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九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 34)

ANNOUNCEMENT
DISCLOSEABLE TRANSACTION
INTRODUCTION OF STRATEGIC INVESTORS TO THE PROJECT CO
IN RELATION TO THE INVESTMENT IN TIANJIN

Reference is made to the Announcement and the Circular. Unless otherwise defined, capitalised terms used in this announcement shall have the same meaning as those defined in the Announcement and the Circular.

CURRENT STATUS OF THE PROJECT CO

On 3 April 2007, the Project Co was formally established under the name of “保利達中信地產(天津)有限公司 (Polytec CITIC Property (Tianjin) Co., Ltd.)” with a total investment amount and registered capital of US\$99 million and US\$49.50 million respectively. Pursuant to the approval document issued by the TCC, the Partner shall contribute RMB equivalent of US\$4.95 million (representing 10% of the registered capital of the Project Co) and the Company shall contribute US\$44.55 million (representing 90% of the registered capital of the Project Co) to the registered capital of the Project Co. Both parties shall contribute 20% and the balance of 80% of their respective share in the registered capital of the Project Co within 3 months and 2 years from the date of issue of the business licence of the Project Co, respectively.

The Project Co is a subsidiary of the Company. Nevertheless, as at the date of this announcement, the Company has not yet made any contribution to the registered capital of the Project Co, and has not yet pledged any interest in the Project Co in favour of the Partner. In addition, the Partner has not yet transferred its title in the Property to the Project Co.

TRANSFER OF INTEREST IN THE PROJECT CO

As stated in the Announcement and the Circular, the Directors had been in discussion with several potential strategic investors in relation to participation in the development of the Property. The Board is pleased to announce that, on 15 May 2007, (i) the Company, CITIC and Flying entered into the Interest Transfer Agreement pursuant to which the Company agreed to transfer, and CITIC and Flying agreed to acquire, 30% and 9% equity interest in the Project Co respectively; (ii) the same parties also entered into the Cooperation Agreement which sets out the mutual rights and obligations of the parties thereto in relation to the Investment; and (iii) the Company, the Partner, CITIC and Flying entered into the Supplemental Agreement pursuant to which, among others, the Company, CITIC and Flying agreed to perform the Company’s obligations towards the Partner under the Agreement (in particular, the payment of the Consideration to the Partner) in the proportion of 61%:30%:9% and the Company agreed to guarantee CITIC and Flying’s obligations towards the Partner thereunder. Pursuant to two undertakings both dated 15 May 2007 and given by each of CITIC and Flying towards the Company, each of CITIC and Flying agreed to indemnify the Company in full if CITIC or Flying fails to perform their respective obligation towards the Partner under the Supplemental Agreement and the Company is called upon by the Partner to perform such obligation on their behalf.

EFFECT OF THE INTEREST TRANSFER AGREEMENT, THE COOPERATION AGREEMENT AND THE SUPPLEMENTAL AGREEMENT

Upon completion of the Interest Transfer Agreement, the Project Co will be held as to 51% by the Company, 30% by CITIC, 9% by Flying and 10% by the Partner, respectively, and continue to be a subsidiary of the Company.

Under the Agreement, the Company shall pay a Consideration of RMB3,500 million to the Partner. At the same time, it will be entitled to all profits generated by and bear all losses incurred by the Project Co. As a result of the signing of the Cooperation Agreement and the Supplemental Agreement, each of the Company, CITIC and Flying will be responsible for 61%, 30% and 9% of the Consideration, and will be entitled to the profits generated by and bear the losses incurred by the Project Co in the same proportion. In other words, total investment by the Company in the Project Co and the Property will be reduced by approximately RMB1,365 million, representing approximately 39% of the Consideration.

IMPLICATIONS UNDER THE LISTING RULES

The transfer of interest in the Project Co by the Company pursuant to the Interest Transfer Agreement, the Cooperation Agreement and the Supplemental Agreement constitute discloseable transaction for the Company under the Listing Rules as each of the applicable percentage ratio is more than 5% but less than 25%. A circular containing further information of the Interest Transfer Agreement, the Cooperation Agreement and the Supplemental Agreement will be sent to Shareholders within 21 days from the date of this announcement in compliance with the requirements under the Listing Rules.

