	the People’s Republic of China, which for the purpose of this document, does not include Hong Kong, Taiwan and Macau;

DEFINITIONS

“sale and purchase agreement”	the conditional sale and purchase agreement dated 11th March, 2002 entered into between Kowloon Development as purchaser and Polytec Holdings as vendor relating to the acquisition;
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance, Chapter 396 of the Laws of Hong Kong;
“share(s)” or “share(s) in Kowloon Development”	ordinary share(s) of HK\$0.10 each of the issued share capital of Kowloon Development;
“shareholders’ loans”	total outstanding shareholders’ loans, as at the date of completion, together with accrued interest made by certain wholly-owned subsidiaries of Polytec Holdings to Elegant Florist and Jumbo Star and their respective subsidiaries (the aggregate outstanding amount of which as at 31st December, 2001 was approximately HK\$613.0 million). Other than the loan from Polytec Finance Company Limited to Pak Hop Shing Company Limited, an indirect wholly-owned subsidiary of Polytec Holdings, under which interest is charged at the monthly average HIBOR rate plus 0.5% per annum, the shareholders’ loans are interest free and repayable on demand;
“South China”	South China Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the independent financial adviser to the independent board committee;
“sq.m”	square metre;
“sq.ft.”	square feet;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“subsidiaries”	has the meaning ascribed thereto in the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).



KOWLOON DEVELOPMENT COMPANY LIMITED

九龍建業有限公司

(incorporated in Hong Kong with limited liability)

Executive directors:

Mr. Or Wai Sheun, *Chairman*
Ms. Ng Chi Man
Mr. Lai Ka Fai
Mr. Lau Siu Yin

Registered Office:

23rd Floor
Pioneer Centre
750 Nathan Road
Kowloon
Hong Kong

Non-executive directors:

Mr. Holman Keith Alan
Mr. Tam Hee Chung
Mr. Yeung Kwok Kwong

Independent non-executive directors:

Mr. Chau Cham Son
Mr. Seto Gin Chung, John
Mr. Lok Kung Chin, Hardy
Mr. Li Kwok Sing

28th March, 2002

To the shareholders of Kowloon Development

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF INTERESTS IN PROPERTIES**

INTRODUCTION

Kowloon Development entered into the sale and purchase agreement with Polytec Holdings on 11th March, 2002 under which Kowloon Development has conditionally agreed to acquire directly and indirectly from Polytec Holdings the entire issued share capital together with certain shareholders' loans of five wholly-owned subsidiaries of Polytec Holdings which own a portfolio of property interests, including the exclusive development rights relating to a real estate project in Hong Kong.

LETTER FROM THE BOARD OF KOWLOON DEVELOPMENT

As well as being a discloseable transaction, the acquisition constitutes a connected transaction for Kowloon Development as Intellinsight Holdings is both a controlling shareholder of Kowloon Development and a wholly-owned subsidiary of Polytec Holdings. Accordingly, the acquisition is subject to the approval of the independent shareholders. As at the latest practicable date, Intellinsight Holdings and its associates held a total of 414,332,033 shares in Kowloon Development representing 85.6% of the issued share capital of Kowloon Development.

As there were less than 25% of the shares in Kowloon Development held in public hands within the meaning of rule 8.08 of the listing rules, Kowloon Development has applied for and the Stock Exchange has granted a waiver from strict compliance with rule 8.08 of the listing rules until 11th May, 2002, after which time a minimum of 25% of the shares in Kowloon Development will be required to be held in public hands. The Stock Exchange has stated that for so long as the shares in Kowloon Development remain listed on the Stock Exchange, if less than 25% of the shares in Kowloon Development are in public hands, it will closely monitor trading in the shares. If the Stock Exchange believes that a false market exists or may exist in the shares in Kowloon Development or there are insufficient shares in Kowloon Development in public hands to maintain an orderly market, it will give consideration to exercising its discretion to suspend trading in the shares in Kowloon Development.

The independent board committee, comprising Mr. Chau Cham Son, Mr. Seto Gin Chung, John, Mr. Lok Kung Chin, Hardy and Mr. Li Kwok Sing, has been appointed by the board of Kowloon Development to consider the terms of the sale and purchase agreement. South China has been appointed as the independent financial adviser to advise the independent board committee as to whether the terms of the sale and purchase agreement are fair and reasonable so far as the independent shareholders of Kowloon Development are concerned.

The purpose of this circular is to provide you with, inter alia, information relating to the sale and purchase agreement and to set out the letter from the independent board committee containing its advice to the independent shareholders on the acquisition and the letter from South China containing its advice to the independent board committee in respect of the acquisition.

Your attention is also drawn to page 36 of this circular where you will find a notice dated 28th March, 2002 convening an extraordinary general meeting to be held at The Four Seasons, Lobby Floor, New World Renaissance Hotel, 22 Salisbury Road, Kowloon, Hong Kong, at 11 a.m. on 15th April, 2002. Intellinsight Holdings, China Dragon Limited and their respective associates will abstain from voting at the extraordinary general meeting on the resolution to consider the sale and purchase agreement.

LETTER FROM THE BOARD OF KOWLOON DEVELOPMENT

THE SALE AND PURCHASE AGREEMENT

The overall effect of the acquisition

Under the sale and purchase agreement, Kowloon Development has conditionally agreed to acquire from Polytec Holdings:

- i) the entire issued share capital of Elegant Florist which, through its two wholly-owned subsidiaries, Wealrise Investments Limited and Pak Hop Shing Company Limited, indirectly owns four sites for primarily residential development at 12A (also known as 2A) North Street, Kennedy Town, Hong Kong; Tong Yan San Tsuen, Yuen Long, the New Territories, Phases I and II; and 377 Prince Edward Road, Kowloon City, Kowloon;
- ii) the entire issued share capital of Jumbo Star which, through its wholly-owned subsidiary Jumbo Power, owns the exclusive right to develop a site at Ngau Chi Wan, Choi Hung, Kowloon, which on completion will comprise residential units and retail space and is entitled to all sales proceeds of the development. Jumbo Power also owns one site for development located at Ngau Chi Wan, Choi Hung, Kowloon; and
- iii) the shareholders' loans (the outstanding amount of which as at 31st December, 2001 was approximately HK\$613.0 million).

Elegant Florist and Jumbo Star are wholly-owned subsidiaries of Polytec Holdings. The sale and purchase agreement was entered into on an arm's length basis and on normal commercial terms. The directors of Kowloon Development consider the terms of the sale and purchase agreement to be fair and reasonable. The consideration was arrived at on the basis of the aggregate pro forma unaudited consolidated net asset value of Elegant Florist and its subsidiaries and Jumbo Star and its subsidiary as at 31st December, 2001, adjusted to take into account the independent valuation of the property interests and development rights indirectly held by Elegant Florist and Jumbo Star, amounting to approximately HK\$1,571 million as at 8th March, 2002, and the benefit of the shareholders' loans. Details of the consideration are set out below.

