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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold** all your shares in The Kowloon Motor Bus Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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**THE KOWLOON MOTOR BUS HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

*(Stock code: 062)*

**DISCLOSEABLE AND CONNECTED TRANSACTIONS**

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



**CLSA Equity Capital Markets Limited**

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A letter from the Board is set out on pages 4 to 11 of this circular.

A letter from the Independent Board Committee is set out on page 12 of this circular.

A letter from CLSA Equity Capital Markets Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 26 of this circular.

A notice convening the Special General Meeting of The Kowloon Motor Bus Holdings Limited to be held at the Grand Ballroom, Level 6, Royal Plaza Hotel, 193 Prince Edward Road West, Kowloon, Hong Kong at 10:00 a.m. on 25 November 2004 to consider and, if thought fit, to approve the Ordinary Resolution is set out on pages 35 and 36 of this circular. Whether or not you intend to attend the Special General Meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to The Kowloon Motor Bus Holdings Limited's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, on 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the Special General Meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the Special General Meeting or any adjournment thereof should you so desire.

8 November 2004

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“2003 Circular”	the circular of the Company dated 8 August 2003
“Announcement”	the announcement of the Company dated 15 October 2004 in relation to the Supplementary Agreement entered into between LCKPI and Chun Fai
“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
“CLSA”	CLSA Equity Capital Markets Limited, a deemed licensed corporation under the SFO, licensed to conduct Types 4, 6 and 9 regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Supplementary Agreement
“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 Dr KUNG Ziang Mien, James, GBS, OBE and Mr SIU Kwing-chue, Gordon, GBS, CBE, JP, both of whom are independent non-executive Directors
“Independent Shareholders”	Shareholders other than SHKP and its associates

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## DEFINITIONS

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“Independent Shareholders’ Approval”	the approval of the transactions contemplated under the Supplementary Agreement by the Independent Shareholders at the SGM voting by poll
“Latest Practicable Date”	4 November 2004, being the latest practicable date before the printing of this circular for ascertaining information contained in this circular
“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 circular, 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
“Quantity Surveyors”	Davis Langdon & Seah Hong Kong Limited, the quantity surveyors appointed by LCKPI in relation to the Development, who are independent of and not connected with the directors, chief executives and substantial shareholders of the Company and SHKP and their respective associates under the Listing Rules
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be convened on 25 November 2004 to approve the Ordinary Resolution, the notice of which is set out on pages 35 and 36 of this circular
“Shareholders”	holders of Shares

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## DEFINITIONS

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“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 and 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 (Cap. 32 of the Laws of Hong Kong)
“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 “4. The Supplementary Agreement” in this circular
“Upgrading Works”	has the meaning ascribed to it under the paragraph “C. Major terms of the Supplementary Agreement” of the section with the heading “4. The Supplementary Agreement” in this circular
“%”	per cent

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## LETTER FROM THE BOARD

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# THE KOWLOON MOTOR BUS HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

*(Stock code: 062)*

*Directors:*

The Hon Sir Sze-yuen CHUNG, GBM, GBE, PhD, FREng, JP, *Chairman*\*  
Norman LEUNG Nai Pang, GBS, JP, *Deputy Chairman*  
KWOK Ping-luen, Raymond  
KWOK Ping-sheung, Walter, JP  
YU Shu Chuen  
NG Siu Chan  
William LOUEY Lai Kuen  
John CHAN Cho Chak, GBS, JP, *Managing Director*  
Charles LUI Chung Yuen, M.H.  
Winnie NG  
Dr KUNG Ziang Mien, James, GBS, OBE\*  
George CHIEN Yuan Hwei  
Dr Eric LI Ka Cheung, GBS, OBE, JP\*  
LUI Pochiu  
Edmond HO Tat Man  
Rafael HUI Si-yan, GBS, JP  
SIU Kwing-chue, Gordon, GBS, CBE, JP\*  
SHAM Yat Wah (*Alternate Director to  
Mr KWOK Ping-luen, Raymond*)  
Susanna LAU Shung Oi (*Alternate Director to  
Mr KWOK Ping-sheung, Walter, JP*)  
KUNG Lin Cheng, Leo (*Alternate Director to  
Dr KUNG Ziang Mien, James, GBS, OBE\**)

\* *Independent Non-executive Director*

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Principal Office:*

No.1, Po Lun Street  
Lai Chi Kok  
Kowloon  
Hong Kong

8 November 2004

*To the Shareholders*

Dear Sir/Madam,

## DISCLOSEABLE AND CONNECTED TRANSACTIONS

### 1. INTRODUCTION

Reference is made to the Announcement which sets out, inter alia, details of the Supplementary Agreement. Under Chapter 14A of the Listing Rules, the Company is required to seek the Independent

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## LETTER FROM THE BOARD

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Shareholders' Approval in relation to the transactions contemplated under the Supplementary Agreement. Further, such transactions also constitute discloseable transactions under Chapter 14 of the Listing Rules.

The purpose of this circular is (a) to provide you with further information regarding the Supplementary Agreement; (b) to set out the advice from CLSA to the Independent Board Committee and the Independent Shareholders and the opinion and recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Supplementary Agreement; and (c) to give notice to the Shareholders of the SGM at which the Ordinary Resolution will be proposed to approve, if thought fit, the Supplementary Agreement and the transactions contemplated thereunder. The notice of the SGM is also published by the Company on 8 November 2004 in The Standard in English and Hong Kong Economic Journal in Chinese respectively.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Supplementary Agreement. The committee consists of Dr KUNG Ziang Mien, James, GBS, OBE and Mr SIU Kwing-chue, Gordon, GBS, CBE, JP, both of whom are independent non-executive Directors.

Since The Hon Sir Sze-yuen CHUNG, GBM, GBE, PhD, FEng, JP is an independent non-executive director of SHKP, and Dr Eric LI Ka Cheung, GBS, OBE, JP is an independent non-executive director of SmarTone Telecommunications Holdings Limited, a subsidiary of SHKP, both of them were regarded as having interests in the transactions contemplated under the Supplementary Agreement and thus, were not appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Supplementary Agreement.

### **2. 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 and a retail podium of about 50,000 square feet, for sale and letting.

### **3. 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 maximum 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.

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## LETTER FROM THE BOARD

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### 4. 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, construction of sky gardens and increasing the number and area of car parking spaces in the scope set out in the Supplementary Agreement (the “Upgrading Works”). In consideration of the 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 of (a) a percentage fee equivalent to 3% of the estimated total prime cost under the Prime Cost Contract; and (b) an incentive fee based on 15% of any cost savings from the estimated total prime cost, subject to a maximum incentive fee at 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 with the incentive fee capped at 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.



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## LETTER FROM THE BOARD

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- (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 of 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 Independent Shareholders' Approval.

