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## **KWOON CHUNG BUS HOLDINGS LIMITED**

**冠忠巴士集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 00306)

### **CONNECTED TRANSACTIONS DISPOSAL OF 52.5% EFFECTIVE EQUITY INTEREST IN XH TOURISM BUS AND ACQUISITION OF 30% EQUITY INTEREST IN XH INTERNATIONAL TRANSPORT**

#### **SUMMARY**

The Board announces that on 8 November 2007, the Company through an indirect 75%-owned subsidiary, Top China, and two indirect wholly-owned subsidiaries, GZ Gogo TIL and GZ Zhong Guan, entered into an Equity Disposal Agreement and an Equity Acquisition Agreement respectively.

According to the Equity Disposal Agreement entered into between Top China and GZ Xing Shun (the 30% minority equity holder of XH Tourism Bus and a connected person of the Company), Top China agreed to sell all of its 70% equity interest in XH Tourism Bus to GZ Xing Shun. As a consideration of the Disposal, Top China will receive all of the net assets of XH Tourism Bus (save for a piece of Land located at Donghui Square of Guangzhou Development Zone including the buildings thereon) as at 31 July 2007, which is estimated to have a market value of approximately RMB15,391,000 (equivalent to approximately HK\$16,201,000). On Completion, the Company will hold no more equity interest in XH Tourism Bus.

According to the Equity Acquisition Agreement entered into among GZ Gogo TIL, Wang Chen Liang (the 30% minority equity holders of XH International Transport and a connected person of the Company), and GZ Zhong Guan, GZ Gogo TIL agreed to acquire 30% equity interest in XH International Transport, a 52.5%-owned subsidiary of GZ Zhong Guan, from Wang Chen Liang, for a cash consideration of RMB10,600,000 (equivalent to approximately HK\$11,158,000). On Completion, the Company will hold 82.5% equity interest in XH International Transport.

The Transactions constitute two connected transactions under Chapter 14A of the Listing Rules respectively. A circular containing details of the Transactions and a notice convening an EGM will be dispatched to the Shareholders as soon as practicable.

The Company operates transportation and tourism services in Hong Kong and Mainland China. Details of the Transactions are as follows:

#### **(A) EQUITY DISPOSAL AGREEMENT**

**Date of the Disposal:** 8 November 2007

#### **Parties**

**Vendor:** Top China, which is principally engaged in investment holding and is an indirect 75%-owned subsidiary of the Company. It held 70% equity interest in XH Tourism Bus before the Disposal.

**Purchaser:** GZ Xing Shun, which is principally engaged in investment holding and is 100%-owned by Wang Chen Liang. It is the 30% minority equity holder of XH Tourism Bus before the Disposal and is a connected person of the Company.

#### **General nature of the Disposal**

XH Tourism Bus is a company incorporated in Mainland China and is principally engaged in the running of intra-city bus services in Guangzhou city of Mainland China. Before the Disposal, it was held as to 70% by Top China and hence effectively it was an indirect 52.5%-owned subsidiary of the Company.

According to the Equity Disposal Agreement entered into between Top China and GZ Xing Shun, Top China agreed to sell all of its 70% equity interest in XH Tourism Bus to GZ Xing Shun. As a consideration of the Disposal, Top China will receive all of the net assets of XH Tourism Bus (save for a piece of Land) at 31 July 2007.

The management of both parties to the Disposal has been engaged in the bus transport industry for many years and is aware of the prevailing pricing of similar asset trade from various informal channels. Based on both parties' knowledge and a preliminary verbal consultation with an independent professional valuer, the two parties to the Disposal estimates that the market values of the net assets (excluding the Land) and the Land of XH Tourism Bus amount to approximately RMB15,391,000 (equivalent to approximately HK\$16,201,000) and approximately RMB6,596,000 (equivalent to approximately HK\$6,943,000) respectively. The independent professional valuer will be appointed to perform formal valuations on the net assets (including the total assets and total liabilities) of XH Tourism Bus, including the Land. As mentioned above, as the parties' estimate is based on market value already, the Directors are of the opinion that any difference between the final results of the valuer and the parties' estimate will be insignificant, no adjustment mechanism for the above difference to the consideration has been laid down in the Equity Disposal Agreement. On Completion, the Company will hold no more equity interest in XH Tourism Bus and XH Tourism Bus will cease to be a subsidiary of the Company.

