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

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

**(Stock Code: 00050)**

### **CONTINUING CONNECTED TRANSACTIONS**

Lenfield, a wholly-owned subsidiary of the Company, has on 19 May 2006 entered into: (a) the Project Management Agreement with HREAL for the appointment of HREAL as the project manager in respect of the Proposed Development; and (b) the Prime Cost Contract with Heng Tat for the appointment of Heng Tat as the main contractor in respect of the Proposed Development.

Each of HREAL and Heng Tat is a wholly-owned subsidiary of Henderson Land, the subsidiaries of which beneficially own in aggregate approximately 67.94 per cent. of the entire issued share capital of Henderson Investment Limited, a substantial shareholder (as defined in the Listing Rules) of the Company, and the subsidiaries of Henderson Investment Limited in turn hold approximately 31.33 per cent. of the entire issued share capital of the Company. Therefore, each of HREAL and Heng Tat is a connected person of the Company under the Listing Rules. The entering into of each of the Project Management Agreement and the Prime Cost Contract by Lenfield constitutes a continuing connected transaction of the Company under the Listing Rules.

As the applicable percentage ratios (other than the profits ratio) for the aggregate of the transactions contemplated under the Project Management Agreement and the Prime Cost Contract is on an annual basis more than 0.1 per cent. but less than 2.5 per cent., such transactions are only subject to the reporting and announcement requirements under the Listing Rules and are exempt from the independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules. Pursuant to Rule 14A.46 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.

### **CONTINUING CONNECTED TRANSACTIONS**

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

**1. Date:**

19 May 2006

**2. Parties:**

Lenfield, a wholly-owned subsidiary of the Company

HREAL, a wholly-owned subsidiary of Henderson Land

**3. Proposed transaction:**

Lenfield has entered into the Project Management Agreement with HREAL for the appointment of HREAL as the project manager in respect of the Proposed Development. Subject to the term as stated below under the sub-paragraph headed “Term”, the project management in respect of the Proposed Development contemplated by the Project Management Agreement is expected to be completed upon completion of the Proposed Development and the making good of defects by contractors. The completion of the Proposed Development is currently expected to take place around November 2008. The Proposed Development is a comprehensively planned development with a gross floor area of approximately 320,000 square feet consisting of residential and commercial components together with ancillary supporting facilities on the Tai Kok Tsui Property at 220-222 Tai Kok Tsui Road, Kowloon, Hong Kong.

**4. Term:**

Subject to early termination by the parties to the agreement, the appointment of the project manager shall be for a term of three years commencing from 1 April 2006.

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

Pursuant to the Project Management Agreement, HREAL shall, inter alia, serve as the project 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) for the overall management of the Proposed Development, subject to a ceiling of HK\$3,500,000, which shall be payable in three equal instalments on or before 31 March 2007, between 1 April 2007 and 31 March 2008 (both days inclusive) and between 1 April 2008 and 31 March 2009 (both days inclusive) respectively;
- (b) a fee of HK\$2,000,000 for interior design consultancy services payable by three instalments of HK\$666,666 each on or before 31 March 2007, between 1 April 2007 and 31 March 2008 (both days inclusive) and between 1 April 2008 and 31 March 2009 (both days inclusive) respectively;
- (c) a fee of HK\$3,000,000 for structural and geotechnical consultancy services payable in three equal instalments of HK\$1,000,000 each on or before 31 March 2007, between 1 April 2007 and 31 March 2008 (both days inclusive) and between 1 April 2008 and 31 March 2009 (both days inclusive) respectively; and
- (d) a quarterly fee of HK\$50,000 for site supervision and quality supervision services for the foundation and the superstructure works of the Proposed Development, subject to a ceiling of HK\$200,000 for each of the years ending 31 March 2007, 31 March 2008 and 31 March 2009.

The Project Management Agreement stipulates that the annual aggregate remuneration for the services to be provided by HREAL for the three years commencing from 1 April 2006 shall not exceed the amounts set out below:

For the period from 1 April 2006 to 31 March 2007	—	HK\$3,033,334
For the period from 1 April 2007 to 31 March 2008	—	HK\$3,033,334
For the period from 1 April 2008 to 31 March 2009	—	HK\$3,033,334

The consideration for the services to be provided by HREAL under the Project Management Agreement and the annual maximum remuneration of HK\$3,033,334 were determined by Lenfield and HREAL on arm's length basis with reference to fee scale of project management services for similar project undertaken by HREAL with the Group, which considered the fees similar to those described in sub-paragraphs (a) to (d) above were fair and reasonable for the subject residential development. The consideration will be paid by the Group out of its internal resources.

## **B. Prime Cost Contract**

### **1. Date:**

19 May 2006

### **2. Parties:**

Lenfield, a wholly-owned subsidiary of the Company

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

### **3. Proposed transaction:**

Lenfield has entered into the Prime Cost Contract with Heng Tat for the appointment of Heng Tat as main contractor of the Proposed Development for the construction period of the Proposed Development. Pursuant to the Prime Cost Contract, Heng Tat 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. Completion of construction of the Proposed Development is currently expected to take place around November 2008.

### **4. Term:**

Subject to early termination by the parties to the agreement, the appointment of the main contractor shall be for a term of three years commencing from 1 April 2006.