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 were determined based on fair valuation performed by the Quantity Surveyors on market prices in accordance with the terms 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 Directors confirm that the terms and conditions of the Supplementary Agreement, including the additional consideration payable to Chun Fai for undertaking the Upgrading Works, were negotiated on an arm's length basis.

### **5. FINANCIAL EFFECTS OF THE DISCLOSEABLE AND CONNECTED TRANSACTIONS**

As a result of the transactions contemplated under the Prime Cost Contract as supplemented and amended by the Supplementary Agreement, revenue will be generated to the Group from the sales proceeds and/or rental income after completion of the Development, which is currently expected to be by the end of 2006. The precise effect on the revenue of the Company as a result of the transactions under the Prime Cost Contract as supplemented and amended by the Supplementary Agreement will depend on the property market conditions prevailing at the time of sales and/or rental of the Development, which is unable to foresee at the current stage.

Costs to be incurred in respect of the Development will be capitalized and treated as "property under development" in the consolidated financial statements of the Group. Liabilities to be incurred in respect of the Development will be accrued and paid to Chun Fai in accordance with the payment terms as disclosed in the 2003 Circular.

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## LETTER FROM THE BOARD

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### **6. 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, Chun Fai is familiar with all the details of the Development and the objectives of the Company and LCKPI in relation to the Development, which are to (i) manage the design and construction process on time and within the budget, (ii) ensure that the Upgrading Works will be completed to a high standard, and (iii) enhance the marketability and value of the Development by leveraging the expertise and reputation of the SHKP group in real estate development. In addition, as advised by the Quantity Surveyors, the terms and conditions of the Supplementary Agreement were made with reference to the prevailing industry practices, and are consistent with the provisions of the Prime Cost Contract. It would therefore 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.

### **7. DISCLOSEABLE AND CONNECTED TRANSACTIONS AND THE INDEPENDENT SHAREHOLDERS' APPROVAL IN RELATION TO THE SUPPLEMENTARY AGREEMENT**

As at the Latest Practicable Date, 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 contemplated under the Supplementary Agreement are subject to the approval of the Independent Shareholders in general meeting by poll.

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## LETTER FROM THE BOARD

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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.

### 8. BUSINESS OF THE GROUP

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. SPECIAL GENERAL MEETING

Set out on pages 35 and 36 of this circular is a notice convening the SGM which is to be held at the Grand Ballroom, Level 6, Royal Plaza Hotel, 193 Prince Edward Road West, Kowloon, Hong Kong at 10:00 a.m. on 25 November 2004. The notice of the SGM is also published by the Company on 8 November 2004 in The Standard in English and Hong Kong Economic Journal in Chinese respectively. The Ordinary Resolution will be proposed at the SGM for the purpose of considering and, if thought fit, approving the Supplementary Agreement and the transactions contemplated thereunder. SHKP and its associates will abstain from voting at the SGM in respect of the Ordinary Resolution.

As far as the Company was aware having made all reasonable enquiries, as at the Latest Practicable Date,

- (a) SHKP and its associates controlled or were entitled to exercise control over the voting right in respect of their respective Shares;
- (b) (i) there were no voting trusts or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon any of SHKP or its associates;
- (ii) there were no obligation or entitlement of SHKP or its associates

whereby such persons had or might have temporarily or permanently passed control over the exercise of the voting right in respect of their Shares to third parties, either generally or on a case-by-case basis; and

- (c) there were no discrepancies between the beneficial shareholding interests of SHKP and its associates in the Company and the number of Shares in respect of which they would control or would be entitled to exercise control over the voting right at the SGM.

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## LETTER FROM THE BOARD

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A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited on 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the SGM if they so wish.

### 10. PROCEDURES FOR DEMANDING A POLL

Pursuant to bye-law 66 of the Bye-laws of the Company, at any general meeting a resolution put to the vote shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three members of the Company present in person (or in the case of a member of the Company being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) by a member or members of the Company present in person (or in the case of a member of the Company being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members of the Company having the right to vote at the meeting; or
- (d) by a member or members of the Company present in person (or in the case of a member of the Company being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A demand by a person as proxy for member of the Company or in the case of a member of the Company being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a member of the Company.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders taken at a general meeting to approve connected transactions pursuant to Chapter 14A of the Listing Rules and transactions that are subject to independent shareholders' approval pursuant to the Listing Rules must be taken on a poll. Accordingly, the chairman of the SGM will demand that the Ordinary Resolution be decided by poll.

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## LETTER FROM THE BOARD

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### 11. RECOMMENDATION

Your attention is drawn to (a) the letter from the Independent Board Committee set out on page 12 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Supplementary Agreement; and (b) the letter from CLSA set out on pages 13 to 26 of this circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Supplementary Agreement and the principal factors considered by CLSA in arriving at its recommendation.

### 12. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
By Order of the Board  
**John CHAN Cho Chak**  
*Managing Director*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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**THE KOWLOON MOTOR BUS HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

*(Stock code: 062)*

8 November 2004

*To the Independent Shareholders*

Dear Sir/Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS**

We refer to the circular to the Shareholders dated 8 November 2004 (the “Circular”), of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meanings given to them in the definitions section of the Circular.

As the Independent Board Committee, we have been appointed by the Board 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. Details of the Supplementary Agreement are set out in the text of the letter from the Board as set out on pages 4 to 11 of the Circular.

We wish to draw your attention to the letter of advice from CLSA as set out on pages 13 to 26 of the Circular which contains, inter alia, its advice and recommendation to us and to the Independent Shareholders as regards the terms and conditions of the Supplementary Agreement and the transactions contemplated therein together with the principal factors for its advice and recommendation.

Having considered, among other matters, the factors considered by and the opinions of CLSA as stated in its aforementioned letter of advice, we consider that 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. Accordingly, we recommend the Independent Shareholders to vote in favour of the Ordinary Resolution to be proposed at the SGM to approve the Supplementary Agreement and the transactions contemplated thereunder.

Yours faithfully,

**KUNG Ziang Mien, James and SIU Kwing-chue, Gordon**  
*Members, Independent Board Committee*

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## LETTER FROM CLSA

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*The following is the text of the letter from CLSA, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, in relation to the terms and conditions of the Supplementary Agreement, which has been prepared for the purpose of inclusion in this circular.*



8 November 2004

To: The Independent Board Committee and  
the Independent Shareholders of  
The Kowloon Motor Bus Holdings Limited  
The Kowloon Motor Bus Holdings Limited  
No. 1, Po Lun Street, Lai Chi Kok  
Kowloon, Hong Kong

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS**

We refer to our engagement pursuant to which CLSA Equity Capital Markets Limited (“CLSA”) has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms and conditions of the Supplementary Agreement (the “Connected Transaction”), as more particularly detailed herein below, 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.

