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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: 306)

DISCLOSEABLE TRANSACTION
ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN
ATCL, GDSGG AND AMSRL ENGAGING IN
NON-FRANCHISED BUS BUSINESS

SUMMARY

On 1 September 2016, KCBI, a direct wholly-owned subsidiary of the Company, entered into the SP Agreement with the Vendor, pursuant to which KCBI has agreed to acquire the entire issued share capital in ATCL, GDSGG and AMSRL for an initial total consideration of HK\$195 million (subject to adjustment pursuant to the terms and conditions of the SP Agreement). Upon completion of the Acquisition, each of ATCL, GDSGG and AMSRL will become a wholly-owned subsidiary of the Company.

LISTING RULES IMPLICATION

As the relevant percentage ratio in respect of the Acquisition (on the assumption that the Maximum Increment is added to the initial consideration pursuant to the terms and conditions of the SP Agreement) is more than 5% but less than 25%, the transaction contemplated under the SP Agreement constituted discloseable transaction of the Company under Chapter 14 of the Listing Rules.

* *for identification purposes only*

GENERAL NATURE OF THE ACQUISITION

The Board hereby announces that on 1 September 2016, KCBI, a direct wholly-owned subsidiary of the Company, entered into the SP Agreement with the Vendor, pursuant to which KCBI has agreed to acquire the entire issued share capital in ATCL, GDSGG and AMSRL for an initial total consideration of HK\$195 million (subject to adjustment pursuant to the terms and conditions of the SP Agreement). Upon completion of the Acquisition, each of ATCL, GDSGG and AMSRL will become a wholly-owned subsidiary of the Company.

The principal terms and conditions of the SP Agreement are set out below.

THE SP AGREEMENT

Date: 1 September 2016

Parties

Vendor: the estate of the late Ms. Patricia Luk, who is represented by its executor; and

Purchaser: KCBI, a direct wholly-owned subsidiary of the Company principally engaged in holding of bus investment.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the Vendor and its executor is third party independent of the Group and its connected persons (within the meaning of the Listing Rules).

Assets to be acquired

Under the SP Agreement, KCBI has agreed to acquire and the Vendor has agreed to sell the entire issued share capital in ATCL, GDSGG and AMSRL. As at the date of this announcement, the principal assets of the Target Companies comprise the following:

1. 98 non-franchised buses owned by the Target Group and the related passenger service licences granted by the relevant government department in favour of the Target Group for the operation of the Business; and
2. three sino-foreign cooperative joint venture enterprises (namely, 深圳國友旅遊運輸有限公司 (Shenzhen Guoyou Tourism Coach Co., Ltd.), 廣東韶關國友旅遊運輸有限公司 (Guangdong Shao Guan Guo You Tourism Coach Co., Ltd.) and 廣東友國旅遊運輸有限公司 (Guangdong Youguo Tourism Coach Co., Ltd.)) established in Mainland China whose registered capital is wholly-owned by the Target Companies. They collectively hold 25 cross boundary bus quotas granted by the relevant government departments and are principally engaged in the operation of cross boundary bus services for routes between Guangdong Province, Mainland China and Hong Kong.

Consideration payable

Initial consideration

Pursuant to the SP Agreement, the initial consideration for the Acquisition is HK\$195 million (subject to adjustment pursuant to the terms and conditions of the SP Agreement) which was paid by KCBI on the Completion Date in the following manner:

1. HK\$185.25 million was paid in cash to the Vendor by wire transfer into the bank account as specified by the Vendor;
2. HK\$9.75 million was paid in cash to the escrow agent appointed by KCBI and the Vendor, which shall be released to the Vendor on the Final Settlement Date (subject to deduction in accordance with the terms and conditions of the SP Agreement) (the “**Deferred Consideration**”).

Adjustments to the consideration

Under the SP Agreement, as soon as practicable after the Completion, the parties shall jointly appoint an Independent Auditors to carry out an audit of the Pro-forma Completion Accounts and the financial records of the Target Group for the financial period covered by the Pro-Forma Completion Accounts and to issue the Completion Accounts, the Adjusted NCA Statement and the Accrued Employees’ Payment Statement.

Pursuant to the SP Agreement, the initial consideration shall be adjusted according to the amount of the Adjusted NCA and the Accrued Employees’ Payment as at the Cut-off Time as follows:

1. if the Accrued Employees’ Payment exceeds HK\$18 million, the initial consideration shall be reduced by the exceeding amount;
2. if the Adjusted NCA is a positive value, the initial consideration shall be increased by the absolute value of the Adjusted NCA, subject to a maximum increment of HK\$20 million (the “**Maximum Increment**”); or
3. if the Adjusted NCA is a negative value, the initial consideration shall be reduced by the absolute value of the Adjusted NCA.

