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## **HONG KONG FERRY (HOLDINGS) COMPANY LIMITED**

*(Incorporated in Hong Kong under the Companies Ordinance)*

**(Stock Code: 050)**

### **CONNECTED TRANSACTIONS**

Join Galaxy, a wholly-owned subsidiary of the Company, has on 20 September 2004 entered into: (a) the Project Management Agreement with HREAL for the appointment of HREAL as the project and sales manager in respect of the Proposed Development; and (b) the Prime Cost Contract with Heng Shung for the appointment of Heng Shung as the main contractor in respect of the Proposed Development.

Each of HREAL and Heng Shung is a wholly-owned subsidiary of Henderson Land, the subsidiaries of which beneficially own approximately 73.48 per cent. of the entire issued share capital of Henderson Investment Limited, a substantial shareholder (as defined in the Listing Rules) of the Company, the subsidiaries of which in turn hold approximately 31.33 per cent. of the entire issued share capital of the Company. Therefore, each of HREAL and Heng Shung is a connected person of the Company and the entering into of each of the Project Management Agreement and the Prime Cost Contract by Join Galaxy constitutes a connected transaction of the Company under the Listing Rules.

It is presently expected by the Directors that the respective fees payable under each of the Project Management Agreement and the Prime Cost Contract and the aggregate of all such fees payable will represent applicable percentage ratios (as defined in the Listing Rules) of less than 2.5 per cent. and thus these transactions will not need to be made subject to the approval of independent shareholders of the Company in accordance with Rule 14A.32 of the Listing Rules. Pursuant to Rule 14A.45 of the Listing Rules, details of the Project Management Agreement and the Prime Cost Contract disclosed in this announcement will be included in the next published annual report of the Company.

### **CONNECTED TRANSACTIONS**

#### **A. Project Management Agreement**

**1. Date:**

20 September 2004

**2. Parties:**

Join Galaxy, a wholly-owned subsidiary of the Company

HREAL, a wholly-owned subsidiary of Henderson Land

**3. Proposed transaction:**

Join Galaxy has entered into the Project Management Agreement with HREAL for the appointment of HREAL as the project and sales manager in respect of the Proposed Development. HREAL's appointment as project manager is for the period up to completion of the Proposed Development and the making good of defects by contractors. The completion of the Proposed Development (by reference to the issuance of the occupation permit in respect thereof), including completion of all transactions contemplated under the Prime Cost Contract and the Project Management Agreement (other than those relating to HREAL's appointment as sales manager) is currently expected to take place in the later part of 2005. HREAL's appointment as sales manager is for the period up to 1 year after issuance of the occupation permit in respect of the Proposed Development. The Proposed Development is a comprehensively planned development with a gross floor area of approximately 53,000 square feet consisting of residential and retail components together with ancillary supporting facilities on the Tong Mi Road Property located at Nos. 43, 45, 47, 49, 51 and 51A Tong Mi Road, Kowloon, Hong Kong.

**4. Consideration and terms of payment:**

Pursuant to the Project Management Agreement, HREAL shall, inter alia, serve as the project and sales manager of the Proposed Development in consideration for a fee equivalent to the aggregate of:-

- (a) one per cent. (1%) of the construction costs of the Proposed Development (including professional fees), subject to a ceiling of HK\$500,000, which shall be payable within 45 days after the issuance of the occupation permit in respect of the Proposed Development (which is currently expected to take place in the later part of 2005);
- (b) half of one per cent. (0.5%) of the gross proceeds of sale of such part(s) of the residential units of the Proposed Development in respect of which sale and purchase agreements have been entered into but excluding those sale and purchase agreements effected by third party sales agent(s), subject to a ceiling of HK\$850,000, which shall be payable by way of three instalments each within 45 days of the following: (i) the date on which an occupation permit for the Proposed Development is issued; (ii) the date which is six months thereafter; and (iii) the date which is 1 year after the issuance of the occupation permit in respect of the Proposed Development;
- (c) a fee of HK\$350,000 for interior design consultancy services payable by 4 instalments of HK\$87,500 each upon completion of inception and preliminary design (which is expected to take place upon acceptance by Join Galaxy of the proposed preliminary design), design development, detail design and documentation, and construction respectively;
- (d) a fee of HK\$400,000 for structural and geotechnical consultancy services payable in accordance with the different work stages of the Proposed Development;
- (e) a monthly fee of HK\$10,000 for site supervision for the foundation and the superstructure works of the Proposed Development, which (together with certain quality supervision fees) subject to a ceiling of HK\$272,000; and

- (f) a fee of HK\$380,000 for mechanical and electrical consultancy services payable in accordance with the different stages on the services to be provided.