This letter has been prepared for inclusion in the circular dated 8 November 2004 (the “Circular”) issued by the Company to its Shareholders. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 17 July 2003, LCKPI and Chun Fai entered into the Prime Cost Contract whereby LCKPI appointed Chun Fai as the management contractor to construct and complete the substructure and superstructure of the Development. 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 the special general meeting of the Company convened on 26 August 2003.

On 15 October 2004, LCKPI entered into the Supplementary Agreement with Chun Fai to vary and amend the terms and conditions of the Prime Cost Contract to, amongst other things, (i) effect the Upgrading Works to the Development and (ii) make corresponding adjustments to the amounts payable by LCKPI to Chun Fai under the Prime Cost Contract as a result of such Upgrading Works. For further details, please refer to the letter from the Board set out in the Circular. As at the Latest Practicable Date, SHKP directly and indirectly owns approximately 33% of the entire issued share capital of the

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## LETTER FROM CLSA

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Company and is therefore a substantial shareholder of the Company and SHKP and its associates are connected persons of the Company as defined in 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. Therefore, the transactions contemplated under the Supplementary Agreement constitute connected transactions of the Company under the Listing Rules. As the maximum additional consideration payable by LCKPI to Chun Fai for effecting the Upgrading Works is HK\$457,571,865, which is more than 5% and less than 25% of one of the applicable percentage ratios under Chapter 14 of the Listing Rules, the transactions contemplated under the Supplementary Agreement also constitute discloseable transactions of the Company under the Listing Rules.

As the maximum additional consideration payable by LCKPI to Chun Fai for effecting the Upgrading Works under the Supplementary Agreement exceeds the threshold for transactions under Chapter 14A of the Listing Rules, the transactions contemplated under the Supplementary Agreement are subject to the approval of the Independent Shareholders in a general meeting by poll. An Independent Board Committee has been formed to advise the Independent Shareholders as to whether the terms and conditions of the Connected Transaction are fair and reasonable and are in the interest of the Company and its Shareholders as a whole and to advise the Independent Shareholders on how to vote, taking account of the recommendations of the independent financial adviser.

In formulating our opinion with regard to the Connected Transaction, we have relied on the information, opinions and facts supplied, and representations made to us by the Directors and representatives of the Company (including those contained or referred to in the Circular). We have also relied on the information, opinions and facts provided to us by the independent quantity surveyor of the Development (the "Quantity Surveyors"), who have confirmed to us in writing that, save for their appointment as quantity surveyors in relation to the Development, they are independent of and not connected with the Company and SHKP or their directors, chief executives, substantial shareholders or any of their respective associates. We have assumed that all such information, opinions, facts and representations, which have been provided to us by the Directors, representatives of the Company and the Quantity Surveyors, and for which they are wholly responsible, are true and accurate in all material respects. We have also relied on certain information available to the public and we have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. Further, we have relied on the representations of the Directors that they have made all reasonable inquiries, and that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement contained in the Circular untrue or misleading. We have also assumed that statements and representations made or referred to in the Circular were accurate at the time they were made and continue to be accurate at the date of despatch of the Circular.



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## LETTER FROM CLSA

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We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the Connected Transaction and to justify our recommendation, relying on the accuracy of the information provided in the Circular as well as to provide a reasonable basis for our advice. It is not within our terms of reference to comment on the commercial feasibility of the Connected Transaction, which remains the responsibility of the Directors. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, we have not been involved in the negotiations in respect of the terms and conditions of the Connected Transaction. Our opinion with regard to the terms and conditions thereof has been made on the assumption that all obligations to be performed by each of the parties to the Connected Transaction will be fully performed in accordance with the terms and conditions thereof. Further, we have no reason to suspect that any material facts or information have been omitted or withheld from the information supplied or opinions expressed to us nor to doubt the truth, accuracy and completeness of the information, facts and representations provided, or the reasonableness of the opinions expressed, to us by the Company, its Directors and its representatives or by the Quantity Surveyors. We have not, however, made any independent verification of the information and facts provided, representations made or opinions expressed by the Company, its Directors and its representatives or by the Quantity Surveyors, nor have we conducted any form of independent investigation into the business affairs or assets and liabilities of the Group. Accordingly, we do not warrant the accuracy or completeness of any such information.

Our opinion is necessarily based upon market, economic and other conditions as they existed and could be evaluated on, and on the information publicly available to us, as of the date of this opinion. We have no obligation to update this opinion to take into account events occurring after the date that this opinion is delivered to the Independent Board Committee. As a result, circumstances could develop prior to completion of the Development that, if known to us at the time we rendered our opinion, would have altered our opinion.

This letter is for the information of the Independent Board Committee solely in connection with their consideration of the Connected Transaction and, except for its inclusion in the Circular and for references thereto in the letter from the Independent Board Committee set out in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

CLSA is a licensed securities adviser and corporate finance adviser under the SFO and we, together with our affiliates, provide a full range of investment banking and brokerage services, which, in the course of normal trading activities, may from time to time effect transactions and hold securities, including derivative securities, of the Company or its subsidiaries or its substantial shareholders (as defined in the Listing Rules) or that of Sun Hung Kai Properties Limited or its subsidiaries or its substantial shareholders (as defined in the Listing Rules), for our own account and the accounts of customers. CLSA will receive a fee from the Company for rendering this opinion. The Company has also agreed to indemnify CLSA and certain related persons against certain liabilities and expenses in connection with this engagement.

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## LETTER FROM CLSA

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### PRINCIPAL FACTORS CONSIDERED

In considering whether or not the terms and conditions of the Connected Transaction 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, we have taken into consideration, inter alia, the following factors:

#### 1. **Background for the Upgrading Works to the Development**

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. 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 the special general meeting of the Company convened on 26 August 2003.

Since entering into the Prime Cost Contract relating to the Development, LCKPI has decided to upgrade the design, materials and quality of workmanship of the Development. In this regard, the Supplementary Agreement was entered into to vary and amend the terms and conditions of the Prime Cost Contract to, amongst other things, (i) effect the Upgrading Works and (ii) make corresponding adjustments to the amounts payable by LCKPI to Chun Fai under the Prime Cost Contract as a result of such Upgrading Works. The Upgrading Works include, but are not limited to, upgrading of the standard of finishes and fittings of the residential flats and the clubhouse, increasing the headroom of the floors of the residential flats and clubhouse, the construction of sky gardens and increasing the number and area of car parking spaces.

The Development was then expected to be completed by the end of June 2006 under the Prime Cost Contract. Taking account of the Upgrading Works, it is now expected that the Development will be completed by the end of 2006.

#### 2. **Reasons for the Supplementary Agreement with Chun Fai**

##### 2.1 *Reasons for entering into the Supplementary Agreement*

We note, as disclosed in the letter from the Board set out in the Circular, that 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 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 Supplementary Agreement amends and supplements certain terms and conditions of the Prime Cost Contract to effect the Upgrading Works and the adjustments to the amounts payable by LCKPI to Chun Fai under the Prime Cost Contract. In this regard, the Quantity Surveyors are of the opinion that in such circumstances, it is common practice for a developer to enter into a supplementary

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## LETTER FROM CLSA

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agreement with an existing management contractor where there is a significant change to the original value of the contract, typically by more than approximately 20%. Therefore, the Quantity Surveyors have advised that the entering into the Supplementary Agreement is in line with the prevailing industry practices.

