HANS ENERGY COMPANY LIMITED
漢思能源有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 554

ACQUISITION OF

城巴 Citybus

Financial Adviser to the Company

ANGLO CHINESE 英高
CORPORATE FINANCE, LIMITED

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Hans Energy Company Limited**, you should at once hand this circular and the accompanying proxy form to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

HANS ENERGY COMPANY LIMITED
漢 思 能 源 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00554)

(I) EXTREME TRANSACTION IN RELATION TO THE ACQUISITION OF 54.44% OF THE TOTAL ISSUED SHARES OF THE TARGET COMPANY; (II) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE; AND (III) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to the Company

ANGLO CHINESE 英高
CORPORATE FINANCE, LIMITED

Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed “Definitions” in this circular.

The letter from the Board is set out on pages 18 to 54 of this circular.

A notice convening the EGM to be held at Boardroom 3–4, M/F., Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Wednesday, 17 July, 2024 at 10:30 a.m. is set out on pages EGM-1 to EGM-3 of this circular. A proxy form for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited, at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours (i.e. by 10:30 a.m. on Monday, 15 July, 2024) before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

This circular is prepared in both Chinese and English. In case of any discrepancies between the English and Chinese versions, the English version shall prevail.

21 June, 2024

CONTENTS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise.

"ABL" or "Second Vendor"	Ascendal Bravo Limited, a company incorporated under the laws of Jersey with limited liability
"Acquisition"	the acquisition of the Sale Shares by the Company, through its direct wholly-owned subsidiary, Glorify, from TWB Holdings and ABL
"Acquisition Agreement"	the acquisition agreement dated 24 May, 2024 entered into between TWB Holdings and ABL (as vendors), Glorify (as purchaser) and the Company in relation to the Acquisition
"Additional Interest"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal terms of the Acquisition Agreement – Consideration – Deferred Payment"
"Advertising Partner"	a third-party advertising agency
"ANFA"	average net fixed assets
"Anglo Chinese" or "Financial Adviser"	Anglo Chinese Corporate Finance, Limited, a registered institution under the SFO, registered to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, which is the financial adviser to the Company in relation to the Acquisition
"Ascendal Arrangements"	has the meaning ascribed to it in the section headed "Letter from the Board – Information on the parties and their relationships with the Target Group – Information on ABL"
"Ascendal Group"	Ascendal Holdings Limited and its subsidiaries, including ABL and Ascendal Group Limited
"associates"	has the meaning ascribed thereto under the Listing Rules
"BMHL"	Bravo Media Holdings Limited, a BVI business company incorporated under the laws of the BVI with limited liability, a direct wholly-owned subsidiary of BTHL
"BML"	Bravo Media Limited, a company incorporated under the laws of Hong Kong with limited liability and an indirect wholly-owned subsidiary of BTHL

"Board"	the board of Directors
"BTHL" or "Target Company"	Bravo Transport Holdings Limited, a BVI business company incorporated under the laws of the BVI with limited liability
"BTHL Accounts"	BTHL's audited consolidated accounts for the three years ended 31 December, 2023
"BTHL Group" or "Target Group"	BTHL and each of its subsidiaries, and "BTHL Group Company(ies)", "Target Group Company(ies)", "member of the BTHL Group" and "member of the Target Group" shall be construed accordingly
"BTHL Share(s)"	ordinary share(s) of BTHL
"BTSL"	Bravo Transport Services Limited (formerly known as NWS Transport Services Limited), a company incorporated under the laws of the BVI with limited liability and a direct wholly-owned subsidiary of BTHL
"BTSL Group"	BTSL and its subsidiaries
"BTSL Share(s)"	ordinary share(s) of BTSL
"Business Day(s)"	day (other than a Saturday or Sunday or public holiday in Hong Kong and any day on which a tropical cyclone warning no.8 or above or a "black" rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are open in Hong Kong for general commercial business
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Call Consideration"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal terms of the Acquisition Agreement – The New Shareholders' Agreement – Glorify's call option and TWB Holdings' put option"

"Call Option"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal terms of the Acquisition Agreement – The New Shareholders' Agreement – Glorify's call option and TWB Holdings' put option"
"Call Option Period"	the period commencing on the Completion Date up to and including the fifth anniversary of the Completion Date
"Call Price"	the price of HK$500,000 per BTHL Share
"CCASS"	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
"City Tours"	City Tours Limited, a company incorporated under the laws of Hong Kong with limited liability and a direct wholly-owned subsidiary of Citybus
"Citybus"	Citybus Limited, a company incorporated under the laws of Hong Kong with limited liability and an indirect wholly-owned subsidiary of BTSL
"Citybus (China)"	Citybus (China) Limited, a company incorporated under the laws of Hong Kong with limited liability and a direct wholly-owned subsidiary of Citybus
"CNCBI"	China CITIC Bank International Limited, a company incorporated under the laws of Hong Kong with limited liability
"Commissioner"	the Commissioner for Transport in Hong Kong
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company"	Hans Energy Company Limited, a company incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Completion"	the completion of the Acquisition of all the Sale Shares pursuant to the Acquisition Agreement
"Completion Date"	the date of Completion, which shall take place on the date falling on the tenth (10th) Business Day after the satisfaction of condition (vi) (in respect of the passing of the requisite resolution to approve the Acquisition at the EGM), or such other date as Glorify and TWB Holdings (for itself and on behalf of ABL) may agree

"Consideration"	the total consideration of HK$2,722,045,000 payable by the Purchaser for the Sale Shares under the Acquisition
"Consideration Shares"	the 278,915,965 new Shares to be allotted and issued by the Company to TWB Holdings in settlement to the extent of HK$222,045,000 of the First Vendor Sale Shares Consideration, subject to obtaining of the Listing Approval
"Controlling Shareholder"	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholder Group"	Mr. An (the Controlling Shareholder of the Company) and his close associates
"COR"	the motor vehicle certificate of roadworthiness for public service vehicles, which is a certificate issued by the Transport Department confirming that a bus meets the required standards of safety, mechanical soundness and roadworthiness to operate as a public service vehicle on the roads of Hong Kong
"Counterparty Bank"	has the meaning ascribed to it in the section headed "Appendix I – Information about the Target Group – 5. Business – Suppliers and subcontractors – Suppliers – Fuel price hedging policy"
"CP Material Adverse Change"	(a) a revocation or suspension of any of the Franchises; or (b) any change, event, effect or circumstance that, individually or in the aggregate, would or could reasonably be expected to result in a reduction in the net profit of the Target Group of an amount of HK$400,000,000 or more, provided that it shall exclude any impact in connection with the following: (i) an event carried out after the date of the Acquisition Agreement by or at the request, direction or instruction of or on behalf of the Purchaser; (ii) a change in accounting principles pursuant to the adoption of the accounting standards mandatorily required according to applicable financial reporting standards and generally accepted accounting principles and practice in Hong Kong; and (iii) any accounting impact on the financial statements of the Target Group arising solely from the transaction contemplated under the Acquisition Agreement, provided that it will not trigger an event of default under the 2023 Facility Agreement

"Creative Apex"	Creative Apex International Holding Limited, a direct wholly-owned subsidiary of the Company
"CTB (F1) Franchise"	the non-exclusive franchise for the Hong Kong Island and Cross-Harbour bus network with Citybus as grantee, as published in the Gazette as G.N. 7692 of 2015
"CTB (F2) Franchise"	the non-exclusive franchise for the Airport and North Lantau bus network with Citybus as grantee, as published in the Gazette as G.N. 3182 of 2012
"CTB (F2) 2023 Franchise"	the non-exclusive franchise for the Airport and North Lantau bus network with Citybus as grantee for a period of ten years commencing on 1 May, 2023, as published in the Gazette as G.N. 3898 of 2022
"Deferred Payment"	the deferred payment of HK$2,000,000,000 as described in the section headed "Letter from the Board – The Acquisition – Principal Terms of the Acquisition Agreement – Consideration – Deferred Payment"
"Deferred Payment Interest"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal Terms of the Acquisition Agreement – Consideration – Deferred Payment"
"Delta Pearl"	Delta Pearl Limited, a former direct wholly-owned subsidiary of BTSL
"Dietmar"	Dietmar Limited, a company incorporated under the laws of the BVI with limited liability and a direct wholly-owned subsidiary of BTSL
"Director(s)"	director(s) of the Company
"Drag-along Right"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal Terms of the Acquisition Agreement – The New Shareholders' Agreement – Restrictions on transfer and issue of BTHL Shares"
"dwt"	an acronym for deadweight tonnage, a measure expressed in metric tons or long tons of a ship's carrying capacity, including cargoes, bunker, fresh water, crew and provisions
"DZ International"	Dongguan Dongzhou International Petrochemical Storage Limited, a company incorporated under the laws of the PRC with limited liability and an indirect subsidiary of the Company

"DZIT"	Dongzhou Petrochemical Terminal, a liquid product terminal operated and owned by DZ International and situated in Lisha Island, Humen Harbour district, Shatian county, Dongguan City, Guangdong Province, the PRC
"Earnest Money"	an aggregate of HK$175,000,000 paid by Glorify to the Vendors as earnest money upon signing of the Acquisition Agreement
"EBIT"	earnings before interest and tax
"EBITDA"	earnings before interest, tax, depreciation and amortisation
"ECFS"	the Elderly Concessionary Fare Scheme, under which franchised bus companies have offered concessionary half fares to elderly passengers
"EGM"	the extraordinary general meeting of the Company to be convened at Boardroom 3–4, M/F., Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Wednesday, 17 July, 2024 at 10:30 a.m. by the Company to approve, among other things, the Acquisition Agreement, the New Shareholders' Agreement and the transactions contemplated thereunder, and the grant of the Specific Mandate
"Electric Bus Procurement Framework Agreement"	the master framework agreement in relation to the procurement of battery-electric buses entered into between Citybus (as purchaser) and Wisdom (HK) (as supplier) on 11 October, 2023
"Enlarged Group"	the enlarged Group immediately after Completion
"Enrich"	Enrich Group Limited, a subsidiary of Chow Tai Fook Enterprises Limited and a shareholder of BTSL from 26 May, 2003 to 30 December, 2016
"Extreme Wise"	Extreme Wise Investments Ltd., a company incorporated under the laws of the BVI
"Fare Adjustment Arrangement" or "FAA"	the Fare Adjustment Arrangement for franchised buses. For details, please see the section headed "Appendix I – Information about the Target Group – 3. Regulatory overview – Laws and regulations relating to public bus services in Hong Kong – The Public Bus Services Ordinance (Chapter 230 of the Laws of Hong Kong) – Bus fares and rate of return"
"First Vendor Sale Shares"	the 5,390.32 BTHL Shares to be sold by TWB Holdings to Glorify under the Acquisition, representing approximately 53.90% of the total issued BTHL Shares

"First Vendor Sale Shares Consideration"	the consideration payable for the First Vendor Sale Shares, in the amount of HK$2,695,160,000
"First Vendor Share Charge"	the share charge over 3,400 BTHL Shares (representing 34% of the total issued BTHL Shares) to be granted by Glorify in favour of TWB Holdings at Completion
"Franchise Merger"	the merger of the CTB (F1) Franchise and the NWFB Franchise resulting in the single Merged Franchise which became effective on 1 July, 2023
"Franchises"	the Merged Franchise and the CTB (F2) 2023 Franchise, and each a "Franchise"
"Fundamental Warranties"	the Vendor Warranties that have been specified as fundamental warranties (including as to authorisation and title to the Sale Shares) in the Acquisition Agreement
"FVOCI"	fair value through other comprehensive income
"FVPL"	fair value through profit or loss
"FY2020"	the financial year ended 31 December, 2020
"FY2021"	the financial year ended 31 December, 2021
"FY2022"	the financial year ended 31 December, 2022
"FY2023"	the financial year ended 31 December, 2023
"Gazette"	the gazette published by the Government
"Glorify" or "Purchaser"	Glorify Group Limited, a company incorporated under the laws of the BVI with limited liability and a direct wholly-owned subsidiary of the Company
"Government"	the Government of Hong Kong
"Government-appointed Directors"	directors of a grantee of a bus franchise, who may be appointed by the Government to represent it pursuant to the PBSO
"Green Energy Buses"	vehicles powered by hydrogen or other green/renewable fuel sources

"Gross Revenue Payment"	has the meaning ascribed to it in the section headed "Appendix I – Information about the Target Group – 7. Management Discussion and Analysis – Discussion of the key items in respect of the consolidated income statements – Revenue – Advertising income"
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"HKFRS 16 Amendments"	Amendment to HKFRS 16 – COVID-19-Related Rent Concessions
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which, as far as the Directors are aware after having made all reasonable enquiries, is/are not a connected person(s) of the Company within the meaning under the Listing Rules
"Independent Valuer"	Kroll (HK) Limited
"Instalment Payment 1"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal terms of the Acquisition Agreement – Consideration – Deferred Payment"
"Instalment Payment 2"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal terms of the Acquisition Agreement – Consideration – Deferred Payment"
"Instalment Payment 3"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal terms of the Acquisition Agreement – Consideration – Deferred Payment"
"Instalment Payment 4"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal terms of the Acquisition Agreement – Consideration – Deferred Payment"
"Instalment Payment 5"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal terms of the Acquisition Agreement – Consideration – Deferred Payment"
"Instalment Payment 6"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal terms of the Acquisition Agreement – Consideration – Deferred Payment"

"Ipsos"	Ipsos Asia Limited
"Ipsos Report"	an independent market research report commissioned by the Company and prepared by Ipsos
"Issue Price"	the issue price of HK$0.7961 per Consideration Share
"Julius Baer"	Julius Baer Family Office & Trust Ltd.
"Latest Practicable Date"	17 June, 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Approval"	the granting of the approval for the listing of, and permission to deal in the Consideration Shares by the Listing Committee of the Stock Exchange
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	the date which is six (6) months from the date of the Acquisition Agreement (or such other date as the Vendors and the Purchaser may agree in writing)
"Main Board"	the main board of the stock exchange operated by the Stock Exchange
"Merged Franchise"	the non-exclusive franchise for the Urban and New Territories bus network with Citybus as grantee for a period of ten years commencing on 1 July, 2023, being a merger of the CTB (F1) Franchise and NWFB Franchise, as published in the Gazette as G.N. 3896 of 2022
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers in Appendix C3 to the Listing Rules
"MOP Price"	the published Mean of Platts quotations for Singapore gasoline
"Mr. An"	Mr. David An, the chairman, an executive Director and the Controlling Shareholder of the Company
"MTRC"	MTR Corporation Limited, a company incorporated under the laws of Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 66.HK)

"New Facility A"	has the meaning ascribed to it in the section headed "Appendix I – Information about the Target Group – 7. Management discussion and analysis – Indebtedness – Bank loans"
"New Facility B"	has the meaning ascribed to it in the section headed "Appendix I – Information about the Target Group – 7. Management discussion and analysis – Indebtedness – Bank loans"
"New Shareholders' Agreement"	the new shareholders' agreement to be entered into between Glorify and TWB Holdings in respect of BTHL at Completion
"New World First Holdings"	New World First Holdings Limited (formerly known as Supreme Sterling Limited), a company incorporated under the laws of the BVI with limited liability
"NFB"	non-franchised buses
"NWFB"	New World First Bus Services Limited, a company incorporated under the laws of the BVI with limited liability and a direct wholly-owned subsidiary of BTSL
"NWFB Franchise"	the non-exclusive franchise with NWFB as grantee, as published in the Gazette as G.N. 3180 of 2012
"NWS Holdings"	NWS Holdings Limited, a company incorporated under the laws of Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 659.HK)
"NWS Service"	NWS Service Management Limited, a company incorporated under the laws of the BVI with limited liability, an indirect wholly-owned subsidiary of NWS Holdings
"Original Instalment Payment Date"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal Terms of the Acquisition Agreement – Consideration – Deferred Payment"
"ORSO schemes"	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong)
"Other Business"	has the meaning ascribed to it in the section headed "Appendix II – Financial information of the Company – Management discussion and analysis of the Group"
"PBO"	the Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong)

"PBSO"	the Public Bus Services Ordinance (Chapter 230 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"PBSR"	the Public Bus Services Regulations (Chapter 230A of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"PCS"	has the meaning ascribed to it in the section headed "Appendix I – Information about the Target Group – 3. Regulatory overview – Laws and regulations relating to public bus services in Hong Kong – The Public Bus Services Ordinance (Chapter 230 of the Laws of Hong Kong) – Bus fares and rate of return"
"percentage ratios"	has the meaning ascribed to it under the Listing Rules
"PRC" or "China"	the People's Republic of China, which for the purpose of this circular, does not include Taiwan, the Macau Special Administrative Region and Hong Kong
"Previous Transactions"	the subscription of BTHL Shares by Glorify pursuant to the 2020 BTHL Share Subscription Agreement and purchase of BTHL Shares under the 2021 Acquisition
"Price"	has the meaning ascribed to it in the section headed "Letter from the Board – Information on the parties and their relationships with the Target Group – Information on TWB Holdings and Templewater – Cooperation between the Target Group and Templewater – Master framework agreement for Battery-electric buses"
"Public Transport Fare Concession Scheme" or "PTFCS"	the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities
"Purchaser Warranties"	the representations, warranties and undertakings given by the Purchaser and the Company contained or referred to in the Acquisition Agreement
"Put Consideration"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal terms of the Acquisition Agreement – The New Shareholders' Agreement – Glorify's call option and TWB Holdings' put option"
"Put Option"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal terms of the Acquisition Agreement – The New Shareholders' Agreement – Glorify's call option and TWB Holdings' put option"

"Put Option Period"	the period of two (2) years following the end of the Call Option Period
"Put Option Shares"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal terms of the Acquisition Agreement – The New Shareholders' Agreement – Glorify's call option and TWB Holdings' put option"
"Put Price"	the price of HK$500,000 per BTHL Share
"RMB"	Renminbi, the lawful currency of the PRC
"Route Planning Guidelines"	the Guidelines on Service Improvement and Reduction in Bus Route Development Programme
"RPP"	the Route Planning Programme
"RTO (Cap. 374)"	the Road Traffic Ordinance (Chapter 374 of the Laws of the Hong Kong)
"Sale Shares"	collectively, the First Vendor Sale Shares and the Second Vendor Sale Shares
"Second Cash Payment"	an aggregate of HK$325,000,000 payable by Glorify to the Vendors pursuant to the Acquisition Agreement
"Second Vendor Sale Shares"	the 53.77 BTHL Shares to be sold by ABL to Glorify under the Acquisition, representing 0.5377% of the total issued BTHL Shares
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Law of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share Charge"	the share charge under the 2020 Loan Agreement
"Share(s)"	ordinary share(s) of nominal value of HK$0.10 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Specific Mandate"	a specific mandate proposed to be granted to the Directors pursuant to an ordinary resolution to be passed at the EGM to allot and issue the Consideration Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Strategic Purchase"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal terms of the Acquisition Agreement – Strategic Purchase and refund of Earnest Money and Second Cash Payment"
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Supplier A"	a major fuel supplier of the Target Group. For details, please see the section headed "Appendix I – Information about the Target Group – 5. Business – Suppliers and subcontractors – Suppliers – Long-term fuel supply agreements"
"Tag-along Right"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal Terms of the Acquisition Agreement – The New Shareholders' Agreement – Restrictions on transfer and issue of BTHL Shares"
"Templewater" or "Templewater group"	the Templewater group of companies, partnerships and entities
"Templewater HK"	Templewater Hong Kong Limited, a company incorporated under the laws of Hong Kong with limited liability
"Terminal Storage Business"	has the meaning ascribed to it in the section headed "Appendix II – Financial information of the Company – Management discussion and analysis of the Group"
"Termination Agreement"	the termination agreement entered into between, among others, the Target Company, Citybus, NWFB, and an independent third party advertising agency in October 2021
"Toll Exemption Fund" or "TEF"	has the meaning ascribed to it in the section headed "Appendix I – 1. Risk factors – Risks relating to the business and industry of the Target Group"
"Trading Business"	has the meaning ascribed to it in the section headed "Appendix II – Financial information of the Company – Management discussion and analysis of the Group"
"Trading Record Period"	the period from 1 January, 2021 to 31 December, 2023
"Transport Department"	the Transport Department of the Government
"TUO (Cap. 332)"	the Trade Union Ordinance (Chapter 332 of Hong Kong Laws)

"TW Advisory Agreement"	has the meaning ascribed to it in the section headed "Letter from the Board – Information on the parties and their relationships with the Target Group – Information on TWB Holdings and Templewater – Cooperation between the Target Group and Templewater – Hydrogen Advisory and Consultancy Agreement
"TWB Holdings" or "First Vendor"	Templewater Bravo Holdings Limited, a company incorporated under the laws of the BVI with limited liability
"UK"	the United Kingdom of Great Britain and Northern Ireland
"US$"	United States dollars
"Vand Petro-Chemicals"	Vand Petro-Chemicals (BVI) Company Ltd., a company incorporated under the laws of the BVI
"Vehicle(s)"	has the meaning ascribed to it in the section headed "Letter from the Board – Information on the parties and their relationships with the Target Group – Information on TWB Holdings and Templewater – Cooperation between the Target Group and Templewater – Master Framework Agreement for Battery-electric Buses"
"Vendor Warranties"	the representations, warranties and undertakings (including the Fundamental Warranties) given by the Vendors contained or referred to in the Acquisition Agreement
"Vendors" and each a "Vendor"	ABL and TWB Holdings
"Wisdom"	Wisdom (Fujian) Motor Company Limited, a vehicle manufacturer headquartered in Fujian, China
"Wisdom (HK)"	Wisdom Sales (HK) Limited, a company incorporated under the laws of Hong Kong with limited liability
"1st Tranche Put Shares"	has the meaning ascribed to it in the section headed "Letter from the Board – The Acquisition – Principal Terms of the Acquisition Agreement – The New Shareholders' Agreement – Glorify's call option and TWB Holdings' put option"
"2012 Share Option Scheme"	the share option scheme adopted by the Company on 28 December, 2012
"2019 Share Award Scheme"	the share award scheme adopted by the Company on 15 April, 2019

"2020 Acquisition"	the acquisition of 500,000,016 BTSL Shares, comprising the total issued BTSL Shares (previously known as NWS Transport Services Limited), by BTHL from NWS Service pursuant to the terms of the 2020 Acquisition Agreement, which was completed on 15 October, 2020
"2020 Acquisition Agreement"	the agreement dated 21 August, 2020 entered into between BTHL and NWS Service in respect of the 2020 Acquisition
"2020 Acquisition Loan"	a term loan facility of up to HK$1,245,000,000 to BTHL under the 2020 Loan Agreement
"2020 BTHL Share Subscription Agreement"	the agreement dated 21 August, 2020 entered into between TWB Holdings, Glorify and ABL to subscribe for new shares in BTHL, upon the completion of which the 2020 Share Subscription Group held all the issued BTHL Shares
"2020 Loan Agreement"	the loan facilities agreement entered into between, among others, BTHL (as borrower) and CNCBI (as original lender) in relation to, among others, the grant of the 2020 Acquisition Loan by the lender(s) to BTHL
"2020 Loan Facilities"	the 2020 Acquisition Loan, 2020 Term Loan and 2020 Revolving Facilities
"2020 NWS Share Charge"	a share charge, in respect of a total of 51% of the total issued BTHL Shares, granted by TWB Holdings to NWS Service in connection with the 2020 Acquisition
"2020 Revolving Facilities"	a revolving loan facility of HK$400,000,000 to BTSL under the 2020 Loan Agreement
"2020 Share Subscription Group"	the group, consisting of TWB Holdings, Glorify and ABL, which, pursuant to the 2020 BTHL Share Subscription Agreement, subscribed for new shares in BTHL, upon the completion of which the foregoing parties held all the issued BTHL Shares
"2020 Term Loan"	a term loan facility of up to HK$200,000,000 to BTSL under the 2020 Loan Agreement
"2021 Acquisition"	the acquisition of a total of 700 BTHL Shares (comprising 695 BTHL Shares from TWB Holdings and 5 BTHL Shares from ABL, and together representing 7% of the total issued BTHL Shares) by Glorify, pursuant to the terms of the 2021 Acquisition Agreement

"2021 Acquisition Agreement"	the agreement dated 3 December, 2021 entered into between Glorify, TWB Holdings and ABL in respect of the 2021 Acquisition
"2021 Annual Report"	the 2021 annual report of the Company published on 25 April, 2022
"2021 Tender"	has the meaning ascribed to it in the section headed "Information on the Parties and Their Relationships with the Target Group – Information on TWB Holdings and Templewater – Cooperation between the Target Group and Templewater – Master framework agreement for battery-electric buses"
"2022 Annual Report"	the 2022 annual report of the Company published on 27 April, 2023
"2022 Fuel Supply Agreement"	the fuel supply agreement dated 29 July, 2022 entered into between Citybus, NWFB and Supplier A
"2022 Share Option Scheme"	the share option scheme adopted by the Company on 15 June, 2022
"2023 Annual Report"	the 2023 annual report of the Company published on 27 March, 2024
"2023 Facility Agreement"	the facility agreement dated 7 December, 2023, entered into by, among others, BTSL (as borrower) and CNCBI (as mandated lead arranger and book runner, lender, facility agent and security agent) in respect of a term loan facility of up to HK$1,300 million, and a revolving loan facility of up to HK$500 million
"2023 Share Award Scheme"	the Hans Energy Share Award Scheme II adopted by the Company on 31 May, 2023
"2023 Share Option Scheme"	the share option scheme adopted by the Company on 31 May, 2023

"2024 NWS Share Charge"	the share mortgage over a total of 51% of the total issued BTHL Shares to be granted by Glorify (in respect of 36% of the total issued BTHL Shares) and TWB Holdings (in respect of 15% of the total issued BTHL Shares) in favour of NWS Service upon Completion, as a replacement of the 2020 NWS Share Charge
"%"	per cent

Certain amounts and percentage figures included in this circular have been subject to rounding adjustments and, accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

HANS ENERGY COMPANY LIMITED
漢 思 能 源 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00554)

Executive Directors:
Mr. David An *(Chairman)*
Mr. Yang Dong *(Chief Executive Officer)*
Mr. Zhang Lei

Independent Non-Executive Directors:
Mr. Li Wai Keung
Mr. Chan Chun Wai, Tony
Mr. Chung Chak Man, William

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Principal Place of Business in Hong Kong:
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21 June, 2024

To the Shareholders

Dear Sir/Madam,

(I) EXTREME TRANSACTION IN RELATION TO THE ACQUISITION OF 54.44% OF THE TOTAL ISSUED SHARES OF THE TARGET COMPANY; (II) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE; AND (III) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 24 May, 2024 in respect of the Acquisition. Reference is also made to the announcements of the Company dated 21 August, 2020 and 21 October, 2020 in respect of the 2020 Acquisition, and the announcements of the Company dated 3 December, 2021 and 28 March, 2022 and the circular of the Company dated 29 July, 2022 in respect of the 2021 Acquisition (together, the "**Previous Announcements**").