Consideration and payment terms

The aggregate consideration payable upon completion, subject to adjustment as described below, for the acquisition will be approximately HK\$816.3 million comprising:

- (a) HK\$434.0 million, representing the aggregate pro forma unaudited consolidated net asset value of Elegant Florist and its subsidiaries and Jumbo Star and its subsidiary as at 31st December, 2001 (based on the respective unaudited consolidated net asset value of approximately HK\$66.3 million and HK\$367.7

LETTER FROM THE BOARD OF KOWLOON DEVELOPMENT

million for Elegant Florist and Jumbo Star respectively), adjusted to take into account the independent valuation of the property interests and development rights indirectly held by Elegant Florist and Jumbo Star, amounting to approximately HK\$1,571 million as at 8th March, 2002; and

- (b) such amount as represents the amount of the shareholders' loans outstanding as at the date of completion, less a discount of HK\$230.7 million which, for indicative purposes, was approximately HK\$382.3 million as at 31st December, 2001.

The consolidated financial statements of Elegant Florist and its subsidiaries and Jumbo Star and its subsidiary as at the date of completion for ascertaining the final consideration will be audited by Deloitte Touche Tohmatsu. If the aggregate of the consolidated net asset value of Elegant Florist and its subsidiaries and Jumbo Star and its subsidiary, as based on the completion accounts, adjusted to take into account the independent valuation of the property interests and development rights by Knight Frank of approximately HK\$1,571 million, is different from the abovementioned consideration of HK\$434.0 million payable for the entire issued share capital of Elegant Florist and Jumbo Star, a refund or an additional payment, as the case may be, equal to the difference will be made.

The consideration will be satisfied by cash.

Funding

The consideration will be funded from internal resources and borrowings from bank or Polytec Holdings. In the event that a loan is made available by Polytec Holdings to Kowloon Development for the purpose of financing the acquisition, interest will be charged on the loan at normal commercial terms. This connected transaction is exempt by virtue of rule 14.24(8) of the listing rules, being the granting of financial assistance by a connected person to a listed issuer upon normal commercial terms and without security over any of the assets of the listed issuer, from the disclosure and independent shareholder approval requirements of the listing rules in respect of connected transactions.

The conditions of the sale and purchase agreement

The sale and purchase agreement is conditional on:

- (a) the passing by the independent shareholders of a resolution approving the terms of the sale and purchase agreement and the transactions contemplated thereunder at the extraordinary general meeting;
- (b) the making of such enquiries, investigations and due diligence reviews by Kowloon Development of the affairs and financial position of each of Elegant Florist, Jumbo Star and their respective subsidiaries including title investigations in respect of the properties owned by the subsidiaries of Elegant Florist and Jumbo Star,

LETTER FROM THE BOARD OF KOWLOON DEVELOPMENT

and the Ngau Chi Wan development which Kowloon Development in its absolute discretion deems necessary and confirmation by Kowloon Development that the results of such enquiries, investigations, due diligence reviews and title investigations are satisfactory to Kowloon Development;

- (c) the consent of the mortgagee(s)/chargee(s) being obtained in respect of the mortgages/charges of the properties in relation to the transfer of the issued shares in Elegant Florist and Jumbo Star under the sale and purchase agreement and to the assignment of the obligations of any guarantor(s) under such mortgages/charges to Kowloon Development;
- (d) Kowloon Development having confirmed in writing to Polytec Holdings that it has sufficient financial resources together with the proceeds available under any funding agreement to complete the sale and purchase agreement; and
- (e) any consents, approvals, waivers and clearances required from the Stock Exchange or the Securities and Futures Commission or any other person(s), if any, in connection with the sale and purchase agreement and the transactions contemplated thereunder being granted in terms satisfactory to Kowloon Development and Polytec Holdings.

If any of the above conditions have not been fulfilled by 31st May, 2002 (or such other date as may be agreed by the parties), the provisions of the sale and purchase agreement (other than those clauses relating to announcements, costs, notices and governing law) shall have no effect and no party shall have any liability under them.

Completion date

Completion will take place three business days following the satisfaction of the conditions precedent referred to above. This is expected to take place on or before 30th April, 2002.

INFORMATION ON THE PROPERTIES

12A North Street, Kennedy Town, Hong Kong

The site at 12A (also known as 2A) North Street, Kennedy Town, Hong Kong is currently vacant. Land premium of HK\$26.5 million in respect of the site has been paid. Construction work has started and the development is expected to be completed in the latter half of 2003. The development will upon completion have a gross floor area of approximately 38,477 sq.ft. including 3,787 sq.ft. for Government, Institution or Community use.

LETTER FROM THE BOARD OF KOWLOON DEVELOPMENT

Tong Yan San Tsuen, Yuen Long, the New Territories, Phases I and II

The site at Tong Yan San Tsuen, Yuen Long, the New Territories comprises two phases. Construction work at Phase I has been substantially completed and will upon completion provide residential apartments with recreational facilities and underground carparking spaces occupying a total gross floor area of 88,902 sq.ft.. Sale of the apartments will begin in April 2002. Phase II comprises a site with a registered area of 29,048 sq.ft. and development has not yet commenced on this site.

377 Prince Edward Road, Kowloon City, Kowloon

The site at 377 Prince Edward Road, Kowloon City, Kowloon is currently vacant for development into a 17-storey residential building erected over a 7-storey car park and recreational podium. Construction work has started and the development is expected to be completed in the latter half of 2003. The gross floor area of the development will be approximately 54,896 sq.ft..

Ngau Chi Wan, Choi Hung, Kowloon

Jumbo Power is a wholly-owned subsidiary of Jumbo Star. Under a development agreement dated 11th February, 2002 entered into between The Mother Superior of the Petites Soeurs des Pauvres, St. Pern, Bretagne (also known as The Little Sisters of the Poor), Best Power (Asia) Limited (a company wholly-owned by The Little Sisters of the Poor), Jumbo Power and Polytec Holdings, The Little Sisters of the Poor have granted to Jumbo Power the exclusive right to develop a property at Ngau Chi Wan, Choi Hung, Kowloon. The Ngau Chi Wan site is prominently located adjacent to the Choi Hung mass transit railway station; a major bus terminus and taxi services are nearby. The immediately surrounding area has been developed to provide low and high rise housing and various community complexes as well as the transport facilities previously mentioned. This site will be developed into a high quality residential and shopping centre complex. It is expected that the residential portion will be contained in five multi-storey towers with garden and clubhouse facilities. According to the Ngau Chi Wan outline zoning plan no. S/K12/12 dated 24th August, 2001, the total gross floor area of the development will be approximately over 1.8 million sq.ft. If developed as currently envisaged, the directors believe it will become an attractive landmark in the eastern part of the Kowloon peninsula. As at the latest practicable date, Jumbo Power has an outstanding obligation under the development agreement of approximately HK\$520 million payable to The Little Sisters of the Poor. The development rights owned by Jumbo Power, together with the portion of the site it owns directly, have been independently valued at not less than HK\$1,200 million on an "as is" basis as at 8th March, 2002. Pursuant to the development agreement, Jumbo Power is responsible for bearing all costs and expenses of carrying out the development including the payment of land premium to the Hong Kong Government and applying for the planning approval and modification of the government grant. In return, Jumbo Power is entitled to all sales proceeds derived from the completed development. Polytec Holdings has guaranteed Jumbo Power's obligations under the agreement.

The above properties have been valued by Knight Frank, an independent property valuer.