### 2.2 *Reasons for engaging Chun Fai*

In assessing the reasonableness of engaging Chun Fai to undertake the Upgrading Works, we have considered the following:

a) Previous and continuing involvement of Chun Fai in the Development

In July 2003, 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 Directors consider that as Chun Fai has been involved in the construction of the Development, Chun Fai is familiar with all the details of the Development and the objectives of LCKPI in relation to the Development.

We understand from the Quantity Surveyors that as at the latest certifiable date, being 18 October 2004, construction of approximately 12% of the value of the estimated total prime cost under the Prime Cost Contract (equivalent to approximately HK\$139,746,100) has already been completed. In addition, we have been further advised by the Quantity Surveyors that as the value of the materials used for the initial phases of the construction (e.g. steel and cement used in the substructure and the superstructure) are comparatively less expensive than the materials used for the final phases of the construction (e.g. electrical cables, internal finishings and materials used for the flooring and walls), the completion percentage by value as stated above does not reflect the physical stage of completion of the Development. In this regard, we have visited the Lot and have been subsequently advised by the Quantity Surveyors that, as of 20 October 2004, 70% of the podium structure has been completed.

The Directors believe that in light of Chun Fai's pre-existing involvement and the commencement of construction work of the Development, it would be more cost-effective and coherent for LCKPI to engage Chun Fai as the management contractor to undertake the Upgrading Works rather than appointing any other contractors who have not participated in the construction of the Development. The Directors therefore believe that the appointment of Chun Fai for the Upgrading Works is in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM CLSA

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- b) Impracticality of separating the Upgrading Works from the construction works under the Prime Cost Contract

As disclosed in the letter from the Board set out in the Circular, the Directors consider that since the Upgrading Works relate to the overall upgrading and improvement of quality and standard of the Development, it will be difficult to separate the performance of the Upgrading Works from the rest of the construction works of the Development. The Quantity Surveyors also recommended that it would be economical and practical for LCKPI to continue to engage Chun Fai as the management contractor to effect the Upgrading Works through a Supplementary Agreement as opposed to engaging a new contractor which has not been involved in the construction of the Development and is therefore unfamiliar with the Development.

- c) Experience of the SHKP group in property development and construction

Based on publicly available information, we understand that the SHKP group has extensive experience in the construction and development of quality residential and commercial projects in Hong Kong. As disclosed in SHKP's annual report for the year ended 30 June 2004, the SHKP group is principally engaged in the development of and investment in properties for sale and rental. For the year ended 30 June 2004, the SHKP group developed and completed a total of 7 projects with an aggregate attributable gross floor area ("GFA") of approximately 3.5 million square feet, comprising mainly residential properties. These completed development projects are YOHO Town Phase 1, Liberté, Sham Wan Towers, 8 Waterloo Road, BeneVille, Ocean Shores Phase 3B and Vianni Cove. Projects under development and scheduled to be completed in 2004/2005 include Airport Railway Kowloon Station Development Package 3, Ma Wan Development, 8 Severn Road, New Kowloon Inland Lot 6275, 18 Farm Road, Tseung Kwan O Town Lot 74, 418 Kwun Tong Road and Airport Railway Hong Kong Station Development.

- d) Reputation of the SHKP group

The Directors have advised that, in their view, the engagement of the SHKP group for the Upgrading Works could help achieve the objectives of the Company and LCKPI to (i) manage the design and construction process on time and within budget, (ii) ensure that the Upgrading Works will be completed to a high standard, and (iii) enhance the marketability and value of the Development by leveraging the expertise and reputation of the SHKP group in real estate development.

In view of the above, we consider that LCKPI's entering into the Supplementary Agreement with Chun Fai is on normal commercial terms, in the ordinary and usual course of business of the Group, and is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM CLSA

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### 3. Principal terms of the Supplementary Agreement

As confirmed by the Directors, the terms and conditions of the Supplementary Agreement were arrived at after arm's length negotiations between LCKPI and Chun Fai and as advised by the Quantity Surveyors, the terms and conditions of the Supplementary Agreement were made with reference to the prevailing industry practices, and are consistent with the provisions of the Prime Cost Contract. The Supplementary Agreement is conditional upon the obtaining of, and shall commence from the date of, the approval of the Independent Shareholders.

Under the Supplementary Agreement, the estimated total prime cost of the works, the maximum percentage fee payable and the maximum incentive fee payable under the Prime Cost Contract will be modified as summarised in the following table:

	<b>Prime Cost Contract</b>	<b>Revised Prime Cost Contract*</b>	<b>% Change</b>
Estimated Total Prime Cost (HK\$)	1,126,380,000	1,574,446,000	39.8%
Maximum percentage fee (HK\$)	33,791,400	43,297,265	28.1%
Maximum incentive fee (HK\$)	16,895,700	23,616,690	39.8%
Maximum consideration payable (HK\$)	1,160,171,400	1,617,743,265	39.4%

\* Revised Prime Cost Contract as supplemented and amended by the Supplementary Agreement

#### 3.1 Changes to the estimated total prime cost under the Prime Cost Contract

Under the Supplementary Agreement, the estimated total prime cost under the Prime Cost Contract of HK\$1,126,380,000 will be increased by HK\$448,066,000 to HK\$1,574,446,000. The additional prime cost under the Supplementary Agreement was determined based on fair valuation performed by the Quantity Surveyors on market prices in accordance with the terms and conditions of the Prime Cost Contract.

We understand from our discussions with the Quantity Surveyors that in their estimation of the prime cost for the residential, commercial and car parking portions of the Development under the Supplementary Agreement, they have considered five recent comparable residential development projects ("Residential Comparables") and three recent comparable commercial development projects ("Commercial Comparables") and five recent comparable car parking space development projects ("Car Park Comparables") respectively (collectively the "Comparables"). These Comparables were selected by the Quantity Surveyors based on the scale and quality of the individual projects which were comparable to the Development. The Quantity Surveyors have confirmed that in their estimation of the prime cost for the residential, commercial and car parking portions of the Development under the Supplementary Agreement, the two major assumptions used were: i) the exclusion of the cost of the foundations, pile cap and infrastructure from the construction costs of the Comparables; and ii) the adjustment of the construction costs of the Comparables as adjusted by reference to the Quantity Surveyor's tender price index (this index is published in [www.dlshk.com](http://www.dlshk.com) website and accessible by the public for reference) as at the second quarter of 2004 in order to eliminate fluctuations in price over

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## LETTER FROM CLSA

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time. The Quantity Surveyors have further confirmed to us that these assumptions used in the consideration of the Comparables are based on their professional experience and in their view are reasonable and in accordance with industry standards. Having reviewed the scale and quality of the Comparables, and based on the information provided by, and our discussions with, the Quantity Surveyors, we concur with the Quantity Surveyors' view that the Comparables are suitable references for the estimation of the total prime cost in respect of the residential, commercial and car parking portions of the Development under the Supplementary Agreement.