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

Under the terms of the Prime Cost Contract, Heng Tat shall be paid the prime costs of all works (including subcontract works for which Heng Tat will pay to sub-contractors on behalf of Lenfield) and a fee of 5 per cent. on all works of the Proposed Development (including preliminaries, works carried out by the subcontractors and Heng Tat and goods supplied by nominated suppliers). The Prime Cost Contract stipulates that the

annual aggregate of the prime cost of all works carried out by Heng Tat itself or by any connected persons (as defined in the Listing Rules) of the Company together with the 5 per cent. fee for the three years commencing from 1 April 2006 shall not exceed the amounts set out below:

For the period from 1 April 2006 to 31 March 2007	—	HK\$16,000,000
For the period from 1 April 2007 to 31 March 2008	—	HK\$16,000,000
For the period from 1 April 2008 to 31 March 2009	—	HK\$16,000,000

Under the Prime Cost Contract, payment will be made to Heng Tat 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 Tat under such contract subject to a specified retention, which will be released to Heng Tat in stages.

The consideration to Heng Tat under the Prime Cost Contract was determined by Lenfield and Heng Tat on arm's length basis with reference to certain similar contracts entered into by Henderson Land Group with the Group and other connected persons of Henderson Land Group in recent years in respect of a number of developments in Hong Kong, have specified a percentage fee of 5 per cent.. The annual maximum figure of HK\$16,000,000 for the fee was arrived at after arm's length negotiations between the Group and Heng Tat with reference to the estimated prime cost of work to be carried out by Heng Tat itself and connected persons of the Company and the estimated amount of the 5 per cent. 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 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 Tat 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 Tat 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.

Each of HREAL and Heng Tat has more than 10 years experience in the management and agency services field and building construction field respectively. HREAL was project manager in respect of the development of the Group's properties located at 43-51A Tong Mi Road and Metro Harbour View at 8 Fuk Lee Street respectively. Heng Tat was the main contractor in respect of the Metro Harbour View project.

In their services provided to the Group in the two projects mentioned above, HREAL and Heng Tat have established mutual trust and good relationships with the Group by way of their actual performance and speedy and effective communication with the Group; which are factors that the Group considers to be important for the success and completion of a development project on a tight time schedule. In addition, the fee percentages under the Project Management Agreement are similar to those payable to HREAL as project manager for the Tong Mi Road project and the Metro Harbour View project and the consideration under the Prime Cost Contract is a normal profit allowance in general building construction project. Accordingly, the Group found that it is not in its interests to spend extra time and cost to compare quotes from other contractors and project managers for the Proposed Development, the third development project of the Group. The Company considers that the appointment of HREAL as project manager and of Heng Tat as the main contractor for the Proposed Development, even without having compared quotes from other contractors and project managers, is in the interests for the Company and its shareholders.

The Directors (including the independent non-executive 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 and requirements of the Listing Rules**

Each of HREAL and Heng Tat is a wholly-owned subsidiary of Henderson Land, the subsidiaries of which beneficially own in aggregate approximately 67.94 per cent. of the entire issued share capital of Henderson Investment Limited, a substantial shareholder (as defined in the Listing Rules) of the Company and the subsidiaries of Henderson Investment Limited in turn hold approximately 31.33 per cent. of the entire issued share capital of the Company. Therefore, each of HREAL and Heng Tat is a connected person of the Company under the Listing Rules. The entering into of each of the Project Management Agreement and the Prime Cost Contract by Lenfield constitutes a continuing connected transaction of the Company under the Listing Rules.

As the applicable percentage ratios (other than the profit ratio) for the aggregate of the continuing connected transactions contemplated under the Project Management Agreement and the Prime Cost Contract are on an annual basis more than 0.1 per cent. but less than 2.5 per cent., such transactions are only subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules and are exempt

from the independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules. Pursuant to Rule 14A.46 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.

The Company will comply with the relevant requirements under the Listing Rules at the material times after the respective term of the Project Management Agreement and the Prime Cost Contract ends.

## **GENERAL INFORMATION**

The Group is principally engaged in the businesses of property development and investment, hotel management, shipyard operations, travel agency and ferry operations.

Henderson Land is an investment holding company and its subsidiaries are principally engaged in the businesses of property development and investment, project management, building construction, property management, infrastructure, hotel operation, department store operation, finance and investment holding. The principal activities of each of HREAL and Heng Tat are management and agency services 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 Main Board of 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 Main Board of the Stock Exchange
“Henderson Land Group”	Henderson Land and its subsidiaries
“Heng Tat”	Heng Tat 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

“Lenfield”	Lenfield 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 19 May 2006 entered into between Lenfield and Heng Tat in respect of, inter alia, the appointment of Heng Tat as main contractor of the Proposed Development
“Project Management Agreement”	the agreement dated 19 May 2006 entered into between Lenfield 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 consisting of residential and commercial components together with ancillary supporting facilities on the Tai Kok Tsui Property
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tai Kok Tsui Property”	all that piece or parcel of ground located at 220-222 Tai Kok Tsui 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, 19 May 2006

*As at the date of this announcement, the executive directors of the Company are Mr. Lam Ko Yin, Colin (Chairman) and Mr. Li Ning; the non-executive directors are Mr. Au Siu Kee, Alexander, Mr. Lau Yum Chuen, Eddie, Dr. Lee Shau Kee, Mr. Leung Hay Man and Mr. Wong Man Kong, Peter; and the independent non-executive directors are Mr. Ho Hau Chong, Norman, Mr. Kan Yuet Loong, Michael and Mr. Wu King Cheong.*