LETTER FROM THE BOARD OF KOWLOON DEVELOPMENT

INFORMATION ON KOWLOON DEVELOPMENT GROUP

Kowloon Development group is principally engaged in property development and investment, property management, electrical and mechanical engineering services and financial services and investments in Hong Kong, world-wide film distribution and local and overseas securities trading. For the year ended 31st December, 2000, the audited consolidated profit attributable to shareholders of the Kowloon Development group was HK\$205.6 million. The unaudited consolidated profit attributable to shareholders was HK\$126.4 million for the six months ended 30th June, 2001 after eliminating the financial effect due to the distribution in specie of the shares of The Kowloon Motor Bus Holdings Limited in relation to the special interim dividend made in June 2001. The consolidated net tangible assets of the Kowloon Development group were HK4,359.1 million and HK\$3,425.5 million as at 31st December, 2000 and 30th June, 2001 respectively.

REASONS FOR THE ACQUISITION

Kowloon Development will, under its new management, sharpen its focus on its principal activities of property development and investment and will actively seek new opportunities in these areas, the first of which is the acquisition of interests in properties from Polytec Holdings. The directors believe that the acquisition will provide good opportunities for Kowloon Development group to develop high quality residential and commercial properties in Hong Kong and thus strengthen Kowloon Development group's property portfolio and also create an additional income stream in the coming years.

EXTRAORDINARY GENERAL MEETING

A notice convening the extraordinary general meeting to be held at 11:00 a.m. on 15th April, 2002 at The Four Seasons, Lobby Floor, New World Renaissance Hotel, 22 Salisbury Road, Kowloon, Hong Kong at which an ordinary resolution will be proposed and, if thought fit, passed to approve the acquisition, is set out on page 36 of this circular.

A form of proxy for use at the extraordinary general meeting is enclosed. Whether or not you are able to attend the extraordinary general meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrar, Central Registration Hong Kong Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the extraordinary general meeting or at any adjourned meeting (as the case may be) should you so wish.

Intellinsight Holdings and China Dragon Limited and their respective associates which hold shares in Kowloon Development will abstain from voting at the extraordinary general meeting.

LETTER FROM THE BOARD OF KOWLOON DEVELOPMENT

FURTHER INFORMATION

As mentioned above, the independent board committee has been formed to consider the acquisition and to advise how the independent shareholders should vote in relation to the acquisition. South China has been appointed to advise the independent board committee in relation to the acquisition. Your attention is drawn to the letters from the independent board committee of Kowloon Development and South China on page 12 and pages 13 to 19 of this circular respectively, containing their recommendation and advice.

Your attention is also drawn to the property valuation and other information required to be disclosed in the listing rules set out in appendix I and II respectively to this circular, and the notice of extraordinary general meeting.

Yours faithfully,
By order of the board of
Kowloon Development Company Limited
Or Wai Sheun
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

28th March, 2002

To the independent shareholders of Kowloon Development

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF INTERESTS IN PROPERTIES

We refer to the circular issued by Kowloon Development on 28th March, 2002, of which this letter forms a part. Terms defined in the circular shall have the same meanings when used herein.

We have been appointed by the board as the independent board committee established to consider the acquisition and to advise you as to whether the terms of the acquisition are fair and reasonable so far as the independent shareholders are concerned.

South China has been appointed as the independent financial adviser to advise us regarding the acquisition. Details of the advice of South China, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out in its letter. Your attention is also drawn to the letter from the board of Kowloon Development and the additional information set out in the appendices to the circular.

The independent board committee considers the terms of the acquisition to be fair and reasonable so far as the independent shareholders are concerned and has been so advised by South China, the independent financial adviser. The independent board committee recommends you to vote in favour of the resolution to approve the acquisition.

Yours faithfully,
Independent board committee

Chau Cham Son
Independent non-executive director

Seto Gin Chung, John
Independent non-executive director

Lok Kung Chin, Hardy
Independent non-executive director

Li Kwok Sing
Independent non-executive director

LETTER FROM SOUTH CHINA



South China Capital Limited 南華融資有限公司

28/F., Bank of China Tower, No.1 Garden Road, Central, Hong Kong.
Tel: 2820 6333 Telex: 69208 SCSL Fax: 2523 9269

The independent board committee
Kowloon Development Company Limited
23rd Floor, Pioneer Centre
750 Nathan Road
Kowloon
Hong Kong

28th March, 2002

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF INTERESTS IN PROPERTIES

We refer to our appointment by Kowloon Development “the Company” to give an independent opinion and to advise the independent board committee in respect of the acquisition of interests in properties which constitutes a discloseable and connected transaction for the Company. Details of the transactions, the properties and the companies involved are contained in the circular to the shareholders of Kowloon Development dated 28th March, 2002 (the “Circular”), of which this letter forms part. The terms defined in the Circular have the same meanings when used in this letter, unless otherwise stated.

Under the listing rules, the acquisition of the interests in properties by Kowloon Development from Polytec Holdings constitutes a discloseable and connected transaction, as Intellinsight Holdings is both a controlling shareholder of Kowloon Development and a wholly-owned subsidiary of Polytec Holdings. Accordingly, the acquisition is subject to the independent shareholders’ approval at the extraordinary general meeting.

In formulating our opinion, we rely on the information and facts supplied and the opinions expressed by the directors and Knight Frank, an independent professional property valuer. We have assumed that all information and representations concerning the group and the transactions contained or referred to in the Circular, for which they are wholly responsible, are true and accurate in all respects at the date hereof and may be relied upon. We have also sought and received confirmation from the directors that opinions expressed in the Circular are formulated after due and careful consideration and there are no other material facts the omissions of which would lead to any misstatement in the Circular.

We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the acquisition and we have no reasons to suspect that such information is inaccurate or that any material facts have been omitted or withheld from the information

LETTER FROM SOUTH CHINA

supplied or opinions expressed in the Circular. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Kowloon Development group.

In arriving at our independent opinion and our advice to the independent board committee, we have taken into consideration the following principal factors:

1. Background of acquisition

Kowloon Development announced on 11th March, 2002 that it had conditionally agreed to acquire directly or indirectly from Polytec Holdings the entire issued share capital and certain shareholders' loans of its five wholly-owned subsidiaries, whose major assets are property interests and the exclusive development right relating to a real estate project in Hong Kong.

The subsidiaries acquired are Elegant Florist, Jumbo Star and their three respective subsidiaries.

Elegant Florist indirectly owns, through two wholly owned subsidiaries, four sites for primarily residential development, at 12A (also known as 2A) North Street, Kennedy Town, Hong Kong; Tong Yan San Tsuen, Yuen Long, the New Territories, Phase I and II; and 377 Prince Edward Road, Kowloon City, Kowloon.

Jumbo Star, through its wholly owned subsidiary, owns an exclusive right to develop a real estate project at Ngau Chi Wan, Choi Hung, Kowloon, as well as a site adjacent to this Ngau Chi Wan development project site.

2. Reasons for the acquisition

The acquisition represents an opportunity for the Company to acquire land banks in prime areas and to participate in high quality residential and commercial projects in Hong Kong, thereby enhancing the property portfolio and future earnings of the Company. We are of the view that the acquisition is in line with the normal course of business of Kowloon Development, and are convinced that the acquisition is beneficial for the strategic development of the Company.

