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THE KOWLOON MOTOR BUS HOLDINGS LIMITED

(九龍巴士控股有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 062)

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

The Sale and Purchase Agreement

On 5 December 2005, Park Island Holdings, a wholly-owned subsidiary of the Company, entered into a Sale and Purchase Agreement with Winnertex whereby Winnertex agreed to sell and Park Island Holdings agreed to purchase 35% interest in the issued share capital of PITC for a consideration of HK\$9,555,700.00. Upon Completion, PITC will become an indirect wholly-owned subsidiary of the Company.

As Winnertex is a substantial shareholder holding 35% of the issued share capital of PITC, it is a connected person of the Company under the Listing Rules. Hence, the transaction contemplated under the Sale and Purchase Agreement also constitutes a connected transaction of the Company under the Listing Rules. As each of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules is more than 0.1% but less than 2.5%, under Rule 14A.32 of the Listing Rules, the transaction contemplated under the Sale and Purchase Agreement is only subject to the reporting and announcement requirements set out in Rules 14A.45 and 14A.47 of the Listing Rules and is exempt from independent shareholders' approval requirement.

The Supplemental Letter

On 6 December 2005, PITC and SHKMW, a wholly-owned subsidiary of SHKP, entered into a Supplemental Letter to amend certain terms and conditions of the Transport Agreement.

As at the date of this announcement, SHKP is a substantial shareholder holding approximately 33% interest in the Company. Since SHKMW is a wholly-owned subsidiary of SHKP, SHKMW is an associate of SHKP and thus a connected person of the Company under the Listing Rules. The transaction contemplated under the Supplemental Letter therefore constitutes a continuing connected transaction of the Company under the Listing Rules. As each of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules is on an annual basis less than 2.5%, under Rule 14A.34 of the Listing Rules, the transaction contemplated under the Supplemental Letter 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 independent shareholders' approval requirement.

Details of the Sale and Purchase Agreement and the Supplemental Letter will be published in the Company's next annual report in accordance with Rule 14A.45 of the Listing Rules.

BACKGROUND

Pursuant to the Transport Agreement dated 23 May 2001 entered into between PITC and SHKMW, SHKMW engaged PITC as the operator of the bus and ferry services to, from and within Ma Wan Island (as defined in the Transport Agreement) and PITC would provide such services pursuant to the terms and conditions of the Transport Agreement. Details of the major terms of the Transport Agreement were set out in the announcement of the Company dated 25 May 2001.

On 5 December 2005, Park Island Holdings and Winnertex entered in a Sale and Purchase Agreement whereby Winnertex agreed to sell and Park Island Holdings agreed to purchase 35% interest in the issued share capital of PITC for a consideration of HK\$9,555,700.00. Upon Completion, PITC will become an indirect wholly-owned subsidiary of the Company.

On 6 December 2005, PITC and SHKMW entered into a Supplemental Letter to extend the operating term of the Transport Agreement for a period of one year, commencing on 14 December 2005 and expiring on 13 December 2006 (both days inclusive), and amend certain terms and conditions of the Transport Agreement.

THE SALE AND PURCHASE AGREEMENT

1. **Date:** 5 December 2005
2. **The Parties:**
 - (i) **Vendor:** Winnertex
 - (ii) **Purchaser:** Park Island Holdings
3. **Assets to be acquired:**

Pursuant to the Sale and Purchase Agreement entered into between Park Island Holdings and Winnertex, Winnertex agreed to sell and Park Island Holdings agreed to purchase 3,500 Shares of PITC, representing 35% of the entire issued share capital of PITC.

4. Consideration:

Pursuant to the Sale and Purchase Agreement, the amount payable by Park Island Holdings to Winnertex for the purchase of 3,500 Shares, representing 35% of the issued share capital of PITC, shall be a sum of HK\$9,555,700.00 which is payable by Park Island Holdings to Winnertex on or before 30 June 2006 by way of a cashier order.

The consideration, negotiated on an arm's length basis between the parties, had been determined by reference to the value representing 35% of the projected net asset value of PITC as at 13 December 2005.

5. Completion:

Completion shall take place on 13 December 2005. Upon Completion, PITC will become an indirect wholly-owned subsidiary of the Company through its interest in Park Island Holdings.

THE SUPPLEMENTAL LETTER

1. **Date:** 6 December 2005

2. **The Parties:**

(i) SHKMW, a wholly-owned subsidiary of SHKP

(ii) PITC

3. **Major terms of the Supplemental Letter:**

The Supplemental Letter made amendments to certain terms and conditions of the Transport Agreement including the following:

- (i) the operating term of the Transport Agreement has been extended for a period of one year, commencing on 14 December 2005 and expiring on 13 December 2006 (both days inclusive);
- (ii) the schedule relating to the formula (as disclosed in paragraph 4 below) for calculating the entitled minimum net return and entitled maximum net return for each accounting year of the Transport Agreement has been updated to include the formula for the extended one-year period; and
- (iii) the schedules relating to the number of buses and vessels purchased and hired, the operating schedules of the bus and ferry services, fares and bus routes of the Transport Agreement have been replaced by the updated schedules relating to the same.

