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KWOON CHUNG BUS HOLDINGS LIMITED

冠忠巴士集團有限公司*

(Incorporated in Bermuda with limited liabilities)

(Stock Code: 306)

DISCLOSEABLE TRANSACTIONS

DISPOSAL OF 50% CJV INTEREST IN GZKC AND ACQUISITION OF 40% EJV INTEREST IN GZ2B

SUMMARY

On 20 September 2007, the Company through one of its wholly owned subsidiaries, KCM, entered into EJV Contracts with GZ2PB and Rongtai Taxi to:

1. dispose of its 50% CJV interest in GZKC (a CJV operated jointly and shared in terms of profit and loss by KCM and GZ2PB on a 50:50 basis) and a receivable from GZKC of HK\$52,695,000, in exchange for all the net asset value of the same (as at 31 August 2007) amounting to HK\$52,312,000 as a consideration, and;
2. acquire 40% EJV interest in GZ2B, an EJV to be transformed from GZKC, for a consideration of approximately HK\$76,000,000.

According to the definitions under Chapter 14 of the Listing Rules, the Transactions constitute a discloseable acquisition transaction and a discloseable disposal transaction. Circular containing details of the Transactions will be dispatched to the Shareholders as soon as reasonably practicable.

Date of the Transactions: 20 September 2007

PARTIES TO THE EJV CONTRACTS

Party A: GZ2PB, which is principally engaged in bus transport in Guangdong Province of the PRC.

* *For identification purposes only*

Party B: KCM, which is an indirect wholly owned subsidiary of the Company incorporated in Hong Kong and is principally engaged in non-franchised bus business in Hong Kong.

Party C: Rongtai Taxi, which is principally engaged in taxi business in Guangzhou of the PRC.

The Group is principally engaged in transport and travel business in Hong Kong and Mainland China. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, GZ2PB and Rongtai Taxi, and their respective ultimate beneficial owners are third parties independent of the Company and connected persons of the Company, its subsidiaries and their respective associates (as defined in Listing Rules).

BACKGROUND AND GENERAL NATURE OF THE TRANSACTIONS

KCM currently operates and shares profit and loss from a CJV, namely GZKC, jointly with GZ2PB in Guangzhou on a 50:50 basis. GZKC is principally engaged in bus transport business in Guangzhou of the PRC and has been accounted for as a jointly-controlled entity in the books of the Company. According to the CJV Contracts, KCM had contributed all the registered capital of GZKC amounting to HK\$76,000,000 while GZ2PB had contributed certain bus route operating rights, land use rights and office premises.

On 20 September 2007, the Company through KCM, entered into EJV Contracts with GZ2PB and Rongtai Taxi. Pursuant to the EJV Contracts and the application letter filed to the relevant government authority by GZ2PB in relation to the Transactions on 27 August 2007:

1. KCM shall forgo its 50% CJV interest in GZKC (the unamortized investment in GZKC as at 31 August 2007 amounting to HK\$17,852,000) and a receivable from GZKC of HK\$52,695,000, in exchange for all net asset value of the same (implied to be the amount as at the latest practicable date, i.e. 31 August 2007) amounting to HK\$52,312,000 as a consideration (receivable from GZKC arises as under the CJV Contracts, the registered capital of GZKC of HK\$76,000,000 is repayable to KCM in the form of income over 5 years after KCM's several capital contributions during the period from 1994 to 1997. However, such capital has not been repaid by GZKC in accordance with the contracted schedule and has only been partially repaid by GZKC up to present);
2. GZKC shall be transformed to an EJV with a business life of 30 years and renamed as GZ2B; and
3. the registered capital of GZ2B after transformation from GZKC shall be enlarged from HK\$76,000,000 to HK\$190,000,000. The capital contribution of each joint venturers has been agreed as follows:
 - (a) GZ2PB shall contribute capital valued as HK\$107,787,000, which shall comprise operating vehicles at recalculated values, and GZ2PB shall own 56.73% EJV interest in GZ2B;

- (b) As the original registered capital of GZKC is contributed solely by KCM, KCM shall carry forward such original capital of HK\$76,000,000 as capital contribution and a consideration, which shall be fulfilled by contribution of cash of approximately HK\$23,688,000 and all the net asset value of GZKC as at 31 August 2007 exchanged for of approximately HK\$52,312,000. KCM shall acquire 40% EJV interest in GZ2B; and
- (c) Rongtai Taxi shall contribute capital valued as HK\$6,213,000, which shall comprise operating vehicles at recalculated values or cash, and Rongtai Taxi shall own 3.27% EJV interest in GZ2B.

