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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)**

### **CONTINUING CONNECTED TRANSACTIONS LEASE OF BUSES FROM THE WONG COUPLE**

#### **SUMMARY**

The Board announces that on 4 May 2018, Kwoon Chung Motors Company, Limited (“KCM”), a wholly owned subsidiary of the Company, entered into the Master Lease Agreement with the Wong Couple for the lease of Buses from the Wong Couple and/or the Wong Couple Companies to the Group during the period commencing from 1 May 2018 and ending on 31 March 2021 (both dates inclusive). The Company estimates that the lease fees payable under the Master Lease Agreement for each of the three financial years ending 31 March 2021 will not exceed the annual caps of approximately HK\$19,500,000, HK\$30,000,000 and HK\$42,000,000 respectively.

Basic Faith is a substantial Shareholder holding approximately 50.1% interest in the entire issued share capital of the Company, which is directly wholly owned by Mr. Wong Leung Pak, Matthew, *BBS*, an executive Director and the chairman of the Company. Ms. Ng Lai Yee, Christina is the spouse of Mr. Wong Leung Pak, Matthew, *BBS*. Therefore, the Wong Couple is a connected person of the Company. The Transactions constitute continuing connected transactions of the Company and will be only subject to the reporting, announcement and annual review requirements but will be exempted from independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

## **THE MASTER LEASE AGREEMENT**

**Date of the Master Lease Agreement:** 4 May 2018

### **Parties to the Master Lease Agreement**

1. KCM, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company, for itself and as trustee for the benefit of the Group. KCM is principally engaged in Bus business in Hong Kong; and
2. The Wong Couple, which comprises Mr. Wong Leung Pak, Matthew, *BBS*, an executive Director and the chairman of the Company and his spouse, Ms. Ng Lai Yee, Christina.

### **General nature of the Transactions**

Pursuant to the Master Lease Agreement, the Group may enter into separate Lease Agreements with the Wong Couple and/or the Wong Couple Companies for the lease of Buses by the Group from the Wong Couple and/or the Wong Couple Companies from time to time during the continuation of the Master Lease Agreement on normal commercial terms and with reference to the pricing methods as explained below. Each Lease Agreement to be entered into pursuant to the Master Lease Agreement shall specify the numbers and types of Buses to be leased, and the duration for such lease (which shall not last beyond the term of the Master Lease Agreement), and other terms and conditions on which the Buses are to be leased as agreed among the parties to the Lease Agreement based on the principal provisions as provided in the Master Lease Agreement and on normal commercial terms.

Under the Master Lease Agreement, the Wong Couple shall, and shall procure the Wong Couple Companies to, lease to the Group such numbers and types of Buses in good working conditions as prescribed under the Lease Agreement.

Under the Master Lease Agreement, the Group is not restricted from leasing any Buses from any third party lessors.

### **Duration of the Transactions**

The Master Lease Agreement became effective from 1 May 2018 and shall expire on 31 March 2021.

## **Considerations payable by the Group and internal control**

The Group had not leased any Bus from the Wong Couple and/or the Wong Couple Companies before. All Buses used by the Group were either owned by the Group or leased from independent third party suppliers. The monthly lease fee payable by the Group per Bus shall be based on a pre-agreed fixed maximum monthly tariff as set out in the Master Lease Agreement, ranging from HK\$19,000 to HK\$31,000 depending on the type and age of the Bus, provided that the parties may agree at a lower monthly lease fee for each Bus based on its quality and condition. Such tariff has been agreed between the Group and the Wong Couple after arm's length negotiation with reference to the prevailing market rates and the lease fees charged by other independent third party suppliers of the Group for comparable Buses. The consideration will be satisfied by the working capital of the Group.

In order to ensure that the pricing basis in the Master Lease Agreement is adhered to and that the leases to be entered into by the Group under each Lease Agreement will be on normal commercial terms, the Company will adopt the following internal control procedures:

1. before the Group enters into any Lease Agreement for lease of Buses, the Group will obtain quotation from at least one independent third party supplier and compare it with the tariff as specified in the Master Lease Agreement for leasing of Buses of comparable numbers, types, duration, conditions and qualities;
2. the Company's internal audit department will perform regular review on whether the leases of Buses have been entered into in accordance with the terms of the Master Lease Agreement, and to monitor the aggregate lease fees payable thereunder to ensure that the annual caps will not be exceeded;
3. the independent non-executive Directors and the auditors of the Company will review the Transactions annually and confirm in the Company's annual report the matters as required under Chapter 14A of the Listing Rules.

The terms and conditions of the Master Lease Agreement were negotiated between the parties on an arm's length basis. The Directors (including independent non-executive Directors) are of view that the terms and conditions (including the pricing basis) of the Master Lease Agreement are on normal commercial terms and are fair and reasonable and the Transactions will be conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. The Directors (including independent non-executive Directors) are also of the view that the proposed annual caps for the Transactions for each of the three financial years ending 31 March 2021 are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

## Proposed annual caps

The Company estimates that the lease fees payable under the Master Lease Agreement for each of the three financial years ending 31 March 2021 will not exceed the annual caps of approximately HK\$19,500,000, HK\$30,000,000 and HK\$42,000,000 respectively, which are determined based on an estimated maximum of approximately 65, 100 and 140 Buses to be leased by the Group during each of the three financial years ending 31 March 2021, the average monthly lease fee per Bus of approximately HK\$25,000, the expected increase in the Group's need for additional Buses to cater for the expected increase in demand for cross-boundary services after the expected completion of the Hongkong-Zhuhai-Macao Bridge ("HZMB") by end of 2018.