It is the understanding of Join Galaxy and HREAL that the fee described in sub-paragraph (a) above is for the overall management of the Proposed Development. The rate of the fee described in sub-paragraph (b) above is less than the general market rate of agency fees for third party sales agents because the work to be undertaken by HREAL is more administrative in nature, whereas third party agents would deal more actively and directly with purchasers and potential purchasers. In relation to the sub-paragraph (e) above, (i) the monthly fee of HK\$10,000 for site supervision for the foundation and the superstructure works of the Proposed Development (subject to a ceiling of HK\$100,000); (ii) a monthly fee of HK\$28,000 for quality supervision (subject to a ceiling of HK\$112,000); and (iii) certain other monthly fees for foundation quality supervision, are in aggregate subject to a ceiling of HK\$272,000.

The consideration for the services to be provided by HREAL under the Project Management Agreement (the maximum aggregate consideration being HK\$2,752,000, according to the various items above) was determined by Join Galaxy and HREAL on arm's length basis and in relation to the fees described in sub-paragraph (a) and sub-paragraphs (c) to (f) above, was supported by an advice of a third party construction and property consultancy firm obtained in August 2004, which considered that the said fees were fair and reasonable for this type of residential development. The construction and property consultancy firm, being an international firm of Chartered Quantity Surveyors, is not connected with any directors, chief executive, or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates within the meaning of the Listing Rules. The consultancy firm is not connected with Henderson Land or any of its associates. In respect of the fee described in sub-paragraph (b) above, the fee percentage is the same as that payable to HREAL as sales manager in respect of the redevelopment of the Group's property located at 201 Tai Kok Tsui Road, Kowloon. The consideration will be paid by the Group out of its internal resources.

## **B. Prime Cost Contract**

1. **Date:**

20 September 2004

2. **Parties:**

Join Galaxy, a wholly-owned subsidiary of the Company

Heng Shung, a wholly-owned subsidiary of the Henderson Land

3. **Proposed transaction:**

Join Galaxy has entered into the Prime Cost Contract with Heng Shung for the appointment of Heng Shung as main contractor of the Proposed Development for the construction period of the Proposed Development. Pursuant to the Prime Cost Contract, Heng Shung shall carry out and complete or procure the carrying out and completion of the items of works described in certain drawings and specifications which are subject to change from time to time.

#### **4. Consideration and terms of payment:**

Under the terms of the Prime Cost Contract, Heng Shung shall be paid the prime costs (which are generally construction costs as detailed in the Prime Cost Contract) of all works including works subcontracted for Heng Shung to pay to sub-contractors on behalf of Join Galaxy and a fee of 5% on all works of the Proposed Development (including preliminaries, works carried out by the subcontractors and Heng Shung and goods supplied by nominated suppliers (which may or may not be third parties independent of the Group and the Henderson Land Group)). If the amount payable by Join Galaxy to a sub-contractor which is a connected person under the Prime Cost Contract exceeds the de minimis threshold in Rule 14A.31(2) of the Listing Rules, further announcement will be made as may be required under the Listing Rules. The Prime Cost Contract stipulates that the aggregate of the prime cost of all works carried out by Heng Shung itself or by any connected persons (as defined in the Listing Rules) of the Company together with the 5% fee shall not exceed HK\$14,100,000. Under the Prime Cost Contract, payment will be made to Heng Shung within one month following the issue by the architect (a third party independent of the Group and the Henderson Land Group) appointed under the Prime Cost Contract of monthly interim certificates stating the amounts due to Heng Shung under such contract subject to a specified retention, which will be released to Heng Shung in stages.

The consideration to Heng Shung under the Prime Cost Contract was determined by Join Galaxy and Heng Shung on arm's length basis with reference to certain similar contracts entered into by Henderson Land Group in recent years in respect of a number of developments in Hong Kong, which have specified a percentage fee of 5%, and was supported by an advice from the construction and property consultancy firm mentioned in paragraph A.4 above obtained in August 2004, which considered that the percentage fee of 5% of the prime cost was a normal profit allowance in a general building construction project. The maximum figure of HK\$14,100,000 for the fee was arrived at after arm's length negotiations between the Group and Heng Shung with reference to the estimated prime cost of work to be carried out by Heng Shung itself and connected persons of the Company and the estimated amount of the 5% fee under the Prime Cost Contract. The consideration will be paid by the Group out of its internal resources.

