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德祥地產集團有限公司\*

**ITC PROPERTIES GROUP LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code : 199)**

## **DISCLOSEABLE, CONNECTED AND CONTINUING CONNECTED TRANSACTIONS**

On 28th November, 2007, Donson, an indirect wholly-owned subsidiary of the Company, entered into the Framework Agreement and the Disposal Agreements in relation to:

- (i) the disposal by Donson of its interests in Panyu Golf, Wei Di Si and Lian Chui to the Purchaser for an aggregate cash consideration of RMB20 million (equivalent to approximately HK\$20.5 million);
- (ii) the co-operation between Panyu Golf and Newco A in the Development Project in which the Group will have the right to share 65% of its residual value. Under the terms of the Development Project Agreement, the Group will provide the Loan of RMB40 million (equivalent to approximately HK\$41.1 million) to Panyu Golf for use in the Development Project; and
- (iii) the lease of the Lotus Hill Golf Resort by Panyu Golf to Newco B for three years commencing from the date of the Lease Agreement at an annual rental of RMB5 million (equivalent to approximately HK\$5.1 million) renewable at the option of Newco B at successive terms of 3 years up to 20 years.

Completion of the aforesaid transactions are inter-conditional with each other.

As a condition of the Everight Agreement in relation to the acquisition of 55.57% indirect interest in Donson by New Smarten dated 2nd February, 2006, the vendors thereof had given undertakings in favour of New Smarten for certain performance of the Donson Group, which are guaranteed by Mr. Lai and Mr. Chan. New Smarten and, inter alia, Mr. Lai and Mr. Chan have entered into the Supplemental Deed, which will be effective upon Completion, to vary such undertakings in light of the Disposal.

The Disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. By virtue of the fact that 番禺旅遊 and the Purchaser are under common control, Panyu Golf is a connected person under Rule 14A.11(4) of the Listing Rules and all agreements under the Framework Agreement are inter-conditional with each other, the Disposal and the provision of the Loan also constitute connected transactions for the Company under Chapter 14A of the Listing Rules and are subject to the approval of the Independent Shareholders. The transaction contemplated under the Lease Agreement constitutes a continuing connected transaction for the Company under the Listing Rules. As each of the percentage ratios (other than the profits ratio) on an annual basis is less than 2.5%, the transaction is only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the Independent Shareholders' approval requirement.

\* For identification purpose only

A circular containing, among other things, further details of the Framework Agreement, the Supplemental Deed, the notice of the SGM and other information as required under the Listing Rules will be despatched to the Shareholders as soon as practicable.

## **BACKGROUND**

Panyu Golf, Wei Di Si and Lian Chui are PRC joint ventures in which Donson, an indirect wholly-owned subsidiary of the Company, has effective interests of 65%, 64.83% and 65% respectively while 番禺旅游 owns the remaining interests in Panyu Golf and Lian Chui and 34.91% in Wei Di Si respectively. Pursuant to 外商投資產業指導目錄 (2007年修訂) as jointly announced by the National Development and Reform Commission and Ministry of Commerce of the PRC on 7th November, 2007, foreign investors including Hong Kong investors are prohibited to develop and operate golf course in the PRC unless relevant permits have been granted prior to 1st December, 2007. The contract period for the joint venture of Panyu Golf should have expired on 17th September, 2007, but was extended for 6 months to 17th March, 2008 by mutual agreement of the parties with a view to facilitating the negotiation between Donson and 番禺旅游 for the re-arrangement of the joint ventures since Donson can no longer remain as a foreign investor in Panyu Golf after the expiry of the contract period. On 28th November, 2007, Donson entered into the Framework Agreement with 番禺旅游 and 廣州市番禺協誠實業有限公司, the Purchaser, which is under common control as 番禺旅游, in relation to:

- (i) the disposal by Donson of its entire interests in Panyu Golf, Wei Di Si and Lian Chui to the Purchaser for an aggregate cash consideration of RMB20 million (equivalent to approximately HK\$20.5 million), details of which are set out in the section headed “THE DISPOSAL AGREEMENTS” below;
- (ii) the co-operation between Panyu Golf and Newco A in the Development Project, in which Newco A will have the right to share 65% of its residual value. Under the terms of the Development Project Agreement, the Group will provide the Loan of RMB40 million (equivalent to approximately HK\$41.1 million) to Panyu Golf. Details of the Development Project Agreement are set out in the section headed “THE DEVELOPMENT PROJECT AGREEMENT” below; and
- (iii) the lease of the Lotus Hill Golf Resort by Panyu Golf to Newco B for three years commencing from the date of the Lease Agreement at an annual rental of RMB5 million (equivalent to approximately HK\$5.1 million), details of which are set out in the section headed “THE LEASE AGREEMENT” below.

## A. THE DISPOSAL AGREEMENTS

Pursuant to the Framework Agreement, Donson and the Purchaser entered into 3 separate agreements in respect of the sale and purchase of shares in Panyu Golf, Wei Di Si and Lian Chui respectively on 28th November, 2007. Completion of each of the Disposal Agreements is inter-conditional with each other. The principal terms of the Panyu Golf Agreement, Wei Di Si Agreement and Lian Chui Agreement are summarised as follows:

### 1. Parties to each of the Disposal Agreements

Vendor: Donson, an indirect wholly-owned subsidiary of the Company; and

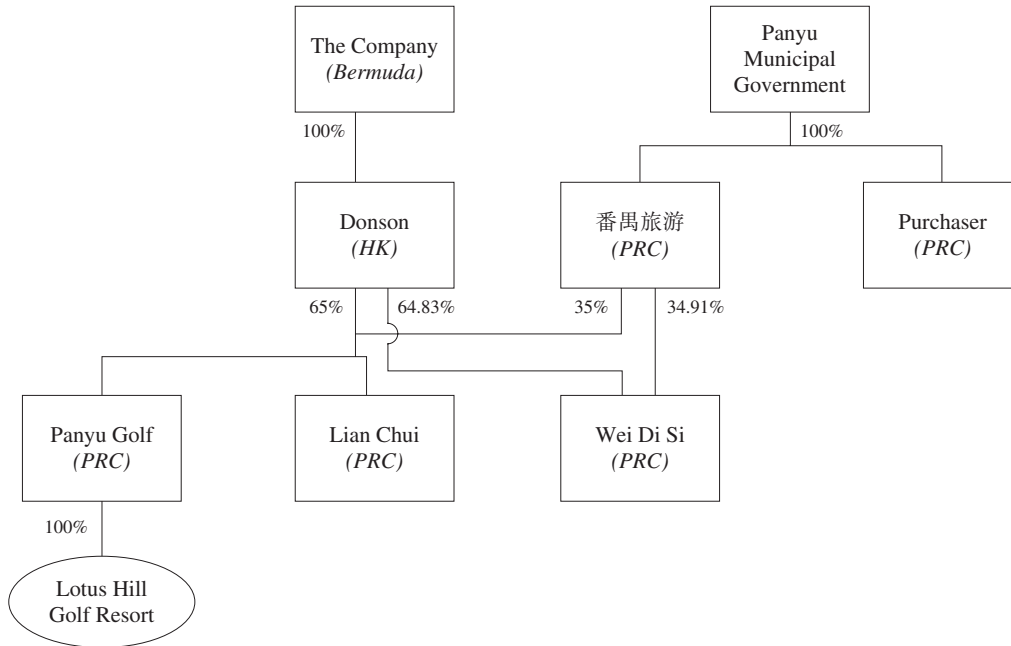
Purchaser: 廣州市番禺協誠實業有限公司, a company incorporated in the PRC with limited liability, which is an investment holding company controlled by the Panyu Municipal Government, the PRC. 番禺旅遊, also controlled by the Panyu Municipal Government, is currently a substantial shareholder of Panyu Golf, Wei Di Si and Lian Chui which are subsidiaries of the Company. 番禺旅遊 and the Purchaser are therefore connected persons of the Company.

### 2. Interests to be disposed of by Donson:

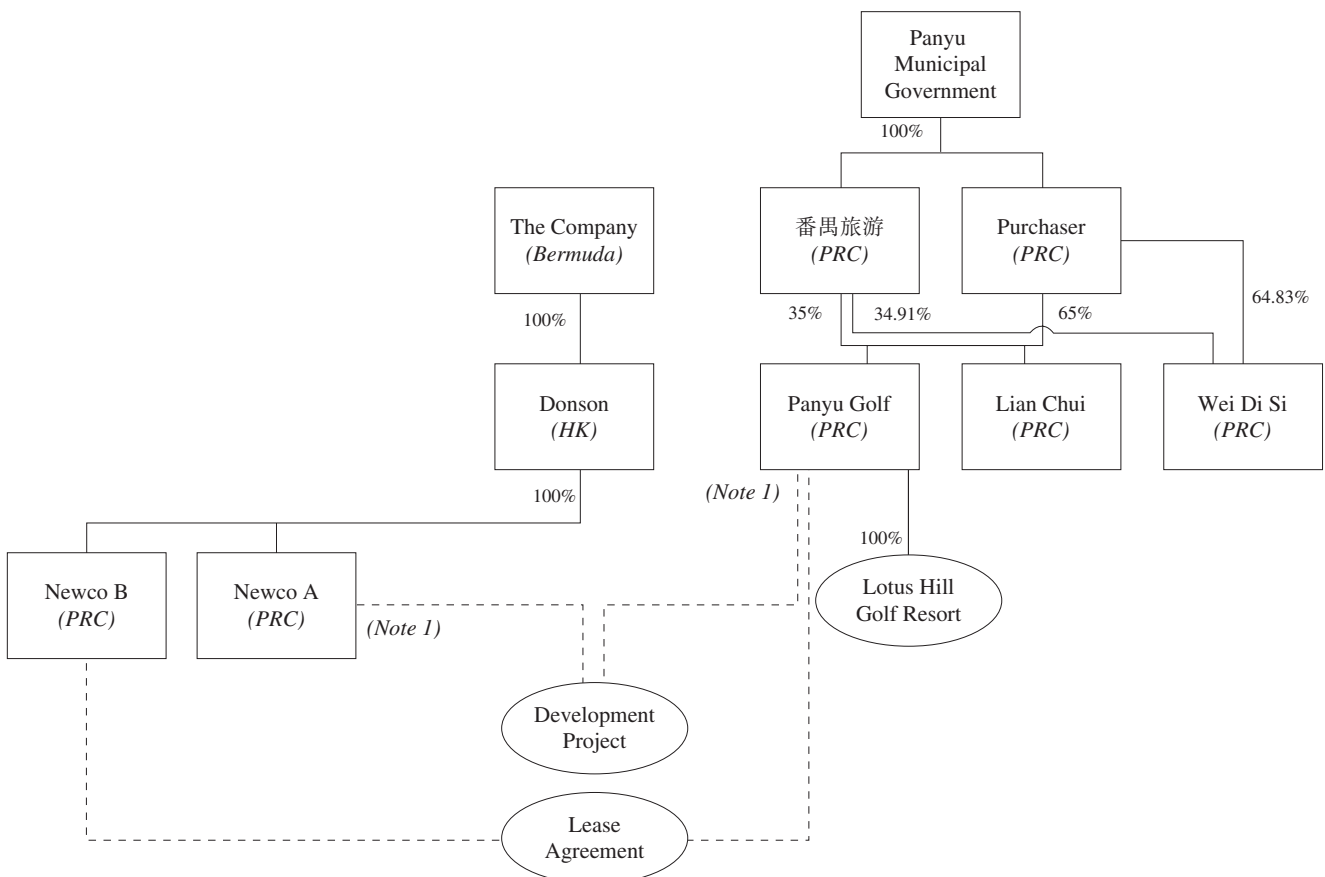
- (i) Under the Panyu Golf Agreement: the entire interest of Donson in Panyu Golf, representing 65% of its registered capital of RMB46 million;
- (ii) Under the Wei Di Si Agreement: the entire interest of Donson in Wei Di Si, representing 64.83% of its registered capital of RMB19,550,000; and
- (iii) Under the Lian Chui Agreement: the entire interest of Donson in Lian Chui, representing 65% of its registered capital of RMB500,000.