LETTER FROM SOUTH CHINA

3. Basis on which the consideration has been determined

Under the sale and purchase agreement, the consideration to be paid for the acquisition has been determined:

- i) *in respect of the entire issued and fully paid share capital of Elegant Florist, Jumbo Star and their respective subsidiaries*

Pursuant to the sale and purchase agreement, the total consideration to be paid for the entire issued and fully paid share capital of Elegant Florist, Jumbo Star and their respective subsidiaries is HK\$434 million. This consideration is based on the aggregate pro forma unaudited net asset value of the two companies and their respective subsidiaries as at 31st December, 2001, adjusted to take into account the independent valuation as at 8th March, 2002 by Knight Frank of the property interests and development rights indirectly held by Elegant Florist and Jumbo Star respectively.

The consolidated financial statements for each of Elegant Florist and Jumbo Star for the purpose of ascertaining the final consideration shall be audited by Deloitte Touche Tohmatsu. Should the consideration be paid for the entire issued and fully paid share capital, which will be based on the audited aggregate net asset value of Elegant Florist, Jumbo Star and their respective subsidiaries, adjusted to take into account the independent valuation of the property interests and development rights by Knight Frank of approximately HK\$1,571 million and the corresponding obligations, construction costs and land premium outstanding of HK\$530 million, HK\$25 million and HK\$24 million for the real estate project in Ngau Chi Wan, the building construction in Tong Yan San Tsuen and the vacant site at North Street respectively, different from the aforementioned HK\$434 million, a refund or further payment equal to the difference will be made.

- ii) *in respect of the outstanding shareholders' loans made by certain wholly-owned subsidiaries of Polytec Holdings to Elegant Florist, Jumbo Star and their respective subsidiaries*

The aggregate amount of the shareholders' loans, together with the accrued interest outstanding as at the date of completion, less a discount of HK\$230.7 million which, for indicative purpose, was approximately HK\$382.3 million as at 31st December, 2001. This discount represents the downward adjustment or resulting difference between the original book value and the value as reflected in the independent valuation by Knight Frank of the property interests and development rights under consideration.

LETTER FROM SOUTH CHINA

In summary, the total consideration paid for the acquisition was represented by the Company taking up the entire issued and fully paid share capital of Elegant Florist, Jumbo Star and their respective subsidiaries, as well as the shareholders' loans after the respective waiver amount, which are in turn determined on the basis of the aggregate net asset value, adjusted for independent valuation and the corresponding obligations, construction costs and land premium outstanding for the real estate project in Ngau Chi Wan, the building construction in Tong Yan San Tsuen and the vacant site at North Street. We consider that this basis is a common approach of determining the total consideration and is considered fair and reasonable.

4. Composition analysis of the net asset value

The following is a summary of the combined unaudited consolidated financial statements for each of Elegant Florist and Jumbo Star as at 31st December, 2001:

	Elegant Florist	Jumbo Star	Total
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Property interests and development rights, at valuation (net) (<i>Remark</i>)	322.2	670.6	992.8
Net current liabilities	(17.6)	(2.7)	(20.3)
Bank loans	(156.2)	–	(156.2)
	148.4	667.9	816.3
Net asset value	148.4	667.9	816.3
Represented by:			
Shareholders' loans	82.1	300.2	382.3
Share capital and reserves	66.3	367.7	434.0
	148.4	667.9	816.3
	148.4	667.9	816.3

LETTER FROM SOUTH CHINA

Remark:

As aforementioned, Kowloon Development has conditionally agreed to acquire the entire issued share capital of Elegant Florist, Jumbo Star and in turn their respective subsidiaries, based on an aggregate net asset value of HK\$434 million. This figure is based on the valuation comprising property interests and development rights held by these companies. Knight Frank, an independent professional property valuer, has concluded in its valuation report as at 8th March, 2002 an aggregate value of HK\$1,571 million for these properties. The following table is a summary of the valuation:

	<i>HK\$'million</i>
i) Jumbo Star and its subsidiary	
– development rights of a real estate project and a piece of land in Ngau Chi Wan (<i>Note 1</i>)	1,200
ii) Elegant Florist and its subsidiaries	
– a building under construction in Tong Yan San Tsuen (Phase I)	216
– a piece of agricultural land in Tong Yan San Tsuen (Phase II)	10
– a vacant site along North Street, Kennedy Town	50
– a vacant site along Prince Edward Road	95
Capital value as at 8 March, 2002	1,571
<i>Less:</i>	
– outstanding obligations to the existing owner of the Ngau Chi Wan project	(530)
– outstanding construction costs for the Tong Yan San Tsuen - Phase I project (<i>Note 2</i>)	(25)
– outstanding land premium for the site at North Street, Kennedy Town (<i>Note 3</i>)	(24)
	<hr/>
	992
	<hr/> <hr/>

LETTER FROM SOUTH CHINA

Notes:

1. The development rights of the real estate project in Ngau Chi Wan have been valued by Knight Frank at no less than HK\$1,200 million on an “as is” basis, after taking into account factors such as existing development restrictions, construction costs, professional fees and time to complete the development, and has not taken into account the possible redevelopment potential of a successful application for domestic or partly domestic and partly non-domestic use and an increase in plot ratio from 1.334 to 7.5 or above.
2. The shortfall represents the outstanding construction costs to be incurred after 31st December, 2001 for the completion of this development project.
3. The shortfall represents the remaining 90% of the land premium (original amount of HK\$26.5 million) paid to the government on 15th February, 2002.

5. Valuation approach

In assessing the reasonableness of the valuation of these properties, we have reviewed and discussed with Knight Frank the methodologies of valuation and the basis and assumptions adopted in the independent valuation report. For the purpose of valuation, Knight Frank has gathered comparable market information and taken into account the unique characteristics of the properties.

Furthermore, the directors of Polytec Holdings have included amounts provided for further capital commitments, additional construction costs and outstanding land premium as necessary adjustments to be deducted against the independent valuation arrived at by Knight Frank as ultimate values stated in the consolidated financial statements for Elegant Florist, Jumbo Star and their respective subsidiaries. In our opinion, the methodologies adopted by the independent valuer and the respective adjustments made by the directors of Polytec Holdings in relation to the valuation of these property interests and development rights are fair and reasonable.

To accomplish the acquisition of the property interests and developments rights, the Company also conditionally agreed to acquire the shareholders’ loans granted by certain wholly owned subsidiaries of Polytec Holdings to Elegant Florist, Jumbo Star and their respective subsidiaries. The total amount as at 31st December, 2001, for indicative purpose, aggregated to HK\$382.3 million, which represented a discount/waiver amount of HK\$230.7 million to the original value of HK\$613 million. This discount is a downward adjustment to reflect the devaluation in properties to be absorbed by the vendor in the aggregate value of share capital plus shareholders’ loans, and equals to the difference between the original book value and the value as reflected in the independent valuation by Knight Frank of the property interests and development rights under consideration. We consider this discount on the shareholders’ loans, which represents the adjustment arising as a consequence of the shareholders’ previous investment decisions, enables the net asset value of property interests and development rights to be taken up by Kowloon Development, and is considered fair and reasonable.