As disclosed in the Previous Announcements:

- on 21 August, 2020, TWB Holdings, Glorify, ABL and BTHL entered into the 2020 BTHL Share Subscription Agreement, pursuant to which each of TWB Holdings, Glorify and ABL subscribed for BTHL Shares constituting approximately 90.8%, 8.6% and 0.6%, respectively, of the total issued BTHL Shares. On the same day (immediately after signing of the 2020 BTHL Share Subscription Agreement), NWS Service and BTHL entered into the 2020 Acquisition Agreement, pursuant to which NWS Service agreed to sell and BTHL agreed to purchase all the issued BTSL Shares for a total consideration of HK$3,200,000,000. The subscription of the BTHL Shares under the 2020 BTHL Share Subscription Agreement was fully completed on 30 September, 2020, and the completion of the 2020 Acquisition under the 2020 Acquisition Agreement took place on 15 October, 2020; and

- on 3 December, 2021, Glorify entered into the 2021 Acquisition Agreement with TWB Holdings and ABL, pursuant to which Glorify acquired, and TWB Holdings and ABL sold, an aggregate of 700 BTHL Shares (being 695 BTHL Shares from TWB Holdings and 5 BTHL Shares from ABL), together representing 7% of the total issued BTHL Shares. The acquisition under the 2021 Acquisition Agreement was fully completed on 28 March, 2022. Upon the completion of the 2021 Acquisition, each of TWB Holdings, Glorify and ABL held approximately 83.90%, 15.56%, and 0.54%, respectively, of the total issued BTHL Shares.

On 24 May, 2024 (before trading hours), the Acquisition Agreement was entered into between TWB Holdings and ABL (as vendors), Glorify (as purchaser) and the Company, pursuant to which Glorify has conditionally agreed to acquire, and TWB Holdings and ABL have conditionally agreed to sell the Sale Shares, representing approximately 54.44% of the total issued BTHL Shares, at the consideration of HK$2,722,045,000. Upon Completion, Glorify and TWB Holdings will hold 70% and 30% of the total issued BTHL Shares, respectively. Please refer to "Appendix I – Information about the Target Group – 5. Business" to this circular for further details of the business of the Target Group. The shareholding structure of the Target Group as at the Latest Practicable Date and after Completion is set out in the section headed "Information on the Target Group – Shareholding structure of the Target Group" below.

The Listing Committee has resolved that the Acquisition constitutes an extreme transaction under Rule 14.06C of the Listing Rules and the requirements for reverse takeover in Chapter 14 of the Listing Rules do not apply.

The purpose of this circular is to provide you with, among other things, (i) details of the Acquisition Agreement, the New Shareholders' Agreement and the transactions contemplated thereunder; (ii) information about the Target Group; (iii) financial information of the Group; (iv) the accountants' report of the Target Group; (v) the valuation report on the Target Company; (vi) the unaudited pro forma financial information of the Enlarged Group; (vii) comfort letters on profit forecast of the Target Group from Anglo Chinese and the reporting accountants; (viii) other information as required under the Listing Rules in relation to enhanced disclosures; and (ix) the notice of the EGM.

THE ACQUISITION

Principal terms of the acquisition agreement

Date

24 May, 2024

Parties

(1) Glorify (as the Purchaser)

(2) TWB Holdings (as the First Vendor)

(3) ABL (as the Second Vendor)

(4) the Company

To the best knowledge, information and belief of the Directors, having made reasonable enquiries, each of TWB Holdings and ABL and its respective ultimate beneficial owner(s) are Independent Third Parties.

Subject matter

Pursuant to the Acquisition Agreement, TWB Holdings and ABL have conditionally agreed to sell, and Glorify has conditionally agreed to purchase, a total of 5,444.09 BTHL Shares (of which 5,390.32 BTHL Shares will be from TWB Holdings and 53.77 BTHL Shares will be from ABL), which together represent approximately 54.44% of the total issued BTHL Shares.

As at the Latest Practicable Date, Glorify holds 1,555.91 BTHL Shares, or approximately 15.56% of the total issued BTHL Shares. Pursuant to the articles of association of the Target Company, the Target Company may issue fractional shares and a fractional share shall have the corresponding fractional rights, obligations and liabilities of a whole share of the same class of shares. Upon Completion, Glorify and TWB Holdings will hold 70% and 30% of the total issued BTHL Shares, respectively, and BTHL will become an indirect non-wholly owned subsidiary of the Company.

Earnest Money

Upon signing of the Acquisition Agreement, the Purchaser has paid the Earnest Money in an aggregate amount of HK$175,000,000, as earnest money (which amount shall be held on trust for the special purpose of the uses as set out, and shall be paid to the respective Vendors or refunded to the Purchaser, in the terms of the Acquisition Agreement), to the Vendors as follows:

(1) a sum of HK$170,295,125 (representing approximately 6.26% of the Consideration) to TWB Holdings; and

(2) a sum of HK$4,704,875 (representing approximately 0.17% of the Consideration) to ABL.

Consideration

The Consideration is HK$2,722,045,000 (representing HK$500,000 per Sale Share), which is to be satisfied in the following manner:

Cash payment

(a) at Completion, the Earnest Money shall be applied towards the settlement of a portion of the Consideration due to the relevant Vendors on a dollar-for-dollar basis;

(b) as soon as practicable (but in any event not more than ten (10) Business Days) after the EGM and the fulfilment of condition (vi) set out in the section headed "Conditions precedent" below, and provided that the conditions (i)(2) and (ii) set out in the section "Conditions precedent" below remain fulfilled, Glorify shall pay the Second Cash Payment in an aggregate amount of HK$325,000,000 of which (i) a sum of HK$316,262,375 (representing approximately 11.62% of the Consideration) shall be payable to TWB Holdings; and (ii) a sum of HK$8,737,625 (representing approximately 0.32% of the Consideration) shall be payable to ABL, respectively, in cash by wire transfer or in such manner as may be agreed between Glorify and TWB Holdings and ABL, as the case may be. At Completion, the Second Cash Payment shall be applied towards the settlement of a portion of the Consideration due to the relevant Vendors on a dollar-for-dollar basis; and

Consideration Shares

(c) subject to obtaining the Listing Approval, at Completion, the Company shall allot and issue the Consideration Shares to TWB Holdings, in settlement to the extent of HK$222,045,000 of the First Vendor Sale Shares Consideration (representing approximately 8.16% of the Consideration); and

Deferred Payment

(d) the Deferred Payment of HK$2,000,000,000 (representing approximately 73.47% of the Consideration), being the balance of the Consideration, shall be paid in cash in tranches on the following dates (each an "**Original Instalment Payment Date**", subject to the extensions set out further below), as follows:

(i) on the date which is six (6) months after the Completion Date, Glorify shall pay to TWB Holdings a sum of HK$243,278,750 and to ABL a sum of HK$6,721,250 (being a total of HK$250,000,000) (the "**Instalment Payment 1**");

(ii) on the date of the first anniversary of the Completion Date, Glorify shall pay:

(a) to TWB Holdings a sum of HK$145,967,250 and to ABL a sum of HK$4,032,750 (being a total of HK$150,000,000) (the "**Instalment Payment 2**");

(b) to TWB Holdings a sum of HK$450,000,000 (the "**Instalment Payment 3**");

(iii) on the date of the second anniversary of the Completion Date, Glorify shall pay:

(a) to TWB Holdings a sum of HK$97,311,500 and to ABL a sum of HK$2,688,500 (being a total of HK$100,000,000) (the "**Instalment Payment 4**");

(b) to TWB Holdings a sum of HK$450,000,000 (the "**Instalment Payment 5**"); and

(iv) on the date of the third anniversary of the Completion Date, Glorify shall pay to TWB Holdings a sum of HK$600,000,000 (the "**Instalment Payment 6**").

Glorify shall pay interest on the amount of the Deferred Payment outstanding calculated from the Completion Date up to and including the date of payment of such Deferred Payment, at the interest rate of 2.5% per annum (simple interest) (the "**Deferred Payment Interest**") which is payable at the same time as the relevant instalment payment is paid.

If Glorify fails to pay any amount payable under Instalment Payment 3, Instalment Payment 5, and/or Instalment Payment 6 on the relevant Original Instalment Payment Date, additional interest shall accrue at the rate of 7.5% per annum (simple interest) (the "**Additional Interest**") on such outstanding amount over the period from (and including) the relevant Original Instalment Payment Date up to (and including) the date of actual payment of the relevant amount in full.

To the extent not paid on the relevant Original Instalment Payment Date, the outstanding and unpaid Deferred Payment (together with the Deferred Payment Interest and Additional Interest (if any) accrued thereon) shall become immediately due and payable by Glorify on:

(i) in the case of Instalment Payment 1, the date which is the first anniversary of the Completion Date;

(ii) in the case of Instalment Payment 2, the date which is eighteen (18) months after the Completion Date;

(iii) in the case of Instalment Payment 3, the date which is the second anniversary of the Completion Date;

(iv) in the case of Instalment Payment 5, the date which is the fourth anniversary of the Completion Date; and

(v) in the case of Instalment Payment 6, the date which is the fourth anniversary of the Completion Date.

All payments shall be made in cash by wire transfer of immediately available funds to TWB Holdings and ABL, or in such manner as may be agreed between Glorify and the respective Vendors. If the payment due date is not a Business Day, such sum shall become due and payable on the next following Business Day.

In the event that Listing Approval has not been obtained within ten (10) Business Days of the EGM (or such later date as the parties may agree) but all the other conditions are fulfilled (or waived, as applicable), the Company shall not allot and issue the Consideration Shares but shall instead pay the amount of HK$222,045,000 of the First Vendor Sale Shares Consideration in cash, in which case such amount shall be paid as follows:

(i) an amount of HK$100,000,000 shall be due and payable on the date of the second anniversary of the Completion Date; and

(ii) an amount of HK$122,045,000 shall be due and payable on the date of the third anniversary of the Completion Date;

and to the extent such amount is not paid on the original dates due for payment as set out in (i) and (ii) above, such amount shall become due and payable on the date which is the fourth anniversary of the Completion Date.

The Group intends to use its internal resources and external borrowings to pay the cash payment of HK$325,000,000 (being the Second Cash Payment payable after the EGM), of which it is expected that (i) approximately HK$225,000,000 will be raised from its internal resources, and (ii) approximately HK$100,000,000 through external borrowings. As at the Latest Practicable Date, the Group obtained external borrowings from Independent Third Parties for the settlement of the Second Cash Payment by Completion.

For the remaining portion of the Consideration, it is expected to be funded by the internal resources and bank borrowings of the Enlarged Group, subject to the business and financial circumstances at any time prior to the payments being made. These borrowing arrangements are expected to be negotiated and/or entered into after Completion. As stated in the financial projections contained in the valuation report of the Target Company, the total free cash flow for the six-year period ending 31 December, 2029, is projected to be approximately HK$3.8 billion, among which the management of the Group estimates that approximately HK$2.9 billion will be applied towards funding the remaining portion of the Consideration, subject to the business and financial circumstances at any time prior to the payments being made. Please refer to page V-16 of the valuation report set out in Appendix V to this circular for the financial projections. In the event of unforeseeable changes in the operating environment and/or if the Enlarged Group's financial performance does not meet expectations, it is envisaged that additional fundraising may be undertaken to fund the remaining portion of the Consideration through equity and, or debt financing, including but not limited to a placing of new Shares and, or Shareholder's loans.

In the event that the Consideration Shares are not allotted and issued in the circumstances described above and the portion of the Consideration of HK$222,045,000 is required to be settled in cash, the Group intends to fund the payment through equity and, or debt financing, including but not limited to through the placing of new Shares under general mandate of the Company and, or Shareholder's loans.

Basis of the Consideration

The Consideration was arrived at after arm's length negotiations between the Company, TWB Holdings and ABL, after taking into account (i) the reasons and benefits of the Acquisition as set out in the section headed "Reasons for and benefits of the Acquisition"; (ii) the recent financial performance of the BTHL Group; (iii) a valuation report dated 21 May, 2024 showing the appraised market value of the equity value of BTHL to be not less than HK$5,000,000,000 as at 31 December, 2023 prepared by the Independent Valuer, based on the income approach as the primary approach to determine the market value of the equity value of BTHL; (iv) the parties' respective shareholdings in BTHL; and (v) the business prospects of the BTHL Group.

The Independent Valuer has primarily adopted the income approach in estimating the market value of the equity value of BTHL as at 31 December, 2023. The full text of the valuation report of the Independent Valuer is set out in Appendix V to this circular. Please refer to pages V-7 to V-8 of the valuation report set out in Appendix V to this circular for the major assumptions adopted in the valuation.

The Board has reviewed the methodology, basis and assumptions adopted in the valuation and is of the view that the methodologies, including the different valuation approaches and methods considered and applied by the Independent Valuer, and the assumptions adopted by the Independent Valuer in the valuation report as set out in Appendix V to this circular, are fair and reasonable. As such, the Directors consider the Consideration is fair and reasonable, and on normal commercial terms and , therefore, is in the interests of the Company and the Shareholders as a whole.

KPMG, the Company's reporting accountants, has reported that so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the valuation report, which do not involve the adoption of accounting policies. Anglo Chinese, the Company's financial adviser, has confirmed that the profit forecast was made by the Board after due and careful enquiry. The full texts of the report from KPMG and the letter from Anglo Chinese are set out in Appendix VI to this circular.

For the avoidance of doubt, it is noted that the consideration for the 2020 Acquisition was based on the financial projections of the Target Group in 2020, which is not comparable with the Consideration as the business environment, financial performance and projections of the Target Group has significantly changed since 2020, mainly due to (i) the end of COVID-19 pandemic in 2023; (ii) fare increases of 12.0% for the CTB (F1) Franchise and the NWFB Franchise in 2021, and 4.9% for the Merged Franchise and 4.2% for the CTB (F2) 2023 Franchise in 2023, respectively; (iii) the financial performance of the Target Group has shown improvement; (iv) the improved flexibility in bus route planning and operations resulting from the Merged Franchise; and (v) the certainty on the future operations of the business upon the renewal and grant of the new Merged Franchise and the CTB (F2) 2023 Franchise until 1 July, 2033 and 1 May, 2033, respectively.

Consideration Shares

As at the Latest Practicable Date, the Company had 3,956,638,000 Shares in issue. Assuming no other change in the total number of issued Shares, the 278,915,965 Consideration Shares, if issued, will represent (i) approximately 7.05% of the issued share capital of the Company as at the Latest Practicable Date, and (ii) approximately 6.59% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

The Consideration Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the existing Shares then in issue. The Consideration Shares will be issued under the Specific Mandate to be sought at the EGM. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Conditions precedent

Completion is conditional upon each of the following conditions having been satisfied or, where applicable, waived by Glorify or the First Vendor (on behalf of the Vendors):

(i) (1) the Vendor Warranties (other than the Fundamental Warranties) remaining true and accurate and not misleading in all material respects; and (2) the Fundamental Warranties remaining true and accurate and not misleading in all material respects;

(ii) there is no occurrence of a CP Material Adverse Change on or before the date of the EGM;

(iii) the deed of release in respect of the 2020 NWS Share Charge having been executed by NWS Service and evidence thereof has been delivered to Glorify;

(iv) all necessary consents, and/or approvals from the shareholders, regulators, bankers and creditors and any other third party required to be obtained on the part of the Vendors and/or the Target Group in respect of the Acquisition Agreement and/or the transactions contemplated thereunder having been obtained and remain in full force and effect;

(v) the Stock Exchange having confirmed that the Acquisition contemplated under the Acquisition Agreement does not constitute a "reverse takeover" transaction as defined under Rule 14.06B of the Listing Rules, and the Company would not be deemed as a new listing applicant;

(vi) the passing of the requisite resolution(s) by the Shareholders (other than those, if any, who are required to abstain from voting under the Listing Rules or the applicable laws, rules and regulations) approving the Acquisition Agreement, the New Shareholders' Agreement, the grant of the Specific Mandate, and the transactions contemplated under the relevant transaction documents (including the Acquisition, the Call Option and the Put Option) at a general meeting of the Company to be convened in accordance with the requirements under the Listing Rules;

(vii) all necessary regulatory filings with, notifications to and waivers, consents, clearance and approvals of the relevant authorities to be obtained on the part of Glorify and/or the Company in respect of the relevant transaction documents and/or the transactions contemplated hereunder and thereunder having been made and obtained, and such filings, notifications, waivers, consents, clearance and approvals remaining valid and effective (and if such filings, notifications and approvals are subject to conditions, if required by the relevant authorities, such conditions being fulfilled or satisfied before Completion);

(viii) the payment in full of the Earnest Money;

(ix) the Purchaser Warranties remaining true and accurate and not misleading in all material respects; and

(x) the Shares remaining listed on, and not having been withdrawn from, the Main Board of the Stock Exchange.

Save that (a) Glorify may at its sole discretion at any time waive in writing in whole or in part the conditions set out in (i)(1) and (ii), and (b) the Vendors (represented by TWB Holdings) may at their sole discretion at any time waive in writing in whole or in part the conditions set out in (ix) and (x), all other conditions are not capable of being waived by either the Purchaser or the Vendors.

If Completion or closing of the Strategic Purchase has not occurred on or before 12:00 p.m. on the Long Stop Date, the Acquisition Agreement shall cease and determine and thereafter no parties thereto shall have any obligations and liabilities towards each other hereunder save for any antecedent breaches of the terms thereof.

As at the Latest Practicable Date, the conditions precedent set out in (v) and (viii) above have been fulfilled.

Completion

Subject to the satisfaction (or waiver, as applicable) of all the conditions set out in the section "Conditions precedent" above, Completion shall take place on the date falling on the tenth (10th) Business Day after the satisfaction of condition (vi) (in respect of the passing of the requisite resolution(s) to approve the Acquisition at the EGM), or such other date as TWB Holdings (on behalf of itself and the Second Vendor) and Glorify may agree.

Strategic Purchase and refund of Earnest Money and Second Cash Payment

Given that the Acquisition is subject to the various conditions precedent mentioned above (some of which are beyond the parties' control), as part of the commercial negotiations between the Vendors and Glorify, the Vendors required an act for good faith to assure them of Glorify's commitment to the Acquisition. As a result, the Vendors requested that the following arrangements to be put in place.

If conditions (i)(2) (in respect of Fundamental Warranties), (vi) (in respect of the passing of the requisite resolution(s) to approve the Acquisition at the EGM) and (viii) (in respect of the payment of the Earnest Money) set out in the section headed "Conditions precedent" have been fulfilled and remain fulfilled, but condition (ii) (in respect of there being no occurrence of a CP Material Adverse Change on or before the date of the EGM) is not satisfied as at the date of the EGM, the parties to the Acquisition Agreement agree that Completion shall not take place, but Glorify shall instead purchase 350 Sale Shares (being 346.54 First Vendor Sale Shares and 3.46 Second Vendor Sale Shares or such other number of BTHL Shares as determined by the First Vendor (for itself and on behalf of the Second Vendor), provided that in no event shall the aggregate number of BTHL Shares exceed 350 Sale Shares and such that the consideration to be received by each Vendor shall represent HK$500,000 per Sale Share)) (the "**Strategic Purchase**"), and the Earnest Money shall be applied towards settlement in full of the consideration for such Sale Shares. Closing of the Strategic Purchase shall take place on a date to be agreed between the parties, which shall in any event be not later than the Long Stop Date. Should the Strategic Purchase occur, upon closing of the Strategic Purchase, Glorify's shareholding in BTHL will increase from 15.56% to 19.06%.

Taking into account the factors set out in the section headed "Reasons for and benefits of the Acquisition" below, the Directors consider that the Strategic Purchase, should it occur, would also be in line with the overall development strategy of the Group, and the Strategic Purchase was agreed to by the Company after arm's length negotiations between the parties.

If any the conditions set out in (i)(2) (in respect of Fundamental Warranties remaining true and accurate and not misleading in all material respects) and (vi) (in respect of the passing of the requisite resolution(s) to approve the Acquisition at the EGM) in the section headed "Conditions precedent" above are not fulfilled by the Long Stop Date, neither Completion nor the Strategic Purchase will occur, and the Earnest Money and the Second Cash Payment (if paid) shall be refunded in full (without interest) by the Vendors to Glorify.

Undertakings of TWB Holdings

Pursuant to the Acquisition Agreement, with respect to the Consideration Shares:

(i) for a period of one year from the Completion Date, TWB Holdings shall not directly or indirectly offer, pledge, sell, or otherwise transfer, dispose of or encumber any of the Consideration Shares;

(ii) as from the day after the first anniversary of the Completion Date, TWB Holdings may dispose of up to 25% of the Consideration Shares;

(iii) as from the day after the second anniversary of the Completion Date, TWB Holdings may dispose of up to a further 35% of the Consideration Shares, but in any event shall not dispose of more than 60% of the Consideration Shares in aggregate; and

(iv) on or after the third anniversary of the Completion Date, TWB Holdings may dispose of any or all of the Consideration Shares then held by it.

Security

As security for the payment of the deferred consideration under the 2020 Acquisition, TWB Holdings had granted a share charge over 51% of the total issued BTHL Shares to NWS Service (i.e. the 2020 NWS Share Charge). Under the 2020 Acquisition Agreement, until the instalment payments (and accrued interest, if any) under the 2020 Acquisition Agreement have been made in full to NWS Service, if there was any proposed transfer of the BTHL Shares which would result in TWB Holdings ceasing to hold at least 51% of the total issued BTHL Shares, a replacement share charge over 51% of the total issued BTHL Shares was required to be given to NWS Service. As at the Latest Practicable Date, two instalment payments of the deferred consideration in an aggregate amount of HK$310 million in respect of the 2020 Acquisition are outstanding and are due and payable by BTHL (being the purchaser under the 2020 Acquisition Agreement) to NWS Service in October 2024 and October 2025. Accordingly, in order to facilitate the Acquisition, TWB Holdings will arrange with NWS Service for the 2020 NWS Share Charge to be released by NWS Service immediately prior to Completion, and immediately after Completion, it will be replaced by a new share charge over 51% of the total issued BTHL Shares to be granted by Glorify and TWB Holdings, on a pro rata basis based on their respective shareholding in BTHL immediately after Completion, to NWS Service to secure the payment of the outstanding deferred consideration under the 2020 Acquisition (i.e. the 2024 NWS Share Charge). As such, upon Completion, under the 2024 NWS Share Charge, each of Glorify and TWB

Holdings will grant a share charge in respect of 3,600 BTHL Shares (representing 36% of the total issued BTHL Shares) and 1,500 BTHL Shares (representing 15% of the total issued BTHL Shares), respectively, to NWS Service.

As security for the payment of the Deferred Payment under the Acquisition, Glorify shall grant a share charge over 3,400 BTHL Shares (being the BTHL Shares held by Glorify at Completion which are not charged under the 2024 NWS Share Charge, representing 34% of the total issued BTHL Shares) in favour of TWB Holdings (i.e. the First Vendor Share Charge) upon Completion. Based on the Consideration per Sale Share of HK$500,000, the value of the BTHL Shares to be charged under the First Vendor Share Charge is HK$1,700,000,000. The Deferred Payment (excluding Deferred Payment Interest and Additional Interest) due to TWB Holdings and ABL under the Acquisition is HK$2,000,000,000 (representing approximately 73.47% of the Consideration). Given that 50% or more of the Consideration due to TWB Holdings and ABL would be paid on a deferred basis, the Vendors required the security arrangement to be put into place in order to mitigate the risks associated with deferred payment. After arm's length negotiations, the parties considered that the value of the security (i.e. the value of the BTHL Shares under the First Vendor Share Charge) was an appropriate amount of collateral relative to the amount of the Deferred Payment.

Based on the above, the Directors considered that the proportion of BTHL Shares to be charged by Glorify under the 2024 NWS Share Charge and the First Vendor Share Charge upon Completion are fair and reasonable.

The New Shareholders' Agreement

Subject to Completion taking place, the existing shareholders' agreement in respect of BTHL dated 21 August, 2020 and amended on 15 October, 2020 entered into by Glorify, TWB Holdings and ABL shall terminate with effect from the Completion Date, and at Completion, Glorify and TWB Holdings shall enter into a new shareholders' agreement in respect of BTHL (the "**New Shareholders' Agreement**"), the principal terms of which are set out below:

Scope of business

The business of BTHL is to procure that the BTHL Group conducts the business currently operated by the BTHL Group, namely, the provision of franchised and non-franchised bus services and advertising services.

Board composition and management

The board of BTHL will comprise five directors, with Glorify and TWB Holdings being entitled to nominate three and two directors, respectively, provided that, among other things, with regard to a party to the New Shareholders' Agreement, the said number will reduce in the event that, that a party thereto transfers or disposes of its BTHL Shares to the extent and in the circumstances provided for in the New Shareholders' Agreement; and in respect of TWB Holdings, in the event that it holds BTHL Shares representing 10% or less of the total issued BTHL Shares, the number of directors it may appoint to the board of

BTHL shall be reduced to one, and its right to appoint a director shall cease entirely upon it ceasing to hold BTHL Shares representing 1.0% of the total issued BTHL Shares. The business and affairs of BTHL shall be managed by the board of directors of BTHL.

The parties thereto shall procure that no resolution be passed by BTHL's board of directors in respect of any of the following matters without the affirmative vote of at least one director nominated by Glorify (where appointed) and one director nominated by TWB Holdings (where appointed) present and/or represented at such meeting:

(a) changing the business of the Target Group (or any part thereof); consolidating or merging the business of the Target Group with any other business(es); or divesting any part of the business or assets comprised in the business of the Target Group; and

(b) any member of the BTHL Group providing loans or giving any guarantee or indemnity for a debt or obligation of, another person (other than those to a member of the BTHL Group).