The Quantity Surveyors have advised that supplementary agreements, by their nature, are supplemental and unique to pre-existing contracts and it is unlikely that other supplementary agreements, to the extent that such exist, would be comparable to or provide a benchmark against which to review the terms and conditions of the Supplementary Agreement. Consequently the Quantity Surveyors have advised that it is not appropriate to review the Supplementary Agreement in isolation from the Prime Cost Contract and therefore, in determining the reasonableness of the additional prime costs of HK\$448,066,000 under the Supplementary Agreement, we have reviewed the additional prime costs and the estimated total prime cost under the Prime Cost Contract in aggregate, as opposed to reviewing the Supplementary Agreement in isolation from the Prime Cost Contract.

We have reviewed the details of the Comparables provided by the Quantity Surveyors, which represent projects which are comparable to the Development as revised to include the Upgrading Works, and have been advised by the Quantity Surveyors that the construction costs per square foot of GFA of the Residential Comparables range between HK\$1,054 per square foot and HK\$1,533 per square foot, with an average of approximately HK\$1,280 per square foot (after adjusting for deflationary factors based on the Quantity Surveyors' tender price index up to the second quarter of 2004 and excluding project-unique costs relating to the foundation, pile cap, infrastructure and car parks). Based on the Quantity Surveyors' estimate of the total prime cost under the Supplementary Agreement for the residential portion of the Development, we note that the prime cost of approximately HK\$1,199 per square foot for the residential portion of the Development under the Supplementary Agreement is within the said range as set out in the table below:

### Residential Comparables

Project	1	2	3	4	5	Prime Cost Contract	Revised Prime Cost Contract*
GFA of residential portion (square feet)	375,997	51,538	1,076,400	1,388,556	1,733,004	1,064,872	1,065,255
Number of towers	1	1	4	3	14	4	5
Number of flats	117	21	1,060	1,120	1,200	1,278	1,109
Average flat size (square feet)	3,214	2,454	1,015	1,240	1,444	833	961
Cost/GFA for residential portion (HK\$)(notes)	1,533	1,513	1,160	1,140	1,054	859	1,199

\* Revised Prime Cost Contract as supplemented and amended by the Supplementary Agreement

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## LETTER FROM CLSA

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*Notes:*

1. excluding foundation, pile cap and infrastructure and adjusted to the Quantity Surveyors' tender price index up to second quarter of 2004
2. the cost/GFA is calculated by dividing the total cost of the residential portion of the development by the total GFA of that portion
3. as part of the Upgrading Works, Tower 1 under the Prime Cost Contract is to be split into two towers and the average flat size is to be enlarged

We have been further advised by the Quantity Surveyors that the construction costs per square foot of GFA of the Commercial Comparables range between HK\$786 per square foot and HK\$1,325 per square foot, with an average of approximately HK\$1,022 per square foot (after adjusting for deflationary factors based on the Quantity Surveyors' tender price index up to the second quarter of 2004 and excluding project-unique costs relating to the foundation, pile cap, infrastructure and car parks). Based on the Quantity Surveyors' estimate of the total prime cost under the Supplementary Agreement for the commercial portion of the Development, we note that the prime cost of approximately HK\$937 per square foot for the commercial portion of the Development under the Supplementary Agreement is within the said range as set out in the table below:

### Commercial Comparables

<b>Project</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>Prime Cost Contract</b>	<b>Revised Prime Cost Contract*</b>
GFA of commercial portion (square feet)	50,230	21,528	272,596	53,669	53,676
Cost/GFA for commercial portion (HK\$) (notes)	1,325	955	786	879	937

\* Revised Prime Cost Contract as supplemented and amended by the Supplementary Agreement

*Notes:*

1. excluding foundation, pile cap and infrastructure and adjusted to the Quantity Surveyors' tender price index up to second quarter of 2004
2. the cost/GFA is calculated by dividing the total cost of the commercial portion of the development by the total GFA of that portion

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## LETTER FROM CLSA

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The Quantity Surveyors have advised that the construction costs per square foot of construction floor area (“CFA”) of the Car Park Comparables range between HK\$199 per square foot of CFA and HK\$414 per square foot of CFA, with an average of approximately HK\$329 per square foot of CFA (after adjusting for deflationary factors based on the Quantity Surveyors’ tender price index up to the second quarter of 2004 and excluding project-unique costs relating to the foundation, pile cap and infrastructure). Based on the Quantity Surveyors’ estimate of the total prime cost under the Supplementary Agreement for the car parking spaces in the Development, we note that the prime cost of approximately HK\$343 per square foot of CFA of the car parking spaces in the Development under the Supplementary Agreement is within the said range as set out in the table below:

### Car Park Comparables

Project	1	2	3	4	5	Prime Cost Contract	Revised Prime Cost Contract*
CFA of car park (square feet)	482,861	93,873	409,280	758,959	227,572	229,123	240,963
Number of car parking spaces	1,039	216	763	1,250	613	375	442
Cost/CFA for car park (HK\$) (notes)	414	390	333	310	199	327	343

\* Revised Prime Cost Contract as supplemented and amended by the Supplementary Agreement

*Notes:*

1. excluding foundation, pile cap and infrastructure and adjusted to the Quantity Surveyors’ tender price index up to second quarter of 2004
2. the cost/CFA is calculated by dividing the total cost of the car park portion of the development by the total CFA of that portion

In view of the above, and on the assumption that the actual total prime cost does not exceed the estimated total prime cost as stipulated in the Supplementary Agreement, we consider that the maximum estimated total prime cost of HK\$1,574,446,000 under the Supplementary Agreement is on a cost/GFA and cost/CFA basis consistent with the level of the total prime cost payable for the abovementioned Residential, Commercial and Car Park Comparables.



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## LETTER FROM CLSA

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### 3.2 Changes to the management fee under the Prime Cost Contract

Under the Supplementary Agreement, the components of the management fee chargeable by Chun Fai will remain unchanged, comprising (i) a percentage fee (based on a fixed percentage of the estimated total prime cost) and (ii) an incentive fee (based on a fixed percentage of any cost savings from the estimated total prime cost, subject to a maximum savings cap, for the purposes of calculating the incentive fee, of 10% of the estimated total prime cost). The Quantity Surveyors have confirmed that such fee components follow the industry practice and are in line with the standard for contracts of similar type.