#### **C. Reasons for the Project Management Agreement and the Prime Cost Contract**

As HREAL has a strong and experienced project management and marketing team in Hong Kong, the Directors consider that it is an appropriate candidate to be appointed as the project manager of the Proposed Development. HREAL has served as project and sales manager for a number of Henderson Land Group projects including high rise commercial/residential complexes and both high rise and low rise residential estates in Hong Kong.

The Directors consider that Heng Shung is well experienced in building construction and thus qualified to be the main contractor for the Proposed Development on such terms which the Directors believe are fair and reasonable. Heng Shung has served as main contractor for a number of Henderson Land Group projects including high rise commercial/residential complexes and both high rise and low rise residential estates in Hong Kong.

The Directors consider that the terms and conditions of each of the Project Management Agreement and the Prime Cost Contract are on normal commercial terms and the transactions contemplated therein are in the ordinary and usual course of business of the Company and are arrived at on an arm's length basis. The board of Directors, excluding Dr. Lee Shau Kee and Mr. Li Ning who have abstained from voting pursuant to the Articles of Association of the Company but including all the independent non-executive Directors, consider that they are fair and reasonable to the shareholders of the Company as a whole and in the interests of the Company. Dr. Lee Shau Kee and Mr. Li Ning are regarded as interested in the Project Management Agreement and the Prime Cost Contract through their interest or deemed interest in shares in Henderson Land.

#### **D. Connected Persons**

Each of HREAL and Heng Shung is a wholly-owned subsidiary of Henderson Land, the subsidiaries of which beneficially own approximately 73.48 per cent. of the entire issued share capital of Henderson Investment Limited, a substantial shareholder (as defined in the Listing Rules) of the Company, the subsidiaries of which in turn hold approximately 31.33 per cent. of the entire issued share capital of the Company. Therefore, each of HREAL and Heng Shung is a connected person of the Company and the entering into of each of the Project Management Agreement and the Prime Cost Contract by Join Galaxy constitutes a connected transaction of the Company under the Listing Rules.

It is presently expected by the Directors that the respective fees payable under each of the Project Management Agreement and the Prime Cost Contract and the aggregate of all such fees payable will represent applicable percentage ratios (as defined in the Listing Rules) of less than 2.5 per cent. and thus these transactions will not need to be made subject to the approval of independent shareholders of the Company in accordance with Rule 14A.32 of the Listing Rules. Pursuant to Rule 14A.45 of the Listing Rules, details of the Project Management Agreement and the Prime Cost Contract disclosed in this announcement will be included in the next published annual reports of the Company.

#### **GENERAL INFORMATION**

The Group's areas of business include property development and investment, hotel management, shipyard operations, travel agency and ferry operations.

Henderson Land Group's areas of business include investment holding, property development and investment, project and property management, construction and finance. The principal activities of each of HREAL and Heng Shung are project and sales management and building construction respectively.

## DEFINITIONS

“Company”	Hong Kong Ferry (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Henderson Land”	Henderson Land Development Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“Henderson Land Group”	Henderson Land and its subsidiaries
“Heng Shung”	Heng Shung Construction Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Henderson Land
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HREAL”	Henderson Real Estate Agency Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Henderson Land
“Join Galaxy”	Join Galaxy Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Prime Cost Contract”	the contract dated 20 September 2004 entered into between Join Galaxy and Heng Shung for the appointment of Heng Shung as main contractor of the Proposed Development
“Project Management Agreement”	the agreement dated 20 September 2004 entered into between Join Galaxy and HREAL in respect of, inter alia, the appointment of HREAL as the project manager of the Proposed Development
“Proposed Development”	the comprehensively planned development with a gross floor area of approximately 53,000 square feet consisting of residential and retail components together with ancillary supporting facilities on the Tong Mi Road Property

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tong Mi Road Property”	all that piece or parcel of ground located at Nos.43, 45, 47, 49, 51 and 51A Tong Mi Road, Kowloon, Hong Kong
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

By Order of the Board  
**Colin K.Y. Lam**  
*Chairman*

Hong Kong, 22 September 2004

*As at the date of this announcement, the executive directors of the Company are Mr. Lam Ko Yin, Colin and Mr. Li Ning, the non-executive directors are Mr. Lau Yum Chuen, Eddie, Mr. Leung Hay Man, Dr. Lee Chau Kee and Mr. Wong Man Kong, Peter and the independent non-executive directors are Mr. Ho Hau Chong, Norman, Mr. Kan Yuet Loong, Michael and Dr. Wu Shu Chih, Alex*