Set out below is the corporate structure of Panyu Golf, Wei Di Si and Lian Chui:

**Before completion of the Disposal, signing of the Development Project Agreement and the Lease Agreement**



**Immediately after completion of the Disposal, signing of the Development Project Agreement and the Lease Agreement**



*Notes:*

1. The management committee of the Development Project will comprise 4 persons, with each of Newco A and Panyu Golf having the right to appoint 2 persons. All essential financial and operating policies of the Development Project are to be governed by the management committee, normally by a majority vote in a management committee meeting. Neither the Group nor Panyu Golf shall have unilateral control over the composition of the management committee or the voting rights at any management committee meeting.
2. Places in parentheses represent places of incorporation.

Panyu Golf owns the Lotus Hill Golf Resort, which commenced business in 1995. The resort comprises a golf course, a club-house equipped with facilities including guest rooms, food and beverage outlets, fitness centre and sauna, and 9 residential units which are currently leased out under long-term leases. Other than these facilities, there is also a parcel of land within the Lotus Hill Golf Resort which is currently vacant. The application for the development of villas at the aforesaid land has been approved by relevant government authorities and it is intended that about 60 villas with total gross floor area of approximately 23,000 sq. m. will be built thereon.

Wei Di Si is engaged in property development and was the developer of a property project comprising over 70 apartment units within the Lotus Hill Golf Resort, which were sold out in prior years.

Lian Chui is engaged in property management which manages portfolio including the residential properties within the Lotus Hill Golf Resort.

Set out below is the unaudited financial information of Panyu Golf, Wei Di Si and Lian Chui for each of the two years ended 31st December, 2005 and 2006 prepared in accordance with the HK GAAP:

	Year ended 31st December,					
	2006			2005		
	Panyu Golf <i>HK\$ million</i>	Wei Di Si <i>HK\$ million</i>	Lian Chui <i>HK\$ million</i>	Panyu Golf <i>HK\$ million</i>	Wei Di Si <i>HK\$ million</i>	Lian Chui <i>HK\$ million</i>
Turnover	38.7	3.5	1.7	44.5	3.6	1.4
Profit (Loss) before taxation	(4.8)	0.4	–	2.5	(0.2)	0.1
Profit (Loss) after taxation and minority interest	(2.0)	0.2	–	3.1	(0.1)	–

	As at 31st December,					
	2006			2005		
	Panyu Golf <i>HK\$ million</i>	Wei Di Si <i>HK\$ million</i>	Lian Chui <i>HK\$ million</i>	Panyu Golf <i>HK\$ million</i>	Wei Di Si <i>HK\$ million</i>	Lian Chui <i>HK\$ million</i>
Total assets	246.1	8.2	6.5	214.1	7.6	1.8
Net assets	154.4	5.0	0.3	137.7	4.5	0.4
Net assets after minority interest	104.5	3.2	0.2	94.8	2.9	0.2

After completion of the Disposal, the Group will cease to have any interest in any of Panyu Golf, Wei Di Si and Lian Chui. However, the Group will continue to engage in golf leisure business through its subsidiaries in Sanya, the PRC, as well as at the Lotus Hill Golf Resort through the Lease Agreement.

### 3. Consideration and payment terms

The Consideration for the Disposal shall be RMB20 million (equivalent to approximately HK\$20.5 million).

The Consideration shall be paid by the Purchaser to the Vendor in cash in the following manner:

	<b>Panyu Golf Agreement</b> <i>RMB</i>	<b>Wei Di Si Agreement</b> <i>RMB</i>	<b>Lian Chui Agreement</b> <i>RMB</i>	<b>Total</b> <i>RMB</i>
(i) deposits will be paid within ten (10) Business Days upon the signing of the respective Disposal Agreement	1,900,000	80,000	20,000	2,000,000
(ii) further deposits to be paid within ten (10) Business Days of obtaining the requisite PRC governmental and regulatory approvals in relation to the respective Disposal Agreement	15,200,000	640,000	160,000	16,000,000
(iii) the balances to be paid within fifteen (15) Business Days upon the completion of the registration of change of shareholder from the Vendor to the Purchaser	1,900,000	80,000	20,000	2,000,000
Total	<u>19,000,000</u>	<u>800,000</u>	<u>200,000</u>	<u>20,000,000</u>

The Consideration was determined after arm's length negotiations with the Purchaser and having taken into account, among other things, the disqualification of Donson remaining as an investor after the expiry of contract period of the existing joint venture agreement for Panyu Golf, the unaudited combined net asset value after minority interest of Panyu Golf, Wei Di Si and Lian Chui of approximately RMB105.1 million (equivalent to approximately HK\$107.9 million) as at 31st December, 2006, and the residual value of assets other than buildings of Panyu Golf. The split of the Consideration among each of the Panyu Golf Agreement, Wei Di Si Agreement and Lian Chui Agreement is determined after considering their relevant sizes and tax implications.

At the date of this announcement, the Group has a shareholder's loan, which is interest free and unsecured, of approximately RMB13.2 million (equivalent to approximately HK\$13.6 million) advanced to Panyu Golf. In addition, the Group has also provided a guarantee of HK\$8 million in respect of a bank loan of Panyu Golf of RMB7 million (approximately HK\$7.2 million). This advance and guarantee will be settled by the Purchaser or repaid by Panyu Golf out of its future profit entitlements from the Development Project.

The Directors consider that the Consideration is fair and reasonable and the Disposal, taking into account the terms of the Development Project Agreement and the Lease Agreement, is in the interests of the Company and the Shareholders as a whole. The Consideration will be retained as working capital of the Group.