Subject to the terms of and save and except as amended by the Supplemental Letter, the Transport Agreement shall remain in full force and effect and the Transport Agreement and the Supplemental Letter shall be read and construed as one document.

4. Permitted Return:

In consideration of PITC agreeing to operate the bus and ferry services to, from and within Ma Wan Island and perform the obligations under the Transport Agreement, as amended by the Supplemental Letter, for a further period of one year commencing on 14 December 2005 and expiring on 13 December 2006 (both days inclusive), PITC shall be entitled to a permitted return which shall lie within the range of 8% and 14% per annum of the simple arithmetic average of the opening balance and the closing balance of the net book value of the fixed assets ("ANFA") of PITC for the accounting year concerned until the expiration or early termination of the Transport Agreement, as amended by the Supplemental Letter.

5. Proposed Cap for the Continuing Connected Transaction:

The permitted return for the period ended 31 December 2002 and the two financial years ended 31 December 2003 and 2004 which PITC was entitled under the Transport Agreement were HK\$477,000.00, HK\$11,002,000.00 and HK\$12,320,000.00 respectively as disclosed in the annual report of the Company for the respective financial periods. It is estimated that the unaudited permitted return for the period from 1 January 2005 to 31 December 2005 is approximately HK\$11,258,000.00. The Directors consider that the annual caps in relation to the permitted return that PITC will be entitled to receive under the Supplemental Letter for the period from 14 December 2005 to 31 December 2005 and from 1 January 2006 to 13 December 2006 will not exceed HK\$945,000.00 and HK\$18,219,000.00 respectively. These proposed annual caps are calculated based on 14% of the audited ANFA of PITC as at 31 December 2004.

REASONS FOR ENTERING INTO THE SALE AND PURCHASE AGREEMENT AND THE SUPPLEMENTAL LETTER

The Directors consider that the entering into the Sale and Purchase Agreement for the acquisition of an additional 35% interest in the issued share capital of PITC is in line with the Group's business diversification strategy and upon Completion, the Group shall have full control of the business of PITC, which shall enhance its role in the provision of bus and ferry services to Ma Wan Island. In addition, the acquisition will generate additional income to the Group as a whole and will strengthen the Group's leading position in the transport industry.

According to the audited financial statements of PITC, the net profit before and after taxation and extraordinary items attributable to the 35% interest in the issued share capital of PITC for the financial year ended 31 December 2003 were approximately HK\$3,836,000.00 and HK\$3,168,000.00 respectively. The net profit before and after taxation and extraordinary items attributable to the 35% interest in the issued share capital of PITC for the financial year ended 31 December 2004 were approximately HK\$4,657,000.00 and HK\$3,842,000.00 respectively. At 31 December 2004, the net assets value of the 35% interest in the issued share capital of PITC was approximately HK\$7,166,000.00.

The Directors consider that the entering into the Supplemental Letter will allow PITC to continue to provide bus and ferry passenger services to Ma Wan Island and thereby facilitate the Group to continue to implement its business strategy of diversifying into other field of public passenger transport. It is therefore in the commercial interest of the Company to enter into the Supplemental Letter.

The Directors (including the independent non-executive Directors) consider that entering into the Sale and Purchase Agreement and the Supplemental Letter are in the ordinary course of business of the Group and the terms and conditions of the Sale and Purchase Agreement and the Supplemental Letter were arrived at after arm's length negotiations between the parties concerned, which the Directors consider to be fair and reasonable, and in the interests of Group and the shareholders of the Company as a whole.

The entering into the Sale and Purchase Agreement and the Supplemental Letter were approved by the Board of the Company at the meeting of the Board held on 24 November 2005. Pursuant to the Bye-laws of the Company, The Hon. Sir Sze-yuen Chung, GBM, GBE, JP, Miss Susanna Lau Shung Oi (alternate director to Mr. Kwok Ping-sheung, Walter, JP), Mr. Yung Wing Chung (alternate director to Mr. Kwok Ping-luen, Raymond, JP), Dr. Eric Li Ka Cheung, GBS, OBE, JP and Mr. George Chien Yuan Hwei had declared their respective interests at the aforesaid meeting and abstained from voting on the matters in relation to the Supplemental Letter.

INFORMATION OF THE COMPANY, THE GROUP, PITC, SHKMW AND WINNERTEX

The principal activity of the Company is investment holding. The principal activities of the Group are the provision of public transport services, property holdings and development and the provision of media services in Hong Kong and on the Mainland.