Where there is an increase in the initial consideration pursuant to paragraph 2 above, KCBI shall pay to the Vendor the amount of such increase in the initial consideration (less the amount of the uncollected accounts receivables of the Target Companies as mentioned below) within 10 Business Days after KCBI provides a statement to the Vendor confirming the amount of such uncollected accounts receivables pursuant to the terms and conditions of the SP Agreement, and KCBI will pay any shortfall of such increase in the initial consideration (if any) within 10 Business Days after the amount of the uncollected accounts receivables is finalised, agreed or determined.

Where there is a reduction in the initial consideration pursuant to paragraphs 1 or 3 above, the amount of such decrease shall be released to KCBI within 20 Business Days after the date on which the reduction amount is determined and/or agreed in accordance with the terms and conditions of the SP Agreement.

If any of the accounts receivables of the Target Group (other than prepayments, prepaid expenses and other deposits with lessors, suppliers or utilities of the Target Group) as recorded in the Completion Accounts remains outstanding and is not recovered by the Target Group in full on or before the date falling six months after the Completion Date, KCBI will procure the Target Group to assign to the Vendor all the rights, benefits, title and interests in, of and in connection with these uncollected accounts receivables as at and from the date immediately after the expiry of such six-month period, in consideration of the Vendor paying to KCBI an amount equals to such uncollected accounts receivables, which shall be set off against the increased consideration payable by KCBI under paragraph 2 above, or deducted from and set off against the Deferred Consideration.

The consideration was determined by KCBI and the Vendor after arm's length negotiations with reference to, among other factors, a historical price-to-earnings ratio of approximately 15.0 times (on the assumption that Maximum Increment is added to the initial consideration).

The consideration will be satisfied by working capital of the Group and bank financing.

Completion

The SP Agreement is unconditional and Completion took place on 1 September 2016 immediately following the signing of the SP Agreement by the parties.

GENERAL INFORMATION ON THE GROUP AND THE TARGET GROUP

The Group is principally engaged in passenger transportation and tourism business in Hong Kong and Mainland China.

The Target Group is a renowned and long-established bus operator principally carrying on the Business in the operation of non-franchised bus services in Hong Kong including tour, residential and employee services and cross boundary bus services in Hong Kong and Mainland China.

Based on the unaudited financial statement of each of ATCL, GDSGG and AMSRL, the unaudited net asset value of ATCL, GDSGG and AMSRL as at 31 December 2015 amounted to approximately HK\$36.7 million, HK\$1.5 million and HK\$2.8 million, respectively.

Set out below is the net profit (both before and after taxation and extraordinary items) of ATCL, GDSGG and AMSRL for the two financial years ended 31 December 2014 and 31 December 2015 immediately preceding the Acquisition according to the unaudited financial statements of each of ATCL, GDSGG and AMSRL:

	Financial year ended	
	31 December	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
ATCL		
Net profit before taxation and extraordinary items	11,920	9,281
Net profit after taxation and extraordinary items	11,379	7,484
GDSGG		
Net profit before taxation and extraordinary items	1,744	1,881
Net profit after taxation and extraordinary items	1,454	1,557
AMSRL		
Net profit before taxation and extraordinary items	1,484	3,515
Net profit after taxation and extraordinary items	1,519	2,538

REASONS FOR AND BENEFITS OF THE ACQUISITION

The reasons for entering into the Acquisition and benefits expected to accrue to the Company are:

1. as the total number of non-franchised buses in Hong Kong is restricted, the Group has been facing a lack of buses for its existing business for a long time. The Acquisition can further strengthen the Group's current bus fleet;
2. the Acquisition will reduce the existing unhealthy, cut-throat competition within the industry and bring about economies of scale and operational synergies; and
3. as set out in the annual report of the Company for the year ended 31 March 2016, the Group is of the view that its future growth shall be focusing on the Mainland China/Hong Kong cross boundary transport because of, among others, the large number of Mainland Chinese visitors to Hong Kong and the expected completion of the Hong Kong-Zhuhai-Macao Bridge by end of 2017. Therefore, the Acquisition can bring about additional market share to the Group.