#### **4. Conditions precedent**

The Disposal is conditional on:

- (i) the Disposal Agreements having been approved by the relevant PRC government authority;
- (ii) Newco A and Newco B having been duly established in the PRC as wholly-owned subsidiaries of the Company to act as a participant in the Development Project and the lessee to the Lease Agreement respectively;
- (iii) approval by the Shareholders (or Independent Shareholders, if required) of the Disposal and all transactions contemplated under the Framework Agreement, including the Disposal Agreements, the Development Project Agreement and the Lease Agreement, at the SGM in compliance with the requirements of the Listing Rules; and
- (iv) approval by 廣州市番禺番發集團公司, the Purchaser's holding company, and the Panyu Municipal Government.

The Vendor shall use all reasonable endeavours to procure the fulfilment of conditions (ii) and (iii) above. The Purchaser shall use all reasonable endeavours to procure the fulfilment of conditions (i) and (iv) above. If any of the conditions (ii), (iii) or (iv) is not fulfilled or waived on or before the Long Stop Date or condition (i) is not fulfilled within 60 days of the parties having confirmed the fulfilment of conditions (iii) and (iv) or if the registration of the change of shareholder is not completed within 30 days of the fulfilment of condition (i), the rights and obligations of the parties under the Disposal Agreements shall lapse and be of no further effect except for antecedent breach and the deposits received by the Vendor shall be returned to the Purchaser without any interest.

## **B. THE DEVELOPMENT PROJECT AGREEMENT**

As a further consideration for Donson to enter into the Panyu Golf Agreement, the Purchaser agrees to procure Panyu Golf to enter into the Development Project Agreement within 3 days of completion of the Disposal Agreements for the purpose of developing a parcel of land within the Lotus Hill Golf Resort. The Development Project is a co-operation arrangement and there would not be any legal entities formed between Donson or Newco A and Panyu Golf for the purpose of the Development Project. The principal terms of the Development Project Agreement will be as follows:

### **1. Parties**

- (i) Donson or Newco A, a wholly-owned subsidiary of the Company; and
- (ii) Panyu Golf.

### **2. Purpose**

The Development Project Agreement sets out the co-operation arrangement between Donson or Newco A and Panyu Golf in relation to the development of a parcel of land with area of approximately 48,000 sq. m. situated within the Lotus Hill Golf Resort. About 60 villas with total saleable floor area of approximately 23,000 sq. m. will initially be constructed thereon. All permits and consents in relation to the development of these 60 villas have been obtained. Construction work is expected to commence in early 2008 and completion is expected in around early 2009. The villas will be offered to the members of the Lotus Hill Golf Resort for lease on a long-term basis.

### **3. Capital commitment**

Donson or, as the case may be, Newco A will provide the Loan of RMB40 million (equivalent to approximately HK\$41.1 million) to Panyu Golf, which will be utilised principally to finance the development of the aforesaid villas. The Loan shall be unsecured and will bear interest at the prevailing lending rate as announced by The People's Bank of China from time to time. The provision of the Loan will be funded by the internal resources of the Group. The amount of the Loan is determined based on the estimated construction costs net of the estimated proceeds received or receivable in the form of down payments or deposits from the lessees of the villas to be developed. The Loan will be injected by installments, with the actual timing and amount to be determined by the cash budget, construction and sales plan which may from time to time be approved by the management committee of the Development Project, of which the Group has 2 representatives, based on actual progress of construction and the leasing of the villas.

Panyu Golf will not be required to make any cash contribution but will contribute the relevant land for the Development Project. The Directors consider such arrangement to be normal commercial practice for property development co-operation of this type in the PRC. The Directors also consider the terms of the Loan which bear interest at prevailing market lending rate to be normal commercial terms.



#### **4. Profit sharing arrangements**

Donson or, as the case may be, Newco A and Panyu Golf will be initially entitled to 65% and 35% respectively of the net residual value of the Development Project, which is calculated as the proceeds from the long-term leases of the villas of the Development Project, net of:

- (i) construction costs of the Development Project;
- (ii) other expenses in relation to the Development Project;
- (iii) all tax charges in relation to the Development Project; and
- (iv) repayment of principal of and interest accrued on the Loan.

The land use right certificates of the Lotus Hill Golf Resort is currently for use as golf facilities only. In case Panyu Golf is able to obtain a change of use of the land use rights certificates regarding the aforesaid villas so that the land use rights of the villas can be transferred, any extra net benefits from such sale (representing additional proceeds from the sale of the villas if the purpose of the land use right certificates can be changed from golf facilities to property development less the cost of obtaining approval of such change) will be shared by Donson or, as the case may be, Newco A and Panyu Golf in the proportion of 40% and 60% respectively. This additional profit sharing, if any, is an extra benefit to the Group. Panyu Golf will be the party primarily undertaking the task of obtaining the aforesaid land use right certificates. The Directors consider the sharing ratio, though different from the initial profit sharing ratio, serves as an incentive measure for and reflects the efforts of Panyu Golf on obtaining the land use right certificates for the villas and is fair and reasonable.

#### **5. Management of the Development Project**

A management committee for the Development Project will be established which shall comprise 4 persons, with each party having the right to appoint 2 persons. All essential financial and operating policies of the Development Project are to be decided by the management committee, normally by a majority vote in a management committee meeting. Neither the Group nor Panyu Golf shall have unilateral control over the composition of the management committee or the voting rights at any management committee meeting.

#### **6. Guarantee**

番禺旅游 will guarantee the due observance and performance by Panyu Golf of all the obligations, commitments and undertakings on the part of Panyu Golf contained in the Development Project Agreement.

#### **7. Other opportunities**

If there are any future projects within the Lotus Hill Golf Resort, Donson or, as the case may be, Newco A will have the first right to participate in such new projects on the same initial profit sharing basis as the Development Project Agreement.

The provision of the Loan pursuant to the Development Project Agreement is conditional on the completion of the Disposal Agreements and the entering into of the Lease Agreement.