Glorify's call option and TWB Holdings' put option

At any time during the Call Option Period, subject to all outstanding amounts due to the Vendors under the Acquisition Agreement having been settled in full, Glorify shall have the option (but not the obligation) (the "**Call Option**"), exercisable by serving a written notice on TWB Holdings, to purchase all or part of the BTHL Shares then held by TWB Holdings, at the Call Price of HK$500,000 per BTHL Share, plus an amount which represents an interest accruing at the rate of 3% per annum (simple interest) on the Call Price for the period commencing on the first day of the Call Option Period up to the date of exercise of the Call Option (together with the Call Price, the "**Call Consideration**"), provided that the number of the BTHL Shares being the subject matter of each Call Option notice shall be in integral multiples of 100.

If Glorify does not exercise its aforesaid Call Option in full during the Call Option Period, during the Put Option Period, TWB Holdings shall have the option, exercisable by serving a written notice on Glorify, to require Glorify to purchase the BTHL Shares held by it (and not being the subject matter of any Call Option notice) on the commencement date of the Put Option Period (the "**Put Option**", and the total number of BTHL Shares then held by TWB Holdings shall be referred to as the "**Put Option Shares**"), at the Put Price of HK$500,000 per BTHL Share, plus an amount which equals to the sum of (i) an interest accruing at the rate of 3% per annum (simple interest) on the Put Price for the Call Option Period, and (ii) an interest accruing at the rate of 5% per annum (simple interest) on the Put Price for the period commencing on the first day of the Put Option Period up to the date of exercise of the Put Option (together with the Put Price, the "**Put Consideration**"), in three tranches as follows: (a) on the commencement date of the Put Option Period, up to one third (1/3) of the Put Option Shares (if that is not a whole number, it shall be rounded up to the next whole number) (the "**1st Tranche Put Shares**"); (b) on the date of the first anniversary of the commencement of the Put Option Period, up to one third (1/3) of the Put Option Shares (if that is not a whole number, it shall be rounded up to the next whole number) plus the balance of the 1st Tranche Put Shares that have not been sold (and not being the subject matter of any Put Option notice) to Glorify; and (c) at the end of the Put

Option Period, with regard to all the BTHL Shares then held by TWB Holdings, provided that the Put Option shall be deemed exercised on the last day of the Put Option Period in respect of all (but not part) of the BTHL Shares (if any) then held by TWB Holdings (and which are not subject to any abovementioned written notice issued in respect of Call Option or Put Option), and TWB Holdings shall also serve the aforesaid written notice to Glorify.

The Call Price and Put Price, respectively, of HK$500,000 per BTHL Share were determined on the basis of the Consideration per Sale Share of HK$500,000. For illustration purpose only, assuming no other changes in the total issued BTHL Shares from Completion, should Glorify exercise the Call Option in full at the end of the Call Option Period, the Call Consideration payable shall be HK$1,725 million, which comprises the principal of HK$1,500 million and the interest of HK$225 million; and in the event that Glorify does not exercise the Call Option and TWB Holdings exercises the Put Option in full at the end of the Put Option Period, the Put Consideration payable shall be HK$1,875 million, which comprises the principal of HK$1,500 million and the interest of HK$375 million. Upon the exercise of the Call Option or the Put Option, the Call Consideration or the Put Consideration (as the case may be) shall be settled in cash in accordance with the terms of the New Shareholders' Agreement.

For the payment of the Call Consideration and/or Put Consideration, the Group intends to use the internal resources, bank borrowings and fundraising activities of the Enlarged Group. Based on the perpetual growth rate of 2% per annum as adopted by the Independent Valuer, it is projected that not less than 70% of the payment could be covered by internal resources and bank borrowings of the Enlarged Group, subject to the business and financial circumstances at any time prior to the payments being made. The remaining balance is expected to be funded through fundraising activities, including but not limited to issuance of securities, exercise of share options and/or Shareholder's loans.

Restrictions on transfer and issue of BTHL Shares

None of the parties to the New Shareholders' Agreement shall be permitted to transfer any of its BTHL Shares except in accordance with the terms of the New Shareholders' Agreement (i.e. the following situations: (i) transfers between the parties thereto, (ii) the Drag-along Right (as defined below), (iii) the Tag-along Right (as defined below), (iv) the Call Option, (v) the Put Option, (vi) upon enforcement of the 2024 NWS Share Charge and (vii) upon enforcement of the First Vendor Share Charge). In the event of a sale by Glorify of its BTHL Shares to a third party, Glorify may require TWB Holdings to sell all of its BTHL Shares on the same terms as those offered to Glorify (the "**Drag-along Right**"). Subject to the foregoing and if Glorify does not exercise the Drag-along Right, TWB Holdings shall have the right, but not the obligation, to sell (together with Glorify) (i) if Glorify's percentage holding of the BTHL Shares after the completion of the aforesaid transfer will fall below 50% of the total issued BTHL Shares, all of the BTHL Shares then held by TWB Holdings, or (ii) in other cases, such number of BTHL Shares in the same proportion as the number of BTHL Shares to be transferred by Glorify over the total number of the BTHL Shares then held by Glorify (the "**Tag-along Right**"). In the event of the exercise of the aforesaid Drag-along Right or the Tag-along Right, the minimum consideration to be received by TWB Holdings per BTHL Share shall be not less than the Call Consideration or the Put Consideration (as applicable at the time of exercise of the aforesaid rights).

Further, without the consent of both parties to the New Shareholders' Agreement, no new securities (including shares or convertible bonds) of BTHL shall be issued from the date of the New Shareholders' Agreement up to the end of the Put Option Period.

Undertaking of Mr. An

On 24 May, 2024, Mr. An has given an undertaking in favour of the Company, pursuant to which Mr. An has unconditionally and irrevocably undertaken to the Company that, to the extent permitted under the Listing Rules, he shall exercise (or procure to be exercised) all voting rights attaching to a total of 2,766,593,980 Shares (representing approximately 69.92% of the total issued share capital of the Company as at the Latest Practicable Date) to vote in favour of the resolution(s) to be proposed at the EGM to approve the Acquisition Agreement, the New Shareholders' Agreement and the transactions contemplated thereunder.

THE ISSUE PRICE

The Issue Price of HK$0.7961 represents:

(i) a premium of approximately 184.32% to the closing price per Share of HK$0.280 as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 99.03% to the closing price per Share of HK$0.400 as quoted on the Stock Exchange on 23 May, 2024, being the last trading day immediately preceding the date of the Acquisition Agreement;

(iii) a premium of approximately 103.61% to the average closing price per Share of HK$0.391 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Acquisition Agreement;

(iv) a premium of approximately 131.42% to the average closing price per Share of HK$0.344 as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of the Acquisition Agreement; and

(v) a premium of approximately 155.49% to the consolidated net asset value per Share as at 31 December, 2023 of approximately HK$0.3116 per Share calculated based on the consolidated net assets of the Group of approximately HK$1,233,077,000 as at 31 December, 2023 extracted from the 2023 Annual Report and 3,956,638,000 Shares in issue as at the Latest Practicable Date.

The Issue Price has been arrived at after arm's length negotiations between the Company and TWB Holdings, with reference to, among other things, the prevailing market price of the Shares, the financial position of the Group, and the prospects of the Enlarged Group.

THE SPECIFIC MANDATE

The Consideration Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought at the EGM.

Application will be made to the Stock Exchange for the Listing Approval. The Consideration Shares, when allotted and issued, will rank *pari passu* in all respects with all the existing Shares in issue. All necessary arrangements will be made for the Consideration Shares to be admitted into CCASS.

FINANCIAL IMPACT ON THE GROUP

Following Completion, BTHL will become a non-wholly owned subsidiary of the Company, and the financial results of BTHL will be consolidated into the consolidated financial statements of the Group. Furthermore, upon the full exercise of the Call Option and/or the Put Option, BTHL will become a wholly owned subsidiary of the Company.

Possible effect on earnings

For FY2023, the Group recorded loss attributable to the Shareholders of approximately HK$35.1 million as set out in the 2023 Annual Report. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, assuming Completion had taken place on 1 January, 2023, the pro forma loss of the Enlarged Group attributable to the Shareholders for FY2023 would have been approximately HK$509.8 million due to the loss of approximately HK$73.6 million contributed by the Target Group and pro forma adjustments of approximately HK$401.1 million. Please refer to Appendix IV to this circular for further details on the pro forma figures and adjustments.

Possible effect on assets and liabilities

As set out in the 2023 Annual Report, as at 31 December, 2023, the Group had total assets, total liabilities and net assets of approximately HK$1,957.0 million, HK$723.9 million, and HK$1,233.1 million respectively. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, if the Acquisition had been completed on 31 December, 2023, the total assets, total liabilities and net assets of the Enlarged Group would have been approximately HK$10,019.0 million, HK$8,806.9 million, and HK$1,212.1 million respectively. As stated in the unaudited pro forma financial information of the Enlarged Group as set out in the Appendix IV to this circular, the Group had net current assets of approximately HK$376.2 million, while the Enlarged Group would have net current liabilities of approximately HK$604.6 million as at 31 December, 2023, which is due to the Target Group's net current liabilities position of approximately HK$230.3 million and the relevant pro forma adjustments of approximately HK$750.5 million, among which, HK$500 million is attributable to the portion of the Consideration to be paid by Completion and approximately HK$242.3 million is attributable to the remaining portion of Consideration due on or before 31 December, 2024. Please refer to Appendix IV to this circular for further details on the pro forma figures and adjustments.

As stated in the section headed "Principal terms of the Acquisition Agreement" above, the Group intends to use its internal resources and external borrowings to pay the Second Cash Payment, and use the Enlarged Group's internal resources and bank borrowings to fund the remaining portion of the Consideration, subject to the business and financial circumstances at any time prior to the payments are being made.

For the financial position and the capital management of the Target Group, please refer to the subsections headed "Net current assets and liabilities" and "Financial risk management objectives and policies – Capital management" under the section headed "Appendix I – Information about the Target Group – 7. Management discussion and analysis" to this circular.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company has long been involved in the logistical business, including (i) the operation of terminal and port and transshipment services, and (ii) the leasing of retail filling stations for vehicles under the brand "Hans Energy" in the PRC. To diversify the business of the Company and to increase its source of revenue, the Company has been seeking various development opportunities to broaden its revenue base.

The investment in the Target Company pursuant to the 2020 Acquisition represented a strategic opportunity for the Group to diversify its business and broaden its revenue by participating in a vital public transportation service in Hong Kong, as the Company was optimistic about the prospects of the Target Group and the potential return on investment. In particular, the Group has increased its investment in the Target Group after approximately one year of its initial investment in 2020, as it was satisfied with the performance of the Target Group and was optimistic about its prospects. As at the Latest Practicable Date, Glorify is the holder of 1,555.91 BTHL Shares, representing approximately 15.56% of the total issued BTHL Shares. A further increase in the stake of the Target Group pursuant to the Acquisition aligns with the diversification and expansion strategy of the Group.

The Target Group is principally engaged in the provision of public bus services under the brand "Citybus" in Hong Kong. It has over 40 years of proven track record in the public bus services industry in Hong Kong. Through the Acquisition, the Company will be capturing around 24.4% of the franchised bus operators' market share (based on the total daily average passenger journeys carried out by all franchised bus operators in Hong Kong in 2022) in Hong Kong. As at the Latest Practicable Date, the Target Group operated more than 200 bus routes across the Hong Kong Island, Kowloon and the New Territories with a sizable bus fleet of over 1,700 registered buses, and is the major franchised public bus operator with bus network coverage on the Hong Kong Island. It has strong bus engineering and technological development capabilities with an experienced management team with in-depth industry knowledge leading and overseeing a workforce of over 5,000 employees. The Directors are of the view that, through the Acquisition whereby the Group will hold 70% of BTHL upon Completion, the Group can benefit greatly from the Target Group in terms of enhanced brand reputation, business scale and market share.

The respective businesses of the Target Group and the Group are within adjacent industries, with the Target Group being engaged in transportation business and the provision of franchised passenger bus services in Hong Kong, while the Group's principal business comprises a substantial logistics operation. Furthermore, the Company has participated and invested in the construction of the first hydrogen refuelling station in Hong Kong located in West Kowloon. The hydrogen refuelling station is currently operated by Citybus and provides hydrogen refuelling services for the operation of Hong Kong's first hydrogen bus owned by Citybus.

Having considered the above, the Directors believe that the Acquisition is in line with the development strategy of the Group and will facilitate the sustainable growth of the Group in the long run, and are of the view that the terms of the Acquisition Agreement, the New Shareholders' Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Given that the Acquisition is subject to the various conditions precedent mentioned above (some of which are beyond the parties' control), as part of the commercial negotiations between the Vendors and Glorify, the Vendors required an act for good faith to assure them of Glorify's commitment to the Acquisition. As a result, the Vendors requested that the Strategic Purchase arrangements be put in place. Taking into account the Company's intention to increase its stake in BTHL, the Directors consider that the Strategic Purchase, should it occur, would also be in line with the overall development strategy of the Group, and the Strategic Purchase was agreed to by the Company after arm's length negotiations between the parties.

EFFECT OF THE CONSIDERATION SHARES ON THE SHAREHOLDING STRUCTURE

The table below illustrates the shareholding of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion and the allotment and issue of the Consideration Shares.

Shareholders	**As at the Latest Practicable Date**		**Immediately after Completion and allotment and issue of Consideration Shares**	
	No. of Shares	*%*	*No. of Shares*	*%*
Mr. An and his associate(s) *(Note)*	2,766,593,980	69.92	2,766,593,980	65.32
TWB Holdings	–	–	278,915,965	6.59
Other public Shareholders (excluding TWB Holdings)	1,190,044,020	30.08	1,190,044,020	28.09
Total	**3,956,638,000**	**100.00**	**4,235,553,965**	**100.00**

Note: The Shares are held directly as to 218,390,000 Shares by Mr. An personally, as to 209,773,980 Shares by Extreme Wise and 2,338,430,000 Shares by Vand Petro-Chemicals. Both companies are wholly-owned by Julius Baer which is the trustee of a trust and Mr. An is a founder of a discretionary trust. By virtue of the SFO, Mr. An is deemed to be interested in the 2,766,593,980 Shares. Mr. An is a director of Extreme Wise, Vand Petro-Chemicals and the Company.

As illustrated above, upon Completion, Mr. An will be interested in approximately 65.32% of the enlarged issued Shares immediately after the allotment and issue of the Consideration Shares upon Completion. On the foregoing basis, Mr. An will remain as the Controlling Shareholder of the Company and there will be no change of control of the Company as a result of the Acquisition.

INFORMATION ON THE TARGET GROUP

BTHL is a company incorporated on 23 July, 2020 in the BVI with limited liability. BTHL became the holding company of BTSL Group on 15 October, 2020 after the completion of the 2020 Acquisition. The principal subsidiary of BTHL is Citybus (being an indirect wholly owned subsidiary), which, as the franchisee under the Merged Franchise and the CTB (F2) 2023 Franchise, is principally engaged in the provision of public bus and travel related services in Hong Kong. During the Trading Record Period, each of Citybus and NWFB operated bus services in Hong Kong through, among others, public bus franchises granted under the PBSO. Franchised buses, including those operated by Citybus and NWFB, play a significant role in Hong Kong's public transportation system, contributing to approximately one third of the total passenger journeys in 2022. As at the Latest Practicable Date, the Target Group has a bus fleet of over 1,700 registered buses operating over 200 franchised bus routes across Hong Kong Island, Kowloon and the New Territories. In July 2022, Citybus unveiled Hong Kong's first ever hydrogen fuel cell double deck bus, which was specially designed and built for Hong Kong. In conjunction with this development, in May 2023, the Group announced that it will participate and invest in the construction of the first hydrogen refuelling station in Hong Kong, to be located in West Kowloon. The hydrogen refuelling station is currently operated by Citybus and provides hydrogen refuelling services for the operation of Hong Kong's first hydrogen bus owned by Citybus. Citybus introduced the first hydrogen powered bus into its operational fleet in February 2024. To further expand and diversify its business, the Target Group may bid for transport related projects overseas from time to time, as and when such opportunities arise, and in March 2024, the Target Group submitted a bid for a government contract to run a set of public bus services in Singapore.

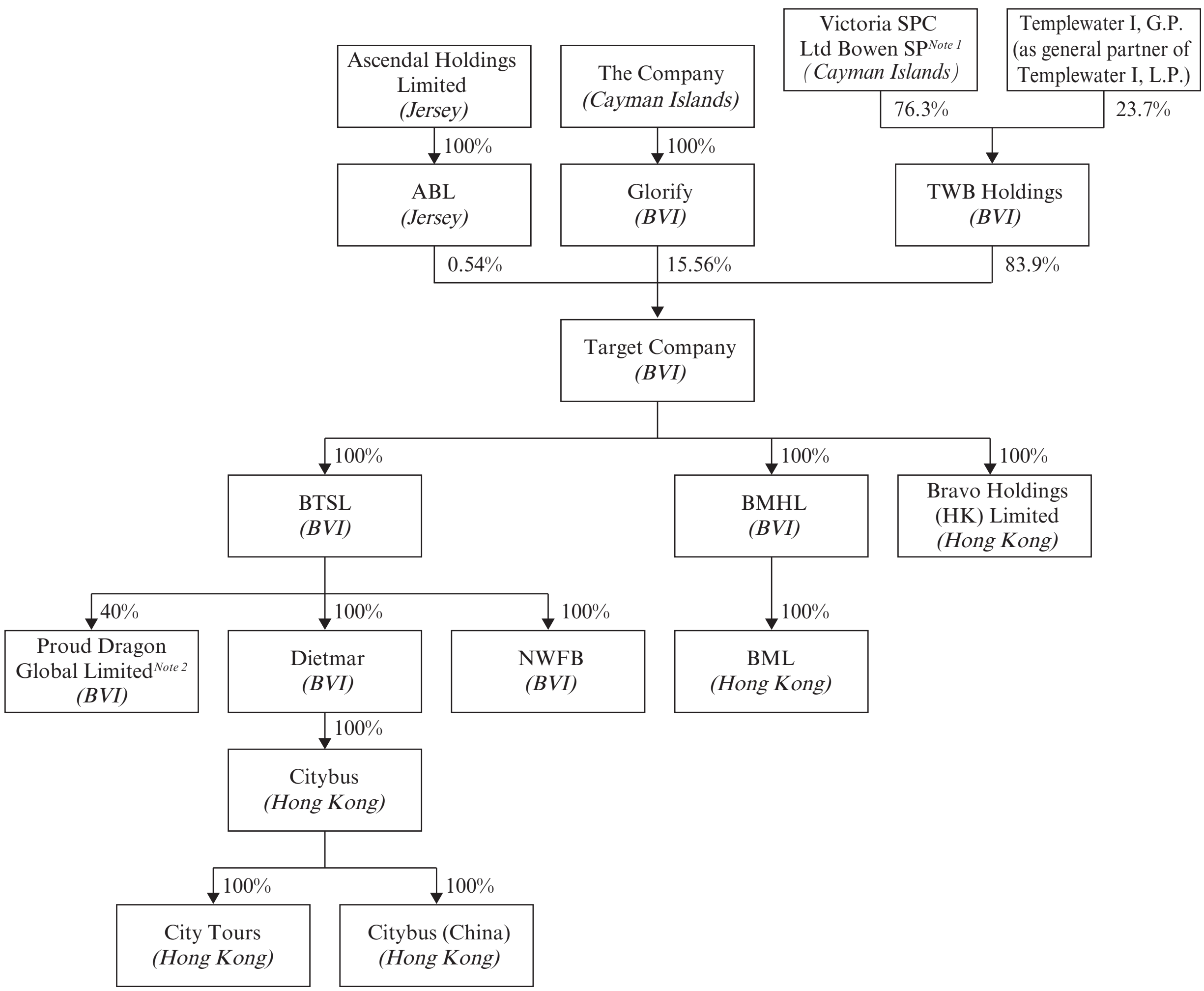
BML, a wholly-owned subsidiary of BTHL, was incorporated on 28 October, 2021 and is principally engaged in advertising business. Through an open tender process, BML had won the bus body advertising contract to act as the exclusive advertising agency of the bus body (exterior) and bus interior advertising for Citybus for a period of ten years until 2033. In addition, in July 2023, BML (as a service provider) has also won, through an open tender, a contract from a railway operator in Hong Kong for the provision of advertising sales agency services in respect of advertising media at certain railway lines and buses operated by the railway operator, under which BML will be responsible for the operation, sales and marketing of this advertising media.

Please refer to Appendix I to this circular for further information relating to the Target Group and its business.

Shareholding structure of the Target Group

The following charts set out the shareholding structure of the Target Group as at the Latest Practicable Date, upon Completion and upon full exercise of the Call Option and/or the Put Option.

(i) Shareholding structure of the Target Group as at the Latest Practicable Date

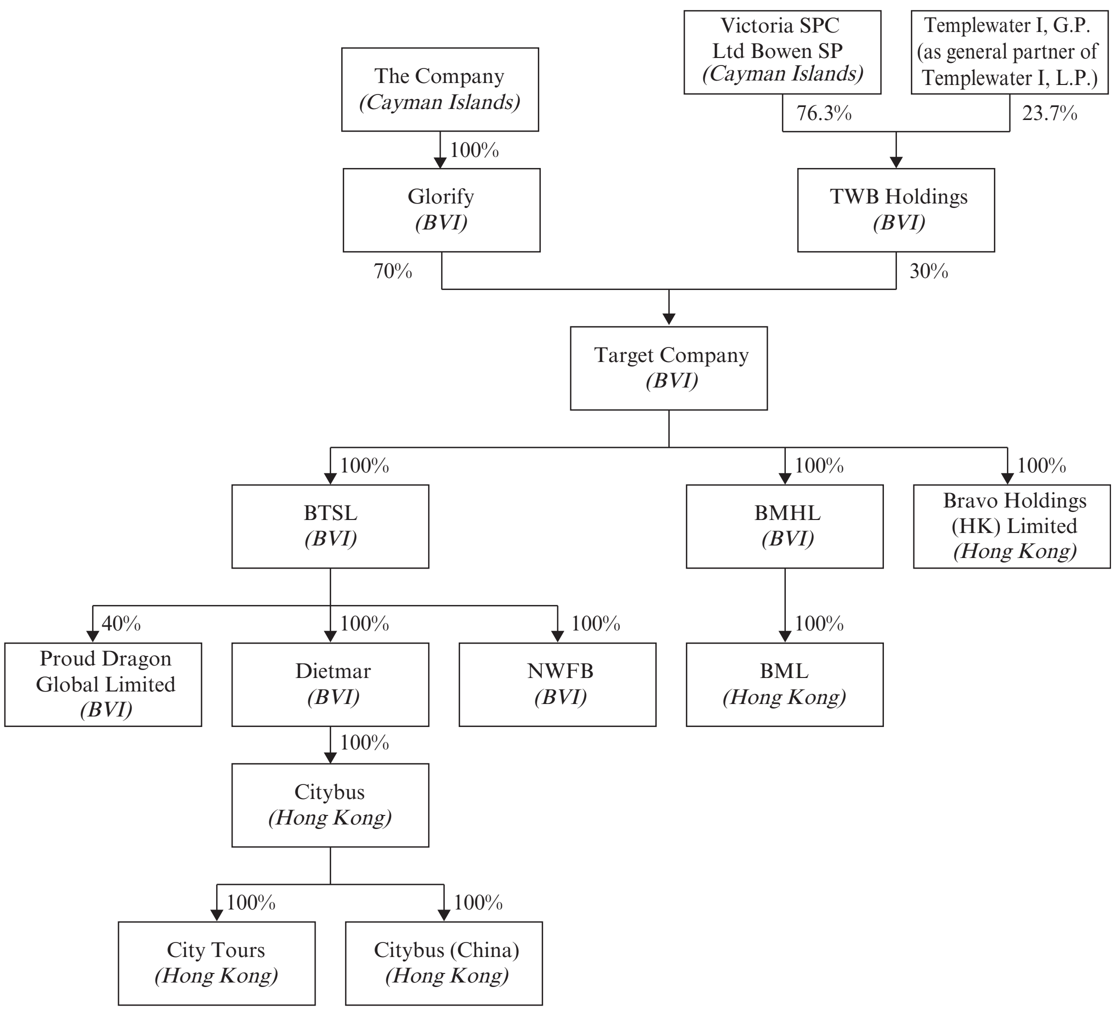


Notes:

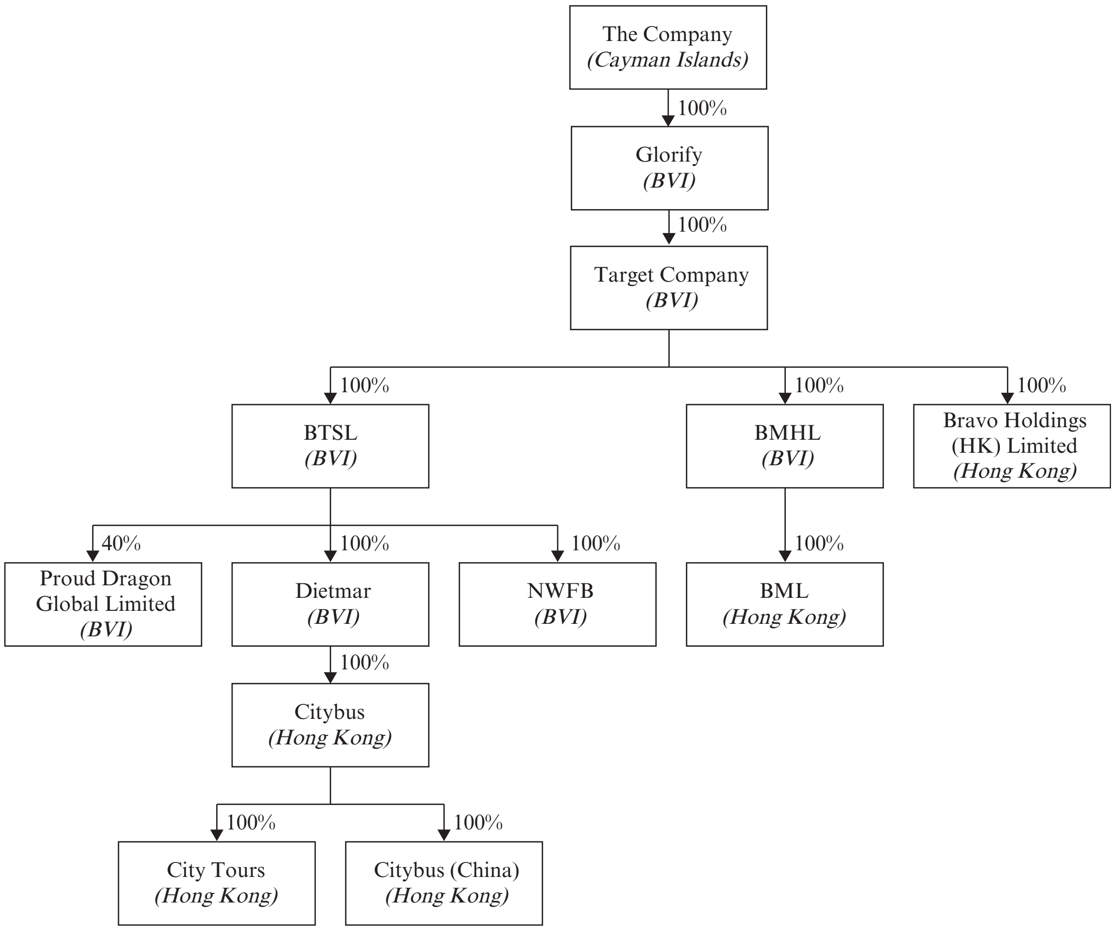
(1) As at the Latest Practicable Date, to the best knowledge, information and belief of the Directors, having made reasonable enquiries, Victoria SPC Ltd Bowen SP and its ultimate beneficial owners, are Independent Third Parties. Templewater, their employees and related family members are the ultimate beneficial owners who hold approximately 82.6% of the equity interest in Victoria SPC Ltd Bowen SP. None of the individual ultimate beneficial owners of the remaining 17.4% holds an equity interest of 10% or more in Victoria SPC Ltd Bowen SP. Please refer to the section headed "Information on TWB Holdings and Templewater" below for the details of Templewater.