Reference is made to the Announcement and the Circular. Unless otherwise defined, capitalised terms used in this announcement shall have the same meaning as those defined in the Announcement and the Circular.

CURRENT STATUS OF THE PROJECT CO

On 3 April 2007, the Project Co was formally established under the name of “保利達中信地產(天津)有限公司 (Polytec CITIC Property (Tianjin) Co., Ltd.)” with a total investment amount and registered capital of US\$99 million and US\$49.50 million respectively. The proposed investment by the Project Co will be conducted by phases and the Consideration of RMB3,500 million are payable by eleven installments. The Project Co was initially established with a total investment amount of US\$99 million to correspond with the initial capital requirement of the Project Co. As mentioned in the Circular, it was originally proposed that the initial registered capital of the Project Co will be RMB10 million. The initial registered capital of the Project Co has been subsequently revised to US\$49.50 million in order to reflect more accurately the size of the proposed investment by the Project Co. Nonetheless, the Consideration and the proportion of the registered capital to be contributed by the Company and the Partner remains unchanged, and there are no material changes to the structure of the Project Co. Pursuant to the approval document issued by the TCC, the Partner

shall contribute RMB equivalent of US\$4.95 million (representing 10% of the registered capital of the Project Co) and the Company shall contribute US\$44.55 million (representing 90% of the registered capital of the Project Co) to the registered capital of the Project Co. Both parties shall contribute 20% and the balance of 80% of their respective share in the registered capital of the Project Co within 3 months and 2 years from the date of issue of the business licence of the Project Co, respectively.

The Project Co is a subsidiary of the Company. Nevertheless, as at the date of this announcement, the Company has not yet made any contribution to the registered capital of the Project Co, and has not yet pledged any interest in the Project Co in favour of the Partner. In addition, the Partner has not yet transferred its title in the Property to the Project Co.

TRANSFER OF INTEREST IN THE PROJECT CO

As stated in the Announcement and the Circular, the Directors had been in discussion with several potential strategic investors in relation to participation in the development of the Property. The Board is pleased to announce that, on 15 May 2007, (i) the Company, CITIC and Flying entered into the Interest Transfer Agreement pursuant to which the Company agreed to transfer, and CITIC and Flying agreed to acquire, 30% and 9% equity interest in the Project Co respectively; (ii) the same parties also entered into the Cooperation Agreement which sets out the mutual rights and obligations of the parties thereto in relation to the Investment; and (iii) the Company, the Partner, CITIC and Flying entered into the Supplemental Agreement pursuant to which, among others, the Company, CITIC and Flying agreed to perform the Company's obligations towards the Partner under the Agreement (in particular, the payment of the Consideration to the Partner) in the proportion of 61%:30%:9% and the Company agreed to guarantee CITIC and Flying's obligations towards the Partner thereunder. Details of the Interest Transfer Agreement, the Cooperation Agreement and the Supplemental Agreement are set out below.

INTEREST TRANSFER AGREEMENT

Date:

15 May 2007

Parties:

- (a) the Company;
- (b) CITIC; and
- (c) Flying.

Subject matter:

The Transfer by the Company of:

- (a) a 30% interest; and
- (b) a 9% interest

in the Project Co to each of CITIC and Flying respectively.

Consideration:

Pursuant to the Interest Transfer Agreement, the consideration of the Transfer will be determined as follows:

- (a) If the Transfer is completed before the Company has made any capital contribution to the Project Co, the consideration shall be zero.
- (b) If the Transfer is completed after the Company has made any capital contribution to the Project Co, the consideration payable by each of CITIC and Flying will be their respective share of the registered capital already paid by the Company before the Transfer, together with interest calculated by reference to interest rate charged by the PBOC for similar loans at the time, and payable in one lump sum within 15 days of the approval of the Transfer by the TCC.