The values of the operating vehicles contributed by GZ2PB and Rongtai Taxi shall be recalculated on a straight-line depreciation basis with a depreciable life of 7 years. Although not specifically stipulated in the EJV Contracts, there is a mutual understanding among the joint venturers that the route operating rights underlying the operating vehicles will also be contributed into GZ2B. A qualified asset appraisal institution will be appointed by the joint venturers later to perform the recalculation. The Company and the other joint venturers believe that the values of operating vehicles recalculated in accordance with the above mentioned basis shall approximate their market values.

Since each of the aggregate value of the considerations contemplated under the Transactions represents more than 5% but less than 25% of the total market capitalization of the Company, the Transactions constitute a discloseable acquisition transaction and a discloseable disposal transaction according to the definitions under Chapter 14 of the Listing Rules.

ASSETS TO BE DISPOSED OF AND ACQUIRED

The assets to be disposed of shall be the 50% CJV interest in GZKC (the unamortized investment in GZKC as at 31 August 2007 amounting to HK\$17,852,000) and the receivable from GZKC of HK\$52,695,000, making up a total value of HK\$70,547,000. The asset to be acquired is the 40% EJV interest in GZ2B, which has a net book value and an estimated appraisal value (i.e. fair value) of HK\$76,000,000 as at 31 August 2007.

Notwithstanding the specific interpretations under the Listing Rules, the relevant PRC local government authority and the Board consider the Transactions as an enterprise restructuring and an enlargement of capital. Immediately after the Transactions, at the Group's book, the asset acquired will be accounted for as an associate and carried at the investment cost of approximately HK\$94,235,000 initially, which comprise the cash contribution of HK\$23,688,000, the unamortized investment in GZKC as at 31 August 2007 amounting to HK\$17,852,000, and the receivable from GZKC of HK\$52,695,000. The excess of cost over the interest in net fair value of the investment amounting to HK\$18,235,000 shall be carried forward and presented as goodwill on acquisition of the associate.

CONSIDERATIONS RECEIVABLE AND PAYABLE

The consideration receivable from the disposal transaction shall be all the net asset value of GZKC as at 31 August 2007 of approximately HK\$52,312,000, which is immediately receivable after the disposal transaction.

The consideration payable for the acquisition transaction shall be HK\$76,000,000, which shall be fulfilled by cash of approximately HK\$23,688,000 and all the net asset value of GZKC as at 31 August 2007 exchanged for from the disposal transaction of approximately HK\$52,312,000. The cash consideration shall be payable in full within two years after the relevant PRC government authorities approve the EJV Contracts. It will be financed by the internal fund of the Group. The net asset value of GZKC shall be contributed into GZ2B immediately after the acquisition transaction.

The considerations for the Transactions are determined basically on a dollar-to-dollar basis:

1. For the disposal transaction, the net asset value of GZKC exchanged for is similar in dollar amount to the receivable forgone. The original 50% CJV interest in GZKC has to be amortized fully in KCM' book over the life of the CJV Contract sooner or later.
2. For the acquisition transaction, as the Company plans to invest for 40% EJV interest in GZ2B, the capital contribution payable by KCM, i.e. HK\$76,000,000, was determined in proportion to the recalculated dollar values of operating vehicles or cash contributed by GZ2PB and Rongtai Taxi (i.e. enlarged registered capital of GZ2B of HK\$190,000,000 x 40%). The capital contribution shall be fulfilled by cash and net asset value of the same amount.

The considerations were negotiated on an arm's length basis and on normal commercial terms between all parties to the EJV Contracts.

The Directors, including the independent non-executive Directors, consider that the Transactions are on normal commercial terms and in the ordinary and usual course of business of the Company. Also, as the considerations are determined basically on a dollar-to-dollar basis and the Group is expected to benefit from the Transaction (as explained below), the terms of the Transactions are fair and reasonable and in the interests of the Shareholders as a whole.

FINANCIAL RESULTS OF GZ2B FOR THE LAST TWO FINANCIAL YEARS

As GZ2B is a new EJV formed, there are no historical financial results available. Also, no profit forecast has been prepared for GZ2B.

A summary of the net profits (losses) (both before and after taxation and extraordinary items) and net asset values of GZKC for the two financial years immediately preceding the Transactions under PRC GAAP is presented below for reference:

<i>(RMB'000)</i>	For the year ended 31 December 2006*	For the year ended 31 December 2005**
Net profit (loss) before taxation and extraordinary items	(225)	4,747
Net profit (loss) after taxation and extraordinary items	(225)	4,747
	31 December 2006*	31 December 2005**
Net asset value	50,096	51,354

* audited by Guangzhou Yongsheng Certified Public Accountants Co., Ltd.