(2) Proud Dragon Global Limited was established by New World First Holdings and BTSL to maintain the existing ORSO schemes of BTSL, Citybus and NWFB after the 2020 Acquisition. As at the Latest Practicable Date, Proud Dragon Global Limited is owned as to 60% by New World First Holdings and 40% by BTSL. Save as mentioned above, Proud Dragon Global Limited has not been involved in any other operations, activities, or purposes.

(ii) Shareholding structure of the Target Group immediately upon Completion



(iii) Shareholding structure of the Target Group upon full exercise of the Call Option and/or the Put Option



Financial Information of the Target Group

The table below sets forth the consolidated net loss before and after taxation and the revenue of the Target Group during the Trading Record Period based on the audited consolidated financial information of the Target Group prepared in accordance with Hong Kong Financial Reporting Standards:

	FY2021	**FY2022**	**FY2023**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	2,838,572	2,538,395	3,399,509
Loss before taxation	(246,281)	(286,248)	(63,474)
Loss after taxation	(220,619)	(206,582)	(73,628)

During the Trading Record Period, the loss after taxation of the Target Group decreased by approximately HK$14.0 million and HK$133.0 million in FY2022 and FY2023, respectively. For FY2022, the slight decrease was primarily due to increase in income tax credit, which was partially offset by the decrease in revenue and other income. For FY2023, the decrease was primarily due to the increase in revenue and other income, which was partially offset by the increase in the operating costs and the finance costs.

During the Trading Record Period, the consolidated net asset value of the Target Group as at 31 December, 2021, 2022 and 2023 was approximately HK$1,365.5 million, HK$1,028.8 million and HK$615.1 million, respectively. The net asset value of the Target Group decreased by approximately HK$336.7 million and HK$413.7 million as at 31 December, 2022 and 2023, respectively. The decrease of net asset value as at 31 December, 2022 compared to 31 December, 2021 was primarily due to (i) the loss from operations of approximately HK$205.3 million in FY2022; and (ii) the payment of dividend amounted to HK$200.0 million during FY2022. The decrease of net asset value as at 31 December, 2023 compared to 31 December, 2022 was primarily due to (i) the payment of dividend amounted to HK$250.0 million during FY2023; and (ii) the total comprehensive loss for the year of approximately HK$163.2 million in FY2023. Despite incurring losses, the Target Group had sufficient cash and cash equivalents to maintain its business operations and distributed dividends during FY2022 and FY2023 in accordance with the constitutional documents of the relevant Target Group members and the relevant laws and regulations.

For further details of the information and financial information of the Target Group, please refer to Appendix I and Appendix III to this circular.

INFORMATION ON THE PARTIES AND THEIR RELATIONSHIPS WITH THE TARGET GROUP

Information on Glorify and the Group

Glorify is principally engaged in investment holding and is a wholly-owned subsidiary of the Company. The Group is a leading operator in providing integrated facilities of jetties, storage tanks, warehousing and logistic services in south China for petroleum and liquid chemicals products, offering value-added services in its own ports and storage tank farms, trading of oil and petrochemical products and leasing of a filling station business.

Information on TWB Holdings and Templewater

TWB Holdings is an investment holding company owned by Templewater I, L.P. (an international private equity fund) and a segregated portfolio company of Victoria SPC Ltd Bowen SP (a co-investment platform). TWB Holdings is controlled, advised and managed by Templewater I, G.P., which is wholly-owned by Templewater Holdings Limited, an alternative investment firm founded by Investec Bank plc and Mr. Zhang Kun, Cliff ("**Mr. Zhang**").

Investec was founded in South Africa in 1974 and entered the UK in 1992. In 2002, the group implemented a dual listed company structure with Investec plc listed on the London Stock Exchange and Investec Limited listed on the Johannesburg Stock Exchanges. Investec Bank plc is wholly owned by Investec plc, and is a UK specialist bank.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Investec plc and Mr. Zhang are the ultimate beneficial owners of Templewater Holdings Limited, each beneficially interested in 50% of the equity interest in Templewater Holdings Limited.

Prior to founding Templewater Holdings Limited, Mr. Zhang worked at Chow Tai Fook Enterprises Limited and the investment banking division of HSBC and Deutsche Bank in Hong Kong, and he is experienced in corporate advisory, capital markets and private equity investments.

The Templewater group is a leading asset management firm in Asia, with investment strategies across private equity, property and decarbonization. Templewater HK is the principal operating entity of Templewater in Hong Kong, and is SFC licensed for regulated activities of Type 1, Type 4 and Type 9.

Templewater has been instrumental in assisting the Hong Kong Government in introducing hydrogen as an alternative energy source into Hong Kong's ground mobility and public transport. In May 2023, the Hong Kong Government granted its "agreement-in-principle" to Citybus regarding the trial projects on hydrogen fuel technology, including use of the first hydrogen fuel cell double-decker bus and the construction of the first hydrogen refuelling station. Templewater and the Company have participated in the development and construction of the hydrogen refuelling station.

Decarbonization has been a core focus of Templewater's investment strategies, and Templewater has a dedicated decarbonization team focused on the investment into and development of decarbonization technologies, assets, government policies – for example, the hydrogen related regulations for franchised buses in Hong Kong – and industry standards. In recent years, Templewater has been specifically focusing on a decarbonization and impact investment strategy, including investments in hydrogen energy projects, and has entered into strategic partnerships with PRC and international corporates and governmental authorities in relation to hydrogen development and collaboration.

Templewater's management and the decarbonization team have been assisting Citybus in its transition to a clean energy bus fleet, and have played a critical role in sourcing, developing, executing and policy shaping for Citybus to bring in Hong Kong's first electric double decker bus, first hydrogen double decker bus and first hydrogen refuelling station.

Cooperation between the Target Group and Templewater

Hydrogen Advisory and Consultancy Agreement

Notwithstanding that the Target Group has a core management team with extensive knowledge and experience in the public bus services industry, the Target Group considered that Templewater, with a track record and extensive experience in areas including the green/renewable energy sector as mentioned above, and having a deep understanding of the Target Group's business in the time it has been a shareholder of BTHL, was well-positioned to serve as a strategic consultant to the Target Group and advise the Target Group in its transitional journey into green/renewable energy and other business expansions, thus complementing the knowledge and experience of the existing management team whose experience is more focused on the management of a traditional bus operation. In this connection, on 8 April, 2024, BTSL entered into the hydrogen advisory and consultancy agreement (the "**TW Advisory Agreement**") with Templewater HK to record the terms on which Templewater HK (as consultant and advisor to the BTSL Group) has provided advisory services to BTSL Group with effect from 1 January, 2024. Pursuant to the terms set out in the TW Advisory Agreement, such advisory services include, *inter alia*, advising the BTSL Group on its transition into the next generation of vehicles powered by hydrogen or other green/renewable fuel sources, as well as business developments and acquisitions. The principal services and other terms of the TW Advisory Agreement are as follows:

Services: The services provided by Templewater HK to BTSL include the following advisory and consultancy services:

1) assisting the BTSL Group to transition towards use of Green Energy Buses in Hong Kong for the business of the BTSL Group and matters ancillary thereto, including:

   (i) conduct feasibility studies to determine the viability of use of Green Energy Buses, including assessment of availability of refuelling stations, potential routes to be covered by such vehicles, and the impact on cost of operation;

   (ii) assisting the BTSL Group to determine the most suitable models of Green Energy Buses for its operations in Hong Kong (e.g. taking into account Hong Kong's unique territory and climate etc.);

   (iii) assisting the BTSL Group to assess and shortlist suppliers of Green Energy Buses and providers of resources and support services (e.g. maintenance, fuelling stations), with contingency plans to cater for events like supply chain disruptions;

   (iv) developing strategic plans for the rollout of bus services operated by Green Energy Buses, such as developing timelines, identifying necessary resources, planning infrastructure around having Green Energy Buses on the road, upgrading of existing properties of the BTSL Group (e.g. bus depots) to cater for Green Energy Buses, and defining key performance indicators (e.g. emissions reduction) to be achieved from use of Green Energy Buses;

(v) identifying suitable talent for, or upskilling existing staff to, operate and manage the new business unit responsible for operations and support of the Green Energy Buses and, if requested by the BTSL Group, to provide transitional staffing, management and human resources support as the internal team is being established;

(vi) keeping the BTSL Group abreast of latest developments in the green energy technologies and advising on necessary or recommended upgrades during the term of the agreement;

(vii) providing on-site staff for training and/or related matters; and

(viii) advising on green/renewable energy related matters generally.

2) assisting the BTSL Group on business development and strategic opportunities, both in Hong Kong and globally, which requires a team of analysts of Templewater to review and ascertain which projects will be appropriate for the development and growth of the BTSL Group, including:

(i) identifying potential business opportunities for existing business units of the BTSL Group, including availability of new tenders and advising on the strategy for the bid;

(ii) identifying new markets and new areas into which the BTSL Group can expand, leveraging and building on the existing business track record of the BTSL Group;

(iii) sourcing, reviewing and advising on potential merger and acquisition opportunities in Hong Kong and globally;

(iv) where requested by the BTSL Group, liaising with counterparties, negotiating terms of transactions, co-ordination of and attending meetings relating to the identified opportunities; and

(v) advising on appropriate fundraising strategies (capital and/or debt) for different opportunities.

Term: The TW Advisory Agreement is for an initial term of three years with effect from 1 January, 2024. At the expiry of the initial three year term, (i) if TWB Holdings holds 5% or more of the total issued BTHL Shares, the term of the TW Advisory Agreement shall be automatically renewed for a period of 24 months; or (ii) if TWB Holdings holds less than 5% of the total issued BTHL Shares, the term of the TW Advisory Agreement may be renewed for a period of 24 months at the option of BTSL; and (iii) thereafter, subject to the agreement of the parties, for successive periods of twelve (12) months and for the avoidance of doubt, other than in respect of the automatic renewal as referred above, BTSL shall not be under any obligation to extend the term of the TW Advisory Agreement in such instance.

In considering any extension of the term in the circumstance described in (ii) and (iii) above, BTSL will take into account the nature and quality of the services provided by Templewater, including but not limited to (i) Templewater's contribution towards assisting the BTSL Group in its investment in and operation of Green Energy Buses and hydrogen refuelling stations; (ii) the completion of the construction and operation of the second hydrogen refuelling station of Citybus; and (iii) the progress and pricing of procurement of at least 20 additional Green Energy Buses to the bus fleet of the BTSL Group.

Consultancy fees: In addition to reimbursement of expenses reasonably and properly incurred by Templewater in connection with the provision of the services, the consultancy fee payable by the BTSL Group under the TW Advisory Agreement shall be HK$20,000,000 per year, payable in arrears in four equal instalments for each period of three months of the term, and a discretionary bonus of HK$5,000,000 each year.

The consultancy fee was determined after arm's length discussion between BTSL and Templewater HK. In determining the consultancy fee, the parties took into consideration, including but not limited to, the scope of services to be provided during the term, the experience and knowledge of the Templewater group in the green and renewable energy sector, as described above, and the resources deployed by Templewater HK towards providing the services. Taking into account that advances in green and renewable energy are in ever changing mode, it was envisaged that Templewater HK would devote a team ranging from eight to ten people to keep updated with the industry developments and provide the services to the BTSL Group. Based on the information available to the Company, the consultancy fee charged by Templewater HK under the TW Advisory Agreement was comparable to fees charged by other industry consultants on a time-charge basis. Accordingly, the management of the Target Group considered, and the Company concurred, that the fee was fair and reasonable to the Target Group.

As BTHL and BTSL were both holding companies for Citybus and NWFB (with BTHL being incorporated for this purpose), their respective boards of directors mainly consisted of appointees of their respective investors. Mr. Zhang and Mr. Nicolas Charles Philippe de Mascarel de la Corbiere ("**Mr. de Mascarel de la Corbiere**") are among the appointees of TWB Holdings. Upon Completion, TWB Holdings will continue to hold 30% of the total issued BTHL Shares. TWB Holdings is controlled, advised and managed by Templewater I, G.P., which is wholly-owned by Templewater Holdings Limited, which is in turn owned as to 50% by Investec Bank plc and 50% by Mr. Zhang. Templewater HK is also wholly-owned by Templewater Holdings Limited. Mr. de Mascarel de la Corbiere is currently a director of Templewater HK and a Managing Partner of Templewater. Mr. Zhang and Mr. de Mascarel de la Corbiere will remain as directors of BTHL and BTSL after Completion.

The TW Advisory Agreement (including the payment of the consultancy fee and the discretionary bonus thereunder) is a pre-existing arrangement between the Target Group and the Templewater group that was entered into prior to the Acquisition Agreement, and the parties to the TW Advisory Agreement were not, and are not, connected persons of the Company as at the date of the Acquisition Agreement. For the purpose of Chapter 14A of the Listing Rules, after Completion, TWB Holdings will become a substantial shareholder of a subsidiary of the Company (i.e. BTHL), and will be regarded as a connected person of the Company at the subsidiary level. Templewater Holdings Limited, as the indirect holding company of TWB Holdings as described above, is an associate of TWB Holdings and therefore will become a connected person of the Company under Chapter 14A of the Listing Rules. As Templewater HK is wholly-owned by Templewater Holdings Limited, it is an associate of Templewater Holdings Limited and Templewater HK will become a connected person of the Company for the purpose of Chapter 14A of the Listing Rules after Completion. After Completion, as Templewater HK will become a connected person of the

Company for the purpose of Chapter 14A of the Listing Rules by virtue of the relationships discussed above, should the TW Advisory Agreement be renewed, it would constitute a connected transaction of the Company under Chapter 14A of the Listing Rules, and the Company will comply with all the applicable requirements under the Listing Rules.

To manage the connected transactions between the Enlarged Group and the Templewater group after Completion, the Company shall ensure that any agreements between members of the Enlarged Group and Templewater group shall be on terms no less favourable than those provided by Independent Third Parties, be fair and reasonable and in the interests of the Shareholders as a whole.

Master Framework Agreement for Battery-electric Buses

In accordance with the provisions of the Franchises, the Target Group selects bus suppliers primarily through open tender. In order to transition into and develop a greener bus fleet, an open tender for the procurement of battery-electric buses was conducted by Citybus in June 2021 (the "**2021 Tender**"). Wisdom submitted a bid in response to the 2021 Tender and was informed in August 2021 that it was one of the successful bidders. A first framework agreement was entered into between Wisdom, as the supplier and Citybus, as the purchaser, in March 2022. Subsequently, upon expiry of the first framework agreement, Citybus conducted a second open tender in 2023 in response to which Wisdom (HK) submitted a bid. After the said tender process, Wisdom (HK) was informed that it was one of the successful bidders in the tender exercise, and on 11 October, 2023, Citybus, as the purchaser, and Wisdom (HK), as the supplier, entered into the Electric Bus Procurement Framework Agreement.

The principal terms of the Electric Bus Procurement Framework Agreement are as follows:

Subject:	Citybus shall have the right (but not the obligation) to place one or more orders for up to 50 units of battery-electric double decker buses (the "**Vehicle(s)**") and Wisdom (HK) shall supply the Vehicles in accordance with the delivery schedule, provided that Citybus shall place the orders on or before 31 December, 2025.
Term of agreement:	11 October, 2023 to 31 December, 2025 (being the last date on which an order can be placed by Citybus).
Price:	The price (the "**Price**") of each Vehicle is as follows: (i) On or before 31 December, 2023: US$446,000 (ii) 1 January, 2024 to 31 December, 2024: US$447,000 (iii) 1 January, 2025 to 31 December, 2025: US$448,000

Pricing basis:	The Price of each Vehicle shall be the net price after deducting all trade discounts; and shall include costs for materials, equipment, parts, labour, production, type approval examination, motor vehicle examination, issuance of the certificate of fitness, insurance (including but not limited to the insurance to the port of discharge, insurance in transit and the insurance policies), storage, shipping, custom clearance, local delivery; any applicable taxes and duties; and any other costs and charges necessary for the Vehicle to be delivered to the designated location of Citybus.
Payment term:	Wisdom (HK) shall invoice Citybus for each Vehicle in accordance with the agreed Price and the payment terms, and Citybus shall settle Wisdom (HK)'s invoice in accordance with the following payment terms for the supply of each Vehicle:

Within sixty (60) Business Days upon Citybus's receipt of Wisdom (HK)'s invoice	10% of the Price for the Vehicle
Within sixty (60) Business Days upon Citybus's receipt of Wisdom (HK)'s invoice to be issued after the lay-down of the chassis for body-build of the Vehicle together with evidence to prove the aforesaid	50% of the Price for the Vehicle
Within sixty (60) Business Days upon Citybus's receipt of Wisdom (HK)'s invoice to be issued after the Vehicle has passed Citybus's quality control inspection and the motor vehicle examination inspection, and all necessary documentations are ready and available for Citybus to obtain the vehicle registration licence issued by the Transport Department	40% of the Price for the Vehicle

As at the Latest Practicable Date, no order had yet been placed by Citybus under the Electric Bus Procurement Framework Agreement. As confirmed by TWB Holdings and the Target Company, the selection of Wisdom (HK) as the supplier and the Price were determined based on the open tender process. The tender process involved the issue of an invitation to tender by Citybus, followed by tender submission by tenderers. The tenders submitted were assessed by Citybus based on price and qualitative assessment criteria under a scoring system adopted by Citybus. The tenders with the highest total scores were recommended to the board of directors of Citybus for consideration and if approved, and Citybus will enter into the relevant agreement(s) with the selected tenderers for the awarded item under the tender. Please refer to the sub-section headed "Appendix I – Information about the Target Group – 5. Business – Procurement for new buses" to this circular for details of the bus procurement process.

Information on Wisdom (HK)

Wisdom (HK) is part of the Wisdom group of companies, which is headquartered in the PRC and principally engaged in the design and manufacture of zero-emission commercial vehicles offering both battery-electric vehicles and hydrogen fuel cell electric vehicles. Its products include electric and hydrogen powered buses, coaches, trucks, logistic vehicles and specialised vehicles. Wisdom is the main operating company within the Wisdom group and was founded in 2019. Based on publicly available information, its products have been sold overseas including to Australia and Japan, and in February 2024, it unveiled Hong Kong's first hydrogen-powered tri-axle double decker bus for public use in Hong Kong. The Wisdom group first came to be known to the Templewater group after Wisdom, as an Independent Third Party, submitted a bid in the 2021 Tender. After signing of the first bus supply framework between Wisdom and Citybus in March 2022 in respect of the 2021 Tender, Templewater made a decision to invest into the Wisdom group. In June 2022, Templewater and Ballard Power Systems Inc (a company listed on NASDAQ, stock code: BLDP) led and completed the series A round investment into the Wisdom group, and as at the Latest Practicable Date, the Templewater group controls Wisdom Group Holdings Limited, an exempted company incorporated under the laws of the Cayman Islands and the holding company of the Wisdom group of companies.

Based on information available to the Company, Wisdom (HK) is an indirect wholly-owned subsidiary of Wisdom Group Holdings Limited. The Templewater group controls Wisdom Group Holdings Limited through its shareholding in Wisdom Moon (BVI) Limited, TW Moon Limited, Templewater Wisdom A Limited and Templewater Decarb P2 Ltd, which together hold an aggregate of approximately 58.63% of the total issued shares of Wisdom Group Holdings Limited. Each of Wisdom Moon (BVI) Limited, TW Moon Limited, Templewater Wisdom A Limited and Templewater Decarb P2 Ltd are controlled by Templewater Holdings Limited. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the shareholders of Wisdom Group Holdings Limited (including those controlled by Templewater as disclosed above) and their respective ultimate beneficial owners are Independent Third Parties.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Zhang and Investec plc are the ultimate beneficial owners of Templewater Holdings Limited, each beneficially interested in 50% of the total issued shares of Templewater Holdings Limited.

The Electric Bus Procurement Framework Agreement is a pre-existing arrangement between the Target Group and Wisdom (HK) that was entered into prior to the Acquisition Agreement, and the parties to the Electric Bus Procurement Framework Agreement were not, and are not, connected persons of the Company as at the date of the Acquisition Agreement. As the Electric Bus Procurement Framework Agreement is a framework agreement, Citybus may place order(s) for battery-electric buses from Wisdom (HK) pursuant to the terms of the agreement during its term. As described above, after Completion, TWB Holdings will become a substantial shareholder of a subsidiary of the Company (i.e. BTHL) and be regarded as a connected person of the Company at the subsidiary level, and Templewater Holdings Limited will become a connected person of the Company for the purpose of Chapter 14A of the Listing Rules, and as Wisdom (HK) is an associate of Templewater Holdings Limited, Wisdom (HK) will become a connected person of the Company, and transactions between members of the Enlarged Group and Wisdom (HK) would be connected transactions of the Company under Chapter 14A of the Listing Rules. As the purchase of battery-electric buses is capital in nature, such transactions would not fall within the scope of continuing connected transactions under Rule 14A.31 of the Listing Rules. The Company will comply with the relevant rules of Chapters 14 and 14A in respect of any purchases of buses from Wisdom (HK) after Completion. To manage the connected transactions between the Enlarged Group and the Wisdom group after Completion, the Company shall ensure that any agreements between members of the Enlarged Group and Wisdom group shall be on terms no less favourable than those provided by Independent Third Parties, be fair and reasonable and in the interests of the Shareholders as a whole.

Information on ABL

ABL is an investment holding company and is principally engaged in the provision of management services to BTSL and its subsidiaries. ABL is a wholly-owned subsidiary of Ascendal Holdings Limited, the parent company of Ascendal Group Limited. Ascendal Group Limited was engaged by BTHL since 2020 to provide fleet management and operating services as well as strategic advice to BTHL and its subsidiaries.

Ascendal Group Limited is a unique organisation that aims to implement world class solutions in how public transportation is perceived, accepted and delivered. Its founder and executive chairman, Mr. Adam Daniel Leishman ("**Mr. Leishman**"), has a proven track record of transformation of public transportation in some of the world's leading cities, including London and Singapore. Mr. Leishman was a co-founder of Tower Transit in 2013 and led the business as the chief executive officer of Ascendal Group during its rapid growth and success achieved both in London and Singapore, epitomised by being awarded the British Expertise International Company of the Year Award in 2017. Ascendal Group Limited has projects in four continents across mobility, infrastructure investment, strategic advisory and urban development. ABL is ultimately wholly owned by a trust of which the beneficiaries comprise Mr. Leishman and his family members. As at the Latest Practicable Date, to the best knowledge, information and belief of the Directors, ABL and its ultimate beneficial owners are Independent Third Parties. After Completion, ABL will cease to have any shareholding interest in BTHL.

Since the 2020 Acquisition, the Ascendal Group has provided strategic advisory services related to fleet management and operating services to BTHL (and subsidiaries), which was the acquisition vehicle, and has continued to be the holding company for the investors (i.e. TWB Holdings, ABL and Glorify), for the 2020 Acquisition. Please refer to the section headed "Introduction" above for the background information of the 2020 Acquisition. Ascendal Group Limited started providing advisory services to BTHL under an operating partnership agreement entered into in December 2020 which was later replaced by a fleet management and operating agreement (as amended and the term of which commenced in February 2021) (the "**Ascendal Arrangements**"), which leveraged on the experience of the Ascendal team, including but not limited to that of Mr. Leishman, in operations in the public transportation sector. Such arrangements were designed to (i) advise the investors (through BTHL) in identifying strategies to improve performance and meet budgets, (ii) establish a structure to mitigate risks under the franchises and protect BTHL's, and therefore, its investors', investments and, later, (iii) provide services for business improvement and overhaul in parallel with negotiations with regard to the renewal of the relevant bus franchises, to be followed by (iv) a higher level and general oversight role aiming to establish a permanent structure readying the business for future opportunities of the investors. The services under the Ascendal Arrangements were provided in two phases. The first phase took place during the first two years of the Ascendal Arrangements and has been completed, and the responsibilities of Ascendal during the first phase included, but were not limited to, leading the Target Group through a business improvement and overhaul phase in parallel with negotiating a franchise renewal, ensuring that the business of the Target Group operated as required under its franchise agreements, risks are mitigated on behalf of the Target Group as much as is reasonably possible and the business of the Target Group meets its targeted budgets. The Ascendal Arrangements are currently in the second phase, and the responsibilities of Ascendal include, but not limited to, the compliance of BTHL with the franchises and other operational licenses held by the Target Group, and ensuring the business of the Target Group are being operated as required under the franchises, risks are mitigated on behalf of BTHL, and the business meets its targeted budgets. The Ascendal Arrangements commenced on 16 February, 2021 and is expected to continue until 15 February, 2026.