The principal activity of PITC is the provision of non-franchised bus and ferry services to, from and within Ma Wan Island.

SHKMW is principally engaged in the provision of transportation services in Ma Wan Island.

The principal activity of Winnertex is investment holding.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

As Winnertex is a substantial shareholder holding 35% of the issued share capital of PITC, it is a connected person of the Company under the Listing Rules. Hence, the transaction contemplated under the Sale and Purchase Agreement constitutes a connected transaction of the Company under the Listing Rules. As each of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules is more than 0.1% but less than 2.5%, under Rule 14A.32 of the Listing Rules, the transaction contemplated under the Sale and Purchase Agreement is only subject to the reporting and announcement requirements set out in Rules 14A.45 and 14A.47 of the Listing Rules and is exempt from independent shareholders' approval requirement.

SHKP is a substantial shareholder holding approximately 33% interest in the Company. Since SHKMW is a wholly-owned subsidiary of SHKP, SHKMW is an associate of SHKP and thus a connected person of the Company under the Listing Rules. The transaction contemplated under the Supplemental Letter therefore constitutes a continuing connected transaction of the Company under the Listing Rules. As each of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules is on an annual basis less than 2.5%, under Rule 14A.34 of the Listing Rules, the transaction contemplated under the Supplemental Letter 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 independent shareholders' approval requirement.

Details of the Sale and Purchase Agreement and the Supplemental Letter will be published in the Company's next annual report in accordance with Rule 14A.45 of the Listing Rules.

DEFINITIONS

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	The Kowloon Motor Bus Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
“Completion”	the completion of the Sale and Purchase Agreement, which shall take place on 13 December 2005
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the People's Republic of China
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Park Island Holdings”	Park Island Transport Holdings Limited, which owns 65% interest in the issued share capital of PITC, is a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“PITC”	Park Island Transport Company Limited, a company incorporated in Hong Kong with limited liability, and an indirect non-wholly-owned subsidiary of the Company, of which the Company was indirectly holding 65% of its issued share capital and the remaining 35% of its issued share capital was held by Winnertex

“Sale and Purchase Agreement”	the agreement dated 5 December 2005 entered into between PITC Holdings and Winnertex pursuant to which Winnertex agreed to sell and Park Island Holdings agreed to purchase 35% interest in the share capital of PITC, details of which are set out under the heading “The Sale and Purchase Agreement” of this announcement
“Shares”	shares of HK\$1.00 each in the capital of PITC
“SHKMW”	Sun Hung Kai (Ma Wan) Transport Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of SHKP
“SHKP”	Sun Hung Kai Properties Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under Section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Supplemental Letter”	the supplemental letter dated 6 December 2005 entered into between PITC and SHKMW amending certain terms and conditions of the Transport Agreement, details of which are set out under the heading “The Supplemental Letter” of this announcement
“Transport Agreement”	the agreement dated 23 May 2001 entered into between PITC and SHKMW for the provision of bus and ferry services to, from and within Ma Wan Island, details of which are set out in the announcement of the Company dated 25 May 2001
“Winnertex”	Winnertex Limited, which owns 35% interest in the issued share capital of PITC, is a company incorporated in Hong Kong with limited liability

By Order of the Board
Lana Woo
Company Secretary

Hong Kong, 9 December 2005

As at the date of this announcement, the Board is comprised of The Hon. Sir Sze-yuen CHUNG, GBM, GBE, JP as Chairman and Independent Non-executive Director; Dr. Norman LEUNG Nai Pang, GBS, JP as Deputy Chairman; Dr. KUNG Ziang Mien, James, GBS, OBE (with Mr. KUNG Lin Cheng, Leo as alternate), Dr. Eric LI Ka Cheung, GBS, OBE, JP and Mr. SIU Kwing-chue, Gordon, GBS, CBE, JP as Independent Non-executive Directors; Mr. YU Shu Chuen as Honorary Executive Director; Mr. John CHAN Cho Chak, GBS, JP as Managing Director; Mr. Charles LUI Chung Yuen, M.H., Ms. Winnie NG, Mr. LUI Pochiu and Mr. Edmond HO Tat Man as Executive Directors; Mr. KWOK Ping-luen, Raymond, JP (with Mr. YUNG Wing Chung as alternate), Mr. KWOK Ping-sheung, Walter, JP (with Ms. Susanna LAU Shung Oi as alternate), Mr. NG Siu Chan, Mr. William LOUEY Lai Kuen and Mr. George CHIEN Yuan Hwei as Directors.

** for identification purpose only*

Please also refer to the published version of this announcement in South China Morning Post and Hong Kong Economic Journal.