## **C. THE LEASE AGREEMENT**

With a view to enabling the Group to continue its business in managing the golf course and related facilities of the Lotus Hill Golf Resort and generate recurring revenue, Donson or Newco B and Panyu Golf shall, upon completion of the Disposal, enter into the Lease Agreement on the following terms:

### **1. Parties**

Lessee: Donson or Newco B, a wholly-owned subsidiary of the Company; and

Lessor: Panyu Golf.

### **2. Subject premises**

The golf course and club-house facilities within the Lotus Hill Golf Resort.

### **3. Lease period**

3 years from the date of the Lease Agreement, which is renewable at the option of the lessee for successive terms of 3 years each up to a maximum of 20 years subject to a 10% increment in lease payment every 3 years. The Company shall comply with applicable Listing Rules requirements on renewal of the lease period after the expiry of the initial 3-year lease term.

### **4. Lease payment**

Annual rent is RMB5 million (equivalent to approximately HK\$5.1 million) payable on a monthly averaged basis (i.e. approximately RMB416,667 or HK\$427,789 per month).

### **5. Deposit**

An amount of RMB1,500,000 (equivalent to approximately HK\$1,540,000) will be paid within five (5) days upon signing of the Lease Agreement, but will be refunded to the lessee if the Lease Agreement is expired or terminated without default on the part of the lessee.

The entering into of the Lease Agreement is conditional on completion of the Disposal Agreements and the signing of the Development Project Agreement.

The Group intends to retain the same team of management and staff who are currently employed by Panyu Golf to run the daily operations of the Lotus Hill Golf Resort. Donson or Newco B shall receive charges from users of the facilities of the Lotus Hill Golf Resort and incur operating costs such as lease payment under the Lease Agreement, staff salary and other running expenses. As

disclosed in the sub-paragraph headed “Interests to be disposed of by Donson” under the section headed “THE DISPOSAL AGREEMENTS” above, the profit after taxation and minority interest of Panyu Golf shared by the Group for the year ended 31st December, 2005 was approximately HK\$3.1 million and the loss after taxation and minority interest of Panyu Golf shared by the Group for the year ended 31st December, 2006 was approximately HK\$2.0 million.

For the purpose of Chapter 14A of the Listing Rules, the annual lease payment payable by the Group under the Lease Agreement shall be capped at RMB5 million (equivalent to approximately HK\$5.1 million) for each of the three financial years ending 31st March, 2009, 2010 and 2011. The cap is determined with reference to the annual lease payment under the Lease Agreement. As Panyu Golf is currently the owner and operator of the Lotus Hill Golf Resort, the annual lease payment of RMB5 million under the Lease Agreement is determined based on arm’s length negotiations between the parties with reference to the past turnover of Panyu Golf and after considering the current economic conditions in Panyu and the business potential of the Lotus Hill Golf Resort.

#### **D. LETTER OF INTENT**

The Group will enter into a non-binding letter of intent with Panyu Golf upon Completion in relation to the proposed formation of a new joint venture to develop and operate a new hotel within the Lotus Hill Golf Resort subject to requisite consents and approvals from the relevant government authorities having been obtained. The Company will provide the Shareholders with further information of this proposed joint venture in accordance with the Listing Rules should any binding agreement be entered into.

#### **REASONS FOR THE FRAMEWORK AGREEMENT**

Panyu Golf is a joint venture between Donson and 番禺旅游 which contract period should have expired on 17th September, 2007. Pursuant to 外商投資產業指導目錄（2007年修訂） as jointly announced by the National Development and Reform Commission and Ministry of Commerce of the PRC on 7th November, 2007, foreign investors, including Hong Kong investors, are prohibited to develop and operate golf course in the PRC unless relevant permits have been granted prior to 1st December, 2007. Upon expiry of the contract period, Panyu Golf is required to be wound up by a committee to be formed by Panyu Golf in accordance with its articles of association. As the joint venture partners consider that winding up may not be in their best interests, the parties have agreed to temporarily extend the joint venture contract period by 6 months to 17th March, 2008 to facilitate negotiations between the parties of a re-arrangement of the joint ventures. Given that Donson can no longer remain as a foreign investor in Panyu Golf, after arm’s length negotiations, the parties entered into the Framework Agreement on 28th November, 2007 to set out the framework for the new arrangements involving the Disposal, the new co-operation arrangement for the Development Project and the lease as described above.

Assuming Completion takes place on 30th September, 2007, the aggregate financial effects before any expenses of the Disposal is expected to result in a loss of approximately HK\$67.5 million (which is calculated with reference to (i) the unaudited net asset value of Panyu Golf, Wei Di Si and Lian Chui of approximately HK\$88.0 million as at 30th September, 2007; and (ii) the aggregate cash consideration of RMB20 million (approximately HK\$20.5 million) under the Disposal Agreements). Such loss, however, may be reduced by the possible share of residual value of the Development Project as a deferred consideration in accordance with the Panyu Golf Agreement. Based on the current development plan of the Development Project and the expected lease payments receivable from the long-term leases of the villas to be developed in the Development Project, the Directors estimate that the 65% share of residual

value attributable to the Group would amount to over HK\$20 million. Shareholders should note that the actual overall financial effects of the Disposal and the Development Project are to be determined with reference to the carrying value of the net asset value to be set out in the completion accounts of Panyu Golf, Wei Di Si and Lian Chui, the actual total construction costs to be incurred and the proceeds received and receivable from the villas concerned upon completion of the Development Project. Despite such loss, the Directors decided to proceed with the Disposal as under the terms of the existing joint venture agreement for Panyu Golf, other than the Framework Agreement, there is no other means of restructuring available to the Group, and winding up of Panyu Golf is the only consequence in the absence of the Framework Agreement. In evaluating the merits of the new arrangements, the Board has considered the following factors:

1. in accordance with the existing joint venture agreement of Panyu Golf, if a winding-up takes place, all the buildings including club house of Panyu Golf will be surrendered to 番禺旅游 at no consideration while the remaining assets, after discharging all liabilities including but not limited to taxes, are to be distributed to Donson and 番禺旅游 in the proportion of 65% and 35% respectively. Based on the unaudited accounts of Panyu Golf, before considering the value of land use right of properties within the Lotus Hill Golf Resort, the buildings of Panyu Golf amounted to approximately HK\$100 million, representing approximately 41% and 65% of the total assets and net assets value of Panyu Golf as at 31st December, 2006; and the residual net assets attributable to 65% interest of Donson amounted to approximately HK\$39 million. In view of the amount of residual value attributable to Donson's 65% interest, the Board considers that the winding-up of Panyu Golf in such manner may not be in the best interest of the Company and the Shareholders;
2. if Panyu Golf were to be wound up, its licence to operate golf club and right to develop properties within the Lotus Hill Golf Resort will be forgone. Without the licence, the value of the existing properties within the Lotus Hill Golf Resort may drastically deteriorate and its net realisable value is subject to significant uncertainties, as there is at present stringent control over the grant of new golf operator licence in the PRC. It would therefore be impracticable to attach any fair value to the properties of Panyu Golf based on its existing use. In addition, the Group will cease to enjoy any potential benefits from the future development of properties within the Lotus Hill Golf Resort;
3. upon completion of the Disposal Agreements, 番禺旅游 and its associates will ultimately hold the entire beneficial interest in Panyu Golf and Lian Chui and more than 99% beneficial interest in Wei Di Si. Under the new arrangements, although Donson no longer has ownership interest in the properties within the Lotus Hill Golf Resort and a loss will be recorded by the Group as a result of the Disposal, the Directors consider the new arrangements a practicable alternative, as Donson is able to secure its entitlements to the economic benefits to be generated from the future development and operations of the Lotus Hill Golf Resort through the Development Project Agreement and the Lease Agreement at the same percentage as the existing joint venture arrangement;
4. the Group is required to provide the Loan to Panyu Golf for the Development Project. The Directors consider the arrangement commercially justified, as funding from Donson as a joint venture partner would also be required if Panyu Golf were to continue in existence and develop the villas. The Loan shall bear interest at the lending rate as announced by The People's Bank of China from time to time and is repayable before the sharing of any residual value in the Development Project, which terms are considered to be fair and reasonable by the Directors. In addition, the Group will have the first right to participate in future projects within the Lotus Hill Golf Resort including the new hotel;

5. the Group is entitled to appoint 2 persons, representing 50% of the total number of members, to the management committee for the Development Project and hence has significant participation in the formulation of strategy and operation of the Development Project including full access to information on, among other things, the development plan, estimated construction cost and marketing plan of the Development Project;
6. through the Lease Agreement, the operation of the Lotus Hill Golf Resort is expected to generate stable revenue to the Group (which refers to service charges receivable from users of the facilities at Lotus Hill Golf Resort). The Directors believe the operations of the Lotus Hill Golf Resort would benefit from new developments, which the Group has a first right to participate under the Development Project Agreement, as it would attract more visitors as well as golfers and further improve the utilisation rate of the facilities within the Lotus Hill Golf Resort to generate more revenue;
7. the continuous participation in the Lotus Hill Golf Resort through the Lease Agreement is expected to bring synergies to the Group's other golf and leisure businesses in Sanya, the PRC; and
8. the new arrangements would enable the Group to maintain a partnership with 番禺旅游 and its associates. Given the background of 番禺旅游 and its associates, the Directors consider that the continuous relationship with them would be beneficial to the Group's business development in the PRC particularly in golf and leisure related business. In addition, in light of the requirement for further extension of the contract term of Panyu Golf, it is impracticable for Donson to dispose of its interest in Panyu Golf to a party other than 番禺旅游 and its associates.

The Company is currently consulting the PRC legal advisers on the establishment of Newco A and Newco B for the purpose of acting as a participant in the Development Project and the lessee to the Lease Agreement respectively. In the event that the above arrangements cannot be implemented due to the fact that Newco A or Newco B is not duly established in the PRC under applicable rules and regulations in the PRC in light of the policies contained in the 外商投資產業指導目錄(2007年修訂) jointly announced by the National Development and Reform Commission and Ministry of Commerce of the PRC, the condition (ii) referred to in the sub-paragraph headed "Conditions precedent" under the section headed "THE DISPOSAL AGREEMENTS" cannot be fulfilled and the Framework Agreement shall lapse and Panyu Golf will be wound up. Despite the uncertainty relating to the formation of Newco A and Newco B, in view of the merits of the new arrangements as described above, the Directors consider it in the interests of the Company and the Shareholders as a whole to proceed with the Framework Agreement, subject to the duly establishment of Newco A and Newco B under applicable rules and regulations in the PRC. The Company shall work closely with its PRC legal advisers and use its best endeavours to procure fulfillment of condition (ii) referred to in the sub-paragraph headed "Conditions precedent" under the section headed "THE DISPOSAL AGREEMENTS" above and to obtain the legal advisers' advice on the legality of the proposed arrangements including but not limited to the Development Project Agreement and the Lease Agreement, and shall include an update on the status of the establishment of Newco A and Newco B and/or other advices of the PRC legal advisers in relation to this matter in the circular.

In view of the above, the Board considers that the entering into of the Framework Agreement (including the Disposal Agreements, the Development Project Agreement, the Lease Agreement and the respective transactions contemplated thereunder) is in the interests of the Company and the Shareholders as a whole and that the terms of the Framework Agreement, the Disposal Agreements, the Development Project Agreement and the Lease Agreement are fair and reasonable.