Based on the provisions of the Ascendal Arrangements, Ascendal charged a management fee of HK$18 million each year for the first two years of the term, HK$8 million for the third year of the term (the period from 16 February, 2023 to 15 February, 2024), HK$7 million for the fourth year of the term (the period from 16 February, 2024 to 15 February, 2025), and HK$6 million for the fifth year of the term (the period from 16 February, 2025 to 15 February, 2026). The management fee under the Ascendal Arrangements mainly helped to cover the costs of senior executives engaged for such arrangement, as well as other Ascendal team members who provided services under the Ascendal Arrangements including the cost of Ascendal team to relocate to Hong Kong initially and/or spend substantive time in Hong Kong and a negotiated amount reflecting the expected contributions by Ascendal to increase the efficiencies of bus operations based on their experience. A discretionary bonus may be paid based on Ascendal's (and its representatives') performance under the Ascendal Arrangements. As the services under the Ascendal Arrangements were provided by Ascendal through its designated representatives, all employee related costs would, effectively, be borne by Ascendal and the cost to the Target Group would be limited to the management fees. BTHL is also required to pay Ascendal a fixed allowance incurred by Ascendal or its representatives in connection with the provision of the services during agreement period, in the amount of HK$1 million each year for the first two years of the term, HK$445,000 for the third year of the term (the period from 16 February, 2023 to 15 February, 2024), HK$389,000 for the fourth year of the term (the period from 16 February, 2024 to 15 February, 2025), and HK$333,000 for the fifth year of the term (the period from 16 February, 2025 to 15 February, 2026).

In view of the experience and track record of the Ascendal Group and Mr. Leishman in the public transportation sector mentioned above, the Target Group is also working with them (including, without limitation, entering into joint venture arrangements) in exploring and identifying new business opportunities, new markets and areas, into which the Target Group can expand, such as Southeast Asia and the Middle East. As at the Latest Practicable Date, Mr. Leishman is a director of each of BTHL, BTSL, Citybus, NWFB and BML.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceeds 100%, the Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. In addition, the Listing Committee has resolved that the Acquisition is an extreme transaction under Rule 14.06C of the Listing Rules and the requirements for reverse takeovers in Chapter 14 of the Listing Rules do not apply. Accordingly, the Acquisition is subject to the reporting, announcement, circular, Shareholders' approval and accountants' report requirements as set out in Chapter 14 of the Listing Rules. The Company is required to prepare a transaction circular under an enhanced disclosure comparable to prospectus standard. Anglo Chinese has been appointed as the financial adviser to the Company in connection with the Acquisition and to perform due diligence on the Target Group.

In respect of the Strategic Purchase, should it occur, (i) on a standalone basis, all the applicable percentage ratios (as defined under the Listing Rules) exceed 5% (but are below 25%), and would constitute a discloseable transaction (but not an extreme transaction or reverse takeover) of the Company under Chapter 14 of the Listing Rules, and (ii) when aggregated with the Previous Transactions, one or more of the applicable percentage ratios (as defined under the Listing Rules) exceed 25% (but are below 100%), and would constitute a major transaction (but not an extreme transaction or reverse takeover) of the Company on an aggregated basis under Chapter 14 of the Listing Rules. As the Company had complied with the major transaction requirements in respect of the Previous Transactions, the Strategic Purchase, should it occur, would not be required to be reclassified by aggregating it with the Previous Transactions. Should the Strategic Purchase take place, the Company will make announcement(s) as and when necessary in accordance with the applicable requirements of the Listing Rules.

As the exercise of the Call Option is at the discretion of the Purchaser, only its premium will be taken into account for the purpose of classification of notifiable transaction on the grant of the Call Option by TWB Holdings to the Purchaser. Given the Call Option will be granted at nil consideration, the applicable percentage ratios calculated in accordance with Rule 14.75(1) of the Listing Rules are less than 5% and, therefore on a standalone basis, the grant of the Call Option does not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules.

As the exercise of the Put Option is not at the discretion of the Purchaser, the grant of the Put Option by the Purchaser to TWB Holdings will be classified as if the Put Option had been exercised under Rule 14.74(1) of the Listing Rules. For illustration purposes, assuming there is no other change to the total issued BTHL Shares from the date of Completion up to the end of the Put Option Period, if Glorify does not exercise the Call Option and the Put Option is fully exercised by TWB Holdings in respect of 30% of the total issued BTHL Shares at the end of the Put Option Period, the Put Consideration payable by the Purchaser will be HK$1,875 million. Based on the foregoing, on a standalone basis, one or more of the applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules in respect of the grant of the Put Option exceeds 100%, and the grant of the Put Option constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules.

The Company (through the Purchaser) may decide to exercise the Call Option. As the exercise of the Call Option, and the grant and exercise of the Put Option are part of the arrangements relating to the Acquisition, they will be aggregated with the Acquisition for the purposes of Chapter 14 of the Listing Rules. The aggregate amount of the Consideration of HK$2,722,045,000, the Deferred Payment Interest of HK$144,375,000, the Additional Interest of HK$146,250,000 and the maximum Put Consideration of HK$1,875,000,000 (assuming Glorify does not exercise the Call Option and the Put Option is fully exercised by TWB Holdings in respect of 30% of the total issued BTHL Shares at the end of the Put Option Period) will be HK$4,887,670,000. As the Acquisition constitutes an extreme transaction under Rule 14.06C of the Listing Rules, the exercise of the Call Option and the grant and exercise of the Put Option (when aggregated with the Acquisition) constitute an extreme transaction as aforesaid.

Thus, the Company will also seek Shareholders' approval in respect of the exercise of the Call Option and the Put Option at the EGM (in addition to seeking Shareholders' approval for the grant of the Put Option) under Rule 14.76(2) of the Listing Rules.

Accordingly, should the Acquisition be completed, any exercise of the Call Option or the Put Option (as the case may be) will not require any further approval from Shareholders, provided that further announcement in respect thereof will be made.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholders have a material interest in the Acquisition and the transactions contemplated thereunder (including the Acquisition Agreement, the Strategic Purchase, the Specific Mandate, the New Shareholders' Agreement, the grant of the Call Option and the Put Option, and the exercise of the Call Option and the Put Option) and no Shareholders are required to abstain from voting at the EGM.

CLOSURE OF REGISTER OF MEMBERS

The EGM is scheduled to be held on Wednesday, 17 July, 2024. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 12 July, 2024 to Wednesday, 17 July, 2024, both days inclusive, during which period no transfer of Shares will be registered. In order to attend and vote at the EGM, all duly completed share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar and transfer office of the

Company in Hong Kong, Tricor Secretaries Limited, 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 11 July, 2024.

EGM

Notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular.

Pursuant to the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. An announcement on the results of the poll will be published by the Company after the EGM in the manner prescribed under the Listing Rules.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and of the Company (www.hansenergy.com). To be valid, the form of proxy must be completed and signed in accordance with the instructions stated thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for the holding of the EGM (i.e. not later than 10:30 a.m. on Monday, 15 July, 2024) or the adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM and at any adjournment thereof if you so wish. In such event, the form of proxy shall be deemed to be revoked.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Acquisition Agreement, the Specific Mandate, the New Shareholders' Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole. The Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition Agreement, the New Shareholders' Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular and the notice of the EGM.

Completion of the Acquisition is conditional upon the fulfilment of the conditions set out under the paragraph headed "Conditions precedent" in this circular, which may or may not be fulfilled. Accordingly, the Acquisition may or may not proceed. Shareholders and potential investors of the Company should exercise caution when they deal or contemplate dealing in the Shares and other securities of the Company.

Yours faithfully,
By Order of the Board
Hans Energy Company Limited
漢思能源有限公司
Yang Dong
Chief Executive Officer and Executive Director

RISKS RELATING TO THE ACQUISITION

Completion is subject to the fulfilment of conditions precedent as set out in the Acquisition Agreement, and may not take place as contemplated, or at all. Certain of these conditions precedent involve the actions and decisions of third parties, including relevant regulatory authorities, which are not within the control of the contracting parties to the Acquisition Agreement. The Company cannot assure its Shareholders that all or any of the conditions precedent as set out in the Acquisition Agreement will be fulfilled or the Completion will take place as contemplated, or at all. Please refer to the section headed "Letter from the Board – The Acquisition – Principal Terms of the Acquisition Agreement" in this circular for details.

Further, pursuant to the Acquisition Agreement, a portion of the Consideration is to be satisfied by the Deferred Payment which would be payable by Glorify in tranches after Completion. After Completion, the Purchaser is also expected to pay the Call Consideration and/or the Put Consideration upon the exercise of the Call Option and/or the Put Option pursuant to the New Shareholders' Agreement. Please refer to the sections headed "Letter from the Board – The Acquisition – Principal Terms of the Acquisition Agreement – Consideration" and "Letter from the Board – The Acquisition – Principal Terms of the Acquisition Agreement – The New Shareholders' Agreement – Glorify's call option and TWB Holdings' put option" for further details of the Consideration and the Call Option and the Put Option. Also, as stated in the section headed "Letter from the Board – Financial Impact on the Group – Possible effect on assets and liabilities", the Enlarged Group would have a net current liabilities position due to the payment of the Earnest Money and the Second Cash Payment and the portion of Deferred Payment due on or before 31 December, 2024. The Group intends to use its internal resources and borrowings of the Enlarged Group to pay the remaining portion of Consideration. However, the Company cannot assure its Shareholders that it will be able to obtain adequate financing (either by equity or debt) on commercially satisfactory terms or generate sufficient cash flow in the future to make the Deferred Payment and the Call Consideration and/or the Put Consideration (including the interest accrued thereon).

RISKS RELATING TO THE BUSINESS AND INDUSTRY OF THE TARGET GROUP

There is no assurance that the patronage of the Target Group's franchised bus business may return to the levels prior to COVID-19.

The first confirmed case of COVID-19 in Hong Kong was first reported in January 2020. Since then, there were multiple rounds of outbreak of COVID-19 in Hong Kong and the Government had announced various measures, including travel restrictions and safe distancing measures, in order to reduce the risk of local transmission, which had a material adverse impact on the Target Group's franchised bus business and operating performance including patronage during the Trading Record Period.

In FY2021, FY2022 and FY2023, the patronage of the Target Group's franchised bus business was 322.0 million passenger journeys, 276.5 million passenger journeys and 339.7 million passenger journeys, respectively. With the stabilisation of the COVID-19 situation and the lifting of the mask-wearing requirement in Hong Kong in March 2023, Hong Kong has begun to return to normalcy. However, there is no assurance that the Target Group's patronage may return to the levels prior to COVID-19 (given that the patronage for the year ended 31 December, 2019 was 394.3 million passenger journeys) since the patronage is subject to a number of factors, including but not limited to, passengers' travel habits, passengers' preference among different modes of transport, competition from other transport service providers (see below for details), bus route planning and frequencies, fares, and demographic changes within the Target Group's bus network. Further, if there is any new large-scale outbreak of COVID-19 or other epidemic in Hong Kong, it may lead to implementation of new travel restrictions, safe distancing measures and quarantine arrangements. It may have a material adverse impact on the Hong Kong economy and may result in reduction in the bus patronage and travelling frequencies of the public in Hong Kong, which may in turn result in a material adverse effect on the business, financial condition and results of operations of the Target Group.

The Target Group operates in a competitive industry in Hong Kong and competition from other transport service providers may adversely affect the Target Group.

The Target Group competes with other transport service providers, principally trains, other franchised bus operators, public light bus operators, as well as non-franchised bus, tram and ferry operators and taxis. Some of the Target Group's competitors may have certain advantages, including but not limited to having a long operating history, different financing capabilities and well-developed transport networks. The Target Group, while having competitive strengths in terms of comprehensive bus route planning, low lost trip rates, speed, reliability and comfort, has faced significant challenges from other transport service providers such as the expansion of the train networks. In the Government's Public Transport Strategy Study published in June 2017, while the Government confirmed that franchised buses have a pivotal role in the public transport system, it also reiterated that railway is the backbone of Hong Kong's public transport system (recently re-affirmed in the Government's Latest Progress of the Traffic and Transport Strategy Study for discussion in the Legislative Council Panel on Transport in July 2023) and that other public transport such as non-franchised buses, public light buses and trams will continue to play supplementary roles. Future extensions of the train network, such as Tuen Mun South Extension of the Tuen Ma Line, may adversely affect the revenue to be generated from and the patronage of the bus routes along the area with such train network extensions. For example, in FY2022, the patronage of the Target Group has been affected by the opening of the East Rail Line Cross-harbour Extension in FY2022.

As the Target Group's bus franchises are non-exclusive in nature, new participants may wish to enter the industry provided that they have the appropriate skills, local experience, bus fleet, staff, necessary equipment, capital and that they are granted the requisite franchises by the Government. The Target Group has to provide quality services at competitive fare levels to maintain and expand its market share in the face of keen competition from other public transport operators. Any significant increase in competition may result in lower operating margins and loss of market share, which may adversely affect the Target Group's profitability and operating results.

The Target Group is subject to extensive regulatory scrutiny and requirements imposed by the Government and non-compliance with which may result in penalties, limitations and prohibitions on the Target Group's future business activities or suspension or revocation of the Target Group's franchises and licenses, and consequently may materially and adversely affect the Target Group's business, financial condition, operations and prospects.

The Government regulates and monitors franchised bus services systematically through the PBSO and the grant of franchises under the PBSO. Citybus, as a grantee of the bus franchise, is required, at all times during the franchise period, to maintain to the satisfaction of the Commissioner a proper and efficient public bus service pursuant to the PBSO. If Citybus fails to provide a proper and efficient public bus service and comply with the requirements under the PBSO and the Franchises, the Chief Executive in Council may impose a financial penalty on Citybus or revoke its right to operate any specified routes or the Franchises altogether. For further details of the requirements under the PBSO and the Franchises, please refer to the section headed "3. Regulatory Overview – Laws and Regulations Relating to Public Bus Services in Hong Kong" in this appendix.

Although the bus franchises of the Target Group were granted by the Government whereby the Merged Franchise became effective on 1 July, 2023, and CTB (F2) 2023 Franchise became effective on 1 May, 2023, there can be no assurance that the aforesaid power of revocation will not be exercised by the Government. If the Target Group's bus franchises or other licences (such as passenger service licence or travel agency licence) were to be suspended or revoked, it would not be able to operate its franchised bus business or other businesses (such as non-franchised bus business and travel agency business) and, accordingly, could not generate revenues from the relevant business segments, which may result in a material adverse effect on its business, financial condition and results of operations.

The ability to raise fares and profitability of the Target Group's franchised bus operation is subject to a number of factors or limitations.

There can be no assurance that patronage of the Target Group will increase or be maintained or that the Target Group can charge a higher level of fares to cover any increase in operating costs or to raise profitability. Although the Target Group may submit applications for increase in fares of its bus franchises to the Government, its ability to raise fares is subject to the mechanism under the Fare Adjustment Arrangement. In assessing a bus fare adjustment, the Government will take into account (i) changes in operating costs and revenue since the last fare adjustment; (ii) forecast of future costs, revenue and return; (iii) the need to provide the franchised bus operator with a reasonable rate of return; (iv) public acceptability and affordability; (v) the quality and quantity of services provided; and (vi) the outcome of the supportable fare adjustment rate formula, which takes into account changes in price of cost elements and improvement in productivity of the franchised bus industry. Hence, there is no guarantee that the Target Group can raise its fares in a timely manner to cover any rising operating costs.

In respect of the profitability of franchised bus operators, the Government will make reference to the weighted average cost of capital of the bus industry in considering the reasonable rate of return of the relevant franchised bus operator as measured by the operator's rate of return on average net fixed assets ("**ANFA**"). The Fare Adjustment Arrangement provides for a passenger reward arrangement such that when the rate of return on the ANFA for an operator exceeds a triggering level (currently set at 8.7%, being the weighted average cost of capital of the bus industry), the franchised bus operator will be required to share the profit above the triggering level with passengers through fare concessions on a 50:50 basis. The passengers' share of the profit is maintained as the "passenger reward balance" which serves to facilitate the offer of bus fare concessions. Hence, the Target Group's ability to raise its profitability is limited by the aforesaid cap set by the Government. The Government may raise or lower the rate of return on the ANFA of Citybus in the future and in the event that the Government lowers the aforesaid rate of return, the Target Group's business, financial conditions and results of operations may be materially and adversely affected.

The Target Group received government subsidies during the Trading Record Period, which are non-recurring in nature, and there is no guarantee that the Target Group will continue to receive government subsidies at a similar level or at all.

The Target Group recognised government subsidies of approximately HK$101.0 million, HK$320.7 million and HK$8.3 million in FY2021, FY2022, and FY2023, respectively. The government subsidies mainly included (i) the Government's support for relieving operating pressure as a result of the outbreak of COVID-19 pandemic which mainly included subsidies on fuel costs, regular repairs and maintenance costs, one-off subsidy for franchised and non-franchised buses, wage subsidy under the Employment Support Scheme and the Job Creation Scheme, respectively, (ii) government grant recognised over the useful lives of three hybrid buses and ten electric buses, and (iii) COVID-19-related rent concessions on lease liabilities (not applicable for FY2023). For details on the government subsidies and grants received by the Target Group, please refer to the section headed "7. Management discussion and analysis – Discussion of the key items in respect of the consolidated income statements – Other income – Government subsidies" in this appendix.

As the government subsidies of the Target Group are non-recurring in nature, the Target Group may not receive the aforesaid or other forms of government subsidies at a similar level or at all. In the event of any changes in government measures or policies, resulting in any suspension, material reduction or termination of government subsidies received by the Target Group, the Target Group's business, financial conditions and results of operations may be materially and adversely affected.

Difficulty in recruiting sufficient labour including bus captains may hinder the Target Group's compliance with the franchise requirements and undermine future business strategies.

It is a requirement under the Merged Franchise, CTB (F2) 2023 Franchise and the PBSO that the franchise grantee shall maintain a proper and efficient bus service. It is also one of the Target Group's business strategies to expand the Target Group's labour resources by recruiting additional bus captains in order to maintain the Target Group's current staffing needs and expand bus route networks. However, the franchised bus industry in Hong Kong has been facing the problem of labour shortage and ageing workforce. To manage its labour risks, the Target Group adopts a variety of means to recruit and retain qualified bus captains, including referral mechanisms, signing bonuses, competitive remuneration and fringe benefits, as well as continuous training. However, there may still be potential difficulties for the Target Group to recruit sufficient labour (including bus captains) to maintain low lost trip rates and proper and efficient bus services, as well as to implement the Target Group's future business strategies in expanding the bus network. Any material difficulties in recruiting sufficient labour (including bus captains) for the implementation of the Target Group's future business strategies may adversely affect the Target Group's ability to successfully grow the Target Group's business, which may in turn adversely affect the Target Group's business, financial condition and/or results of operations.

There is no assurance that the exemption of franchised buses from paying toll when using Government tolled tunnels and roads will continue.

Since February 2019, franchised buses have been exempted from paying toll when using Government tolled tunnels and roads pursuant to Regulation 12(3) of the Road Tunnels (Government) Regulations (Chapter 368A of the Laws of Hong Kong). A reserve has been set up for each franchise, namely the Franchised Bus Toll Exemption Fund, to keep the toll saved. When Citybus, as a franchised bus operator, applies for a fare increase and the Chief Executive in Council considers that there is a justifiable need to increase the fare, the balance in the Toll Exemption Fund would be released as revenue from the Toll Exemption Fund to mitigate the extent of the fare increase shouldered by the passengers, as is the case for other franchised bus operators. The Target Group's revenue from the Toll Exemption Fund amounted to approximately HK$77.9 million, HK$69.4 million and HK$102.8 million in FY2021, FY2022 and FY2023, respectively. If a franchised bus operator does not face pressure for a fare increase, and the toll savings exceed the relevant cap of the TEF set by the Government, such excess would be distributed to the passengers through appropriate fare concession arrangements.

If, in the future, the Target Group is no longer exempted from such toll payment, the Target Group's business, financial condition and results of operations may be materially and adversely affected.

There is no assurance that the Public Transport Fare Concession Scheme and the ECFS will continue.

The Public Transport Fare Concession Scheme, while providing benefits to the elderly people and eligible persons with disabilities in Hong Kong by enabling them to travel on designated public transport mode at a concessionary fare of HK$2, can be considered as a form of government support provided to the franchised bus operators, as the patronage of the Target Group may be boosted by such scheme and the Government reimburses the franchised bus operators the actual applicable fare after deducting any concessions offered by the franchised bus operators minus the uniform flat rate of HK$2 per trip paid by an eligible beneficiary. The Target Group recognised fare revenue from the Public Transport Fare Concession Scheme in the amount of approximately HK$144.9 million, HK$295.5 million and HK$415.9 million, in FY2021, FY2022 and FY2023, respectively.

Further, under the ECFS, by offering voluntary fare concessions for elderly persons, Citybus is exempted from paying the annual vehicle licence fees and is reimbursed the rentals paid in respect of government land to offset the revenue foregone under the scheme. The Target Group recognised fare revenue from the ECFS in the amount of approximately HK$50.7 million, HK$50.4 million and HK$74.8 million, in FY2021, FY2022 and FY2023, respectively.

However, there is no guarantee that the Government will continue with the Public Transport Fare Concession Scheme and the ECFS, or that the relevant exemption and reimbursement will not change. In the event of any changes in government measures or policies, resulting in any suspension, material reduction or termination of the fee exemption or reimbursements receivable by the Target Group, its business, financial conditions and/or results of operations may be adversely affected.

The Target Group's indebtedness could materially and adversely affect its liquidity and profitability.

The Target Group has significant indebtedness, particularly indebtedness incurred in connection with the 2020 Acquisition. As at 31 December, 2023, the Target Group had total debt (summation of bank loans and deferred payment) of approximately HK$2,069.3 million, and a gearing ratio (calculated by total debt divided by total equity and multiplied by 100%) of 336%. The Target Group's ability to make scheduled payments on the Target Group's indebtedness and maintain the Target Group's liquidity will depend heavily on the Target Group's future operating performance and cash flow, which in turn depend on numerous factors, such as market demand for franchised bus services and competition from other transport service providers. There is no assurance that the Target Group will continue to generate sufficient cash flow in the future to service its debt. If the Target Group is unable to make timely payment with respect to some or all of such indebtedness, the Target Group may need to renegotiate with the lenders or to obtain additional equity or debt financings. There can be no assurance that any of these alternatives could be effected on satisfactory terms. Consequently, the Target Group's business, results of operations and financial condition could be materially and adversely affected.

The Target Group has a history of net losses, which may continue in the future.

The Target Group has historically incurred net losses and the Target Group may not be able to achieve or maintain profitability or positive cash flow in the future. The Target Group incurred net losses of approximately HK$220.6 million, HK$206.6 million and HK$73.6 million in FY2021, FY2022 and FY2023, respectively. The Target Group's operating costs and expenses may increase in the foreseeable future as the Target Group continues to grow its business, acquire new buses, invest in enhancing service quality, develop service offering, and increase brand recognition. Any of these efforts may incur significant capital investment and recurring costs, have different revenue and cost structures, and take time to achieve higher profitability. The Target Group may also continue to incur net loss in the future due to changes in the macroeconomic and regulatory environment as well as competitive dynamics. If the Target Group continues to incur loss, the Target Group may have to finance by way of equity or debt financing, which may not be available at an ideal price term or at all.

Changing fuel costs may reduce the Target Group's profitability.

Fluctuating fuel prices may reduce the Target Group's profitability. Fuel represents a sizeable cost to the franchised bus industry. Hence, an increase in fuel prices may increase the Target Group's costs. The Target Group incurred fuel and oil expenses of approximately HK$203.5 million, HK$308.3 million and HK$450.2 million in FY2021, FY2022 and FY2023, respectively. In the event that the patronage of and the level of fares charged by the Target Group fail to cover rising fuel costs, its profitability may be adversely affected. The cost of fuel can fluctuate significantly and is subject to many economic and political factors that are beyond the Target Group's control, primarily including the political instability in oil-producing regions and geopolitical landscape.

In order to reduce its exposure to movements in fuel prices, the Target Group has hedged a portion of such exposure. However, this merely helps to reduce, but does not eliminate, the impact of fuel price increases.

Increase in staff costs and fees payable to subcontractors may materially and adversely affect the Target Group's business, financial condition and results of operations.

The staff costs of the Target Group amounted to approximately HK$1,720.6 million, HK$1,669.6 million and HK$1,787.6 million, representing the single largest component of the Target Group's operating costs and accounting for approximately 54.5%, 52.9% and 53.0% of the Target Group's operating costs in FY2021, FY2022 and FY2023, respectively. In addition, the Target Group has outsourced certain functions, including cleaning and refuelling of buses, depots and other facilities, security services at bus depots and other facilities, repair and maintenance of ancillary IT systems and machines, cash-in-transit services for collection of cash fares from buses, and production and installation in relation to advertising, to subcontractors. In FY2021, FY2022 and FY2023, the total subcontracting costs of the Target Group amounted to approximately HK$116.9 million, HK$132.1 million and HK$168.9 million, representing approximately 3.7%, 4.2% and 5.0% of the Target Group's operating costs, respectively.

To maintain and improve the Target Group's profitability, it is important for the Target Group to control and manage its staff costs and subcontracting costs. However, the Target Group faces rising pressures in relation to staff costs and subcontracting costs for various reasons. The minimum wage in Hong Kong has been increasing in recent years, resulting in upward pressure on its staff costs and the fees it pays to its subcontractors. If the Target Group is unable to increase the bus fares or to improve its operational efficiency to compensate for higher staff costs, the Target Group's business, financial condition and results of operations may be materially and adversely affected.

As the Target Group's bus fleet ages, the Target Group's operating costs and capital expenditure may increase in the future and adversely affect the Target Group's business, financial condition and results of operations.

In general, the cost of maintaining a bus in a good operating condition increases with the age of the bus. As the Target Group's bus fleet ages, the Target Group will incur increased costs for repair and maintenance. Older buses are typically less fuel efficient and more costly to maintain than more recently manufactured buses. Furthermore, franchised bus operators including Citybus have committed to replacing buses before they reach 18 years old in order to maintain a proper and efficient franchised bus service to the travelling public. Buses aged 18 and above would not normally be allowed to operate on the road. This may require extra capital expenditures for the early or normal replacement of buses. The Target Group cannot provide assurance that, as the Target Group's bus fleet ages, market conditions will justify those expenditures or enable the Target Group to operate the Target Group's buses profitably during the remainder of their useful lives.

The Target Group's profitability may be materially and adversely affected by the potential increase in depreciation expenses and staff costs upon the Target Group's acquisition of additional buses and the Target Group's recruitment of additional bus captains.

While the Franchise Merger of the Target Group in 2023 is expected to bring about resource, staff and bus route rationalisation, it is also one of the business strategies of the Target Group to acquire new buses from time to time, in particular, environmentally friendly buses and those that meet the passengers' expectation, and recruit additional bus captains to fill the current bus captain shortage, improve its service quality and align itself with the strategy and initiatives of the Government in promoting green transport (including transitioning to zero-emission bus fleet), easing air pollution and reducing carbon emissions. If the Target Group acquires additional buses and recruits additional bus captains, the Target Group may incur higher depreciation expenses and staff costs.