The consideration of the Transfer was reached by arm's length negotiation between the Company, CITIC and Flying.

Conditions precedent:

Completion of the Interest Transfer Agreement shall be conditional upon:

- (a) each of the respective boards of the Company, CITIC and Flying approving the Transfer;
- (b) the board of the Project Co approving the Transfer;
- (c) the other shareholder of the Project Co, i.e. the Partner, giving its written consent to the Transfer and agreeing to waive its pre-emptive rights over the interest in the Project Co subject to the Transfer; and
- (d) the Transfer having obtained the approval of the TCC.

None of the conditions precedent can be waived by any party.

Current status of the conditions precedent:

As at the date hereof, conditions (a) to (c) have been satisfied. The parties to the Interest Transfer Agreement are in the process of applying to the TCC for an approval of the Transfer. At present, the Directors do not foresee any significant difficulties in applying for such approval and expect the same will be granted in due course.

COOPERATION AGREEMENT**Date:**

15 May 2007

Parties:

- (a) the Company;
- (b) CITIC; and
- (c) Flying.

Subject matter:

Regulation of the mutual rights and obligations between the Company, CITIC and Flying in relation to the Investment.

Transfer of interest in the Project Co:

The Company shall transfer 30% and 9% interest in the Project Co to each of CITIC and Flying respectively.

Contribution of the Consideration:

The Company, CITIC and Flying shall contribute to the Consideration payable to the Partner under the Agreement in the proportion of 61%:30%:9%. Under the Agreement, upon satisfaction of the Consideration in full, the Partner will transfer its 10% interest in the Project Co to the Company subject to the Company paying the Partner an amount equivalent to the actual amount of registered capital contributed by the Partner in the Project Co. As a result, the Project Co will then be held as to 61% by the Company, 30% by CITIC and 9% by Flying.

Payment Schedule:

The parties agreed to contribute to the payment of the Consideration to the Partner by installment in accordance with the terms of the Agreement in the proportion set out above. CITIC and Flying will settle their respective 30% and 9% shares of the Consideration by payment of eleven installments, in accordance with the payment schedule as set out in the Cooperation Agreement.

Other rights and obligations of the parties:

The Company, CITIC and Flying agreed to share all other rights and obligations of the Company (including sharing of profit and loss of the Project Co) under the Agreement in the proportion of 61%:30%:9%.

The parties shall undertake the planning, development and sales of the Property jointly.

The rights and obligations of each party shall be several.

SUPPLEMENTAL AGREEMENT**Date:**

15 May 2007

Parties:

- (a) the Company;
- (b) the Partner;
- (c) CITIC; and
- (d) Flying.

Subject matter:

Amendment to the Agreement, in particular in respect of the Company's obligations towards the Partner.

Obligation towards the Partner:

The Company, CITIC and Flying shall perform the Company's obligations towards the Partner under the Agreement (in particular, the payment of the Consideration to the Partner) in the proportion of 61%:30%:9%.

Performance guarantee by the Company:

The Company agreed to guarantee CITIC and Flying's obligations towards the Partner under the Supplemental Agreement.

UNDERTAKINGS BY CITIC AND FLYING

Pursuant to two undertakings both dated 15 May 2007 and given by each of CITIC and Flying towards the Company, each of CITIC and Flying agreed to indemnify the Company in full if CITIC

or Flying fails to perform their respective obligation towards the Partner under the Supplemental Agreement and the Company is called upon by the Partner to perform such obligation on their behalf.

EFFECT OF THE INTEREST TRANSFER AGREEMENT, THE COOPERATION AGREEMENT AND THE SUPPLEMENTAL AGREEMENT

Before the signing of the Interest Transfer Agreement, the Project Co is held as to 90% by the Company and 10% by the Partner, respectively. Upon completion of the Interest Transfer Agreement, the Project Co will be held as to 51% by the Company, 30% by CITIC, 9% by Flying and 10% by the Partner, respectively, and continue to be a subsidiary of the Company.