## **Asset to be disposed of**

The asset to be realized is all the 52.5% effective equity interest in XH Tourism Bus of the Company held via Top China. As at 31 July 2007, XH Tourism Bus is running 5 bus routes with approximately 129 operating buses. Its major assets include fixed assets (mainly buses), the Land (with a book value amounting to approximately RMB4,096,000 (equivalent to approximately HK\$4,312,000)) and some inventories (mainly parts), with a book value amounting to approximately RMB40,834,000 (equivalent to approximately HK\$42,983,000) in total. Its major liabilities include bank loans and accounts payable, with a book value amounting to RMB30,675,000 (equivalent to approximately HK\$32,289,000) in total. Its net asset value amount to RMB10,159,000 (equivalent to approximately HK\$10,694,000) and the 52.5% effective equity interest has a net book value of RMB5,333,000 (equivalent to approximately HK\$5,614,000). The difference between the market value and net book value of XH Tourism Bus represents mainly the 5 bus route operating rights, which have not been reflected in XH Tourism Bus's book as intangible assets.

## **Consideration receivable and the intended application of the sale proceeds**

The consideration receivable is all of the net assets of XH Tourism Bus (save for a piece of Land) as at 31 July 2007, which amounts to approximately RMB15,391,000 (equivalent to approximately HK\$16,201,000) at estimated market value. The Group plans to inject the net asset received into the Group's other bus operations in Guangzhou.

The consideration of the Disposal was arrived based on Top China's 70% share of all the net assets of XH Tourism Bus (including the Land) as at 31 July 2007 restated at estimated market value. The consideration is negotiated on an arm's length basis and on normal commercial terms between Top China and GZ Xing Shun.

In view of the above, the Directors consider the terms of the Disposal are fair and reasonable and in the interests of the Shareholders as a whole.

## **Financial results of XH Tourism Bus for the last two financial years**

A summary of the net loss (both before and after taxation and extraordinary items) of XH Tourism Bus under PRC GAAP audited by Guangzhou Mingtong Certified Public Accountants Limited for the two financial years immediately preceding the Disposal is as follows:

	<b>For the year ended 31 December 2006 (RMB'000)</b>	<b>For the year ended 31 December 2005 (RMB'000)</b>
Net loss before taxation and extraordinary items	87	126
Net loss after taxation and extraordinary items	87	126

## **Conditions precedent**

The Completion of the Equity Disposal Agreement is subject to the approval requirements as stipulated in the Listing Rules and the approvals by the relevant local government authorities.

Also, the Equity Disposal Agreement and the Equity Acquisition Agreement (details of which are set out in Section B) are inter-conditional such that each agreement shall be effective if and only if the other agreement is effective at the same time.

## **Reasons for entering into the Disposal and benefits expected to accrue to the Company**

It is the Board's understanding that the Guangzhou municipal government has been restructuring the whole intra-city bus transport of Guangzhou. XH Tourism Bus, as a smaller-sized privately-owned bus operators as compared to the stated-owned ones, may not enjoy the same preferential policies granted by the Guangzhou municipal government after such restructuring in the future. The sale of the equity interest in XH Tourism Bus will allow the Group to receive directly its net assets in exchange and the Group can inject such net assets into the Group's other bus operations in Guangzhou to achieve synergy.

