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The Kowloon Motor Bus Holdings Limited

(incorporated in Bermuda with limited liability)

(Stock code: 062)

ANNOUNCEMENT

DISCLOSEABLE AND CONNECTED TRANSACTION SUPPLEMENTARY AGREEMENT TO THE PRIME COST CONTRACT

SUMMARY

Pursuant to the Prime Cost Contract entered into by LCKPI and Chun Fai, LCKPI appointed Chun Fai as the management contractor to construct and complete the substructure and superstructure of the Development. The aggregate consideration payable under the Prime Cost Contract shall not exceed HK\$1,160,171,400. It was then expected that the Development will be completed by the end of June 2006. Transactions contemplated under the Prime Cost Contract constituted connected transactions of the Company and were approved by an ordinary resolution of the Independent Shareholders at a special general meeting of the Company convened on 26 August 2003. Details of the Prime Cost Contract are more particularly set out in the 2003 Circular.

LCKPI intends to upgrade the design, materials and quality of workmanship of the Development. The additional prime costs required for performing the Upgrading Works are estimated to be HK\$448,066,000. Pursuant to the Supplementary Agreement entered into on 15 October 2004, which supplements and varies the Prime Cost Contract, LCKPI has appointed Chun Fai, and Chun Fai has agreed to undertake the Upgrading Works, and certain terms and conditions of the Prime Cost Contract were varied and amended. Under the Supplementary Agreement, the maximum aggregate consideration payable by LCKPI to Chun Fai will be increased by HK\$457,571,865 to HK\$1,617,743,265. Taking account of the Upgrading Works, it is currently expected that the Development will be completed by the end of 2006.

As at the date of this announcement, SHKP directly and indirectly owns approximately 33% of the entire issued share capital in the Company and is therefore a substantial shareholder of the Company under the Listing Rules. Since Chun Fai is wholly-owned by SHKP, it is a connected person of the Company for so long as SHKP remains a substantial shareholder of the Company. Transactions contemplated under the Supplementary Agreement are connected transactions of the Company under the Listing Rules. In respect of the additional consideration payable by LCKPI to Chun Fai under the Supplementary Agreement varying and amending the Prime Cost Contract, since the applicable percentage ratio is more than 2.5% under Chapter 14A of the Listing Rules, the transactions contemplated under the Supplementary Agreement are subject to the approval of the Independent Shareholders in general meeting by poll. In relation to such additional consideration payable by LCKPI, since one of the applicable percentage ratios exceeds 5% but is less than 25%, transactions contemplated under the Supplementary Agreement also constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

The Company will convene the SGM at which the Ordinary Resolution will be proposed to approve, if thought fit, the transactions contemplated under the Supplementary Agreement. SHKP and its associates shall abstain from voting in respect of the Ordinary Resolution. The Supplementary Agreement shall be conditional upon the obtaining of, and shall commence from the date of, the approval of the Independent Shareholders.

A circular containing, among other things, (1) further information on the Supplementary Agreement; (2) the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the terms and conditions of the Supplementary Agreement; (3) the advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplementary Agreement; and (4) notice of the SGM will be sent to the Shareholders as soon as practicable.

1. BACKGROUND

LCKPI is the owner of the Lot situated at Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong. The Lot was previously used as a depot of the Group and the depot was demolished in December 2002. LCKPI is in the process of redeveloping the Lot into a residential and commercial complex with a gross floor area of about one million square feet, including a retail podium of about 50,000 square feet, for sale and letting.

2. THE PRIME COST CONTRACT

Pursuant to the Prime Cost Contract, LCKPI appointed Chun Fai as the management contractor to construct and complete the substructure and superstructure of the Development. The aggregate consideration payable under the Prime Cost Contract shall not exceed HK\$1,160,171,400. Transactions contemplated under the Prime Cost Contract constituted connected transactions of the Company and were approved by an ordinary resolution of the Independent Shareholders at a special general meeting of the Company convened on 26 August 2003. Details of the Prime Cost Contract are more particularly set out in the 2003 Circular.