The Directors (including the independent non-executive Directors) consider that the terms of the SP Agreement (including the consideration thereof) are fair and reasonable and in the interest of the Company and its shareholders as a whole.

LISTING RULES IMPLICATION

As the relevant percentage ratio in respect of the Acquisition (on the assumption that the Maximum Increment is added to the initial consideration pursuant to the terms and conditions of the SP Agreement) is more than 5% but less than 25%, the transaction contemplated under the SP Agreement constituted discloseable transaction of the Company under Chapter 14 of the Listing Rules.

TERMS USED IN THIS ANNOUNCEMENT

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

“Accrued Employees’ Payment”	the aggregate amount payable by the Target Group to all employees of the Target Group for settlement of the statutory and contractual entitlements and benefits in connection with the termination of their employments (excluding any payment in lieu of notice) accrued up to the Cut-off Time
“Accrued Employees’ Payment Statement”	the statement to be issued by the Independent Auditors setting forth the amount of the Accrued Employees’ Payment as at the Cut-off Time
“Acquisition”	the acquisition of the entire issued share capital in ATCL, GDSGG and AMSRL pursuant to the SP Agreement
“Adjusted NCA”	the excess of the total current assets over the total current liabilities and total non-current liabilities of the Target Companies as at the Cut-off Time
“Adjusted NCA Statement”	the statement to be issued by the Independent Auditors setting forth the amount of the Adjusted NCA as at the Cut-off Time, based on the Completion Accounts
“AMSRL”	Associated Motor Service and Repair Limited (友聯汽車修理有限公司), a limited company incorporated in Hong Kong
“ATCL”	Associated Tourist Coach Limited (友聯旅遊巴士有限公司), a limited company incorporated in Hong Kong
“Board”	the board of Directors
“Business”	the business in the operation of non-franchised bus services in Hong Kong and cross boundary bus services in Hong Kong and Mainland China conducted by the Target Group

“Business Day”	a day (excluding Saturday, Sunday, public holiday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for business
“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 Acquisition
“Completion Accounts”	the Pro-Forma Completion Accounts as audited and reported on by the Independent Auditors
“Completion Date”	date of Completion, being 1 September 2016
“Cut-off Time”	11:59 pm on 31 August 2016, being the Business Day immediately preceding the Completion Date
“Director(s)”	director(s) of the Company
“Final Settlement Date”	the date falling upon the expiry of 18 months from the Completion Date
“GDSGG”	Guang Dong Shao Guan Guoyou Tourism Coach Company limited (廣東韶關國友旅游運輸有限公司), a limited company incorporated in Hong Kong
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Auditors”	an independent auditors jointly appointed by the parties to the SP Agreement after Completion pursuant to the terms and conditions thereof to carry out an audit of the Pro-forma Completion Accounts and the financial records of the Target Group for the financial period covered by the Pro-Forma Completion Accounts and to issue the Completion Accounts, the Adjusted NCA Statement and the Accrued Employees’ Payment Statement

“KCBI”	Kwoon Chung Buses Investment Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of the Company
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Mainland China”	the PRC excluding Hong Kong
“PRC”	the People’s Republic of China
“Pro-forma Completion Accounts”	the unaudited combined pro-forma management accounts of the Target Companies, as at and for the period commencing from 1 January 2016 and ending at the Cut-off Time
“Sale Shares”	collectively, (i) all the issued shares of ATCL; (ii) all the issued shares of GDSGG; and (iii) all the issued shares of AMSRL, to be bought and sold on the terms of the SP Agreement
“SP Agreement”	an agreement dated 1 September 2016 entered into between KCBI and the Vendor in respect of the Acquisition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Companies”	collectively, ATCL, GDSGG and AMSRL
“Target Group”	the group of companies consisting of the Target Companies and the sino-foreign cooperative joint venture enterprises of the Target Companies established in Mainland China
“Vendor”	the estate of the late Ms. Patricia Luk, represented by its executor
“%”	per cent.

By order of the Board
Kwoon Chung Bus Holdings Limited
Wong Leung Pak, Matthew, BBS
Chairman

Hong Kong, 1 September 2016

As at the date of this announcement, the Board comprises Mr. Wong Leung Pak, Matthew, BBS, Mr. Wong Cheuk On, James and Mr. Lo Man Po as executive Directors and Mr. Chan Bing Woon, SBS, JP, Mr. Sung Yuen Lam, Mr. Lee Kwong Yin, Colin and Mr. James Mathew Fong as independent non-executive Directors.