As at 31 July 2007, the net book value of XH Tourism Bus (including the Land) under HK GAAP was approximately RMB10,159,000 (equivalent to approximately HK\$10,694,000). Top China's 70% share of its net book value amounts to approximately RMB7,111,000 (equivalent to approximately HK\$7,486,000). As a result of the Disposal, a gain of approximately RMB8,280,000 (equivalent to approximately HK\$8,715,000) is expected to accrue to Top China. The Company will share approximately RMB6,210,000 (equivalent to approximately HK\$6,536,000) from the above gain and its net asset will increase by the same amount.

## **Connected relationship**

Before the Disposal, GZ Xing Shun was the 30% minority equity holder of XH Tourism Bus, which was an indirect 52.5%-owned subsidiary of the Company. It is a connected person of the Company by virtue of its being a substantial shareholder of XH Tourism Bus and the Disposal constitutes a connected transaction for the Company under chapter 14A of the Listing Rules. As certain of the percentage ratios contemplated in the Disposal as defined in the Listing Rules are more than 2.5% and the total consideration is not less than HK\$1,000,000, the Disposal is subject to, among other things, independent Shareholders' approval requirements.

Details of the Disposal will be included in the Company's next published annual report and accounts and a circular containing details of the Disposal and a notice convening an EGM will be dispatched to the Shareholders as soon as practicable. The valuation report and information on the assets and liabilities of XH Tourism Bus, including the Land will be included in the circular to be dispatched. Also, an independent financial advisor will be appointed by the Company to opine on the Equity Disposal Agreement, including the non-existence of an adjustment mechanism for any valuation difference to the consideration, and its recommendation letter will be included in the circular.

No Shareholder need to abstain from voting at the EGM.

## **(B) EQUITY ACQUISITION AGREEMENT**

**Date of the Acquisition:** 8 November 2007

### **Parties**

**Purchaser:** GZ Gogo TIL, which is principally engaged in investment holding and is 100% indirectly owned by the Company.

**Vendor:** Wang Chen Liang, who are three Mainland China individuals collectively holding 30% equity interest in XH International Transport before the Acquisition and is a connected person of the Company.

### **General nature of the Acquisition**

XH International Transport is a company incorporated in Mainland China and is principally engaged in the running of long-distance bus services in Guangdong Province of Mainland China. It is held as to 52.5% by GZ Zhong Guan, which is in turn an indirect wholly-owned subsidiary of the Company. Hence before the Acquisition, XH International Transport was an indirect 52.5%-owned subsidiary of the Company.

According to the Equity Acquisition Agreement entered into among GZ Gogo TIL, Wang Chen Liang, and GZ Zhong Guan, GZ Gogo TIL agreed to acquire 30% equity interest in XH International Transport from Wang Chen Liang, for a cash consideration of RMB10,600,000 (equivalent to approximately HK\$11,158,000). On Completion, the Company will hold 82.5% equity interest in XH International Transport.

### **Asset to be acquired**

The asset to be acquired is the 30% equity interest in XH International Transport. As at 31 July 2007, XH International Transport is running 6 bus routes with approximately 35 operating buses. Its major assets include fixed assets (which comprise mainly buses), route operating rights and accounts receivable, which amount to RMB28,791,000 (equivalent to approximately HK\$30,306,000) in total; while its major liabilities include deposits received and accruals, which amount to RMB2,122,000 (equivalent to HK\$2,233,000) in total. Hence its net asset value amounts to RMB26,669,000 (equivalent to HK\$28,073,000) and the 30% equity interest has a net book value of RMB8,001,000 (equivalent to HK\$8,422,000). Before the acquisition, XH International Transport was consolidated into the Company's book as to 52.5% equity interest. After the Acquisition, XH International Transport will continue to be consolidated as a subsidiary, but as to 82.5% equity interest.

## Consideration payable

The consideration is payable in cash by three instalments: RMB1,000,000 was paid upon signing of the Equity Acquisition Agreement; RMB4,000,000 is payable within 10 days after the application for changes in business registration regarding the Acquisition has been properly filed; and the remaining balance is payable immediately after the changes in business registration and the relevant transfer procedures has been completed. The whole consideration will be sourced from the Group's internal working capital.

