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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 9 November 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 Shung for the appointment of Heng Shung as the main contractor in respect of the Proposed Development.

As each of HREAL and Heng Shung 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 constitute continuing connected transactions for the Company which are subject to reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

The Independent Board Committee comprising Messrs. Kan Yuet Loong, Michael, Ho Hau Chong, Norman and Wu King Cheong, all being independent non-executive Directors, has been established to advise the Independent Shareholders on the terms of the Transactions and the Annual Caps. CIMB-GK Securities (HK) Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Transactions and the Annual Caps.

A circular containing, among other matters, details of the Transactions and the Annual Caps, the letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the recommendation of the Independent Board Committee to the Independent Shareholders on the Transactions together with the notice of the EGM will be dispatched to the Shareholders in accordance with the requirements of the Listing Rules.

A. PROJECT MANAGEMENT AGREEMENT

The principal terms of the Project Management Agreement are as follows:

1. Date:

9 November 2006

2. Parties:

Lenfield, a wholly-owned subsidiary of the Company

HREAL, a wholly-owned subsidiary of Henderson Land

3. Subject Matter:

Under the terms of the Project Management Agreement, Lenfield has appointed 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 Agreement in respect of the Proposed Development shall 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 in the early part of 2009. The Proposed Development is a comprehensively planned development with a gross floor area of approximately 165,000 square feet consisting of residential and commercial components together with ancillary supporting facilities on the Yau Tong Property at No. 6 Cho Yuen Street, Yau Tong, Kowloon.

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 January 2007.

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 for the overall management of the Proposed Development, subject to a ceiling of HK\$3,500,000, which shall be payable in three stages on or before 31 December 2007, 31 December 2008 and 31 December 2009 respectively, which are after the actual cost has been incurred in the relevant year;
- (b) half of one per cent. (0.5%) of the gross proceeds of sale of such parts 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 respective ceilings of HK\$12,300,000, HK\$13,300,000 and HK\$14,300,000 for the years ended 31 December 2007, 31 December 2008 and 31 December 2009, which represent the estimated sales and marketing fees for the sale of all residential units of the Proposed Development, at the Company's projected average selling price per square foot for each of the respective financial year, which was arrived at with reference to the current price per square foot of properties in adjacent areas and the potential increase in the properties prices each year, and under the assumption that (i) all residential units of the Proposed Development will be sold within the same financial year; and (ii) all residential units of the Proposed Development will be sold by HREAL. In view of the uncertainty of the property market, the Directors find that it is in the interest of the Company and the Shareholders as a whole to set annual cap for each of 2007, 2008 and 2009 and that each of the annual caps has to be calculated on assumption that all flats in the Proposed Development would be sold out in one year. Otherwise, the Company would not be able to adjust its sale strategies in accordance with the circumstances of the property market and it is surely not in the interest of the Company and the Shareholders. Based on the actual occurrence of the sale of residential units of the Proposed Development in the relevant period, the accrued sales and marketing fees, if any, shall be payable to HREAL within 45 days of each of the following dates: (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\$1,500,000 for structural consultancy services payable in three equal instalments of HK\$500,000 each on or before 31 December 2007, 31 December 2008 and 31 December 2009 respectively; and
- (d) a quarterly fee of HK\$250,000 for site supervision and quality supervision services for the foundation, the superstructure works and pre-cast facade off site supervision and audit of the Proposed Development, subject to a ceiling of HK\$1,000,000 for each of years ending 31 December 2007, 31 December 2008 and 31 December 2009.

The consideration for the services to be provided by HREAL under the Project Management Agreement and the annual maximum remuneration of HK\$17,000,000 were determined by Lenfield and HREAL on an arm's length basis with reference to fee scale of project management services for similar project undertaken by HREAL with the independent third party developers, which considered the fees similar to those described in sub-paragraphs (a) to (d) above were fair and reasonable for the Proposed Development. The consideration will be paid by the Group out of its internal resources.

6. Condition Precedent:

The Project Management Agreement is conditional on the passing of an ordinary resolution approving the Project Management Agreement and the transactions contemplated thereunder at the EGM by the Independent Shareholders. If the condition is not fulfilled by 31 January 2007, then without prejudice to any rights and/or remedies that either party may have against the other in respect of any antecedent breach of obligations, the Project Management Agreement shall immediately determine.