LETTER FROM SOUTH CHINA

We consider the valuation basis and the price paid for the shareholders' loans fair and reasonable to the shareholders of the Company as the arrangement to acquire the shareholders' loans, in effect, will clear all liabilities owed by Elegant Florist, Jumbo Star and their respective subsidiaries to Polytec Holdings, thereby making the total consideration for this acquisition HK\$816.3 million, reflecting fully the fair value of the net tangible assets to be acquired by the Company as at 31st December, 2001.

6. Financing of the acquisition

The Company will finance the acquisition of interests in properties by internal funding as well as borrowings from bank or Polytec Holdings. If the latter, then the interest charged by the Polytec Holdings will be at normal commercial terms.

7. Other factors to consider

With regard to all the factors considered above, we would like to draw your attention to the following points associated with the acquisition:

The valuation of the right to develop a real estate project in Ngau Chi Wan has been determined by Knight Frank on an "as is" basis. The valuer has assumed the site will be able to develop in accordance with the site coverage, plot-ratio and other development parameters as specified in the existing government leases without any additional plot-ratio extension of the land use. As such, we consider the valuer has adopted a conservative approach in reaching their open market value for the respective development rights of the project.

In addition, Polytec Holdings has guaranteed the performance of the obligations of Jumbo Power in respect of the Ngau Chi Wan development project. Polytec Holdings has advised us that it will not withdraw from its obligations as guarantor in any circumstances. We therefore consider the Company will have sufficient protection in relation to the continuation of the development project.

Finally, the gearing ratio of Kowloon Development will increase from 0.24, based on the unaudited financial statements as at 30th June, 2001, to 0.35 after this acquisition. We consider that this level of increase in gearing ratio, compared with other properties companies in the industry, is within an acceptable range and the financing arrangement for this acquisition is, in our opinion, reasonable.

8. Recommendation

Having considered all the factors and reasons set out above, we consider the terms of the acquisition, taken as whole, fair and reasonable so far as the interests of the independent shareholders are concerned. Accordingly, we advise the independent board committee to recommend the independent shareholders to vote in favour of the resolution to approve the acquisition as detailed in the notice of the extraordinary general meeting.

Yours faithfully
For and on behalf of
South China Capital Limited
Richard Howard Gorges
Director



32/F., AIA Tower
183 Electric Road
North Point, Hong Kong

28th March, 2002

The Directors
Kowloon Development Company Limited,
23/F., Pioneer Centre,
750 Nathan Road,
Kowloon,
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the properties and, where appropriate, the development rights in Hong Kong as per the attached certificate, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of the properties and, where appropriate, the development rights as at 8th March, 2002.

We have valued each of the properties at its open market value which we would define as meaning “the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospectively purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Our valuation has been made on the assumption that the owners sell the properties on the open market in their existing state without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangement which would serve to increase the values of the properties.

We have generally valued the properties by reference to comparable market transactions.

In respect of properties which are held for development in the future, we have assumed that there will be successful site assembly, completion of negotiation with government or obtaining approval of building plans, etc. Our valuations represent 100% interest in the properties.

We have undertaken land searches in Sai Kung Land Registry and understand that property no. 2 is held from the Government under four New Grants (namely New Grant Nos. 902, 903, 904 and 1837). However, the Government records or copies of the said four New Grants are missing and cannot be found at the Sai Kung Land Registry. Thus the site area, the conditions governing the usage and development of the property, the lease term and Government Rent cannot be ascertained from the Government. According to two copies of Indentures provided by The Mother Superior of The Petites Soeurs Des Pauvres St. Pern Bretagne, the lease terms of property no. 2, which expired before 30th June, 1997, have been extended until 30th June 2047 under Annex III of the Joint Declaration and with an annual government rent charged at 3% of the then rateable value of the lots.

We have relied to a considerable extent on the information provided by you and have accepted advice given to us by you on such matters as statutory notices, easements, tenure, identification of property, development agreement, land exchange documents, floor and site areas and all other relevant matters. We have caused searches to be made at the relevant Land Registries. However, we have not scrutinised the original documents to verify ownership or to verify any lease amendments which may not appear on the copies handed to us. All documents and leases have been used as reference only and all dimensions, measurements and areas are approximate.

We have inspected the exterior of all the properties. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report as to whether the properties are or are not free of rot, infestation or any other defects. No tests were carried out on any of the services.

We have also not carried out investigation on site to determine the suitability of the ground conditions and the services etc. for any future development.

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

We enclose herewith our summary of valuation and valuation certificate.

Yours faithfully,
For and on behalf of
KNIGHT FRANK

Catherine Cheung
AHKIS MRICS RPS(GP)
Assistant Director

Note: Ms. Catherine Cheung has over twelve years' and ten years' experience respectively in valuing properties in Hong Kong and the People's Republic of China.

SUMMARY OF VALUATION

Property	Capital value in existing state as at 8th March, 2002
1. Inland Lot No. 3443 and adjoining government land (to be known as Inland Lot No. 8962), North Street, Kennedy Town, Hong Kong	HK\$50,000,000
2. Lot Nos. 1904 and 1905, Section A and the Remaining Portion of Lot No. 1906, Section C and the Remaining Portion of Lot No. 1907 all in Survey District No. 2, Ngau Chi Wan, Kowloon	HK\$1,200,000,000
3. 377 Prince Edward Road, Kowloon City, Kowloon	HK\$95,000,000
4. Lot No. 2057 in Demarcation District No. 121, Tong Yan San Tsuen, Yuen Long, New Territories	HK\$216,000,000
5. Lot No. 1154, Section A of Lot Nos. 1135, 1139, 1140, 1141, 1148, 1149, 1152 and 1153, Section B of Lot No. 1141 and the Remaining Portion of Lot No. 1153 in Demarcation District No. 121, Yuen Long, New Territories	HK\$10,200,000
Total :	<u>HK\$1,571,200,000</u>

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 8th March, 2002
1. Inland Lot No. 3443 and adjoining government land (to be known as Inland Lot No. 8962), North Street, Kennedy Town, Hong Kong	<p>The property comprises a vacant site with a registered site area of approximately 2,953 sq.ft. (274.3 sq.m.).</p> <p>The property together with adjoining government land is proposed to be developed into a 25-storey residential building erected over a 2-storey GIC/ recreational podium. Upon completion, the gross floor area of the development will be approximately 38,477.3 sq.ft. (3,574.66 sq.m.) including 3,787 sq.ft. (351.84 sq.m.) floor area for Government/Institution/ Community use.</p> <p>The property is held from the Government for a term of 75 years commencing from 18th March, 1932 renewable for 75 years.</p> <p>The current Government Rent payable for the lot is HK\$46 per annum.</p>	The property and the adjoining government land are currently vacant.	HK\$50,000,000

Notes:

- (1) The registered owner of Inland Lot No. 3443 is Wealrise Investments Limited, a wholly-owned subsidiary of Elegant Florist.
- (2) Proposed land exchange is being undergone for Inland Lot No. 3343 and adjoining government land and a basic term letter was issued by Lands Department on 6th November, 2001. The salient basic terms contained in the aforesaid basic term letter are, inter alia, as follows:–
 - a. Lot No. : To be known as Inland Lot No. 8962
 - b. Area to be surrendered : 274.3 sq.m. (about)
 - c. Area to be granted : 426.6 sq.m. (about)
 - d. Lease Term : 50 years from the date of Agreement