The Target Group may be required to pay higher wages in its recruitment and employee retention efforts, resulting in an increase in the Target Group's staff costs. Moreover, the growth of headcount will also increase the associated costs of the Target Group, such as those related to training, and MPF contributions. Any failure to recruit and retain qualified employees in the future may delay the growth in the Target Group's business.

The Target Group's success depends on its ability to retain its core management team and to recruit, train and retain qualified personnel.

The Target Group's continued success is highly dependent upon the efforts of its core management team and key employees. If any of the Target Group's core management team members and key employees leaves and the Target Group is unable to promptly hire and integrate a qualified replacement, its business, financial condition and/or results of operations may be materially and adversely affected. For further information on the Target Group's core management team, please refer to the section headed "6. Core Management Team" in this appendix. In addition, the future growth of the Target Group's business will depend in part on its ability to attract and retain qualified personnel in all aspects of its business, including but not limited to bus captains, corporate management and bus fleet management personnel. If the Target Group is unable to attract and retain qualified personnel, its growth may be limited and its business, financial condition and/or results of operations could be materially and adversely affected.

The Target Group requires significant capital for its business and is exposed to the impact of interest rate movements, including, amongst others, possible prolonged period of elevation of interest rate, in respect of its borrowings. If the Target Group is unable to obtain additional capital on commercially satisfactory terms when needed, its growth prospects and future profitability may be adversely affected.

The Target Group incurs substantial capital expenditure each year to maintain, renew and replace its operating assets and infrastructure such as buses, kiosks at bus interchanges, supporting vehicles, technology and systems, depots and facilities. It also incurs substantial capital expenditure when it implements new upgrades in respect of its facilities and acquires new buses. Substantial portions of the Target Group's operating cash flows are used to pay for these capital expenditures. If the Target Group is unable to fund capital expenditures from operating cash flows and external sources, it will be required to reduce its capital expenditures. This would restrict the Target Group's ability to grow and, over time, could reduce the quality and reliability of the service it provides.

In addition, the Target Group has borrowed, and expects to continue to borrow, significant amounts at floating rates. The Target Group is therefore exposed to the impact of interest rate movements, including, amongst others, possible prolonged period of elevation of interest rate, in respect of its borrowings. In order to reduce its exposure to movements in interest rates, the Target Group has typically hedged a portion of such exposure. However, this merely helps to reduce, and does not eliminate, the impact of interest rate movements.

The Target Group's post-Franchise Merger business, staff and bus routes rationalisation and other business plans and strategies may not be successful or be achieved within the expected time frame or within the estimated budget.

During the Trading Record Period, Citybus operated two separate franchises, namely the CTB (F1) Franchise and CTB (F2) Franchise, while NWFB operated one franchise, namely the NWFB Franchise. CTB (F1) Franchise and NWFB Franchise were merged into the Merged Franchise which became effective on 1 July, 2023. The Franchise Merger may allow the Target Group to reduce the amount of light mileage operated on a daily basis. Prior to the Franchise Merger, a large portion of mileage was regarded as light mileage (non-revenue generating) due to the inability to share resources across the franchises, with buses having to travel large distances to reach the franchise-specific depots or from/to route start/end points. The Franchise Merger is expected to have the effect of improving efficiency, through reducing direct operating costs by removing some duplication in routes, allowing higher bus frequencies on popular routes with fewer buses involved, which could improve fuel efficiency, and streamline repairs and maintenance.

Further, the BTHL Group may benefit from a number of other synergies and a more efficient use of resources. Following the Franchise Merger, Citybus may be able to deploy drivers in differing manners, reducing the amount of overtime payments required and improving duty rostering among bus captains.

However, the Target Group's resource rationalisation, plans and strategies may be hindered by risks including but not limited to those mentioned elsewhere in this section. There is no assurance that the Target Group will be able to successfully maintain or increase the Target Group's market share or grow the Target Group's business successfully after deploying the Target Group's management and financial resources.

In addition, as mentioned above, it is one of the business strategies of the Target Group to acquire and develop a fleet of environmentally friendly buses so as to align itself with the initiatives of the Government in promoting green transport and reducing carbon emissions. However, it is uncertain that the Target Group may be able to roll out and implement such business strategy as planned, or within the expected timeframe or costs.

Any failure in maintaining the Target Group's current market position or implementing the Target Group's plans could materially and adversely affect the Target Group's business, financial condition and results of operations.

The Government can exert significant influence on the Target Group's franchised bus business and could cause it to make decisions, modify the scope of its activities or impose new obligations on it that may not necessarily be in the best interests of the Target Group. The Government's policies, intentions, preferences, views, expectations, projections, forecasts and opinions set out in this circular could be changed or modified in the future.

Pursuant to the PBSO, the Government is entitled to appoint not more than two persons, representing the Government-appointed Directors and such persons shall represent the Government. The Government-appointed Directors shall be entitled to participate at meetings of the grantee and the board of the grantee such as Citybus. The Government is therefore in a position to influence significantly the major business decisions and strategies in respect of the franchised bus operations of the Target Group.

The Target Group also competes with other franchised public transport system operators (to each of which the Government is entitled to appoint certain board members). Thus, the Government may use its ability to influence the Target Group's franchised bus business and/or the businesses of the Target Group's competitors (whether through its shareholding interest, board representation or through regulation) in a manner that may not be in the best interests of the Target Group.

The Government's policies, intentions, preferences, views, expectations, projections, forecasts and opinions set out in this circular, such as the positioning of franchised buses as a pivotal role in the public transport planning, could be changed or modified in the future. The Government may also adopt new policies and enact new laws in relation to franchised bus services, environmental, employment and safety matters, which may result in increased operating costs for the Target Group or otherwise have an adverse impact on the Target Group's business.

Industrial actions or strikes may materially and adversely affect the Target Group's business.

During the Trading Record Period, the Target Group did not encounter any strike action or other material labour disputes that have materially disrupted the Target Group's operation in Hong Kong.

As at the Latest Practicable Date, the employees of the Target Group were mainly involved in its own labour relations consultation committee (namely Citybus Joint Consultative Committee, which is not a trade union registered under TUO (Cap. 332), as well as the following trade union organisations: (i) the Citybus Branch of the Motor Transport Workers General Union, a trade union registered under TUO (Cap. 332); (ii) the Bravo Transport Services Limited (Citybus) Staff Union (formerly known as "New World First Bus Company Staff Union"), a trade union registered under the TUO (Cap. 332); and (iii) Citybus Limited Employees Union, a trade union registered under the TUO (Cap. 332).

First, there is no assurance that industrial actions or strikes will not be launched in the future, whether to request more welfare and/or benefits. Second, such industrial actions or strikes may adversely impact the Target Group's business, financial condition and/or results of operation.

In respect of the Target Group's non-franchised bus operation and advertising service, any delay in delivering the Target Group's services or meeting the schedules caused by such actions or strikes may also be taken into consideration by the Target Group's customers and thus will impact the Target Group's likelihood of winning future tenders.

Any negative publicity about the Target Group or harm to the Target Group's brand or reputation may materially and adversely affect the Target Group's business, market share and results of operations.

The Target Group believes that building a strong brand and reputation as a provider of franchised and non-franchised bus services and advertising services is critical to the Target Group's business and competitiveness. The brand recognition and reputation of the Target Group's "Citybus" and "NWFB" brands and the successful maintenance and enhancement of its brand and reputation have contributed and will continue to contribute significantly to its success and growth. Any negative perception and publicity, whether or not justified, such as complaints and accidents in relation to passenger experience and services offered, and its brand awareness and recognition, and actual or perceived deterioration of the Target Group's service quality could tarnish its reputation and reduce the value of its brand, which may result in loss of passengers or clients.

With the increased use of social media, adverse publicity can be disseminated quickly and broadly, making it increasingly difficult for the Target Group to respond and mitigate effectively. Negative public perception on the business of the Target Group, even if factually incorrect or based on isolated incidents, could undermine the trust and credibility the Target Group have established and have a negative impact on the Target Group's ability to attract passengers or new clients or retain the Target Group's current passengers or clients.

If the Target Group fails to comply with applicable anti-corruption and anti-bribery laws, the Target Group's reputation may be harmed and the Target Group could be subject to penalties and significant expenses that have a material adverse effect on the Target Group's business, financial condition and results of operations.

The Target Group is subject to the anti-corruption and anti-bribery laws of Hong Kong, which include but are not limited to the PBO. The Target Group's procedures and controls to monitor anti-corruption and anti-bribery compliance may fail to protect the Target Group from reckless or criminal acts committed by the Target Group's employees. If the Target Group, due to either the Target Group's own acts or those of others, fails to comply with applicable anti-corruption and anti-bribery laws, the Target Group's reputation could be harmed and the Target Group could incur criminal or civil penalties, other sanctions and/or significant expenses, which could have a material adverse effect on the Target Group's business, including the Target Group's financial condition, results of operations, cash flows and prospects.

Any future changes in existing laws, regulations and Government policies, including but not limited to the introduction of more stringent laws and regulations on bus franchise, licensing, environmental protection, labour safety, etc. may cause the Target Group to incur substantial additional expenditure.

Many aspects of the Target Group's business operations are governed by various laws and regulations and Government policies which may be subject to changes. Such changes may also increase the Target Group's costs and burden in complying with them, which may materially and adversely affect the Target Group's business, financial condition and results of operation. If there are any changes to and/or imposition of the requirements for qualification in the franchised and non-franchised bus operations, including those in relation to environmental protection and labour safety, and the Target Group fails to meet the new requirements in a timely manner or at all, the Target Group's business operations may be materially and adversely affected.

The Target Group depends on the Target Group's suppliers for buses, vehicle parts and fuel and subcontractors for services such as cleaning and security. Any shortage, or delay of supply or deterioration in product or service quality by the Target Group's suppliers and subcontractors may adversely affect the Target Group's business, financial condition and/or results of operation.

The Target Group procures buses, vehicle parts and fuel from suppliers and contract with subcontractors for the provision of cleaning and security services. One of the franchise provisions under the CTB (F2) 2023 Franchise and the Merged Franchise requires Citybus, as the grantee, to put out contracts that are material to its bus services for open tendering as far as practicable. In order to control and ensure the quality of the products, work and progress of the Target Group's suppliers and subcontractors, the Target Group selects suppliers and subcontractors based on factors such as their quality of services, qualifications, skills and technique, prevailing market price, delivery time, availability of resources, as applicable, in accommodating the Target Group's requests and reputation.

There is no assurance that the work or product quality of the Target Group's suppliers and subcontractors can always meet the Target Group's requirements. The Target Group may be affected by the non-performance, inappropriate or poor quality of works or products provided by the Target Group's suppliers and subcontractors. The Target Group relies on the Target Group's suppliers for stable and timely delivery of vehicle parts and fuel to maintain the Target Group's operations. If there is any shortage of such supplies and/or a material delay in delivery by the Target Group's suppliers, the Target Group may fail to maintain a fully utilised bus fleet and its franchised bus operation may be disrupted. Further, there is no assurance that the Target Group would not encounter any problems with the Target Group's suppliers and subcontractors in the future. Such events could impact upon the Target Group's profitability, financial performance and reputation. In addition, there is no assurance that the Target Group will always be able to secure services from suitable suppliers and subcontractors when required, or be able to negotiate acceptable fees and terms with suppliers and subcontractors. In such event, the Target Group's business, financial condition and/or results of operation may be adversely affected.

In the event that employees of the Target Group's subcontractors suffer personal injuries as a result of accidents arising out of and/or in the course of such injured workers working in the Target Group's facilities and/or buses, the Target Group may be involved in claims and litigations. During the Trading Record Period and up to the Latest Practicable Date, the Target Group had not been involved in any claims and litigations with employees of the Target Group's subcontractors which arose in the ordinary course of providing services to the Target Group.

Natural disasters, adverse weather conditions, political unrest, terrorist attacks, or widespread epidemics could adversely affect the Target Group's business operation, lead to decreased revenues and increased expenses and reduce the Target Group's operating flexibility.

Natural disasters, adverse weather conditions, political unrest, terrorist attacks, or widespread epidemics such as swine flu, avian influenza, severe acute respiratory syndrome, Ebola, Zika, coronavirus, accidents, could cause the Target Group to reduce or halt its operation, adversely affect its business operation, increase its costs and/or prevent it from delivering the franchised and non-franchised bus services and completing its projects and service contracts. Any one of such events could materially and adversely affect the Target Group's business, financial condition and results of operations. It may lead to decreased revenues, increased expenses for repair and maintenance of buses and over-time payment to bus captains, prolonged interruptions in, or reductions of, the franchised and non-franchised bus operations, a reduction in the Target Group's operating flexibility, increased liabilities for the Target Group and bring about pressure for greater regulation. The Target Group believes that the insurance it has put in place is adequate and consistent with industry practice, however there is no assurance that it will be sufficient to cover the Target Group's losses or that such insurance will continue to be available to the Target Group on the same terms.

The occurrence of a disaster or a prolonged outbreak of an epidemic or other adverse public health developments in Hong Kong could materially disrupt the business and operations of the Target Group. Any outbreak or resurgence of widespread epidemics may also lead to labour shortage, increase in wages of the workers/bus captains and/or interruption of the Target Group's other business operations including contract and private hire services and advertising services, such as temporary suspension or delay of the work progress of the Target Group's advertising agency projects and contract and private hire services. Further, there is no assurance that the Target Group will not experience any project delays or failure to complete or deliver its advertising projects and contract and private hire services according to the planned specifications and schedule as a result, which may expose it to potential claims from customers and result in adverse impact on the Target Group's reputation, business, financial condition and results of operations.

The Target Group's operations may also be affected if any of the Target Group's employees or employees of the Target Group's subcontractors for the cleaning and security services is suspected of contracting any infectious disease, since this may require the Target Group and its subcontractors to quarantine some or all of the relevant employees and disinfect the Target Group's depots and facilities used for its operations. These adverse impacts, if they materialise and persist for a substantial period of time, may significantly and adversely affect the Target Group's business operations and financial performance.

In addition, if the Government introduces measures to combat the spread of any epidemics including lockdown policy on a city-wide scale, there is no assurance that the Target Group's suppliers would be able to (a) maintain their normal business operation without disruptions; and/or (b) deliver the services, materials or subcontracting services to the Target Group without delay, and there is no guarantee that the Target Group would be able to source the services, materials or subcontracting services from alternative suppliers or subcontractors in time if such measures persist for a substantial period.

The Target Group may be a party to legal proceedings from time to time and the Target Group cannot assure you that such legal proceedings will not have a material adverse impact on the Target Group's business.

The Target Group may be involved in claims and litigations in respect of various matters from its bus operations and other parties concerned with its business from time to time. Such claims may include, in particular, employees' compensation claims and personal injury claims in relation to personal injuries suffered by road users (such as drivers, pedestrians and passengers) arising out of and/or in the course of the Target Group's bus operations, and workers as a result of accidents arising out of and/or in the course of employment of the injured workers. During the Trading Record Period and up to the Latest Practicable Date, the Target Group was involved in a number of employees' compensation claims and personal injury claims, which arose in the ordinary course of the Target Group's business, but they were not considered by the Target Group to have any material adverse impact on its business, financial condition and/or results of operations. For details, please refer to the paragraphs headed "5. Business – Health and Work Safety" and "5. Business – Legal Proceedings and Regulatory Compliance" in this appendix.

There is no assurance that the Target Group will not be involved in any claims or legal proceedings, nor that any such claims or legal proceedings would not have a material adverse impact on the Target Group's business. Should any claims against the Target Group fall outside the scope and/or limit of insurance coverage, the Target Group's financial condition may be adversely affected. Regardless of the merits of any outstanding and potential claims, the Target Group may need to divert management resources and incur extra costs to handle these claims, which could affect the Target Group's corporate image and reputation if they were published by the press. If the aforesaid claims were successfully made against the Target Group and are not covered by insurance policies, the Target Group may need to pay damages and legal costs, which in turn could adversely affect the Target Group's financial condition and/or results of operations.

The Target Group's insurance may not cover all losses associated with the Target Group's business operations.

The Target Group has obtained insurance to cover certain potential risks and liabilities. The Target Group maintains various insurance policies to provide insurance coverage over its buses, supporting vehicles and properties, such as, *inter alia*, third party motor insurance (buses), motor insurance for support vehicles, and fire and theft insurance for buses. However, other than events involving fire and/or theft, the insurance policies in respect of the bus fleet of the Target Group do not cover force majeure or natural disaster events such as typhoon and flooding, and certain criminal events such as criminal damage. Please refer to the paragraph headed "5. Business – Insurance" in this appendix for details. Hence, there can be no assurance that the Target Group's insurance coverage may cover all losses associated with the Target Group's business operations or that the Target Group will be able to successfully claim the Target Group's losses under the Target Group's current insurance policies on a timely basis. If the Target Group incurs any loss that is not covered by the Target Group's insurance policies, or the compensated amount is significantly less than the Target Group's actual loss, its business, financial condition and results of operations could be materially and adversely affected.

The Target Group collects, processes and uses data, some of which contain personal information. Any privacy or data security breach could damage the reputation and brand of the Target Group and substantially harm its business, financial condition and results of operations.

The Target Group has installed CCTV on its buses and records all bus journeys it operates, and the recordings would only be stored for a limited period of time (typically three to five days) until overwritten. The Target Group also collects and retains customers' personal data, including personal identifiable information, to facilitate its follow-up actions in cases such as passenger complaints or accident. For example, to administer certain bus-to-bus transit discount, the Target Group has to identify and retain records of a customer's first bus journey to automatically reduce fare collected on the second bus journey. In such cases, the octopus card numbers of customers are collected and retained, but the Target Group does not collect or retain names of the customers.

Operations of the Target Group hence require it to store large volume of data over its servers and network. Examples of such data include location of its bus fleets, driving behaviour of its bus captains, personal data, CCTV recordings, etc. While the Target Group has adopted measures to alleviate cybersecurity risks which may cause personal data leakage or even disruption of bus service, such as conducting checks on internal IT systems, engaging external IT consultant to conduct health checks and maintaining cyber security insurance policies, security breaches and hackings to the Target Group's system might result in a compromise to the technology and the infrastructure that the Target Group uses to protect confidential information. The Target Group may not be able to prevent third parties, especially hackers or other individuals or entities engaging in similar activities, from illegally obtaining the confidential information. Any privacy or data security breach could damage reputation and brand of the Target Group and substantially harm its business, financial condition and results of operations. Please refer to paragraphs headed "5. Business – Internal control and risk management – Risk management – Personal data related risks" and "5. Business – Internal control and risk management – Risk management – Cybersecurity risks" in this appendix for further details.

The Target Group faces risks associated with the tenancies of the Target Group granted by the Government as landlord for the franchised bus operations which can be terminated by the Government on a short notice or which terms may not be renewed by the Government.

As at the Latest Practicable Date, a majority of the Target Group's tenancies granted by the Government as landlord (for the purpose of the Target Group's franchised bus operations) are short term tenancies with an initial fixed term and renewed on a quarterly basis, until such tenancies are terminated. There can be no assurance that the Target Group will be able to renew or maintain such tenancies which are material to its franchised bus operation. The Government has a right of early termination under said tenancies by giving one month's notice to the Target Group to resume, re-enter upon and retake possession of all or any part of the leased properties if the same shall be required for the improvement of Hong Kong or for any other public purpose whatsoever (as to which the decision of the Chief Executive of Hong Kong shall be conclusive). Further, after expiry of the initial fixed term, the Government may terminate those tenancies without reason by giving a three- or six-month' notice (depending on the tenancies).

Therefore, any inability of the Target Group to renew or maintain tenancies with the Government could have a material adverse effect on the Target Group's franchised bus business and/or results of operations. Further, the Target Group may also incur significant capital expenditure in reinstatement, relocation, renovation, installation and/or construction of the relevant facilities as a result thereof. Further, if the Government terminates any of the said tenancies, the Target Group may be required to search for comparable replacement and as such the Target Group's business, financial condition and results of operations may be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN HONG KONG

The state of the economy and social and political environment in Hong Kong may impact the Target Group's performance and financial condition.

During the Trading Record Period, all of the Target Group's operations are based in and revenue is derived from Hong Kong. Any major changes to Hong Kong's economic, social and political landscape will have a huge impact on the Target Group's business. If there is a downturn in the economy of Hong Kong, social unrest, civil movements or protests which may interrupt the Target Group's franchised bus operations, its business, financial condition and/or results of operations may also be adversely affected.

Changes in tax laws and regulations in Hong Kong may adversely affect the Target Group's business.

Under the current Hong Kong laws and regulations, the Target Group's profit is subject to taxation in Hong Kong. There is no assurance that the current tax laws and regulations will not be revised or amended in the future. Any revision or amendment in the tax laws and regulations in Hong Kong may have an adverse impact on the Target Group's business operations and financial results.

RISKS RELATING TO THIS CIRCULAR

Certain statistics contained in this circular are derived from the Ipsos Report and publicly available publications.

Certain facts and statistics in this circular, including, but not limited to, information and statistics relating to the franchised bus industry, are based on the Ipsos Report or are derived from various publicly available publications, which the Directors believe to be reliable. Such information and statistics have been derived from various official government and other publications and from the Ipsos Report commissioned by the Company. The Company believes that the sources of such information are appropriate sources for such information and has taken reasonable care in extracting and reproducing such information, but such information has not been independently verified by the Company, the Financial Adviser or any of the Company's or the Financial Adviser's respective directors, officers or representatives, and no representation is given as to its accuracy. The Company thus cannot guarantee the quality or reliability of such facts and statistics. Therefore, you should not place undue reliance upon any industry facts and statistics derived from the Ipsos Report or public sources contained in this circular.

Forward-looking statements contained in this circular are subject to risks and uncertainties.

This circular contains certain statements and information that are forward-looking and uses forward-looking terminology such as "anticipate", "believe", "could", "going forward", "intend", "plan", "project", "seek", "expect", "may", "ought to", "should", "would" or "will" and similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this circular should not be regarded as representations or warranties by the Company that the relevant plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, the Company does not intend to update or otherwise revise the forward-looking statements in this circular to the public, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this circular are qualified by reference to this cautionary statement.

You should read the entire circular carefully, and the Company strongly cautions you not to place any reliance on any information contained in press articles or other media regarding us or the Acquisition. There may be, subsequent to the date of this circular but prior to the Completion, press and media coverage regarding the Company and the Acquisition, which contains, among other things, certain financial information, projections, valuations and other forward-looking information about the Company and the Acquisition. The Company has not authorised the disclosure of any such information in the press or other media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. It makes no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about the Company. To the extent such statements are inconsistent with, or conflict with, the information contained in this circular, the Company disclaims responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this circular only and should not rely on any other information.

You should rely solely upon the information contained in this circular and any formal announcements made by us in Hong Kong in making your investment decision regarding the Shares. The Company does not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Shares, the Acquisition or the Company. The Company makes no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in the Shares.

The information in the section has been partly derived from various publicly available Government sources, market data providers and other independent third-party sources, and from the market research report prepared by Ipsos, which was commissioned by the Company. The Directors believe that the information has been derived from appropriate sources and reasonable care has been taken in extracting and reproducing the information. The Directors have no reason to believe that such information is false or misleading in any material respects or that any fact has been omitted that would render such information false or misleading in any material respects. The information from official Government sources has not been independently verified by the Company, the Financial Adviser, or any of their respective affiliates, directors or advisers or any other persons or parties involved in the Acquisition, other than Ipsos with respect to the information contained in the Ipsos Report, and no representation is given as to the correctness and accuracy of the information. Accordingly, the information from official Government sources contained herein may not be accurate and should not be unduly relied upon.

SOURCE OF INFORMATION

The Company has commissioned Ipsos, an independent market research company, to analyse and report on the industry development and competitive landscape of the franchised bus industry in Hong Kong for the period from 2018 to 2028 at a fee of HK$410,000, which the Directors believe reflects market rates for reports of this type. Ipsos is an independent market research company wholly owned by Ipsos Group S.A. It was founded in Paris, France in 1975 and became publicly listed on NYSE Euronext Paris in 1999. Ipsos acquired Synovate Limited in October 2011 and currently employs approximately 19,500 personnel worldwide across 90 countries. Ipsos is one of the largest research companies in the world, conducting research on market profiles, analyses of market size, share and segmentation, distribution and value analyses, competitor tracking, and corporate intelligence. It was engaged to conduct market research, analyses and assessments in over 170 initial public offering of companies listed on the Stock Exchange.

The Company has included certain information from the Ipsos Report in this circular because the Directors believe this information facilitates an understanding of the franchised bus industry in Hong Kong for the Shareholders and investors of the Company. The Ipsos Report includes information on the franchised bus industry in Hong Kong as well as other economic data, which have been quoted in this circular. The information in the Ipsos Report is derived from data and intelligence obtained by (i) primary research via interviews with key knowledge leaders; and (ii) secondary desk research based on the Government and regulatory statistics, industry reports, and other analyst reports. Except as otherwise noted, all the data and forecasts contained in this section are derived from the Ipsos Report. In compiling and preparing the research, Ipsos assumed that the social, economic, and political environments in the relevant markets are likely to remain stable in the forecast period, which ensures the steady development of the franchised bus industry in Hong Kong.

MACROECONOMIC ENVIRONMENT OVERVIEW OF HONG KONG

Population trend in Hong Kong

According to the Census and Statistics Department, Hong Kong's population has increased from about 7.48 million people in 2018 to about 7.52 million people in 2023, at a CAGR of 0.09%. Such slight increase was mainly attributable to (i) the slowdown in the emigration of residents and (ii) inflow of about 40,800 one-way permit holders and a net inflow of about 10,800 of other Hong Kong residents in 2023.

With the stabilisation of the COVID-19 pandemic and the relaxation of related Government restrictions, Hong Kong has begun to return to normalcy, and it is anticipated that a portion of the residents who had emigrated may continue to return to Hong Kong. The Government has also implemented immigration policies to attract Mainland and overseas talents in support of the city's economic and social development. The Hong Kong population is therefore expected to remain relatively stable at around 7.54 million people from 2023 to 2028.