## SUPPLEMENTAL DEED

Under the Everight Agreement in relation to the acquisition of 55.57% indirect interest in Donson by New Smarten dated 2nd February, 2006, the vendors thereof (being Magnum Company Limited, Concord Link Development Limited, Green Label Investments Limited and Mr. Ku Yuet Kan, Tony) had given undertakings in favour of New Smarten for certain performance of the Donson Group, which are guaranteed by Mr. Lai and Mr. Chan. New Smarten and, among others, Mr. Lai and Mr. Chan have entered into the Supplemental Deed, which will be effective upon Completion, to vary such undertakings in light of the Disposal. Details of the variations are as follows:

<b>Existing undertakings</b>	<b>Proposed amendment</b>	<b>Reason</b>
Donson Group will achieve profit before tax and minority interest of not less than HK\$50 million (“Guaranteed Profit”) for the 27-month period from 1st January, 2006 to 31st March, 2008	To defer the 27-month period to commence from 1st January, 2008 and ending on 31st March, 2010. For the avoidance of doubt, the calculation of Guaranteed Profit shall include the loss arising from the transactions under the Framework Agreement regardless of whether the transactions thereunder are completed before 1st January, 2008 or not	It is the Group’s decision to revise the business plan of the hotel and leisure development in Sanya, Hainan, one of the principal operations of Donson Group, so as to enlarge the project size and maximise the benefits to the Group. As the aforesaid business plan of the hotel and leisure development has originally been agreed between the Group and the vendors at the time of the Everight Agreement, the amendments to the undertakings are proposed by the Group as an incentive to the vendors to agree on the revised business plan suggested by the Group. It is highly probable that the developable area can be increased to 60,000 m <sup>2</sup> from the initial plan of 29,000 m <sup>2</sup>
The vendors shall have no further liability under any warranties and undertakings contained in the Everight Agreement if the consolidated profits before tax and minority interests of Donson Group for the three years commencing from 1st April, 2006 and ending on 31st March, 2009 in aggregate exceeds HK\$200 million (“Profit for Guarantee Release”) or net consolidated cash inflow from operating and investing activities but before financing activities of Donson for the aforesaid period in aggregate exceeds HK\$300 million (“Cash Inflow for Guarantee Release”)	To defer the 3-year period to commence from 1st April, 2007 and ending on 31st March, 2010	Same as above

Except for the above proposed amendments, all the undertakings of the vendors under the Everight Agreement remain effective which include:

1. Villas and apartments having saleable area not less than 40,000 m<sup>2</sup> and 30,000 m<sup>2</sup> respectively can lawfully be erected within the Lotus Hill Golf Resort for sale and all relevant PRC governmental consents and approvals for the construction thereof will be obtained within four years after completion of the Everight Acquisition.

Up to the date of this announcement, all relevant PRC governmental consents and approvals for construction have been obtained for the construction of villas of about 23,000 m<sup>2</sup>. If there is no more development within the Lotus Hill Golf Resort available to the Group before 7th June, 2010 pursuant to its first right to participate under the Development Project Agreement, the compensation payable by the vendors under the Everight Agreement calculated in accordance with the conditions of the Everight Agreement is approximately HK\$22.4 million, which is covered by convertible notes issued by the Company and the cash deposit of HK\$26.7 million placed in escrow.

2. The maximum liability of those vendors, except for Mr. Ku Yuet Kan, Tony, which are beneficially held by Mr. Lai and Mr. Chan in respect of all claims for breach of the warranties and undertakings contained in the Everight Agreement shall not exceed the sum of HK\$60 million.

As the above amendments only relate to deferral of the period for the designated performance of Donson Group but do not involve any relaxation of the obligations of the vendors or surrender of rights in monetary terms by the Group, the Directors do not consider the amendments under the Supplemental Deed to be material which would otherwise affect the previous approval of the Everight Agreement obtained from the Shareholders in May 2006. For the avoidance of doubt, it is explicitly agreed that the loss from the transactions contemplated under the Framework Agreement will be indemnified by those vendors beneficially held by Mr. Lai and Mr. Chan in accordance with the Everight Agreement unless:

1. the Guaranteed Profit is not less than HK\$50 million; or
2. Donson Group can achieve either the Profit for Guarantee Release or the Cash Inflow for Guarantee Release.

The consideration for the Everight Acquisition was HK\$140 million. The achievement of any one of the Guaranteed Profit, the Profit for Guarantee Release or the Cash Inflow for Guarantee Release by Donson Group is considered a fair and reasonable return to the Group from the Everight Acquisition. The Board (including the independent non-executive Directors with Mr. Lai abstaining from voting) considers that the entering into the Supplemental Deed (including the transactions contemplated thereunder) is in the interests of the Company and the Shareholders as a whole and that the terms of the Supplemental Deed are fair and reasonable.

## **SGM**

The Disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. By virtue of the fact that 番禺旅游 and the Purchaser are under common control, Panyu Golf is a connected person under Rule 14A.11(4) of the Listing Rules and all agreements under the Framework Agreement are inter-conditional with each other, the Disposal and the provision of the Loan also constitute connected transactions for the Company under Chapter 14A of the Listing Rules and are subject to approval of the Independent Shareholders. The transaction contemplated under the Lease Agreement

constitutes a continuing connected transaction for the Company under the Listing Rules. As each of the percentage ratios (other than the profits ratio) on an annual basis is less than 2.5%, the transaction is only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the Independent Shareholders' approval requirement. An independent committee of the Board will be constituted to advise the Independent Shareholders on the terms of the Disposal Agreements and the Development Project Agreement. An independent financial adviser will be appointed to advise the independent committee of the Board and the Independent Shareholders in this regard. A circular containing information on the Framework Agreement, the Disposal Agreements, the Development Project Agreement, the Lease Agreement, the Supplemental Deed, the recommendation from the independent committee of the Board to the Independent Shareholders, the letter of advice from the independent financial adviser to the independent committee of the Board and the Independent Shareholders, the notice of the SGM and other information as required under the Listing Rules will be despatched to the Shareholders as soon as practicable.

## **GENERAL**

The Company is an investment holding company and its subsidiaries are principally engaged in property development and investment in Macau, the PRC and Hong Kong. The Group is also engaged in golf resort and leisure operations in the PRC, securities investment, trading of motorcycles and loan financing services.