Under the Supplementary Agreement, the rate used for calculating the percentage fee will be reduced as further described below. Furthermore, it should be noted that under the Supplementary Agreement, the absolute amount of management fee chargeable by Chun Fai will increase as a direct result of the increased estimated total prime cost resulting from the Upgrading Works. The changes to the terms and the absolute amount of management fee payable under the Supplementary Agreement are summarised in the following table:

	Prime Cost Contract		Revised Prime Cost Contract*	
	(% of ETPC**)	(HK\$)	(% of ETPC**)	(HK\$)
Maximum percentage fee	3.00%	33,791,400	2.75%	43,297,265
Maximum incentive fee	1.50%	16,895,700	1.50%	23,616,690
<b>Maximum management fee</b>		<b>50,687,100</b>		<b>66,913,955</b>

\* Revised Prime Cost Contract as supplemented and amended by the Supplementary Agreement

\*\* Estimated total prime cost

The percentage fee will be reduced from 3% of the estimated total prime cost under the Prime Cost Contract to 2.75% of the increased estimated total prime cost under the Supplementary Agreement.

The incentive fee percentage of 15% of any cost savings from the estimated total prime cost (subject to a maximum savings cap, for the purposes of calculating the incentive fee, of 10% of the estimated total prime cost) under the Prime Cost Contract will remain unchanged. The Quantity Surveyors advised that the implied maximum incentive fee of 1.5% of the estimated total prime cost will not be changed, and that the incentive fee is in line with the incentive fee charges of comparable projects.

Based on the reduced rate of the percentage fee and the increased estimated total prime cost under the Supplementary Agreement, the maximum amount of management fee payable to Chun Fai would be HK\$66,913,955, an increase of 32.0% from HK\$50,687,100, under the Prime Cost Contract, as compared to an increase of 39.8% of the estimated total prime cost from HK\$1,126,380,000 to HK\$1,574,446,000.

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## LETTER FROM CLSA

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In determining the reasonableness of the maximum management fee payable to Chun Fai in respect of the Development pursuant to the Prime Cost Contract as amended and supplemented by the Supplementary Agreement, we have reviewed, as provided to us by the Quantity Surveyors, the percentage fee and the incentive fee charged by third party contractors on five residential/commercial development projects which are comparable to the Development with the Upgrading Works:

Project	1	2	3	4	5	Prime Cost Contract	Revised Prime Cost Contract*
Number of towers	5	4	6	7	11	4	5
Number of car parking spaces	409	341	426	1,039	1,250	375	442
Number of flats	1,920	1,536	2,272	1,624	4,152	1,278	1,109
Total construction cost (HK\$m)	1,300	1,208	1,613	1,151	2,605	1,160	1,618
Percentage fee as % of prime cost (%)	3.50	3.50	3.50	3.50	3.00	3.00	2.75
Incentive fee as % of prime cost (%)	1.50	1.50	1.50	1.50	0.00	1.50	1.50

\* Revised Prime Cost Contract as supplemented and amended by the Supplementary Agreement

According to the above table, the percentage fee component of the management fee payable for the comparable projects ranges between 3.0% and 3.5% of the respective total prime cost, and the maximum incentive fee payable for the comparable projects ranges between 0% and 1.5% of the respective total prime cost. Based on the Supplementary Agreement, we note that the rate of the percentage fee of 2.75% of the estimated total prime cost is below and the incentive fee of 1.5% of the estimated total prime cost is within the range of the respective rates of comparable projects.

Based on the above and on the maximum estimated aggregate consideration of HK\$1,617,743,265 under the Prime Cost Contract as supplemented and amended by the Supplementary Agreement, we consider that the maximum amounts of the percentage fee (being HK\$43,297,265) and the incentive fee (being HK\$23,616,690) are consistent with the fee levels payable for the above comparable projects.

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## LETTER FROM CLSA

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### CONCLUSION AND OPINION

In reaching our opinion (on the basis set out at the beginning of this letter), we have considered the following principal factors and reasons:

- background for the Upgrading Works to the Development;
- reasons for entering into the Supplementary Agreement;
- reasons for engaging Chun Fai to undertake the Upgrading Works, including previous and continuing involvement of Chun Fai in the Development, the impracticality of separating the Upgrading Works from the construction works under the Prime Cost Contract, the experience of the SHKP group in property development and construction and reputation of the SHKP group; and
- principal terms of the Supplementary Agreement, including the changes to the estimated total prime cost under the Supplementary Agreement and changes to the management fee under the Supplementary Agreement.

Based on these principal factors and reasons, we have concluded that:

- the entering into the Supplementary Agreement is in line with prevailing industry practices;
- Chun Fai is familiar with the details of the Development and the objectives of LCKPI in relation to the Development more than any other potential contractors, due to its involvement in the Development from July 2003 and the completion of approximately 12% of the value of the estimated total prime cost under the Prime Cost Contract (equivalent to approximately HK\$139,746,100) as at latest certifiable date of 18 October 2004, and the completion of approximately 70% of the podium structure as at 20 October 2004;
- the separation of the Upgrading Works from the construction works under the Prime Cost Contract is impractical, and the engagement of Chun Fai as the management contractor to undertake the Upgrading Works would be more cost-effective and coherent than appointing any other contractors who have not participated in the construction of the Development;
- the SHKP group has extensive experience in the development and construction of quality residential and commercial projects;
- the SHKP group is expected to, in the Directors' view, help achieve the objectives of the Company and LCKPI to (i) manage the Development on time and within budget, (ii) ensure that the Upgrading Works are completed to a high standard and (iii) enhance the marketability and value of the Development by leveraging the SHKP group's expertise and reputation in real estate development;

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## LETTER FROM CLSA

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- the terms of the Supplementary Agreement were arrived at after arm's length negotiations with reference to prevailing industry practice and are consistent with the provisions of the Prime Cost Contract;
- the estimated total prime cost of HK\$1,574,446,000 under the Supplementary Agreement on a cost/GFA and cost/CFA basis is consistent with the level of the total prime cost payable for the Residential, Commercial and Car Park Comparables as provided by the Quantity Surveyors;
- the reduced percentage fee of 2.75% of the estimated total prime cost is below and the maximum incentive fee of 1.5% of the estimated total prime cost is within the ranges of the respective rates of comparable projects as provided by the Quantity Surveyors; and
- based on the maximum estimated aggregate consideration of HK\$1,617,743,265 under the Prime Cost Contract as supplemented and amended by the Supplementary Agreement, the maximum amounts of the percentage fee (being HK\$43,297,265) and the incentive fee (being HK\$23,616,690) are consistent with the fee levels payable for the comparable projects as provided by the Quantity Surveyors.

Based on these conclusions, we are of the opinion that the terms and conditions of the Connected Transaction, including the maximum estimated consideration as amended by 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. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the Connected Transaction at the special general meeting to be convened on Thursday, 25 November 2004, at 10:00 a.m..