Number of private cars per 1,000 residents in Hong Kong

The motorisation rate in Hong Kong is relatively low. Based on statistics published by the Transport Department, the number of registered private cars per 1,000 residents in Hong Kong has experienced a slow growth from 75.5 in 2018 to 77.0 in 2023, which represents a CAGR of approximately 0.4%. It is expected that the number of registered private cars per 1,000 residents in Hong Kong will remain relatively stable, with a moderate increase, from 78.9 in 2024 to 82.4 in 2028, at a CAGR of approximately 1.1%.

Despite their considerable aggregate wealth, Hong Kong residents have maintained a low level of car dependency, largely due to the city's well-developed public transport system and space scarcity. The low motorisation rate in Hong Kong is also partially attributable to the Government's policies to promote public transport and discourage private vehicle ownership and use. These factors have created an environment favouring mass transit over private motorisation during the historical period and will remain throughout the forecast period.

Types of public transport in Hong Kong

According to the Global Transport Index Survey 2023, Hong Kong's public transport system ranked third in the world. This efficient and comprehensive multi-modal system includes the following major types of public transport:

(i) **Railways**: Railways are the backbone of Hong Kong's public transport system, accounting for about 42% of all trips made on public transport daily in 2023. Hong Kong's railways are run by the MTRC, which has an extensive railway network consisting of nine local lines, the Airport Express, the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section) and the Light Rail system.

(ii) **Public buses:** Public bus services in Hong Kong can be categorised into franchised and non-franchised bus services. For details, please see "Overview of the franchised bus industry in Hong Kong" below.

(iii) **Public light buses**: Public light buses, also known as minibuses, are categorised into green minibuses providing scheduled services and red minibuses providing non-scheduled services.

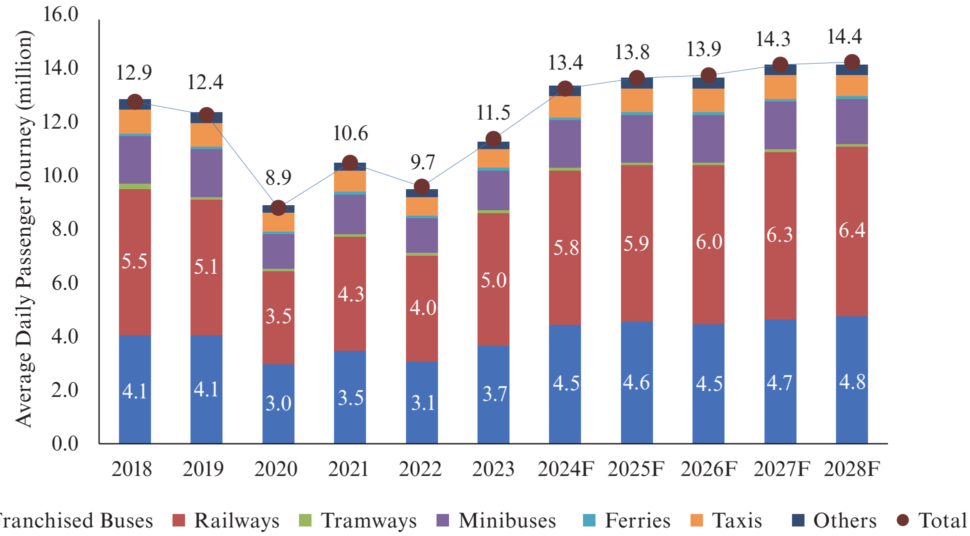
(iv) **Others:** This category mainly includes other options such as tramways operated by the Hong Kong Tramways Limited on Hong Kong Island, taxis operated in most areas of Hong Kong, and ferries connecting various outlying islands and facilitating transportation across the Victoria Harbour.

Average daily passenger journey on public transport system in Hong Kong

The average number of daily passenger journeys on the public transport system in Hong Kong decreased from about 12.9 million journeys in 2018 to about 11.5 million journeys in 2023, representing a CAGR of approximately –2.3%. The falling trend during the period was attributable to, among others, (i) the impact of COVID-19 Government restrictions imposed during the outbreak of the pandemic; (ii) the increased adoption of remote work or work-from-home arrangements by Hong Kong corporations; and (iii) to a certain extent, the slower-than-expected recovery in the number of visitors to Hong Kong.

During the forecast period from 2024 to 2028, the average number of daily passenger journeys on the public transport system in Hong Kong is expected to increase from the base of 11.5 million journeys in 2023 to 13.4 million journeys in 2024. By 2028, this is expected to increase to 14.4 million journeys. It is expected that the growth will be supported by the implementation of the recommendations under the Traffic and Transport Strategy Study. This includes the proposed promulgation of a Transport Study Blueprint in 2025, whereby related measures are expected to be implemented to improve road use efficiency and shorten passengers' journey time, which will increase passenger demand for public transport during the period from 2023 to 2028.

The graph below sets forth the average number of daily passenger journeys via various public transport modes in Hong Kong from 2018 to 2028F:



Sources: Transport Department, Ipsos research and analysis

In line with other public transport modes, franchised buses' share of the average daily passenger journeys decreased from about 4.1 million in 2018 to about 3.7 million in 2023, representing a CAGR of approximately –2.0%. During the outbreak of COVID-19, the work-from-home arrangement, social distancing measures and tightened border control measures lowered the demand of both Hong Kong citizens and overseas visitors for public transport, which led to a decline in the average number of daily passenger journeys. As Hong Kong fully reopened in March 2023, the average number of daily passenger journeys has recovered from 9.7 million in 2022 to 11.5 million in 2023.

The most utilised modes of public transportation in Hong Kong are railways, franchised buses and minibuses, which operated about 5.0 million, 3.7 million and 1.5 million average daily passenger journeys in 2023, respectively. Each of these top three modes of transportation accounted for about 43.9%, 31.9% and 12.7% of the total average daily passenger journeys in 2023, respectively.

Franchised buses' share of the average daily passenger journeys is expected to increase from about 4.5 million in 2024 to about 4.8 million in 2028, representing a CAGR of approximately 1.4%. The CAGR of franchised bus services is expected to be the highest amongst all public transport modes as the Government is exploring the introduction of additional transit options, which could include additional routes for franchised buses, to tie in with the expansion of Newly Developed Areas (NDAs) such as the Kwu Tung North/Fanling North New Development Areas. The system is expected to enhance the operational efficiency of the franchised bus network and thus increase the passengers' demand in the NDAs.

OVERVIEW OF THE FRANCHISED BUS INDUSTRY IN HONG KONG

Types of public bus operators

Franchised buses remain a pivotal mode of public transportation, serving areas that are not easily accessible by railways and acting as feeders to the railway system. Under the PBSO, the Executive Council may grant to a registered company a franchise conferring the right to operate public bus service for a period not exceeding ten years. A franchised bus operator is required to (i) maintain a proper and efficient public bus service to the satisfaction of the Commissioner and (ii) be willing to further invest in franchised bus operation during the franchise period.

The role of **non-franchised buses** (or NFB) is to supplement mass carriers such as railways and franchised buses, especially during peak hours, by providing tailor-made services to specific groups. There are eight types of public NFB services, including (i) tourist services, (ii) hotel services, (iii) school services, (iv) employee services, (v) international passenger service, (vi) residents' services, (vii) multiple transport service and (viii) contract hire service. To operate non-franchised bus services, individuals or companies are required to apply for a Passenger Service Licence (PSL) issued by the Transport Department.

Franchised bus operators and their respective route coverages

From 2018 to June 2023, there were five franchised public bus operators in Hong Kong, namely Citybus (CTB), NWFB, The Kowloon Motor Bus Company (1933) Limited (KMB), Long Win Bus Company Limited (LWB) and New Lantao Bus Company (1973) Limited (NLB). Upon the Franchise Merger, which took effect on 1 July, 2023, and up to the Latest Practicable Date, there were then four franchised public bus operators in Hong Kong, namely CTB, KMB, LWB and NLB.

Hong Kong has an extensive network of public bus services covering almost all areas of Hong Kong Island, Kowloon, the New Territories and Lantau Island. As at 31 December, 2022, Hong Kong's franchised bus network comprised 729 routes. A summary of the number of routes operated by each franchised bus operator in Hong Kong as at 31 December, 2022 is shown in the table below:

	Number of routes operated as at 31 December, 2022				
Franchised bus operators	**Hong Kong Island**	**Kowloon and The New Territories**	**Between urban areas and Airport/ North Lantau**	**Cross-Harbour**	**Total**
CTB	51	10	30	44	135
NWFB	47	16	N/A	32	95
KMB	N/A	365	N/A	68	433
LWB	N/A	N/A	39	N/A	39
NLB	N/A	N/A	27	N/A	27

Sources: Transport Department, Citybus, annual reports of the corresponding franchised bus operators

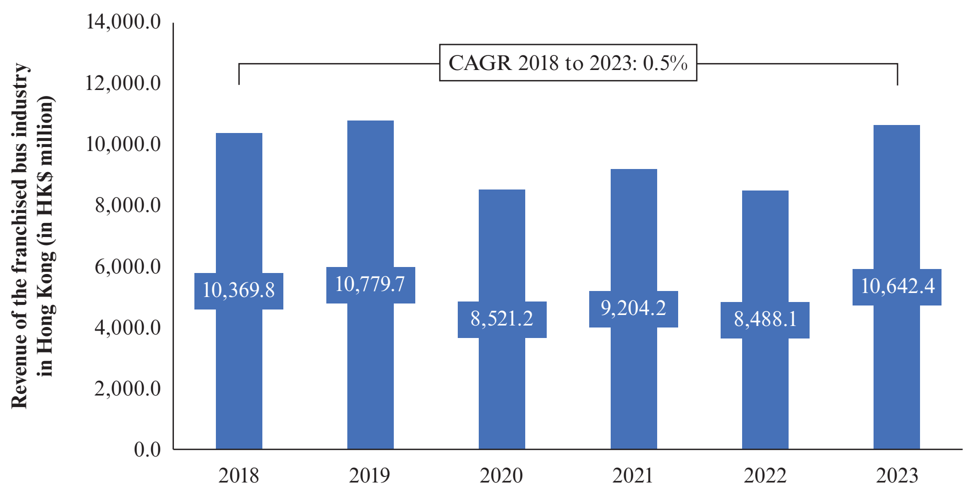
Since October 2020, CTB and NWFB have both been wholly owned by the Target Company. CTB and NWFB had historically focused on Hong Kong Island and cross-harbour routes. To enhance the franchised bus network on Hong Kong Island, the Target Group applied to the Government to merge the then franchises granted to CTB and NWFB (which served, in many areas, largely parallel networks) and CTB was granted a new 10-year franchise (i.e. the Merged Franchise) which became effective on 1 July, 2023. As at 1 July, 2023, CTB operated 234 bus routes, including 100 Hong Kong Island routes, 50 Kowloon and the New Territories routes and 84 cross-harbour routes. In September 2023, CTB was also awarded, through competitive tendering, 5 new franchised bus routes in the Shap Sze Heung New Development Area, which connect with Ma On Shan, Kowloon and Shatin.

Both KMB and LWB are subsidiaries of Transport International Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code: 0062). KMB mainly focuses on Kowloon and the New Territories routes. As at 31 December, 2022, (i) KMB operated 433 bus routes, including 365 bus routes in Kowloon and the New Territories and 68 routes on cross-harbour services; and (ii) LWB operated 39 routes, mainly connecting the New Territories with North Lantau and the Hong Kong International Airport.

NLB is a subsidiary of Kwoon Chung Bus Holdings Limited, a company whose shares are listed on the Stock Exchange (Stock Code: 306.HK). NLB focuses on the Hong Kong International Airport and North Lantau routes. As at 31 December, 2022, it mainly operated 27 bus routes on Lantau Island and New Territories.

Size of the franchised bus industry

The graph below sets forth the historical revenue of the franchised bus industry in Hong Kong from 2018 to 2023:



Sources: Transport Department, Ipsos research and analysis

Note: The above historical revenues from franchised bus operators consist of fare revenue only.

The revenue for the franchised bus industry in Hong Kong increased from about HK$10,369.8 million in 2018 to about HK$10,642.4 million in 2023, representing a CAGR of approximately 0.5%. During the period between 2019 and 2022, the industry revenue, as well as revenue of all franchised operators in Hong Kong, were negatively affected by the COVID-19 pandemic and the associated social distancing measures, as well as restrictions on visitors to Hong Kong. However, as Hong Kong returned to normalcy and re-opened its borders for visitors, the industry revenue has returned to the pre-pandemic level.

Key growth drivers

Development of new residential and commercial districts

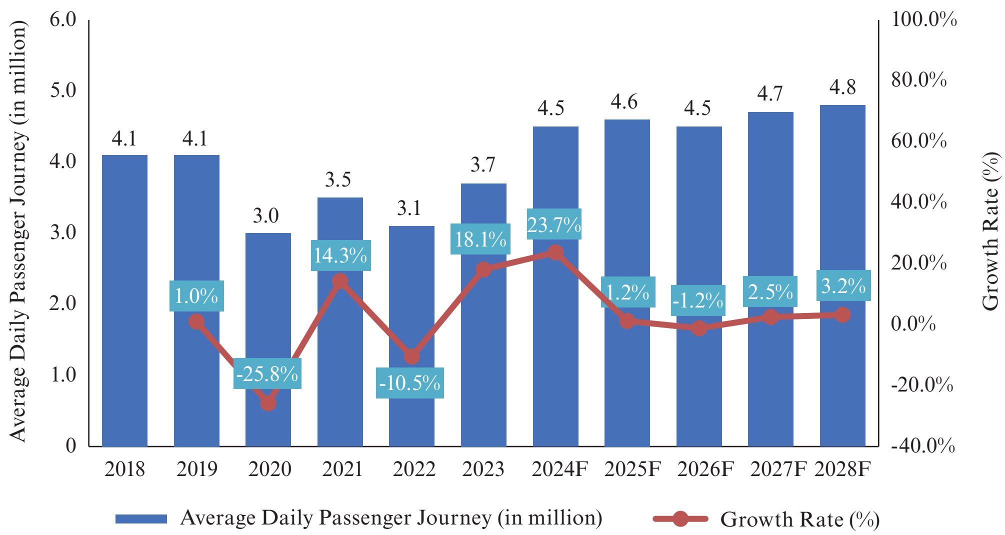
The development of new residential and commercial districts has led to an increase in population density and the need for franchised bus services in these areas. For example, the completion of new residential developments in the Kai Tak area has created a need for transport coverage, especially for buildings on the old runway. Additionally, the ongoing development of the CBD2 Kowloon East area, which includes the former Kai Tak Airport, the Kwun Tong Business area and the Kowloon Bay area, necessitates more transit mode options for commuters travelling to and from these areas. As these districts continue to develop, the demand for franchised bus services will rise further.

Bridging the transportation gap

As urban areas continue to expand, there is an increasing demand for transportation options connecting the relatively remote residential and commercial districts. Although the railway system is an efficient mode of transportation, it may not cover certain areas or may not be as easily accessible in certain areas. Franchised bus systems, therefore, have emerged as a viable solution for providing feeder services to the railways and serving as a reliable and efficient alternative for commuters from these areas.

Average daily passenger journey for franchised buses

The chart below shows the average number of franchised bus passenger journeys per day from 2018 to 2028:



Source: Ipsos research and analysis

The average number of daily passenger journeys on franchised buses had decreased from about 4.1 million in 2018 to about 3.7 million in 2023 at a CAGR of about –2.0%. This decrease was due to various COVID-19-related social distancing measures and travel restrictions from 2020 to 2022. Additionally, four bus routes were cancelled by the Transport Department as they overlapped with the Tuen Ma Line Phase 2, which commenced operations in June 2021. Cross Harbour Extension of the East Rail Line commenced operations in May 2022 and also contributed to reductions in the average number of daily passenger journeys on franchised buses. All COVID-19 restrictions had been lifted by March 2023. As a result, the number of average daily passenger journeys for franchised buses slightly recovered to 3.7 million in 2023 as compared to 4.1 million in 2019 before the onset of COVID-19.

It is forecasted that the average number of daily passenger journeys on franchised buses will increase from about 4.5 million in 2024 to about 4.8 million in 2028, at a CAGR of about 1.6%. It is expected that many new residential and construction works will be completed in the NDAs starting from 2023. For instance, the Kwu Tung North and Fanling North NDAs are expected to provide about 60,000 housing units upon completion. The New Development Area projects are expected to increase the need for additional franchised bus routes to satisfy the transportation demands during the forecast period. Moreover, CTB secured the tender to operate five new franchised bus routes from the Shap Sze Heung New Development Area to Ma On Shan, Kowloon and Shatin, along with internal routes in the New Territories in 2023, which is expected to further increase the average number of daily passenger journeys from 2023 onwards.

Number of franchised bus routes

The table below sets out the total number of franchised bus routes by public bus operators from 2018 to 2022:

Franchised bus operator	**2018**	**2019**	**2020**	**2021**	**2022**	**CAGR (2018–2022)**
KMB	409	411	417	423	433	**1.4%**
LWB	33	36	38	39	39	**4.3%**
CTB	111	116	121	126	135	**5.0%**
NWFB	94	93	93	94	95	**0.3%**
NLB	23	27	27	27	27	**4.1%**
Total	670	683	696	709	729	**2.1%**

Note: The total number of franchised bus routes from 2018 to 2021 are collected from the annual reports of the corresponding franchised bus operators, while routes of 2022 are collected from the Transport Department.

The total number of franchised bus routes in Hong Kong increased from 670 in 2018 to 729 in 2022, at a CAGR of 2.1%. The number of bus routes operated by CTB significantly increased from 2018 to 2022. For instance, CTB launched new comprehensive bus networks with routes connecting Area 54 in Tuen Mun and other urban areas in 2021, and it further launched bus routes serving the new public housing estate at Queen’s Hill in Fanling, a new route connecting Yuen Long with Siu Sai Wan and three routes diverting via North Point in 2022.

Number of franchised buses owned by the major franchised bus operators

A summary of the total number of franchised buses owned by each operator during 2018 to 2023 is set out below:

Franchised bus operator	As at 31 December, 2018	2019	2020	2021	2022	2023
KMB	4,094	4,065	3,997	4,001	3,901	3,979
LWB	261	279	238	257	264	281
CTB	978	992	967	959	890	1,495
NWFB	663	685	690	688	640	N/A(2)
NLB	155	156	150	135	132	144
Total	6,151	6,177	6,042	6,040	5,827	5,899

Source: Transport Department

Notes:

1. The number of franchised buses owned by each operator in the table above is based on the number of licensed buses disclosed by the Transport Department of the Government.

2. As the Merged Franchise took effect on 1 July, 2023, the franchised buses owned by NWFB were merged into Citybus.

Franchised bus fare trends

Between January and September 2022, five franchised bus operators submitted applications to the Government for fare increases in respect of all six bus franchisees, as tabulated below. These fare increases were implemented on 18 June, 2023.

Franchises	Rate of Increase Applied for in 2022	Weighted Average Rate of Increase as Approved by the Chief Executive in Council, with Effect from 18 June, 2023	Historical Changes in Fare Rates prior to 18 June, 2023
KMB	9.5%	3.9% (5.5% before TEF mitigation)	Increased fares four times: 2011 (3.6%), 2013 (4.9%), 2014 (3.9%) and 2021 (5.8%)
LWB	8.5%	4.2% (4.5% before TEF mitigation)	Has not increased its fares since 2011
CTB (F1) Franchise	HK$2 flat fare increase	4.9% (6.2% before TEF mitigation)	Increased fares for three times: 2019 (9.9%), 2021 (8.5%), 2022 (3.2%)

Franchises	Rate of Increase Applied for in 2022	Weighted Average Rate of Increase as Approved by the Chief Executive in Council, with Effect from 18 June, 2023	Historical Changes in Fare Rates prior to 18 June, 2023
CTB (F2) Franchise	23% except for A, NA routes(1) (50%)	4.2% (6.4% before TEF mitigation)	Has not increased its fares since mid-1997
NWFB Franchise	A flat fare increase of HK$2 across all routes	4.9% (6.2% before TEF mitigation)	Increased fares for three times: 2019 (9.9%), 2021 (8.5%), 2022 (3.2%)
NLB	9.8%	7.0%(2)	Increase in fares for only once in 2021 (9.8%) in the past 15 years

Source: Legislative Council Brief (File Ref.: TLB CR 3/5595/00)

Notes:

1. 'A' and 'NA' routes of the CTB (F2) Franchise refer to express airport bus services connecting the Hong Kong International Airport with different locations in the urban area and Tseung Kwan O.

2. There is no TEF mitigation in the case of NLB because it does not operate any route passing through Government tolled tunnels.

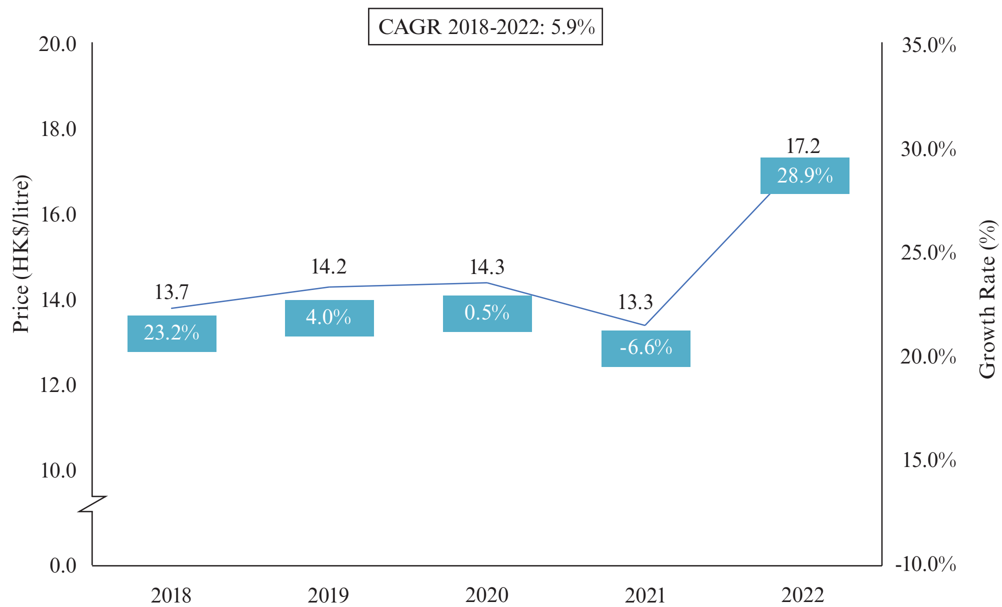
The Government promotes the involvement of the private sector in the operation of public transport services, aiming for improved cost-effectiveness and balanced fares for both passengers and operators. Historically, some operators have demonstrated restraint in increasing fares. For instance, CTB has not raised fares for routes operated under the CTB (F2) Franchise since it was first granted in mid-1997. Similarly, LWB has maintained its fare rates since 2011. CTB (F1) Franchise and NWFB have only raised their fares three times since mid-2008, while NLB has only done so once in the past 15 years.

From 2006 to 2015, the six bus franchises under the Fare Adjustment Arrangement (FAA) have seen minor fare increases between 0% and 18%, a rate significantly lower than the cumulative inflation of 38.6% for the same period. The pattern of gradual and consistent increases is expected to persist in the foreseeable future in accordance with the FAA.

Major cost trends

Diesel fuel price trend

The chart below shows the diesel fuel price trend in Hong Kong from 2018 to 2022:



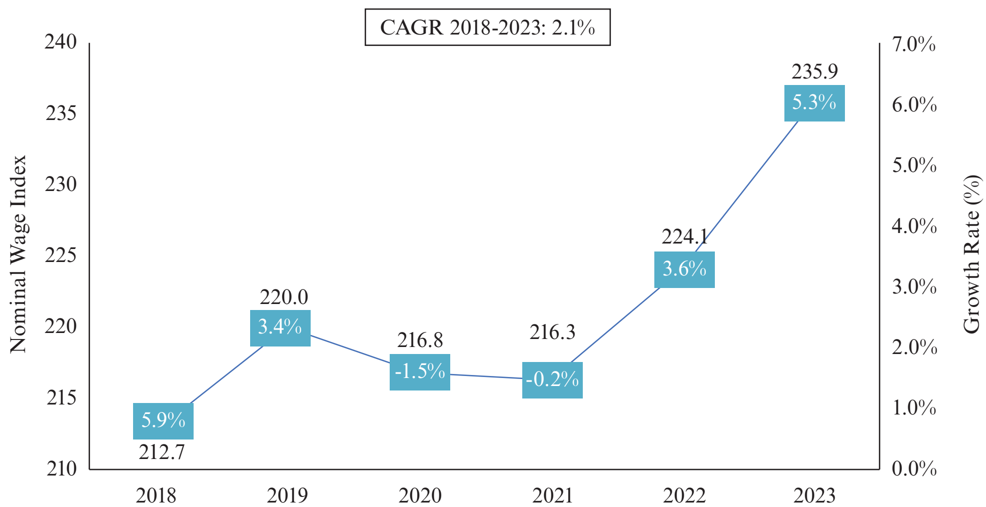
Sources: Consumer Council, Ipsos research and analysis

Note: The diesel fuel price refers to the diesel prices for Hong Kong retail prices (HK$/litre), i.e. prices to end consumers.

According to the Transport Department, registered and licensed franchised buses from all the operators use diesel fuel. The diesel fuel price hovered between HK$13.7 and HK$14.3 per litre from 2018 to 2020. There was a decline in diesel fuel prices in 2021 due to the decrease in demand from diesel fuel consumers such as private car owners and franchised bus operators. There was a price spike from 2021 to 2022, with a growth rate of 28.9%, largely due to the Russian-Ukraine crisis. The crisis led to uncertainty in the global oil market and caused oil prices to rise. Additionally, the price of crude oil, the primary ingredient in diesel fuel, rose significantly in 2022 due to the global economic recovery and supply concerns.

Nominal wage index trend for the transportation sector

The chart below shows the nominal wage index trend for the transportation sector in Hong Kong from 2018 to 2023:



Source: Census and Statistics Department

Notes:

1. The nominal wage index measures changes in the price of labour for employees up to the supervisory level in the transportation sector in Hong Kong.

2. The above nominal wage indices refer to the year-end indices from 2018 to 2023.

The nominal wage index of the transportation sector exhibited a general rising trend. The nominal wage index increased from 212.7 to 235.9 from 2018 to 2023, at a CAGR of approximately 2.1%. It generally indicates that employees in the transportation sector received higher wages. In 2020 and 2021, the nominal wage index experienced a slight decrease in the growth rate. The decrease was due to the economic downturn caused by the pandemic, resulting in businesses facing financial challenges and thus limited resources to allocate to employee wages. The nominal wage index rebounded in 2022 and 2023, with a growth rate of approximately 3.6% and 5.3%, because of the rebound in economic activities, especially tourism, that drove labour demand in the transportation sector, contributing to further growth in employee wages.