## **TERMS USED IN THIS ANNOUNCEMENT**

“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than Saturday and any day on which a tropical cyclone warning No. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon or on which a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which the banks are open for business in Hong Kong
“BVI”	the British Virgin Islands
“Company”	ITC Properties Group Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the change in registration of shareholder from the Vendor to the Purchaser in respect of the transfer of the shares under each of the Disposal Agreements
“connected persons”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the aggregate cash consideration for the Disposal of RMB20 million (equivalent to approximately HK\$20.5 million)



“Development Project”	a property project involving the development of a parcel of land with a site area of approximately 48,000 sq. m. within the Lotus Hill Golf Resort
“Development Project Agreement”	the agreement to be entered into between Donson or Newco A and Panyu Golf in relation to the co-operation arrangement for the Development Project
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of interests in Panyu Golf, Wei Di Si and Lian Chui by Donson to the Purchaser
“Disposal Agreement(s)”	collectively, the Panyu Golf Agreement, Wei Di Si Agreement and Lian Chui Agreement
“Donson” or “Vendor”	Donson (International) Development Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Donson Group”	Donson and its subsidiaries
“Everight”	Everight Investment Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Everight Acquisition”	the acquisition of 100% issued share capital in Everight pursuant to the Everight Agreement
“Everight Agreement”	the agreement dated 2nd February, 2006 entered into among New Smarten and various parties including Mr. Lai in respect of the Everight Acquisition, which details are set out in the circular of the Company dated 26th April, 2006
“Everight Group”	Everight and its subsidiaries
“Framework Agreement”	a legally binding framework agreement dated 28th November, 2007 entered into among Donson, 番禺旅游 and the Purchaser in relation to the Disposal, the co-operation arrangement for the Development Project and the lease of the Lotus Hill Golf Resort
“Group”	the Company and its subsidiaries
“HK GAAP”	generally accepted accounting principles applicable in Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders other than 番禺旅游, the Purchaser and their respective associates

“Lease Agreement”	the agreement to be entered into between Donson or Newco B as lessee and Panyu Golf as lessor for the lease of the Lotus Hill Golf Resort
“Lian Chui”	Guangzhou Lian Chui Property Management Company Limited (廣州市蓮翠房產物業管理有限公司), a company incorporated in the PRC which Donson has a 65% interest in its registered capital
“Lian Chui Agreement”	the agreement dated 28th November, 2007 entered into between Donson and the Purchaser for the disposal of Donson’s entire interest in Lian Chui
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the working capital loan to be provided by Donson or Newco A to Panyu Golf for use in the Development Project
“Long Stop Date”	31st January, 2008 or such other date as the relevant parties may agree in writing
“Lotus Hill Golf Resort”	the golf resort known as “Guangzhou Lotus Hill Golf Resort” which comprises golf course and golf clubhouse within Panyu, Guangzhou, Guangdong Province, the PRC
“Mr. Chan”	Chan Jink Chou, Eric (陳正秋), the then beneficial owner of the entire issued share capital of Magnum Company Limited and the then controlling shareholder of Concord Link Development Limited which are two of the vendors under the Everight Agreement
“Mr. Lai”	Lai Tsan Tung, David (賴贊東), an executive Director
“New Smarten”	New Smarten Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Newco A”	a wholly-owned subsidiary of the Company to be incorporated in the PRC to act as a party to the Development Project
“Newco B”	a wholly-owned subsidiary of the Company to be incorporated in the PRC to act as the lessee to the Lease Agreement
“番禺旅游”	廣州市番禺旅游總公司
“Panyu Golf”	Guangzhou Panyu Lotus Golf & Country Club Co., Ltd. (廣州番禺蓮花山高爾夫球度假俱樂部有限公司), a company incorporated in the PRC which Donson has a 65% interest in its registered capital

“Panyu Golf Agreement”	the agreement dated 28th November, 2007 entered into between Donson and the Purchaser for the disposal of Donson’s entire interest in Panyu Golf
“PRC”	the People’s Republic of China, excluding Hong Kong, Macau and Taiwan for the purpose of this announcement
“Purchaser”	廣州市番禺協誠實業有限公司, a company incorporated in the PRC
“SGM”	the special general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, to approve, by way of poll, the Framework Agreement, Panyu Golf Agreement, Wei Di Si Agreement, Lian Chui Agreement, Development Project Agreement and the respective transactions contemplated thereunder, or any adjournment thereof
“Share(s)”	share(s) of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Deed”	the deed of variation dated 28th November, 2007 entered into among New Smarten, Green Label Investments Limited, Concord Link Development Limited, Magnum Company Limited, Mr. Lai and Mr. Chan to vary certain warranties and guarantees given by the vendors of the Everight Agreement
“Wei Di Si”	Guangzhou Panyu Wei Di Si Golf Property Company Limited (廣州市番禺偉迪斯高爾夫房地產有限公司), a company incorporated in the PRC which Donson has 64.83% interest in its registered capital
“Wei Di Si Agreement”	the agreement dated 28th November, 2007 entered into between Donson and the Purchaser for the disposal of Donson’s entire interest in Wei Di Si
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.
“sq. m.” or “m <sup>2</sup> ”	square metre

*In this announcement, RMB are converted into HK\$ on the basis of HK\$1 = RMB0.974 for illustrative purpose.*

*For ease of reference, the names of PRC established companies and entities have been included in this announcement in both Chinese and English languages and the English names of these companies and entities are either English translation of their respective official Chinese names or English tradenames used by them. In the event of any inconsistency between the English names and their respective official Chinese names, the Chinese names shall prevail.*

By order of the Board  
**ITC Properties Group Limited**  
**Yan Ha Hung, Loucia**  
Company Secretary

Hong Kong, 7th December, 2007

As at the date of this announcement, the Directors are as follows:

*Executive Directors:*

Mr. Cheung Hon Kit (*Chairman*)

Mr. Chan Fut Yan (*Managing Director*)

Mr. Wong Kam Cheong, Stanley (*Deputy Managing Director*)

Mr. Cheung Chi Kit

Mr. Lai Tsan Tung, David

Mr. Ma Chi Kong, Karl

*Independent non-executive Directors:*

Mr. Wong Chi Keung, Alvin

Mr. Kwok Ka Lap, Alva

Mr. Chui Sai Cheong