** audited by Guangzhou City Zhongsui Certified Public Accountants

CONDITIONS

The Completion of EJV Contracts is subject to the approval of relevant PRC government authorities.

REASONS FOR ENTERING INTO THE TRANSACTIONS AND BENEFITS EXPECTED TO ACCRUE TO THE COMPANY

The Directors believe that by entering into the Transactions, the Company will benefit from its 40% EJV interest in GZ2B in the following aspects:

1. the CJV Contracts shall expire in October 2011. Entering into the Transactions will allow the joint venture to have a longer business life of 30 years since its new incorporation. Therefore the Company's market presence and brand name in Guangdong Province can be maintained or even further promoted;
2. the enlargement of the capital of the joint venture, together with more operating vehicles and the underlying bus routes contributed from other joint venturers, will create synergy and economies of scale, and improve the future financial performance of GZ2B greatly. Regular dividend is expected to be received from GZ2B as long as net profit is made; and

3. externally, motorbike ride has recently been strictly banned by many local city and town governments in Guangdong Province. Also, both the GDP and population of Guangdong Province have been growing at speed. Bus transport, as one of the necessities for citizens, still has increasing demand and therefore GZ2B has many opportunities to expand its business further. The Company will benefit from GZ2B's future growth in bus routes and patronage.

GENERAL

According to the definitions under Chapter 14 of the Listing Rules, the Transactions constitute a discloseable acquisition transaction and a discloseable disposal transaction. A circular containing details of the Transactions will be dispatched to the Shareholders as soon as reasonably practicable.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms shall have the following meanings:

“Board”	the board of Directors;
“CJV”	contractual joint venture, which is a form of joint venture of which the ownership and profit sharing are in accordance with the terms of the joint venture contract;
“CJV Contracts”	the various CJV contracts in Chinese entered into between GZ2PB and KCM;
“Company”	Kwoon Chung Bus Holdings Limited, a company incorporated in Bermuda with limited liability whose Shares are listed on the Stock Exchange;
“Completion”	completion of the Transactions;
“Directors”	the directors of the Company;
“EJV”	equity joint venture, which is a form of joint venture of which the ownership and profit sharing are in proportion to the respective capital contributions by the joint venturers;
“EJV Contracts”	the EJV contract and the related supplementary contract in Chinese dated 20 September 2007 entered into between GZ2PB, KCM, and Rongtai Taxi;
“Group”	the Company and its subsidiaries;

“GZ2B”	Guangzhou City No.2 Bus Co., Ltd, an EJV with a business life of 30 years to be transformed from GZKC after the Transactions and is principally engaged in bus transport in Guangzhou of the PRC;
“GZ2PB”	Guangzhou City No.2 Public Bus Company, a company incorporated in the PRC, which is principally engaged in bus transport in Guangdong Province of the PRC;
“GZKC”	Guangzhou Kwoon Chung Bus Co., Ltd, a CJV operated and shared in terms of profit and loss by KCM and GZ2PB jointly on a 50:50 basis, which is incorporated in the PRC and principally engaged in bus transport in Guangzhou of the PRC. It shall be transformed to and renamed as GZ2B after the Transactions;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“KCM”	Kwoon Chung Motors Company, Limited, an indirect wholly owned subsidiary of the Company incorporated in Hong Kong and is principally engaged in the non-franchised bus business in Hong Kong;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“Rongtai Taxi”	Guangzhou Rongtai Taxi Co., Ltd, a company incorporated in the PRC, which is principally engaged in taxi business in Guangzhou of the PRC;
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“Stock Exchange”	the Stock Exchange of Hong Kong Limited; and
“Transactions”	the disposal and acquisition transactions contemplated under the EJV Contracts.

As at the date of this announcement, the Board comprises Mr. Wong Chung Pak, Thomas, Mr. Wong Leung Pak, Matthew, Mr. Wong Wing Pak, Mr. Lam Sze Hoo, Christopher, Mr. Cheng Wai Po, Samuel, Mr. Lee Yin Ching, Stanley, Mr. Cheng King Hoi, Andrew, Mr. Ng King Yee, Mr. Chan Yu Kwong, Francis and Mr. Mok Wah Fun, Peter as executive Directors and Mr. Chan Bing Woon, SBS, JP, Mr. Sung Yuen Lam and Mr. Lee Kwong Yin, Colin as independent non-executive Directors.

By the order of the Board
Kwoon Chung Bus Holdings Limited
Wong Chung Pak, Thomas
Chairman

Hong Kong, 2 October 2007