- e. Premium : HK\$26,500,000
 - f. User : Non-industrial (excluding godown) purposes
 - g. Building Covenant : 48 months from date of Agreement
 - h. Development Conditions:
 - i. Minimum GFA: 2,130 sq.m.
 - ii. Design & Disposition Clause
 - iii. The Grantee shall at his own cost on or before the issue of an Occupation Permit provide a Public Open Space of not less than 116.4 sq.m. within the lot (to provide an aggregate amount of public open space of not less than 359 sq.m.). The Grantee shall maintain and keep open the Public Open Area for the use of the public 24 hours a day free of charge. No bonus site coverage and plot ratio under B(P)R22(1).
 - iv. Provision of Government Accommodation of not less than 293 sq.m. The Government Accommodation shall be re-delivered to Government free of cost and consideration upon demand by Government.
- (3) In undertaking the valuation, we have taken into account aforesaid the basic terms for the proposed land exchange but have not allowed for necessary premium payment.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 8th March, 2002
2. Lot Nos. 1904 and 1905, Section A and the Remaining Portion of Lot No. 1906, Section C and the Remaining Portion of Lot No. 1907 all in Survey District No. 2, Ngau Chi Wan, Kowloon	The property comprises a development site with a total site area of approximately 208,125 sq.ft. (19,335.46 sq.m.).	The property is currently occupied as a home for the aged but is intended for redevelopment.	HK\$1,200,000,000

Notes:

(1) The registered owner of Section C of Lot No. 1907 is Jumbo Power, a wholly-owned subsidiary of Jumbo Star, and the remainder of the property is owned by Best Power (Asia) Limited, a company wholly-owned by The Mother Superior of The Petites Soeurs Des Pauvres St. Pern Bretagne.

(2) According to the record in the Sai Kung Land Registry, the property is held from the Government under four New Grants (namely New Grant Nos. 902, 903, 904 and 1837). However, the Government records or copies of the said four New Grants are missing and cannot be found at the Sai Kung Land Registry when we conducted land searches recently. Thus the site area, the conditions governing the usage and development of the property, the lease term and Government Rent, cannot be ascertained from the Government.

We have therefore relied on the provisions as contained in the two copies of Indentures provided by The Mother Superior of The Petites Soeurs Des Pauvres St. Pern Bretagne. One of those Indentures was executed between the Government and Chan King Yue and was dated 12th May, 1919. It concerns Lots Nos. 1904, 1905 and 1906. The other one was executed between the Government and The Mother Superior of The Petites Soeurs Des Pauvres St. Pern Bretagne and was dated 26th September, 1933. It relates to Lot No. 1907. We have based our valuation on the information contained in those documents and other relevant material provided by you regarding the site area, the conditions governing the usage and development of the property, the lease term and Government Rent of the property. The lease terms have been extended until 30th June, 2047 under Annex III of the Joint Declaration.

(3) According to the said copies of Indentures, the property is partly restricted for agricultural lot purposes and partly for building lot purposes subject to Schedule B of Government Notification Nos. 365 and 570 which mainly restrict developments to not exceeding two storeys.

(4) The property is currently zoned as a "Comprehensive Development Area" under Ngau Chi Wan Outline Zoning Plan No. S/K12/12 dated 24th August, 2001. Any development or redevelopment in the "Comprehensive Development Area" necessitates an application under Section 16 of the Town Planning Ordinance with a Master Layout Plan. According to the explanatory notes of the said Outline Zoning Plan, no new development or addition, alteration and/or modification to the existing building(s) shall result in a total development or redevelopment being in excess of a maximum plot ratio of 7.5 for a domestic building or 9.0 for a building that is partly domestic and partly non-domestic.

- (5) A mortgage of the property dated 8th December, 2001 in favour of Bank of China (Hong Kong) Limited has been registered in the Sai Kung Land Registry.
- (6) An agreement was made between The Mother Superior of The Petites Soeurs Des Pauvres St. Pern. Bretagne (also known as The Little Sisters of the Poor) (“Little Sisters”), Best Power (Asia) Limited (“Best Power”), Jumbo Power Enterprises Limited (“the Company”) and Polytec Holdings International Limited (“the Guarantor”) on 11th February, 2002. According to the arrangements stated in the aforesaid agreement, Little Sisters and Best Power have granted the Company exclusive right to develop the property and as confirmed by the Company, it still has an outstanding obligation of approximately HK\$520,000,000 payable to the Little Sisters. Upon fulfillment of the outstanding obligation, the Company will be entitled to all sales proceeds derived from the completed development. The development rights of the entire property interest in the property has been assessed to be at least HK\$1,200,000,000 as at 8th March 2002.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 8th March, 2002
3. 377 Prince Edward Road, Kowloon City, Kowloon Section A of Kowloon Inland Lot No. 4234	<p>The property comprises a vacant site with a total registered site area of approximately 10,981 sq.ft. (1,020.16 sq.m.).</p> <p>The property is proposed to be developed into a 17-storey residential building erected over a 7-storey carpark/recreational facilities podium.</p> <p>Upon completion, the gross floor area of the development will be approximately 54,896 sq.ft. (5,099.976 sq.m.).</p> <p>The property is held from the Government for a term of 75 years commencing from 11th March, 1940 renewable for a further term of 75 years.</p> <p>The current Government Rent payable for Kowloon Inland Lot No. 4234 is HK\$246 per annum.</p>	The property is currently a cleared vacant site.	HK\$95,000,000

Notes:

- (1) The registered owner of the property is Pak Hop Shing Company Limited, a wholly-owned subsidiary of Elegant Florist.
- (2) A proposed lease modification is being undergone for the property and a basic term letter was issued by Lands Department on 3rd October 2001. The salient basic terms contained in the aforesaid basic term letter are, inter alia, as follows:
 - (a) Premium : HK\$67,110,000;
 - (b) User : Private residential purposes;
 - (c) Building Covenant : 42 months from the date of Agreement;
 - (d) Development Conditions :
 - (i) Total Gross Floor Area : Not less than 3,060 sq.m. and not exceeding 5,100 sq.m.;
 - (ii) Max. Site Coverage : Not exceeding 30% of the area of the Lot;
 - (iii) Design, Disposition and Height Clause;