B. PRIME COST CONTRACT

The principal terms of the Prime Cost Contract are as follows:

1. Date:

9 November 2006

2. Parties:

Lenfield, a wholly-owned subsidiary of the Company

Heng Shung, a wholly-owned subsidiary of Henderson Land

3. Subject Matter:

Under the terms of the Prime Cost Contract, Lenfield has appointed 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. Completion of construction of the Proposed Development is currently expected to take place in the early part of 2009.

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 1 January 2007.

5. Consideration and Terms of Payment:

Under the terms of the Prime Cost Contract, Heng Shung shall be paid the prime costs of all works including works subcontracted for Heng Shung to pay to sub-contractors on behalf of Lenfield and a fee of 5% on all works of the Proposed Development (including preliminaries, works carried out by the subcontractors and Heng Shung). Payment will be made to Heng Shung within one month following the issue by the architect (a third party independent of the Group and Henderson Land Group, who is an authorized person under the Buildings Ordinance and has more than 20 years of experience in the field) 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 Lenfield and Heng Shung on an arm's length basis with reference to certain similar contracts entered into by Heng Shung with independent third party developers in recent years in respect of a number of developments in Hong Kong, which have specified a percentage fee of 5%. The annual maximum figures for the fee were 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.

6. Condition Precedent:

The Prime Cost Contract is conditional on the passing of an ordinary resolution approving the Prime Cost Contract the transactions contemplated thereunder at the EGM by the Independent Shareholders. If the condition is not fulfilled by 31 January 2007, then without prejudice to any rights and/or remedies that either party may have against the other in respect of any antecedent breach of obligations, the Prime Cost Contract shall immediately determine.

C. ANNUAL CAPS

(a) Project Management Agreement

The Project Management Agreement stipulates that the annual aggregate remuneration for the services to be provided by HREAL, which is calculated with reference to (i) the maximum annual instalment of (a) overall management of the Proposed Development, (b) structural consultancy services, and (c) site supervision and quality supervision services; and (ii) the projected sales and marketing fees, for the three years commencing from 1 January 2007 shall not exceed the amounts set out below:

From 1 January 2007 to 31 December 2007	– HK\$15,000,000 (<i>Note</i>)
From 1 January 2008 to 31 December 2008	– HK\$16,000,000 (<i>Note</i>)
From 1 January 2009 to 31 December 2009	– HK\$17,000,000 (<i>Note</i>)

Note: This annual maximum aggregate remuneration for the services to be provided by HREAL comprises

- (i) HK\$2,700,000 being the estimated aggregates of the maximum amounts of the annual overall project management fee, the annual structural consultancy service fee and the quarterly fees for site supervision and quality supervision for the foundation, the superstructure works and pre-cast facade off-site supervision and audit of the Proposed Development; and
- (ii) the estimated maximum amount of the sales and marketing fees payable to HREAL for the sales services provided by HREAL to Lenfield for the Proposed Development. Such a ceiling is difficult to be broken down to each of the 3 years of the term of the Project Management Agreement due to uncertainty of the property market in the forthcoming 3 years. For 2007, the maximum amount is estimated to be HK\$12,300,000. Taking into account of the expected increase in property prices, such a maximum amount is estimated to be HK\$13,300,000 for 2008 and HK\$14,300,000 for 2009.

(b) Prime Cost Contract

The Prime Cost Contract stipulates that the annual 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 for the three years commencing from 1 January 2007 which is calculated with reference to Heng Shung's estimation of the relevant costs to be incurred within the corresponding periods shall not exceed the amounts set out below:

From 1 January 2007 to 31 December 2007	– HK\$25,000,000
From 1 January 2008 to 31 December 2008	– HK\$35,000,000
From 1 January 2009 to 31 December 2009	– HK\$10,000,000

The Annual Caps for the Project Management Agreement and Prime Cost Contract set out above have been determined respectively with reference to the terms of each of the Project Management Agreement and Prime Cost Contract.

D. REASONS FOR ENTERING INTO THE PROJECT MANAGEMENT AGREEMENT AND THE PRIME COST CONTRACT

The Group plans to complete the Proposed Development for future sale of residential units and is therefore required to appoint qualified project manager and main contractor to complete the project development.

As HREAL has a strong and experienced project management team for property development 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 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 development project undertaken by the Group at Nos. 43-51A Tong Mi Road, Kowloon, Hong Kong.

Each of HREAL and Heng Shung has respectively more than 10 and 6 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 Nos. 43-51A Tong Mi Road, No. 8 Fuk Lee Street and Nos. 220-222 Tai Kok Tsui Road, Kowloon, Hong Kong.