Details of the calculation of the annual caps are summarised below:

<b>Year ending 31 March</b>	<b>Maximum number of Buses to be leased during the year</b>	<b>Approximate average monthly lease fee per Bus</b>	<b>Approximate average annual lease fee per Bus</b>	<b>Annual caps</b>
2019	65	HK\$25,000	HK\$300,000	<b>HK\$19,500,000</b>
2020	100	HK\$25,000	HK\$300,000	<b>HK\$30,000,000</b>
2021	140	HK\$25,000	HK\$300,000	<b>HK\$42,000,000</b>

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

The reasons for entering into the Transactions and benefits to the Group are:

1. There is a strong demand for the non-franchised bus market in Hong Kong and the Group has been lacking adequate non-franchised buses to cope with its existing businesses. The Group is currently leasing considerable number of non-franchised buses (with or without drivers) and passenger service licences from various independent third party suppliers with an aggregate annual lease fees of approximately HK\$74 million, but such supplies are not secured nor committed, and prices can fluctuate significantly. By entering into the Transactions with the Wong Couple, the Group will be able to secure a much more stable source of non-franchised bus lease at reasonable market prices;
2. As mentioned above, the future opening of the HZMB will also bring about significant extra patronage and more business opportunities to the Group's non-franchised bus services. However, new non-franchised bus acquisitions mean significant regular capital expenditures. By leasing more non-franchised buses instead of purchase on its own, the Group can retain more cash on hand and require less bank loan financing, which will in return strengthen the future cash flow and leverage positions of the Group; and

3. The Group has recently successfully won the tender of a public minibus route in Tung Chung, Lantau Island, which initially requires 3 public minibuses to be run. The opening of the HZMB will require more public minibus service for the Lantau Island and the Group needs to devote more minibuses into operation in the coming few years. As public minibuses is a new business to the Group, it is considered more appropriate to lease those minibuses than to buy on its own.

## **IMPLICATION UNDER THE LISTING RULES**

Basic Faith is a substantial Shareholder holding approximately 50.1% interest in the entire issued share capital of the Company, which is directly wholly-owned by Wong Leung Pak, Matthew, *BBS*, an executive Director and the chairman of the Company. Ms. Ng Lai Yee, Christina is the spouse of Mr. Wong Leung Pak, Matthew, *BBS*. Therefore, the Wong Couple is a connected person of the Company and the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As each of the percentage ratios as defined in the Listing Rules calculated based on the annual caps is more than 0.1% but less than 5%, the Transactions will be only subject to the reporting, announcement and annual review requirements but will be exempted from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **DIRECTORS' INTERESTS IN THE TRANSACTIONS**

Mr. Wong Cheuk On, James and Mr. Lo Man Po, executive Directors of the Company are associates of Mr. Wong Leung Pak, Matthew, *BBS*. Therefore Mr. Wong Leung Pak, Matthew, *BBS*, Mr. Wong Cheuk On, James and Mr. Lo Man Po have or are deemed to have an interest, either directly or indirectly, in the Transactions. Mr. Wong Leung Pak, Matthew, *BBS*, Mr. Wong Cheuk On, James and Mr. Lo Man Po have abstained from voting on the Board resolution approving the Transactions.

## **DEFINITIONS**

“Basic Faith”	Basic Faith Limited, a company incorporated in the British Virgin Islands, which is a substantial Shareholder holding approximately 50.1% interest in the entire issued share capital of the Company and directly wholly-owned by Wong Leung Pak, Matthew, <i>BBS</i> , an executive Director and the chairman of the Company
“Board”	the board of Directors
“Buses”	Non-franchised buses and public minibuses, together with respective passenger service licences
“Company”	Kwoon Chung Bus Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange, which is principally engaged in the investment in Bus and tourism businesses
“Directors”	directors of the Company

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region
“Lease Agreement(s)”	the written lease agreement(s) to be entered into between the relevant members of the Group on one part and the Wong Couple and/or a member of the Wong Couple Companies on the other part for the lease of Buses from time to time in accordance with the terms of the Master Lease Agreement;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Lease Agreement”	the master lease agreement dated 4 May 2018 entered into between KCM and the Wong Couple for the lease of Buses from the Wong Couple or the Wong Couple Companies to the Group
“Shareholder(s)”	the holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the transactions contemplated under the Master Lease Agreement;
“Wong Couple”	Mr. Wong Leung Pak, Matthew, <i>BBS</i> , an executive Director and the chairman of the Company, together with his spouse, Ms. Ng Lai Yee, Christina; and
“Wong Couple Companies”	companies owned or controlled by the Wong Couple or any of them from time to time, which will enter into separate Lease Agreement with the Group for the lease of Buses pursuant to the terms of the Lease Agreement.

On behalf of the Board  
**Wong Leung Pak, Matthew, *BBS***  
*Chairman*

Hong Kong, 4 May 2018

*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. James Mathew Fong and Mr. Chan Fong Kwong, Francis as independent non-executive Directors.*

\* *For identification purposes only*