Yours faithfully,  
For and on behalf of  
**CLSA Equity Capital Markets Limited**  
**Tim Ferdinand**  
*Managing Director*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement contained in this circular misleading.

## 2. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interest of the Directors and the chief executive of the Company in the shares and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or were to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### 1. Long positions in shares of the Company

Name of Director	Ordinary shares of HK\$1 each				Total number of shares held	% of total issued shares
	Personal interests	Family interests	Corporate interests	Trustee interests		
The Hon Sir Sze-yuen CHUNG, GBM, GBE, PhD, FREng, JP*	18,821	—	—	—	18,821	0.005%
Norman LEUNG Nai Pang, GBS, JP	—	—	—	—	—	—
KWOK Ping-luen, Raymond	393,350	—	—	—	393,350	0.097%
KWOK Ping-sheung, Walter, JP	61,522	—	—	—	61,522	0.015%
YU Shu Chuen	2,943	70,803	—	6,909,481 (Note 1)	6,983,227	1.730%
NG Siu Chan	—	21,000,609	—	—	21,000,609	5.203%
William LOUEY Lai Kuen	6,222,926	4,475	—	—	6,227,401	1.543%
John CHAN Cho Chak, GBS, JP	2,000	—	—	—	2,000	—
Charles LUI Chung Yuen, M.H.	12,427	—	—	2,651,750 (Note 2)	2,664,177	0.660%
Winnie NG	41,416	—	—	21,000,609 (Note 3)	21,042,025	5.213%
Dr KUNG Ziang Mien, James, GBS, OBE*	—	—	172,000	—	172,000	0.043%
George CHIEN Yuan Hwei	2,000	—	—	—	2,000	—
Dr Eric LI Ka Cheung, GBS, OBE, JP*	—	—	—	—	—	—
LUI Pochiu	452,113	—	—	—	452,113	0.112%

Name of Director	Ordinary shares of HK\$1 each				Total number of shares held	% of total issued shares
	Personal interests	Family interests	Corporate interests	Trustee interests		
Edmond HO Tat Man	—	—	—	—	—	—
Rafael HUI Si-yan, GBS, JP	—	—	—	—	—	—
SIU Kwing-chue, Gordon, GBS, CBE, JP*	—	—	—	—	—	—
SHAM Yat Wah (Alternate Director to Mr KWOK Ping- luen, Raymond)	—	—	—	—	—	—
Susanna LAU Shung Oi (Alternate Director to Mr KWOK Ping-sheung, Walter, JP)	—	—	—	—	—	—
KUNG Lin Cheng, Leo (Alternate Director to Dr KUNG Ziang Mien, James, GBS, OBE*)	—	—	—	—	—	—

\* Independent Non-executive Director

Notes:

1. HSBC International Trustee Limited held 6,909,481 shares in the Company as trustee of a discretionary trust. Mr YU Shu Chuen was deemed to have interests in the aforesaid block of shares.
2. Mr Charles LUI Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 2,651,750 shares in the Company.
3. Ms Winnie NG has interest in 21,000,609 shares in the Company as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

2. **Long positions in shares of RoadShow Holdings Limited (“RoadShow”), an associated corporation**

Name of Director	Ordinary shares of HK\$0.1 each				Total number of shares held	% of total issued shares
	Personal interests	Family interests	Corporate interests	Trustee interests		
The Hon Sir Sze-yuen CHUNG, GBM, GBE, PhD, FREng, JP*	4,000	—	—	—	4,000	—
Norman LEUNG Nai Pang, GBS, JP	—	—	—	—	—	—
KWOK Ping-luen, Raymond	37,400	—	—	—	37,400	0.004%
KWOK Ping-sheung, Walter, JP	6,600	—	—	—	6,600	0.001%
YU Shu Chuen	33,000	6,576	—	535,825 (Note 1)	575,401	0.058%
NG Siu Chan	—	123,743	—	—	123,743	0.012%
William LOUEY Lai Kuen	412,371	—	—	—	412,371	0.041%
John CHAN Cho Chak, GBS, JP	—	—	—	—	—	—

Name of Director	Ordinary shares of HK\$0.1 each				Total number of shares held	% of total issued shares
	Personal interests	Family interests	Corporate interests	Trustee interests		
Charles LUI Chung Yuen, M.H.	—	—	—	209,131 (Note 2)	209,131	0.021%
Winnie NG	1,000,000	—	—	123,743 (Note 3)	1,123,743	0.113%
Dr KUNG Ziang Mien, James, GBS, OBE*	—	—	268,000	—	268,000	0.027%
George CHIEN Yuan Hwei	—	—	—	—	—	—
Dr Eric LI Ka Cheung, GBS, OBE, JP*	—	—	—	—	—	—
LUI Pochiu	24,863	—	—	—	24,863	0.002%
Edmond HO Tat Man	—	—	—	—	—	—
Rafael HUI Si-yan, GBS, JP	—	—	—	—	—	—
SIU Kwing-chue, Gordon, GBS, CBE, JP*	—	—	—	—	—	—
SHAM Yat Wah (Alternate Director to Mr KWOK Ping- luen, Raymond)	—	—	—	—	—	—
Susanna LAU Shung Oi (Alternate Director to Mr KWOK Ping-sheung, Walter, JP)	—	—	—	—	—	—
KUNG Lin Cheng, Leo (Alternate Director to Dr KUNG Ziang Mien, James, GBS, OBE*)	—	—	—	—	—	—

\* Independent Non-executive Director

Notes:

1. HSBC International Trustee Limited held 535,825 shares in RoadShow as trustee of a discretionary trust. Mr YU Shu Chuen was deemed to have interests in the aforesaid block of shares.
2. Mr Charles LUI Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 209,131 shares in RoadShow.
3. Ms Winnie NG has interest in 123,743 shares in RoadShow as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

As at the Latest Practicable Date, none of the Directors had any non-beneficial interest in the share capital of the Company.

## 3. Share options in RoadShow, an associated corporation

Name of Director	Date of Grant	Option period	Exercise Price per Share	Number of share options outstanding as at the Latest Practicable Date
Winnie NG	11 March 2002	12 March 2002 to 11 March 2005	HK\$2.25	3,800,000

- (b) As at the Latest Practicable Date, the interest or short position of the persons (not being Directors and the chief executive of the Company) in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

**Long positions in shares of the Company**

Name of person	Ordinary shares of HK\$1 each		
	Total number of Shares	Capacity and nature of interest	% of issued share capital
SHKP ( <i>Note 1</i> )	133,271,012	Corporate interests	33.0%
Arklake Limited ( <i>Note 1</i> )	68,600,352	Registered shareholders	17.0%
HSBC International Trustee Limited ( <i>Note 2</i> )	191,587,266	Registered shareholders	47.5%
Kwong Tai Holdings Limited ( <i>Note 3</i> )	21,000,609	Registered shareholders	5.2%

*Notes:*

- The interest disclosed by Sun Hung Kai Properties Limited (“SHKP”) includes the 68,600,352 shares disclosed by Arklake Limited.
- HSBC International Trustee Limited is deemed to be interested in 191,587,266 shares in the Company held on trust for its clients, of which 133,271,012 shares are held for SHKP.
- The interest disclosed by Kwong Tai Holdings Limited includes 21,000,609 shares disclosed by Mr NG Siu Chan and Ms Winnie NG, both are Directors of the Company.