In their services provided to the Group in the said projects mentioned above, HREAL and Heng Shung 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 Group's projects at Nos. 43-51A Tong Mi Road, No. 8 Fuk Lee Street and Nos. 220-222 Tai Kok Tsui, as well as projects of other independent third party developers. Whilst the consideration under the Prime Cost Contract is determined with reference to the certain similar contracts entered into by Heng Shung with independent third party developers in recent years in respect of a number of developments in Hong Kong. The Company considers that the appointment of HREAL as project manager and of Heng Shung as the main contractor for the Proposed Development, are in the interests of the Company and the Shareholders.

The Directors (excluding members of the Independent Board Committee whose view will be given in the circular to be dispatched to the Shareholders after taking into account of the advice of the independent financial adviser) 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 have been 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 and excluding all the independent non-executive Directors, consider that they are fair and reasonable to the Shareholders 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.

E. CONNECTED PERSONS

Each of HREAL and Heng Shung is a wholly-owned subsidiary of Henderson Land, the subsidiaries of which beneficially own approximately 67.94 per cent. of the entire issued share capital of Henderson Investment, a substantial shareholder (as defined in the Listing Rules) of the Company and the subsidiaries of Henderson Investment in turn hold approximately 31.36 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 under the Listing Rules. The entering into of each of the Project Management Agreement and the Prime Cost Contract by Lenfield constitute continuing connected transactions of the Company under the Listing Rules.

F. INDEPENDENT SHAREHOLDERS' APPROVAL

The Transactions also constitute continuing connected transactions for the Company which are subject to reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

The Independent Board Committee comprising Messrs. Kan Yuet Loong, Michael, Ho Hau Chong, Norman and Wu King Cheong, all being independent non-executive Directors, has been established to advise the Independent Shareholders on the terms of the Transactions and the Annual Caps. CIMB-GK Securities (HK) Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Transaction and the Annual Caps.

Dr. Lee Shau Kee, Mr. Li Ning and their respective associates will abstain from voting in relation to the ordinary resolutions to be proposed at the EGM to approve the continuing connected transactions in respect of the Project Management Agreement, Prime Cost Contract and the Annual Caps. The votes of the Independent Shareholders at the EGM will be taken by poll.

G. 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 Shung are management and agency services and building construction respectively.

H. CIRCULAR TO THE INDEPENDENT SHAREHOLDERS

A circular containing, among other matters, details of the Transactions and the Annual Caps, the letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the recommendation of the Independent Board Committee to the Independent Shareholders on the Transactions together with the notice of the EGM will be dispatched to the Shareholders in accordance with the requirements of the Listing Rules.

DEFINITIONS

“Annual Caps”	the maximum aggregate annual value of the Transactions for the years ending 31 December 2007, 31 December 2008 and 31 December 2009 respectively
“associates”	has the meaning ascribed to it in the Listing Rules
“Company”	Hong Kong Ferry (Holdings) Company Limited, a limited company incorporated in Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange
“Directors”	directors of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the Independent Shareholders to consider, and if thought fit, to approve the Transactions and the Annual Caps or any adjournment thereof
“Group”	the Company and its subsidiaries

“Henderson Investment”	Henderson Investment Limited, a limited company incorporated in Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange
“Henderson Land”	Henderson Land Development Company Limited, a limited company incorporated in Hong Kong, the shares of which are listed on the Main Board of 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, 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
“Independent Board Committee”	the independent committee of the board of Directors comprising the independent non-executive Directors established on 7 November 2006 for the purpose of advising the Independent Shareholders in relation to the terms of the Transactions
“Independent Shareholders”	Shareholders other than those who are required under the Listing Rules to abstain from voting at the EGM on the proposed resolutions in relation to the Transactions and the Annual Caps
“Lenfield”	Lenfield Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Prime Cost Contract”	the conditional contract dated 9 November 2006 entered into between Lenfield and Heng Shung in respect of, inter alia, the appointment of Heng Shung as main contractor of the Proposed Development
“Project Management Agreement”	the conditional agreement dated 9 November 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 Yau Tong Property
“Shareholder(s)”	holder(s) of shares in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Transactions”	the entering into of the Project Management Agreement and of the Prime Cost Contract by Lenfield and the transactions contemplated thereunder
“Yau Tong Property”	all that piece or parcel of ground located at No. 6 Cho Yuen Street, Yau Tong, Kowloon
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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

Hong Kong, 9 November 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.

“Please also refer to the published version of this announcement in The Standard”