3. THE SUPPLEMENTARY AGREEMENT

LCKPI intends to upgrade the design, materials and quality of workmanship of the Development. The Supplementary Agreement was entered into to vary and amend the terms and conditions of the Prime Cost Contract to cater for the Upgrading Works and the adjustments of the amounts payable by LCKPI to Chun Fai under the Prime Cost Contract. The major particulars of the Supplementary Agreement are outlined as follows:-

A. Date

15 October 2004

B. The parties

- (a) LCKPI
- (b) Chun Fai

C. Major terms of the Supplementary Agreement

Pursuant to the Supplementary Agreement, Chun Fai will undertake certain upgrading works on the design, materials and quality of workmanship of the Development, including but not limited to upgrading of the standard of finishes and fittings of the residential flats and clubhouse, increasing the headroom of the residential flats and clubhouse, the construction of sky gardens and increasing the numbers and area of car parking spaces in the scope set out in the Supplementary Agreement (the "Upgrading Works"). In consideration of performance of Chun Fai's undertaking of the Upgrading Works, the amounts payable under the Prime Cost Contract will be adjusted by the Supplementary Agreement as follows:-

- (i) *The prime costs* - the estimated total prime cost will be increased from HK\$1,126,380,000 to HK\$1,574,446,000.
- (ii) *The management fee* - under the Prime Cost Contract, Chun Fai will be entitled to a maximum management fee consisting of (a) a percentage fee equivalent to 3% of the estimated total prime cost under the Prime Cost Contract; and (b) an incentive fee of a maximum of 1.5% of the estimated total prime cost. The incentive fee will only be payable to Chun Fai if the total prime cost actually incurred is less than the estimated total prime cost.

Under the Supplementary Agreement, the said percentage fee of 3% will be changed to 2.75% while the rate of the incentive fee remains unchanged at a maximum of 1.5% of the estimated total prime cost. As a result, the maximum amount of management fee payable shall be increased from HK\$50,687,100 to HK\$66,913,955.

(iii) *The total consideration payable* - the maximum consideration payable under the Prime Cost Contract as supplemented and amended by the Supplementary Agreement will be increased from HK\$1,160,171,400 to HK\$1,617,743,265.

The terms relating to the timing for payment of the consideration, which were disclosed in the 2003 Circular, will not be amended by the Supplementary Agreement.

It was stated in the 2003 Circular that the Development was expected to be completed by the end of June 2006. Taking account the Upgrading Works on the Development, it is currently expected that the Development will be completed by the end of 2006.

Certain drawings and specification to the construction of the substructure and superstructure of the Development will also be amended to take account of the Upgrading Works.

The Supplementary Agreement shall be conditional upon the obtaining of, and shall commence from the date of, the approval of the Independent Shareholders.

Save as otherwise supplemented and amended by the Supplementary Agreement, all other terms and conditions of the Prime Cost Contract shall remain in full force and effect.

D. The additional consideration payable by LCKPI to Chun Fai

The additional consideration payable by LCKPI to Chun Fai in undertaking the Upgrading Works consists of (i) the construction costs for the Upgrading Works, which was determined based on fair valuation performed by the independent quantity surveyor of the Development on market prices in accordance with the terms and conditions of the Prime Cost Contract; and (ii) the additional management fee, which was determined on the basis of the adjusted estimated total prime cost and the adjusted rate of management fee chargeable by Chun Fai set out in the Supplementary Agreement. The said quantity surveyor of the Development is independent of and not connected with the directors, chief executive and the substantial shareholders of the Company or their respective associates under the Listing Rules.

The Directors confirm that the additional consideration payable to Chun Fai for undertaking the Upgrading Works was negotiated on an arm's length basis.

4. REASONS FOR ENTERING INTO THE SUPPLEMENTARY AGREEMENT

Since the subsidence of Severe Acute Respiratory Syndrome (SARS), the property market in Hong Kong has been recovering, particularly the market segment of upscale luxurious domestic accommodation. The Directors therefore took the view that upgrading the Development to luxurious quality and standard will be potentially beneficial to the Shareholders. The Directors currently believe that barring unforeseeable circumstances, the Upgrading Works will enhance the value of the Development as a whole and the potential earnings of the Shareholders.

The Directors consider that since the Upgrading Works will relate to the overall upgrading and improvement of quality and standard of the Development, it will be difficult to segregate the performance of the Upgrading Works from the rest of the construction works of the Development. As Chun Fai has been involved in the construction of the Development as the management contractor under the Prime Cost Contract, it would be more cost-effective and coherent for LCKPI to appoint Chun Fai to undertake the Upgrading Works rather than appointing any other contractors who have not participated in the construction of the Development.

In view of the above, the Directors believe that the transactions contemplated under the Supplementary Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

5. DISCLOSEABLE AND CONNECTED TRANSACTION AND INDEPENDENT SHAREHOLDERS' APPROVAL IN RELATION TO THE SUPPLEMENTARY AGREEMENT

As at the date of this announcement, SHKP directly and indirectly owns approximately 33% of the entire issued share capital in the Company and is therefore a substantial shareholder of the Company under the Listing Rules. Since Chun Fai is wholly-owned by SHKP, it is a connected person of the Company for so long as SHKP remains a substantial shareholder of the Company. Transactions contemplated under the Supplementary Agreement are connected transactions of the Company under the Listing Rules.