- (c) So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interest in such securities were as follows:

<b>Name of person interested in 10% or more of the issued share capital of the member of the Group</b>	<b>Name of member of the Group</b>	<b>% of issued share capital held by the person</b>
Winnertex Limited	Park Island Transport Company Limited	35%
Kei Sun Engineering Co. Limited	HK Macau Ltd	40%
Immense Prestige Limited	Bus Focus Limited	40%
上海鷹澳企業管理諮詢有限公司	Shanghai Yingte Consulting Co. Limited	32%
上海敦晶工貿有限公司	Shanghai Yafei Advertising Co. Limited	25%
廣州關鍵廣告有限公司	Guangzhou Key Media Advertising Co. Limited	49%

- (d) Save as disclosed above, as at the Latest Practicable Date:

- (i) so far as is known to any Director or chief executive of the Company as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of, the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they are taken or deemed to have under such provisions of the SFO or were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or were to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies; and
- (ii) there was no person (not being a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group, or any options in respect of such capital.

**3. DIRECTORS' INTERESTS IN CONTRACTS**

- (a) None of the Directors has an existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without compensation (other than statutory compensation)).
- (b) Save as disclosed herein, as at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been, since 31 December 2003, the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by, or leased to the Company or any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.
- (c) Save for the Prime Cost Contract as supplemented and amended by the Supplementary Agreement in which Mr KWOK Ping-luen, Raymond and Mr KWOK Ping-sheung, Walter, JP who had beneficial interests in SHKP, were interested, and disclosed herein, as at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular and which is significant in relation to the business of the Group.

**4. MATERIAL CHANGE**

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2003, the date to which the latest published audited financial statements of the Company were made up.

**5. COMPETING INTERESTS**

Mr KWOK Ping-luen, Raymond and Mr KWOK Ping-sheung, Walter, JP are directors of SHKP. According to the 2003/04 annual report of SHKP, each of them are interested or deemed to be interested in more than 10% of shares in SHKP under the SFO. The principal activities of SHKP and its subsidiaries are development of and investment in properties for sale and rental in Hong Kong, which compete, or are likely to compete, directly or indirectly, with the property development business of the Group.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and his/her associates was considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

**6. LITIGATION**

So far as the Directors are aware, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and no litigation or claims of material importance was pending or threatened against any member of the Group.

**7. EXPERT**

- (a) The following is the qualification of the expert who has given opinions or advices which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
CLSA	a deemed licensed corporation under the SFO, licensed to conduct Types 4, 6 and 9 regulated activities

- (b) As at the Latest Practicable Date, CLSA did not have any shareholding in the Company or any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.
- (c) As at the Latest Practicable Date, CLSA did not have any direct or indirect interest in any assets which have been since 31 December 2003, the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any member of the Group.
- (d) CLSA has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter dated 8 November 2004 and the references to its name included herein in the form and context in which it is included.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the principal office of the Company up to and including 24 November 2004:

- (a) the Prime Cost Contract and the Supplementary Agreement;
- (b) the letter from CLSA, the text of which is set out on pages 13 to 26 of this circular; and
- (c) the written consent from CLSA referred to in paragraph 7(d) of this appendix.

**9. MISCELLANEOUS**

- (a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (b) The principal office of the Company is situated at No.1, Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited on 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

- (d) The secretary of the Company is Ms Lana Woo, who is an associate member of The Hong Kong Institute of Company Secretaries.
- (e) The qualified accountant of the Company is Mr William Ho, who is a fellow member of The Hong Kong Institute of Certified Public Accountants.
- (f) In any event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

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## NOTICE OF SPECIAL GENERAL MEETING

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*Please note that the notice convening the special general meeting of the shareholders of The Kowloon Motor Bus Holdings Limited is also published on 8 November 2004 in The Standard in English and Hong Kong Economic Journal in Chinese respectively.*



## THE KOWLOON MOTOR BUS HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

*(Stock code: 062)*

**NOTICE IS HEREBY GIVEN** that a special general meeting of the shareholders of THE KOWLOON MOTOR BUS HOLDINGS LIMITED (the “Company”) will be held at the Grand Ballroom, Level 6, Royal Plaza Hotel, 193 Prince Edward Road West, Kowloon, Hong Kong at 10:00 a.m. on 25 November 2004 for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as an ordinary resolution of the Company:

### ORDINARY RESOLUTION

“**THAT** the supplementary agreement dated 15 October 2004 (the “Supplementary Agreement”) entered into between Lai Chi Kok Properties Investment Limited (“LCKPI”), an indirectly wholly-owned subsidiary of the Company, and Chun Fai Construction Co. Ltd. (“Chun Fai”), a wholly-owned subsidiary of Sun Hung Kai Properties Limited (“SHKP”) to vary and amend certain terms and conditions of the Prime Cost Contract dated 17 July 2003 entered into between LCKPI and Chun Fai, a copy of which marked “A” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification and the transactions contemplated thereby be and are hereby confirmed, ratified and approved and **THAT** the directors of the Company be and are hereby authorised on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their discretion, consider necessary or desirable or expedient for the purpose of or in connection with the implementation of the Supplementary Agreement.”

By Order of the Board  
**Lana WOO**  
*Company Secretary*

Hong Kong, 8 November 2004

*Registered Office:*  
Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Principal Office:*  
No. 1, Po Lun Street  
Lai Chi Kok  
Kowloon  
Hong Kong

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## NOTICE OF SPECIAL GENERAL MEETING

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**Notes:**

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint more than one proxy to attend and to vote instead of him. A proxy need not be a member of the Company.
- (2) Where there are joint holders of any share, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
- (3) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited with the Company's branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, on 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting.
- (4) For the information of the members of the Company, please refer to (i) the announcement of the Company dated 15 October 2004; and (ii) the circular dated 8 November 2004 for details of, inter alia, the Supplementary Agreement.
- (5) This notice of special general meeting of the Company is also published by the Company on 8 November 2004 in The Standard in English and Hong Kong Economic Journal in Chinese respectively.
- (6) As at the date of this notice, the Board of Directors of the Company is comprised of The Hon. Sir Sze-yuen CHUNG, GBM, GBE, JP as Chairman and Independent Non-executive Director; Mr 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 (with Mr SHAM Yat Wah 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, Mr George CHIEN Yuan Hwei and Mr Rafael HUI Si-yan, GBS, JP as Directors.