- (iv) Parking Requirements:
- (aa) Motor Vehicle Parking Spaces – at a rate of not less than one space for every residential unit or for every 100 sq.m. or part thereof of GFA (whichever rate provides the lesser);
 - (bb) Visitors' Parking Spaces – at the rate of 5 spaces for every residential block and
 - (cc) Motor Cycle Parking Space – at the rate of not less than one space for every 20 parking spaces or part thereof provided under (aa) and (bb) above.
- (3) We are advised by the instructing party that they have objected to the aforesaid premium offer and are undertaking a further appeal on the amount of premium.
- (4) In undertaking the valuation, we have taken into account the aforesaid basic terms and our valuation has already allowed for necessary premium payment.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 8th March, 2002
4. Lot No. 2057 in Demarcation District No. 121, Tong Yan San Tsuen, Yuen Long, New Territories	<p>The property comprises a building lot with a registered site area of approximately 88,911 sq.ft. (8,260 sq.m.) upon which eight blocks of 4-storey apartment block over one-storey carport is proposed to be developed. Superstructure works are in final stage of construction. The property is scheduled to be completed by March 2002.</p> <p>Upon completion, the proposed development will comprise a total of 104 apartments and the carport will provide a total of 156 private car parking spaces.</p> <p>Upon completion, the gross floor area of the proposed development will be approximately 88,902 sq.ft. (8,259.20 sq.m.).</p> <p>The property is held from the Government under New Grant No. 4338 for a term from 25th April, 1997 to 30th June, 2047.</p> <p>The annual Government rent payable for the lot is an amount equal to 3% of the rateable value for the time being of the lot.</p>	The property is currently at the final stage of construction.	HK\$216,000,000

Notes:

- (1) The registered owner of the property is Wealrise Investments Limited, a wholly-owned subsidiary of Elegant Florist.
- (2) The property is subject to a Debenture incorporating a Building Mortgage and a Floating Charge in favour of The Hongkong and Shanghai Banking Corporation Limited.
- (3) According to the information provided by the registered owner, the outstanding construction cost of the proposed development is approximately HK\$25,000,000. Our valuation has not allowed for such outstanding construction cost.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 8th March, 2002
5. Lot No. 1154, Section A of Lot Nos. 1135, 1139, 1140, 1141, 1148, 1149, 1152 and 1153, Section B of Lot No. 1141 and the Remaining Portion of Lot No. 1153 in Demarcation District No. 121, Yuen Long, New Territories	<p>The property comprises eleven pieces of agricultural land situated in Yuen Long.</p> <p>The registered site area of the property is approximately 29,048 sq.ft. (2,698.61 sq.m.).</p> <p>The property is held from the Government for a term of 75 years commencing from 1st July, 1898 renewed for a further term of 24 years less the last 3 days which has been statutorily extended until 30th June, 2047.</p> <p>The annual Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property.</p>	The property is currently vacant.	HK\$10,200,000

Note:

The registered owner of the property is Wealrise Investments Limited, a wholly-owned subsidiary of Elegant Florist.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the listing rules for the purpose of giving information with regard to the Kowloon Development group. 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 in this circular misleading.

DISCLOSURE OF INTERESTS

As at the latest practicable date, the directors had interests in the shares in Kowloon Development as follows:

Directors	Number of ordinary shares held	
	Personal interests	Corporate interests
Or Wai Sheun	414,332,033 <i>(Note 1)</i>	185,000 <i>(Note 2)</i>
Ng Chi Man	414,332,033 <i>(Note 3)</i>	–

Notes:

1. Intellinsight Holdings holds 414,332,033 shares in Kowloon Development, and is ultimately wholly-owned by a family trust of the Or family, the beneficiary objects of which include Mr. Or Wai Sheun and his family members.
2. China Dragon Limited holds 185,000 shares in Kowloon Development and is wholly-owned by Mr. Or Wai Sheun.
3. Ms. Ng Chi Man is the wife of Mr. Or Wai Sheun, and she is interested in 414,332,033 shares in Kowloon Development through her interest in the family trust of the Or family.

Save as disclosed above, as at the latest practicable date, none of the directors had any interest in any equity or debt securities of Kowloon Development or any associated corporations (within the meaning of the SDI Ordinance) which was required to be notified to Kowloon Development and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under Section 31 of or Part I of the Schedule to the SDI Ordinance) or the Model Code for Securities Transactions by Directors of Listed Companies or which are required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein.

As at the latest practicable date, none of the directors or South China or Knight Frank had any direct or indirect interest in any assets which have been, since 31st December 2000, the date to which the latest published audited accounts of Kowloon Development were made up, acquired or disposed of by, or leased to any member of the Kowloon Development group, or are proposed to be acquired or disposed of by, or leased to any member of the Kowloon Development group.

Save for the sale and purchase agreement, no director was materially interested in any contract or arrangement subsisting as at the latest practicable date which is significant in relation to the business of Kowloon Development group taken as a whole.

The experts named under the section headed “Experts” in this appendix has no shareholding in any member of Kowloon Development group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of Kowloon Development group.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors, the following persons (not being a director or chief executive of Kowloon Development), 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 Kowloon Development or any of its subsidiaries as at the latest practicable date:

Substantial shareholders of Kowloon Development

Name of shareholder	Number of shares held	Shareholding percentage
Intellinsight Holdings (<i>Note 1</i>)	414,332,033	85.6%
Polytec Holdings (<i>Note 1</i>)	414,332,033	85.6%
The Or Family Trustee Limited Inc. (<i>Note 1</i>)	414,332,033	85.6%
HSBC Holdings plc (<i>Note 2</i>)	415,368,383	85.9%
HSBC Finance (Netherlands) (<i>Note 2</i>)	415,368,383	85.9%
HSBC Holdings B.V. (<i>Note 2</i>)	415,368,383	85.9%
HSBC Investment Bank Holdings B.V. (<i>Note 2</i>)	415,368,383	85.9%
HSBC International Trustee Limited (<i>Note 2</i>)	415,368,383	85.9%

Note 1: Intellinsight Holdings is wholly-owned by Polytec Holdings, which is in turn wholly-owned by the family trust of the family of Mr. Or Wan Sheun, the Chairman of the board.

Note 2: The Or Unit Trust is wholly-owned by The W.S. Or Family Trust, the trustee of which is HSBC International Trustee Limited. Accordingly, the shares in which HSBC International Trustee Limited are interested include the 414,332,033 shares in which Intellinsight Holdings, Polytec Holdings

and The Or Family Trustee Limited Inc. are interested. Each of HSBC Finance (Netherlands), HSBC Holdings B.V., HSBC Investment Bank Holdings B.V. and HSBC International Trustee Limited are wholly-owned subsidiaries of HSBC Holdings plc.

Substantial shareholders of subsidiaries of Kowloon Development

Name of subsidiary	Name of shareholder	Number and class of shares held	Shareholding percentage
Golden Princess Amusement Company Limited (“Golden Princess”)	Kowloon Development	8,500 ordinary shares in Golden Princess of HK\$10.00 each	85%
	Variety Entertainment Company Limited	1,500 ordinary shares in Golden Princess of HK\$10.00 each	15%
KDC Prologue Limited (“Prologue”)	Atlantic Capital Limited (<i>Note 1</i>)	800,000 ordinary shares in Prologue of HK\$1.00 each	80%
	Lam Siu Keung, Allan	200,000 ordinary shares in Prologue of HK\$1.00 each	20%

Note 1: Atlantic Capital Limited is a wholly-owned subsidiary of Kowloon Development.

Save as disclosed herein, so far as is known to the directors, no person 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 meetings of Kowloon Development or any of its subsidiaries.

EXPERTS

The following are the qualifications of the experts who have given an opinion or advice contained in this circular:

Name	Qualifications
South China	registered investment adviser under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
Knight Frank	professional property valuer

CONSENTS

Both South China and Knight Frank have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of the texts of their letters and references to their names, in the form and context in which they respectively appear.