The maximum additional consideration payable by LCKPI to Chun Fai for performing the Upgrading Works shall be HK\$457,571,865. In respect of such additional consideration, since the applicable percentage ratio is more than 2.5% under Chapter 14A of the Listing Rules, the transactions under the Supplementary Agreement are subject to the approval of the Independent Shareholders in general meeting by poll. In relation to such additional consideration payable by LCKPI, since one of the applicable percentage ratios exceeds 5% but is less than 25%, transactions contemplated under the Supplementary Agreement also constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

6. APPOINTMENT OF INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee has been appointed to advise the Independent Shareholders on whether the terms and conditions of the Supplementary Agreement and the transactions contemplated therein are fair and reasonable and are in the interest of the Company and the Shareholders as a whole are concerned.

An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders on whether the terms and conditions of the Supplementary Agreement and the transactions contemplated therein are fair and reasonable and are in the interest of the Company and the Shareholders as a whole are concerned.

7. SGM

The Company will convene the SGM at which the Ordinary Resolution will be proposed to approve, if thought fit, the transactions contemplated under the Supplementary Agreement. SHKP and its associates will abstain from voting at the SGM in respect of the Ordinary Resolution.

A circular containing, among other things, (1) further information on the Supplementary Agreement; (2) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Supplementary Agreement; (3) the advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplementary Agreement; and (4) the notice to convene the SGM will be sent to the Shareholders as soon as practicable.

8. GENERAL

The principal activity of the Company is investment holding. The principal activities of the Group are the provision of public transport services and the provision of media sales services in Hong Kong and the Mainland China.

The principal activity of Chun Fai is building construction. The principal activities of SHKP and its subsidiaries are development of and investment in properties for sale and rental in Hong Kong.

9. TERMS USED IN THIS ANNOUNCEMENT

“2003 Circular”	the circular of the Company dated 8 August 2003
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Chun Fai”	Chun Fai Construction Co. Ltd., a company incorporated in Hong Kong with limited liability and wholly-owned by SHKP
“Company”	The Kowloon Motor Bus Holdings Limited, a company incorporated in Bermuda with limited liability and shares of which are listed on the Stock Exchange
“Development”	the development and the associated construction to be constructed on, above or near the Lot, which will consist of a residential and commercial complex
“Directors”	the directors of the Company
“Group”	the Company together with its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the board of Directors consisting of independent non-executive Director(s)
“Independent Shareholders”	Shareholders other than SHKP and its associates
“LCKPI”	Lai Chi Kok Properties Investment Limited, a company incorporated in the British Virgin Islands with limited liability and is indirectly wholly-owned by the Company
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Lot”	Section A of New Kowloon Marine Lot No. 3, situated in Lai Chi Kok, Kowloon, Hong Kong
“Mainland China”	for the purpose of this announcement, includes all areas of the People’s Republic of China, except Hong Kong
“Ordinary Resolution”	the ordinary resolution to be proposed at the SGM to approve the transactions contemplated under the Supplementary Agreement
“Prime Cost Contract”	the prime cost contract dated 17 July 2003 entered into between LCKPI and Chun Fai relating to construction of substructure and superstructure of the Development, details of which are set out in the 2003 Circular
“SGM”	a special general meeting of the Company convened to approve, among other things, the Ordinary Resolution
“Shareholders”	holders of Shares
“Shares”	shares of HK\$1.00 each in the capital of the Company (or such other nominal value as a result of any sub-division, consolidation, re-classification or reconstruction of the share capital of the Company from time to time)
“SHKP”	Sun Hung Kai Properties Limited, a company incorporated in Hong Kong with limited liability whose shares are listed on the Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Supplementary Agreement” the agreement dated 15 October 2004 entered into between LCKPI and Chun Fai supplementing and amending the terms and conditions of the Prime Cost Contract, details of which are set out under the heading “3. The Supplementary Agreement” of this announcement

“Upgrading Works” has the meaning ascribed to it under the paragraph “C. Major terms of the Supplementary Agreement” of the section with the heading “3. The Supplementary Agreement” in this announcement

By order of the Board
Lana Woo
Company Secretary

15 October 2004, Hong Kong

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

* *Independent Non-executive Directors*

*Please also refer to the published version of this announcement in
The Standard and Hong Kong Economic Journal.*