In terms of board composition, before the signing of the Interest Transfer Agreement, the board of the Project Co comprises of 9 directors, out of which each of the Company and the Partner is entitled to nominate 8 directors and 1 director respectively. Upon completion of the Interest Transfer Agreement, the board of the Project Co will continue to comprise of 9 directors, out of which each of the Company, CITIC, Flying and the Partner will be entitled to nominate 5 directors, 2 directors, 1 director and 1 director, respectively.

Under the Agreement, the Company shall pay a Consideration of RMB3,500 million to the Partner. At the same time, it will be entitled to all profits generated by and bear all losses incurred by the Project Co. As a result of the signing of the Cooperation Agreement and the Supplemental Agreement, each of the Company, CITIC and Flying will be responsible for 61%, 30% and 9% of the Consideration, and will be entitled to the profits generated by and bear the losses incurred by the Project Co in the same proportion. In other words, the total investment by the Company in the Project Co and the Property will be reduced by approximately RMB1,365 million (representing approximately 39% of the Consideration), from RMB3,500 million to RMB2,135 million. The Company currently has no other plan to invest any additional capital into the Project Co. The Company will finance the total investment amount of RMB2,135 million (equivalent to approximately HK\$2,168 million) as to approximately (i) HK\$1,100 million from the net proceeds from the Rights Issue completed in February 2007; and (ii) the remaining HK\$1,068 million from internal resources of the Group and future bank financing.

SHAREHOLDING STRUCTURE

The shareholding structure of the Project Co before and after the Transfer and upon transfer of the Partner's interest in the Project Co to the Company (after satisfaction of the Consideration in full) is set out below:

Name of shareholder	Before the Transfer		After the Transfer		Upon transfer of the Partner's interest in the Project Co to the Company	
	<i>Interest in the registered capital of the Project Co</i> (US\$)	%	<i>Interest in the registered capital of the Project Co</i> (US\$)	%	<i>Interest in the registered capital of the Project Co</i> (US\$)	%
Company	44,550,000	90	25,245,000	51	30,195,000	61
Partner	4,950,000	10	4,950,000	10	—	—
CITIC	—	—	14,850,000	30	14,850,000	30
Flying	—	—	4,455,000	9	4,455,000	9
Total	<u>49,500,000</u>	<u>100</u>	<u>49,500,000</u>	<u>100</u>	<u>49,500,000</u>	<u>100</u>

REASONS FOR THE INTRODUCTION OF STRATEGIC INVESTORS TO THE PROJECT CO

Both CITIC and Flying are experienced in the investment and development of real estate in the PRC, in particular in Tianjin. The Directors are of the view that the participation by the CITIC and Flying will bring valuable experience and expertise in the development of the Property to the Project Co. The Board considers the introduction of CITIC and Flying as strategic investors to the Project Co is beneficial to the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

The transfer of interest in the Project Co by the Company pursuant to the Interest Transfer Agreement, the Cooperation Agreement and the Supplemental Agreement constitute discloseable transaction for the Company under the Listing Rules as each of the applicable percentage ratio is more than 5% but less than 25%. A circular containing further information of the Interest Transfer Agreement, the Cooperation Agreement and the Supplemental Agreement will be sent to Shareholders within 21 days from the date of this announcement in compliance with the requirements under the Listing Rules.

GENERAL

The Group is principally engaged in real estate investment and development in Hong Kong, Macau and the PRC. The Project Co is formed for the purpose of acquisition and development of the Property, and currently does not have any assets or profit and loss. The Company does not expect that any gain or loss will arise as a result of the Transfer.