CORPORATE INFORMATION OF KOWLOON DEVELOPMENT

Kowloon Development was incorporated in Hong Kong under the Companies Ordinance on 24th January, 1961. Its registered office and principal place of business are both located at 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong.

LITIGATION

As at the latest practicable date, none of the members of Kowloon Development group is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the directors to be pending or threatened by or against any member of Kowloon Development group.

SERVICE CONTRACTS

None of the directors has any existing or proposed service contract with any member of Kowloon Development group (excluding contracts expiring or determinable within one year without payment of compensation, other than statutory compensation).

MATERIAL CHANGE

As recorded in the unaudited interim financial report of the Kowloon Development group for the six months ended 30th June, 2001, Kowloon Development declared and paid a special interim dividend in specie by way of distribution of 52.3 million shares in The Kowloon Motor Bus Holdings Limited (“KMB”) held by it to its shareholders on the basis of 4 KMB shares for every 37 shares in Kowloon Development then held. The related revaluation surplus of HK\$1,128.1 million was transferred from the investment revaluation reserve to the income statement for appropriation.

Kowloon Development group completed the disposal of two investment properties (the “disposals”) which resulted in a loss attributable to shareholders of HK\$238.8 million (before selling and related expenses) after a transfer of the related revaluation deficit of HK\$241.8 million from the investment property revaluation reserve to the income statement after 30th June, 2001. Details of the disposals were disclosed in the unaudited interim financial report of Kowloon Development for the six months ended 30th June, 2001 as post balance sheet events.

Save as disclosed above, the directors are not aware of any material adverse change in the financial or trading position of Kowloon Development group since 31st December, 2000, being the date to which its latest published audited accounts were made up.

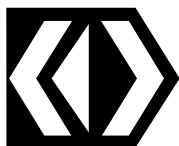
COMPANY SECRETARY

The company secretary of Kowloon Development is Ms. Ma Mi Chun, Conita. Ms. Ma is a fellow member of the Institute of Chartered Secretaries and Administrators and a fellow member of the Hong Kong Institute of Company Secretaries.

DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the sale and purchase agreement will be made available for inspection at the principal place of business of Kowloon Development at 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong during normal business hours up to and including 15th April, 2002.

NOTICE OF EXTRAORDINARY GENERAL MEETING



KOWLOON DEVELOPMENT COMPANY LIMITED

九龍建業有限公司

(incorporated in Hong Kong with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Kowloon Development Company Limited (the “company”) will be held on 15th April, 2002 at 11:00 a.m. at The Four Seasons, Lobby Floor, New World Renaissance Hotel, 22 Salisbury Road, Kowloon, Hong Kong, for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an ordinary resolution of the company:

ORDINARY RESOLUTION

“**THAT** the sale and purchase agreement dated 11th March, 2002 between the company as the purchaser and Polytec Holdings International Limited as the vendor (the “acquisition agreement”), a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification, under which the company has conditionally agreed to purchase the entire issued share capital of Jumbo Star Limited and the entire issued share capital of Elegant Florist Limited together with certain shareholders’ loans of Jumbo Star Limited and Elegant Florist Limited and their respective subsidiaries at a consideration of the aggregate of (i) HK\$434,000,168 and (ii) such amount as represents the outstanding amount of the shareholders’ loans as at completion of the acquisition agreement less HK\$230,720,197, subject to a final adjustment as set out in the acquisition agreement, and the transactions contemplated therein be and are hereby approved, confirmed and ratified and the directors of the company be and are hereby authorized to do such acts and things and execute such other documents which in their opinion may be necessary, desirable or expedient to carry out or give effect to the acquisition agreement and the transactions contemplated therein and otherwise to procure the completion thereof.”

By order of the board
Ma Mi Chun, Conita
Company Secretary

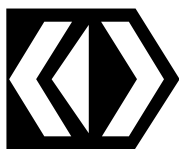
Dated 28th March 2002

Registered Office:

23rd Floor
Pioneer Centre
750 Nathan Road
Kowloon
Hong Kong

Notes:

1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and to vote in his stead. A proxy need not be a member of the company.
2. A form of proxy for the meeting is enclosed. If the appointor is a corporation, the form of proxy must be under its common seal or under the hand of an officer or attorney duly authorised on its behalf.
3. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney or authority must be completed and lodged with the company’s registrar, Central Registration Hong Kong Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.



KOWLOON DEVELOPMENT COMPANY LIMITED

九龍建業有限公司

(incorporated in Hong Kong with limited liability)

Proxy form for use at the extraordinary general meeting

I/We¹ _____
of _____
being the registered holder(s) of² _____ shares of HK\$0.10 each in the share capital of Kowloon Development Company Limited (the "company"), HEREBY APPOINT³ the chairman of the meeting or _____
of _____
as my/our proxy to act for me/us and on my/our behalf at the extraordinary general meeting of the company to be held at The Four Seasons, Lobby Floor, New World Renaissance Hotel, 22 Salisbury Road, Kowloon, Hong Kong, on Monday, 15th April, 2002 at 11:00 a.m. and at any adjournment thereof and to vote for me/us and in my/our name(s) in respect of such resolution as indicated below and, if no such indication is given, as my/our proxy thinks fit.

Ordinary Resolution	FOR ⁴	AGAINST ⁴
<p>"THAT the sale and purchase agreement dated 11th March, 2002 between the company as the purchaser and Polytec Holdings International Limited as the vendor (the "acquisition agreement"), a copy of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification, under which the company has conditionally agreed to purchase the entire issued share capital of Jumbo Star Limited and the entire issued share capital of Elegant Florist Limited together with certain shareholders' loans of Jumbo Star Limited and Elegant Florist Limited and their respective subsidiaries at a consideration of the aggregate of (i) HK\$434,000,168 and (ii) such amount as represents the outstanding amount of the shareholders' loans as at completion of the acquisition agreement less HK\$230,720,197, subject to a final adjustment as set out in the acquisition agreement, and the transactions contemplated therein be and are hereby approved, confirmed and ratified and the directors of the company be and are hereby authorized to do such acts and things and execute such other documents which in their opinion may be necessary, desirable or expedient to carry out or give effect to the acquisition agreement and the transactions contemplated therein and otherwise to procure the completion thereof."</p>		

Dated this _____ day of _____ 2002 Signature⁵ _____

Notes:

1. Full name(s) and address(es) to be inserted in BLOCK CAPITALS.
2. Please insert the number of shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the share capital of the company registered in your name(s).
3. If any proxy other than the chairman of the meeting is preferred, strike out the words "the chairman of the meeting or" and insert the name and address of the proxy desired in the space provided. Any shareholder may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a shareholder of the company.
4. **Important: If you wish to vote for any of the resolutions, tick in the appropriate box marked "FOR". If you wish to vote against any of the resolutions, tick in the appropriate box marked "AGAINST".** Failure to tick a box will entitle your proxy to cast your vote at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the meeting in addition to that referred to above.
5. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.
6. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding and the senior shall be the one whose name stands first on the register.
7. To be valid, this form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be completed and lodged with the company's share registrar, Central Registration Hong Kong Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Completion and return of the form of proxy will not preclude shareholders from attending the meeting and voting in person.
8. Any alteration made to this form of proxy must be initialled by the person who signs it.