The management of both parties to the Acquisition has been engaged in the bus transport industry for many years and is aware of the prevailing pricing of similar asset trade from various informal channels. Based on both parties' knowledge and a preliminary verbal consultation with the independent professional valuer, the market value of XH International Transport amounts to approximately RMB35,333,000 (equivalent to approximately HK\$37,193,000) as at 31 July 2007. The consideration of the Acquisition was arrived based on 30% share of the market value of XH International Transport. The independent professional valuer will be appointed to perform formal valuations on the net assets (including the total assets and total liabilities) of XH International Transport. As mentioned above, as the parties' estimate is based on market value already, the Directors are of the opinion that any difference between the final results of the valuer and the parties' estimate will be insignificant, no adjustment mechanism for the above difference to the consideration has been laid down in the Equity Acquisition Agreement. The difference between the market value and net book value of XH International Transport represents mainly an upward revaluation of its 6 bus route operating rights from their net book value, which is recorded at historical cost.

The consideration is negotiated on an arm's length basis and on normal commercial terms between GZ Gogo TIL and Wang Chen Liang. In view of the above, the Directors consider the terms of the Acquisition are fair and reasonable and in the interests of the Shareholders as a whole.

## Financial results of XH International Transport for the last two financial years

A summary of the share of 30% of the net loss (both before and after taxation and extraordinary items) of XH International Transport under PRC GAAP audited by Guangzhou Mingtong Certified Public Accountants Limited for the two financial years immediately preceding the Disposal is as follows:

	<b>For the year ended 31 December 2006 (RMB'000)</b>	<b>For the year ended 31 December 2005 (RMB'000)</b>
Net loss before taxation and extraordinary items	156	291
Net loss after taxation and extraordinary items	156	291

## **Conditions precedent**

The Completion of the Equity Acquisition Agreement is subject to the approval requirements as stipulated in the Listing Rules and the approvals by the relevant local government authorities. The Equity Acquisition Agreement and the Equity Disposal Agreement are inter-conditional such that each agreement shall be effective if and only if the other agreement is effective at the same time.

## **Reasons for entering into the Acquisition and benefits expected to accrue to the Company**

It is expected that the number of highways in Guangdong Province, as well as its population, will continue to grow at speed. Long-distance bus transport, with a higher profit margin but less government restriction on fares as compared with intra-city bus transport, has much potential for development. Also, the 2010 Asian Games to be held at Guangzhou will bring about millions of visitors to Guangdong Province and will create great demand for long-distance bus transport. Further, the Group has other long-distance bus operations in Guangdong Province already and synergy can be obtained through further merge in operations in the future.

As at 31 July 2007, the net book value of XH International under HK GAAP was approximately RMB26,669,000 (equivalent to approximately HK\$28,073,000). Wang Chen Liang's original 30% share of the net book value amounted to approximately RMB8,001,000 (equivalent to approximately HK\$8,422,000). The excess of Acquisition cost (i.e. the premium) over the share of net book value amounts to RMB2,599,000 (equivalent to approximately HK\$2,736,000), or 32.5%. There is no net effect on the Company's earnings or assets and liabilities upon the Acquisition.

## **Connected relationship**

Before the Acquisition, Wang Chen Liang was the 30% minority equity holder of XH International Transport, which was an indirect 52.5%-owned subsidiary of the Company. It is connected person of the Company by virtue of its being a substantial shareholder of XH International Transport and the Acquisition constitutes a connected transaction for the Company under chapter 14A of the Listing Rules.

According to rules 14A.25 and 14A.26(1) of the Listing Rules, the Acquisition and Disposal should be aggregated and treated as if they were one transaction owing to the following reasons:

1. the Transactions are inter-conditional as explained above; and
2. the Transactions are entered into by the Company with parties connected (GZ Xing Shun is 100% owned by Wang Chen Liang).