CITIC is principally engaged in, among other things, investment and development of real estate in the PRC. It is wholly-owned by CITIC South China (Group) Co., Ltd (“CITIC South China”), which is a joint venture partner of the Company. Each of the Company and CITIC South China holds 50% interest in CITIC Polytec Property (Foshan) Company Limited, a company which is accounted for as a jointly controlled entity of the Company. CITIC and CITIC South China have no shareholding interests in any of the subsidiaries of the Company. To the best of the knowledge, information and belief of the Directors, and having made reasonable enquiry, CITIC, CITIC South China and their respective beneficial owners are third parties independent of the Company and are not connected persons of the Company under the Listing Rules.

Flying is principally engaged in, among other things, investment and development of real estate in the PRC, particularly in Tianjin. It is a non-wholly owned subsidiary of 天津開發區翔達房地產開發有限公司 (Tianjin Teda Flying Real Estate Development Co., Ltd.) (“Flying Development”). Flying Development is interested in 30% of a joint venture company, which is indirectly owned as to 70% by the Company’s ultimate holding company, Polytec Holdings International Limited. Such joint venture company does not form part of the Group. To the best of the knowledge, information and belief of the Directors, and having made reasonable enquiry, Flying, Flying Development and their respective beneficial owners are third parties independent of the Company and are not connected persons of the Company under the Listing Rules.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context requires otherwise:

“Agreement”	the cooperation agreement dated 13 December 2006 entered into between the Company and the Partner in relation to the Investment
“Announcement”	the announcement of the Company dated 19 December 2006 relating to, among other things, the Investment
“Board”	the board of Directors
“Circular”	the circular of the Company dated 19 January 2007 relating to, among other things, the Investment
“CITIC”	天津中信地產投資有限公司 (Tianjin CITIC Real Estate Investment Co., Ltd.), a domestic company established in the PRC

“Company”	Kowloon Development Company Limited, a company incorporated in Hong Kong with its Shares listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	the aggregate consideration of RMB3,500 million (equivalent to approximately HK\$3,553 million) payable to the Partner under the Agreement
“Cooperation Agreement”	the cooperation agreement dated 15 May 2007 entered into between the Company, CITIC and Flying in relation to the Investment
“Directors”	the directors of the Company
“Flying”	天津翔達投資發展有限公司 (Tianjin Flying Investment Development Co., Ltd.), a domestic company established in the PRC
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administration Region of the PRC
“Interest Transfer Agreement”	the share transfer agreement dated 15 May 2007 entered into between the Company, CITIC and Flying in relation to the transfer of interest in the Project Co
“Investment”	the proposed investment by the Company in the Project Co pursuant to the Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Partner”	天津濱海快速交通發展有限公司 (Tianjin Binhai Mass Transit Development Co., Ltd.), a domestic company established in the PRC
“PBOC”	the People’s Bank of China
“PRC”	the People’s Republic of China, and, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Project Co”	保利達中信地產(天津)有限公司 (Polytec CITIC Property (Tianjin) Co., Ltd.), a sino-foreign equity joint venture enterprise established in the PRC on 3 April 2007 by the Company and the Partner
“Property”	the composite property development site located in the intersection of Shiyijing Road and Liuwei Road, Hedong District, Tianjin, the PRC

“RMB”	Reminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement to the Agreement dated 15 May 2007 entered into between the Company, the Partner, CITIC and Flying in relation to the Investment
“TCC”	天津市商務委員會 (the Tianjin Commission of Commerce)
“Transfer”	the proposed transfer of interest in the Project Co from the Company to each of CITIC and Flying pursuant to the Interest Transfer Agreement and the Cooperation Agreement
“US\$”	United States dollar, the lawful currency of the United States of America
“%”	per cent.

In this announcement, amounts denominated in RMB have been converted into HK\$ at the rate of RMB0.985 = HK\$1.

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

Hong Kong, 16 May 2007

As at the date of this announcement, the Board comprises four executive Directors, being Mr. Or Wai Sheun (Chairman), Ms. Ng Chi Man, Mr. Lai Ka Fai and Mr. Or Pui Kwan; three non-executive Directors, being Mr. Keith Alan Holman (Deputy Chairman), Mr. Tam Hee Chung and Mr. Yeung Kwok Kwong; and 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.