Though all of the percentage ratios contemplated in the Acquisition as defined in the Listing Rules are less than 2.5% but the total consideration is not less than HK\$1,000,000, the Acquisition is subject to, among other things, independent Shareholders' approval requirements.

Details of the Acquisition will be included in the Company's next published annual report and accounts and a circular containing details of the Acquisition and a notice convening an EGM will be dispatched to the Shareholders as soon as practicable. The valuation report and information on the assets and liabilities of XH International Transport will be included in the circular to be dispatched. Also, an independent financial advisor will be appointed by the Company to opine on the Equity Acquisition Agreement, including the non-existence of an adjustment mechanism for any valuation difference to the consideration, and its recommendation letter will be included in the circular.

No Shareholder need to abstain from voting at the EGM.

## **DEFINITIONS**

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

“Acquisition”	the transaction contemplated under the Equity Acquisition Agreement;
“Board”	the board of Directors;
“Company”	Kwoon Chung Bus Holdings Limited, a company incorporated in Bermuda with limited liability whose Shares are listed on the Stock Exchange;
“Completion”	the respective completion of the Transactions;
“Directors”	the directors of the Company;
“Disposal”	the transaction contemplated under the Equity Disposal Agreement;
“EGM”	the extraordinary general meeting of the Company to be convened for approving the Transactions;
“Equity Acquisition Agreement”	the agreement in Chinese dated 8 November 2007 entered into among GZ Gogo TIL as the purchaser, Wang, Chen and Liang collectively as the vendor and GZ Zhong Guan pursuant to which GZ Gogo TIL agreed to acquire 30% equity interest in XH International Transport from Wang, Cheng and Liang collectively;
“Equity Disposal Agreement”	the agreement in Chinese dated 8 November 2007 entered into between Top China as the vendor and GZ Xing Shun as the purchaser pursuant to which Top China agreed to sell all of its 70% equity interest in XH Tourism Bus to GZ Xing Shun;



“Group”	the Company and its subsidiaries;
“GZ Gogo TIL”	Guangzhou Gogo TIL Consulting Services Co., Ltd, an investment holding company incorporated in Mainland China and is 100% indirectly owned by the Company;
“GZ Xing Shun”	Guangzhou Xing Shun Transport Services Co., Ltd, an investment holding company incorporated in Mainland China and is 100% owned by Wang Chen Liang. It was a 30% minority equity holder of XH Tourism Bus before the Disposal;
“GZ Zhong Guan”	Guangzhou City Zhong Guan Consulting Services Co., Ltd, an investment holding company incorporated in Mainland China and is 100% directly owned by GZ Gogo TIL;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Land”	the piece of land located at Donghui Square of Guangzhou Development Zone (including the buildings thereon) owned by XH Tourism Bus;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mainland China”	The PRC excluding Hong Kong;
“PRC”	the People’s Republic of China;
“RMB”	renminbi, the currency 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;
“Top China”	Top China International Investment Holdings Limited, an investment holding company incorporated in Hong Kong and an indirect 75%-owned subsidiary of the Company;
“Transactions”	the Acquisition and Disposal transactions;

“Wang Chen Liang”	three Mainland China individuals namely Wang Jian Chao, Chen Yun Sheng and Liang Shu Qiong, who jointly holds 100% equity interest in GZ Xing Shun and before the Acquisition, held 30% equity interest in XH International Transport;
“XH International Transport”	GFTZ Xing Hua International Transport Ltd, a long-distance bus company incorporated in Mainland China. It was 52.5% owned by GZ Zhong Guan and, 30% owned by Wang Chen Liang before the Acquisition; and
“XH Tourism Bus”	GFTZ Xing Hua Tourism Bus Co., Ltd, an intra-city bus company incorporated in Mainland China and was 70% owned by Top China and 30% owned by GZ Xing Shun before the Disposal.

In this announcement, the exchange rate of HK\$1 to RMB0.95 has been used for reference only.

*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, 15 November 2007

*\* For identification purpose only*