Future trends and developments in the market

Data-Driven bus scheduling and route planning

The Transport Department may introduce an "On-demand Public Transport Mode" as stated at the meeting of the Legislative Council Panel on Transport held on 14 July, 2023. Currently, Hong Kong's public transport system mainly consists of fixed-schedule and fixed-route services, which are effective during peak periods. However, during off-peak times, resources are often under-utilised, such as double decker buses carrying only a few passengers. To address this issue, the Transport Department is exploring the implementation of an on-demand public transport mode utilising technology to predict and deploy vehicles of different capacities, adjust schedules, and plan routes in specific areas.

Enhancing the sustainability and experience

According to the meeting of the Executive Council on 12 July, 2022, several new franchises were granted under section 5 of the PBSO. Such franchises are believed to significantly contribute to the long-term sustainability of the territory-wide bus networks. As part of the new franchise requirement, franchised bus operators, such as LWB and CTB, have committed to installing additional passenger shelters and exploring alternative measures to overcome site constraints at locations with high local demands. Furthermore, the franchised bus operators will also increase focus on refurbishing existing passenger shelters and exploring new shelter designs to enhance aesthetics, cleanliness, and the provision of passenger information. Additionally, some franchised bus operators, such as CTB, are putting plans in place to improve their websites and mobile applications with the aim of improving overall engagement, provision of transit information and introducing a customer loyalty programme to further enhance the overall passenger experience.

Electrification of public buses

The Government has announced several plans and initiatives to promote the adoption of new energy transport technologies and achieve zero vehicular emissions before 2050. These include the Hong Kong Roadmap on Popularisation of Electric Vehicles (EV Roadmap), the Clean Air Plan for Hong Kong 2035, and Hong Kong's Climate Action Plan 2050. The Government will also introduce a roadmap for promoting electric public transport and commercial vehicles by 2025, as well as formulating long-term strategies for applying hydrogen energy in road transport.

COMPETITIVE LANDSCAPE ANALYSIS OF THE FRANCHISED BUS INDUSTRY IN HONG KONG

Competitive landscape of the franchised bus industry in Hong Kong

The franchised bus industry in Hong Kong is regulated by the Transport Department. With only five franchised bus operators in Hong Kong as at 31 December, 2022 and only four franchised bus operators in Hong Kong as at 1 July, 2023, the franchised bus industry in Hong Kong is highly concentrated and mature. Collectively, these players in the industry captured 100% of the market share of the franchised bus industry in Hong Kong.

The table below sets forth the ranking of the top five franchised bus operators in terms of the number of passenger journeys in Hong Kong operated in 2020, 2021, 2022 and 2023, respectively.

		2020		2021		2022		2023	
Rank	Franchised Bus Operator	Total Number of Passenger Journeys Operated *(in million)*	Market Share *(%)*	Total Number of Passenger Journeys Operated *(in million)*	Market Share *(%)*	Total Number of Passenger Journeys Operated *(in million)*	Market Share *(%)*	Total Number of Passenger Journeys Operated *(in million)*	Market Share *(%)*
1	KMB(1)	777.5	70.0	891.3	70.3	805.5	71.1	923.6	69.0
2	CTB(2)	156.0	14.0	174.0	13.7	146.4	12.9	264.3	19.7
3	NWFB(2)	127.3	11.5	146.6	11.6	129.2	11.4	74.7	5.6
4	LWB(1)	28.2	2.5	28.9	2.3	28.6	2.5	42.9	3.2
5	NLB	22.3	2.0	26.2	2.1	23.8	2.1	32.8	2.5
	Total	**1,111.3**	**100.0**	**1,267.0**	**100.0**	**1,133.5**	**100.0**	**1,338.3**	**100.0**

Source: Ipsos research and analysis

Notes:

1. KMB and LWB are subsidiaries of Transport International Holdings Limited. In 2020, 2021, 2022 and 2023, KMB and LWB together operated a total of approximately 805.7 million, 920.2 million, 834.1 million and 966.5 million passenger journeys in aggregate, respectively, which represented market shares (in terms of the total number of passenger journeys operated in the corresponding periods) of approximately 72.5%, 72.6%, 73.6% and 72.2% of the franchised bus market in Hong Kong, respectively.

2. CTB and NWFB are subsidiaries of the Target Company. In 2020, 2021, 2022 and 2023, CTB and NWFB together operated approximately 283.3 million, 320.6 million, 275.6 million and 338.9 million passenger journeys in aggregate, respectively, which represented market shares (in terms of the total number of passenger journeys operated in the corresponding periods) of approximately 25.5%, 25.3%, 24.3% and 25.3% of the franchised bus market in Hong Kong, respectively.

The table below sets forth the ranking of the top five franchised bus operators in terms of the revenue from franchised bus services in Hong Kong in 2020, 2021, 2022 and 2023, respectively:

		2020		2021		2022		2023	
Rank	Franchised Bus Operator	Revenue from Franchised Bus Services	Market Share	Revenue from Franchised Bus Services	Market Share[5]	Revenue from Franchised Bus Services	Market Share	Revenue from Franchised Bus Services	Market Share
		(HK$ million)	*(%)*	*(HK$ million)*	*(%)*	*(HK$ million)*	*(%)*	*(HK$ million)*	*(%)*
1	KMB[2]	5,308.4	67.3	6,289.7	68.5	5,774.9	68.6	7,171.4	67.4
2	CTB[3]	1,260.8	16.0	1,400.7	15.3	1,269.0	15.1	2,431.0	22.8
3	NWFB[3]	855.8	10.8	1,024.2	11.2	933.8	11.1	536.6	5.0
4	LWB[2]	346.1	4.4	320.4	3.5	316.5	3.8	333.4	3.1
5	NLB[4]	121.5	1.5	143.4	1.6	120.0	1.4	169.9	1.6
	Total	**7,892.6**	**100.0**	**9,178.4**	**100.0**	**8,414.2**	**100.0**	**10,642.4**	**100.0**

Sources: *Annual reports of (i) Transport International Holdings Limited, (ii) Citybus and (iii) New Lantao Bus Company (1973) Limited*

Notes:

1. The above historical revenues from franchised bus services only consist of fare revenues.

2. KMB and LWB are subsidiaries of Transport International Holdings Limited. In 2020, 2021, 2022 and 2023 the aggregate revenue from franchised public bus services of KMB and LWB amounted to approximately HK$5,654.5 million, HK$6,610.1 million, HK$6,091.4 million and HK$7,504.8 million, respectively, which represented market shares (in terms of the fare revenue from franchised public bus services in the corresponding periods) of approximately 71.6%, 72.0%, 72.4% and 70.5% of the franchised bus market in Hong Kong, respectively.

3. CTB and NWFB are subsidiaries of the Target Company. In 2020, 2021, 2022 and 2023, the aggregate revenue from franchised public bus services of CTB and NWFB amounted to approximately HK$2,116.6 million, HK$2,424.9 million, HK$2,202.8 million and HK$2,967.7 million, respectively, which represented market shares (in terms of total revenue from franchised public bus services in the corresponding periods) of approximately 26.8%, 26.4%, 26.2% and 27.9% of the franchised bus market in Hong Kong, respectively.

4. As the financial year end of NLB is 31 March, its revenue from franchised bus services in 2020, 2021, 2022 and 2023 presented in the table above was estimated based on (i) NLB's revenue from franchised public bus services per total passenger journey operated in its financial years ended 31 March, 2020, 2021, 2022 and 2023, respectively; (ii) the total number of passenger journeys operated under NLB's franchised bus services during 2020, 2021, 2022 and 2023, respectively; and (iii) the weighted average rate of fare increase of NLB during 2020, 2021, 2022 and 2023, respectively.

5. The breakdown of the percentage figures may not add up to 100% due to rounding.

Key factors of competition

Comprehensive routes coverage

Franchised bus operators in Hong Kong face competition from other public transport options. A way to differentiate themselves is by providing a comprehensive route network, which enhances accessibility for commuters. This can be particularly important for individuals who rely on public transportation to reach different parts of the city or specific destinations, as direct routes to multiple destinations contribute to a more efficient and convenient commuting experience.

Ability to increase and maintain route coverage

The franchised bus industry in Hong Kong operates through a legacy and competitive tendering system where operators bid for the opportunity to operate bus services. The Transport Department oversees the process and sets the specifications for the new tendered services. Franchised bus operators compete for the right to operate new routes as they become available. It is not guaranteed that existing operators will win these rights based on their geographic incumbency. Obtaining more routes and operating an optimal timetable is crucial for franchised bus operators to succeed in the market.

Ability to effectively manage fare increase and rising costs

In the competitive landscape of franchised bus operators in Hong Kong, effectively managing fare increases while facing rising operating costs is crucial. However, since 2008, there have been no more than four fare increases for each operator. With the increasing costs of fuel and labour, it becomes essential for franchised bus operators to both manage their cost base and handle fare increases effectively. This enables them to maintain sustainability, enhance resilience against short-term market volatility, and provide a stable working environment for their staff, considering the labour-intensive nature of the industry.

Entry barriers of the franchised bus industry

Franchising requirements

The franchised bus industry is highly regulated, with restrictions on entry to the market being imposed by the Chief Executive in Council. Under the PBSO, the Government has the authority to oversee and participate in the planning and operational activities of franchised bus operators. The behaviour of bus operators is regulated by policies set out by regulatory bodies. Complying with these requirements can be a time-consuming and demanding process for both new entrants and existing operators within the industry.

Existing operator dominance

Existing operator dominance in what is a mature franchised bus and public transport market can pose a significant disadvantage for new entrants. From the demand point of view, current franchised bus operators have established a strong market presence and earned customer loyalty over time. From the supply point of view, existing operators have developed extensive networks of investors and shareholders, and built longstanding relationships with suppliers and employees. Thus, new entrants may face difficulties in entering the highly concentrated franchised bus market and competing with existing bus operators.

High operating costs

High operating costs associated with franchised bus operations pose challenges to new entrants. These costs include fuel, oil, staff, and repairs and maintenance expenses. Existing franchised bus operators benefit from economies of scale as they have established long-term relationships with fuel and maintenance suppliers through large-scale transactions. This enables them to distribute fixed costs over a larger number of buses and passenger journeys. In contrast, the high operating costs act as a barrier for new entrants who may lack the financial resources or economies of scale enjoyed by existing operators.

OVERVIEW

This section sets out a summary of certain aspects of Hong Kong laws, rules and regulations that are relevant to the Target Group's business operations. Information contained in this section should not be construed as a comprehensive summary of Hong Kong laws, rules and regulations applicable to the Target Group.

LAWS AND REGULATIONS RELATING TO PUBLIC BUS SERVICES IN HONG KONG

The operation of public bus services in Hong Kong may be carried out under a franchise granted under the Public Bus Services Ordinance (i.e. the PBSO) or a passenger service licence granted under the Road Traffic Ordinance (Chapter 374 of the Laws of Hong Kong).

The Transport Department is the authority for administering the Road Traffic Ordinance and legislation for the management of road traffic, regulation of public transport services and operation of major transport infrastructure. Specifically, the Transport Department is responsible for the implementation of the Government transport policies in relation to bus services and, in particular, overseeing bus franchises and the development of bus networks in Hong Kong.

The Public Bus Services Ordinance (Chapter 230 of the Laws of Hong Kong)

The PBSO, including the Public Bus Services Regulations (Chapter 230A of the Laws of Hong Kong) (the "**PBSR**") (being the subsidiary legislation under the PBSO), is the principal legislation regulating public buses operated under Government franchises in Hong Kong. Pursuant to section 4 of the PBSO, a public bus service shall not be operated except under a franchise granted by the Chief Executive in Council under the PBSO or another enactment.

Under section 6 of the PBSO, a franchise may be granted for a period not exceeding ten years, and may be extended, for a further period not exceeding 5 years, if the grantee so requests and the Chief Executive in Council is satisfied that the grantee is capable of maintaining a proper and efficient service. Section 7 of the PBSO stipulates that a grantee shall not assign or otherwise dispose of its franchise, or any part thereof, without the approval of the Chief Executive in Council. In addition, the PBSO imposes certain obligations on a grantee, including an obligation to operate public bus services on specified routes (section 11 of the PBSO), to maintain to the satisfaction of the Commissioner a proper and efficient public bus service at all times during the franchise period (section 12 of the PBSO), and to prepare and reach agreement with the Commissioner in each year a programme of the operations of the grantee for the following 5 years in respect of specified matters (section 12A of the PBSO).

If a grantee fails to provide a proper and efficient public bus service in accordance with the requirements under the PBSO and its franchise, the Chief Executive in Council may impose a financial penalty on the grantee (section 22 of the PBSO) or revoke its right to operate any specified routes or its franchise altogether (section 24 of the PBSO).

The PBSR (being the subsidiary legislation under the PBSO) further provides for matters in relation to, *inter alia*, the provision of signs and destination indicators on buses, the conduct of bus drivers, conductors and passengers, the carriage of goods on buses, and the designation of bus stops.

The Franchises

Under section 5(3)(c) of the PBSO, a franchise shall be subject to such conditions as the Chief Executive in Council specifies.

The Merged Franchise

The Merged Franchise is a merger of the CTB (F1) Franchise (held by Citybus) and the NWFB Franchise (held by NWFB). At the meeting of the Executive Council on 12 July, 2022, the Chief Executive in Council ordered that the Merged Franchise be granted under section 5 of the PBSO, conferring upon Citybus the non-exclusive rights to operate the two bus networks under the CTB (F1) Franchise and the NWFB Franchise together, under the franchise name of "Citybus Limited (Franchise for the Urban and New Territories bus network)" for ten years from 04:00 hours on 1 July, 2023 to 04:00 hours on 1 July, 2033. In order to pursue the merger, the expiry date of the CTB (F1) Franchise has been amended from "0400 hours on 1 June, 2026" to "0400 hours on 1 July, 2023" (i.e. same as that of the NWFB Franchise).

The CTB (F2) 2023 Franchise

Citybus has been operating the Airport and North Lantau bus networks since 1997. At the same meeting of the Executive Council on 12 July, 2022 as mentioned above, the Chief Executive in Council ordered that the CTB (F2) 2023 Franchise be granted, conferring upon Citybus the non-exclusive right to operate the Airport and North Lantau bus network for ten years from 04:00 hours on 1 May, 2023 to 04:00 hours on 1 May, 2033.

Principal provisions of the CTB (F2) 2023 Franchise and the Merged Franchise

In respect of the CTB (F2) 2023 Franchise, certain then existing franchise conditions in Citybus's then CTB (F1) Franchise have been incorporated to enhance the regulation of Citybus's customer services and procurement, reflecting the Commissioner's regulatory power in monitoring bus services.

In respect of the CTB (F2) 2023 Franchise and the Merged Franchise, new franchise conditions have been incorporated to further enhance the quality of bus services and Government regulations over Citybus, by empowering the Commissioner to request information and records on accidents or safety-related incidents and stipulate further requirements on the acquisition of new buses by Citybus, as well as requiring Citybus to establish a documented bus maintenance system and comply with all requirements of the Commissioner in respect of bus driver training.

The principal provisions of the CTB (F2) 2023 Franchise and the Merged Franchise are similar to the then franchises (i.e. the CTB (F1) Franchise, the CTB (F2) Franchise and the NWFB Franchise). Certain principal provisions of the CTB (F2) 2023 Franchise and the Merged Franchise are set out as follows:

(i) *Residence of directors*: A majority of the directors of Citybus shall be individuals who are ordinarily resident in Hong Kong.

(ii) *Provision of facilities on buses*: (i) Citybus shall, as far as practicable, acquire, provide, adopt, *maintain*, or modify to the satisfaction of the Commissioner such safety or service enhancement facilities, installation, fixtures, fittings, apparatus or equipment on its buses as may be reasonably required by the Commissioner after consultation with Citybus; and (ii) Citybus shall, in acquiring new buses for operating its bus services, comply with all such specifications and requirements for such acquisition issued by the Commissioner, which may be reasonably amended by the Commissioner from time to time after consultation with the grantee.

(iii) *Advertising*: Citybus shall not for the purposes of advertising, sponsorship or commercial promotion use, or permit the use of, the facilities, canteens, washrooms and toilets of Citybus or any other grantee without the prior approval in writing of the Commissioner.

(iv) *Making available information on each specified route*: Citybus shall make available to the public, in relation to its bus services on each specified route, (i) the bus fares, (ii) the route and timetable, and (iii) the location of bus stops, journey time and any other related information, as may be reasonably required by the Commissioner after consultation with Citybus in such form and manner, by such means and at such times as may be reasonably specified from time to time by the Commissioner, for free or for a fee not exceeding that reasonably determined by the Commissioner, on the website of Citybus and through readily accessible common web browsers as may be reasonably required by the Commissioner after consultation with Citybus.

(v) *Communication with the public*: Citybus shall, to the satisfaction of the Commissioner, make appropriate arrangements including the establishment of passenger liaison groups to liaise, communicate with and receive opinions of the public for the purpose of assessing and improving standards of its bus services.

(vi) *Passenger satisfaction*: (i) Citybus shall to the satisfaction of the Commissioner make appropriate arrangements to conduct passenger satisfaction surveys in such form and manner, by *such* means and at such times as may be reasonably required by the Commissioner, after consultation with Citybus; and (ii) Citybus shall publish its passenger service pledge setting a reasonable time frame for responding to complaints and suggestions from the public, and the achievement rate of its passenger service pledge, and respond to complaints and suggestions referred to Citybus by the Commissioner at such times and in such manner as may be reasonably required by the Commissioner after consultation with Citybus.

(vii) *Establishment of a documented bus maintenance system*: Citybus shall establish a documented bus maintenance system to the satisfaction of the Commissioner in accordance with which all buses shall be inspected and maintained before deployment for its bus services.

(viii) *Grantee's undertaking*: Citybus shall provide and maintain at all times during the franchise period an undertaking sufficient to operate a proper and efficient public bus service on the specified routes.

(ix) *Restrictions on disposal*: Citybus shall not without the previous written consent of the Commissioner assign, transfer, mortgage, charge, lease, grant option to lease, part with possession or otherwise dispose of the whole or any part of its assets as specified in the CTB (F2) 2023 Franchise and the Merged Franchise, including land, buildings and buses.

(x) *Investment in securities*: Citybus shall not without the previous consent in writing of the Commissioner invest in or dispose of any securities, such consent shall not be unreasonably withheld or delayed.

(xi) *Contingency fund*: Citybus shall, at such times as the Commissioner may direct in writing, cause the contingency fund to be examined by an appointed actuary for the purpose of assessing possible under-provisioning or over-provisioning of the fund.

(xii) *Regular reporting obligations*: Citybus shall provide to the Commissioner the information relating to and records kept by Citybus in respect of its bus services (including the number of passengers and the daily receipts from the passengers carried on every day on each specified route, the number of buses in use on each specified route on every day, and data and records in relation to accidents or safety-related incidents), as well as annual audited financial statements, monthly management accounts, monthly report on fuel-related expenses, and accounting policies, etc.

(xiii) *Material contracts*: Citybus shall ensure that contracts that are material to its bus services shall be put out for open tendering as far as practicable.

Bus fares and rate of return

Under section 13(1) of the PBSO, the fares of franchised bus services are to be charged according to a scale of fares determined by the Chief Executive in Council. The current Fare Adjustment Arrangement for franchised buses provides that the Chief Executive in Council will take into account a basket of factors in assessing a bus fare adjustment, including: (i) changes in operating costs and revenue since the last fare adjustment; (ii) forecast of future costs, revenue and return; (iii) the need to provide the franchised bus operator with a reasonable rate of return; (iv) public acceptability and affordability; (v) the quality and quantity of service provided and (vi) the outcome of the formula for the supportable fare adjustment rate, which takes into account changes in price of cost elements and improvement in productivity of the franchised bus industry. The factors of the Fare Adjustment Arrangement were reviewed and reaffirmed by the Chief Executive in Council in January 2019.

Under regulation 12(3) of the Road Tunnels (Government) Regulations (Chapter 368A of the Laws of Hong Kong), franchised buses have been exempted from paying toll when using Government tolled tunnels and roads. The toll saved will be kept at a dedicated account for each franchise named the Franchised Bus Toll Exemption Fund. If a grantee of a bus franchise applies for a fare increase and the Chief Executive in Council considers that there is a justifiable need for a fare increase, the magnitude of the increase may be reduced by using the toll savings in the TEF. If the grantee does not face pressure for a fare increase and where the toll savings exceed the relevant cap set by the Chief Executive in Council, the excess will be distributed to the passengers through appropriate fare concession arrangements.

There is no guaranteed minimum level of rate of return for the grantee. Instead, the Government will make reference to the weighted average cost of capital of the bus industry in considering a reasonable rate of return for the grantee as measured by the grantee's rate of return on average net fixed assets.

Under the current Fare Adjustment Arrangement, when the rate of return on the average net fixed assets for a grantee exceeds a triggering level, which is currently set at 8.7% (being the weighted average cost of capital of the bus industry), the grantee will share the profit above said triggering level with its passengers through fare concessions on a 50: 50 basis. The passengers' share of the profit should be maintained as the "passenger reward balance" which serves to facilitate the offer of bus fare concessions. The grantee is required to use any amount in the passenger reward balance that exceeds the equivalent of 1% of its annual revenue for the provision of fare concessions within 12 months from the last annual disclosure of the passenger reward balance accumulated.

Under section 5(3)(b) of the PBSO, a franchise shall, except where the Legislative Council by resolution excludes the application of all or any of the provision of the profit control scheme ("**PCS**"), be subject to the profit control scheme as stipulated under Part V of the PBSO. Under the PCS, fares are to be set at a level which allows cost recovery plus a certain level of profit with a cap on the permitted return. Profit exceeding the permitted return in any year will be retained in a development fund. When profit falls below the permitted return, the grantee may make good the shortfall by drawing money from the development fund. In view of the views of the former Legislative Council and the community that PCS encouraged the grantee to over-expand and inflate its asset value, which guaranteed a profit level irrespective of performance, and provided no incentive for cost efficiency and expenditure control and following a decision by the then Governor in Council in June 1992, all bus franchises granted thereafter were awarded without PCS. The Transport and Logistics Bureau has, in keeping with the established practice, sought and obtained Legislative Council resolutions under the said section 5(3)(b) for the disapplication of the PCS to the CTB (F2) 2023 Franchise and the Merged Franchise in June 2023.

The Road Traffic Ordinance (Chapter 374 of the Laws of Hong Kong)

The Road Traffic Ordinance, including its subsidiary legislations, is the principal legislation in Hong Kong which regulates the operation of non-franchised buses. Under section 27 of the Road Traffic Ordinance, any operator of non-franchised buses has to obtain a passenger service licence issued by the Transport Department before operating any non-franchised bus services.

The Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong)

The Prevention of Bribery Ordinance ("**PBO**") prohibits various forms of bribery. Under schedule 1 to the PBO, both Citybus and NWFB fall within the list of public bodies, and the employees of which are thus regarded as public servants under section 2 of the PBO.

Under section 4(2) of the PBO, a public servant, whether in Hong Kong or elsewhere, is prohibited, without lawful authority or reasonable excuse, from soliciting or accepting any advantage as an inducement to or reward for or otherwise on account of his:

(i) performing or abstaining from performing, or having or having performed or abstained from performing, any act in his capacity as a public servant;

(ii) expediting, delaying, hindering or preventing, or having expedited, delayed, hindered or prevented, the performance of an act, whether by himself or by any other public servant in his or that other public servant's capacity as a public servant; or

(iii) assisting, favouring, hindering or delaying, or having assisted, favoured, hindered or delayed, any person in the transaction of any business with a public body.

Under section 12 of the PBO, any person who contravenes section 4 of the PBO shall be liable to (i) a fine at level 6 (currently at HK$100,000) and imprisonment for three years on summary conviction, or (ii) a fine of HK$500,000 and imprisonment for seven years on conviction on indictment.

LAWS AND REGULATIONS RELATING TO TRAVEL AGENCY BUSINESS IN HONG KONG

The Travel Industry Ordinance (Chapter 634 of the Laws of Hong Kong)

The Travel Industry Ordinance came into effect on 1 September, 2022, replacing the previous Travel Agents Ordinance (Chapter 218 of the Laws of Hong Kong). Under the Travel Industry Ordinance, if a person wishes to carry on a travel agency business, he must obtain a travel agency licence from the Travel Industry Authority. The licensing of travel agents was in the past the responsibility of the Travel Agents Registry under the Tourism Commission, but is now within the purview of the Travel Industry Authority.

Pursuant to section 33 of the Travel Industry Ordinance, a licensed travel agent must not change, or permit a change of, the ownership or control of its business as a travel agent without the Travel Industry Authority's prior approval in writing. A person is the controller of a company if its directors, or a majority of its directors, are accustomed to act in accordance with the person's directions. Section 34 of the Travel Industry Ordinance stipulates that a licensed travel agent who intends to change the ownership or control of his business as a travel agent must give notice in writing to the Travel Industry Authority, which then must decide whether, having regard to the matters specified in section 18 of the Travel Industry Ordinance (such as whether the proposed owner or controller is in liquidation or is the subject of a winding up order), the proposed owner or controller is suitable to hold a travel agent licence.

Other regulations in relation to travel agencies are in place as subsidiary legislations under the Travel Industry Ordinance, including the Travel Industry (Authority Levy – Percentage of Outbound Fare) Notice (Chapter 634A), the Travel Industry (Compensation Fund Levy – Percentage of Outbound Fare) Notice (Chapter 634B), the Travel Industry (Collection, Payment and Recording of Levies) Regulation (Chapter 634C), the Travel Industry Compensation Fund (Amount of Ex Gratia Payments) Regulation (Chapter 634D), the Travel Industry Compensation Fund (Procedure for Ex Gratia Payments) Regulation (Chapter 634E), and the Travel Industry (General) Regulation (Chapter 634F).

The Target Group provides travel agency services through its wholly-owned subsidiary City Tours, which is subject to the above laws and regulations.

LAWS AND REGULATIONS RELATING TO TELECOMMUNICATIONS SERVICES IN HONG KONG

The Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong)

The provision of Wi-Fi services on buses is regulated by the Telecommunications Ordinance and the Telecommunications Regulations (Chapter 106A of the Laws of Hong Kong), and the Communications Authority is the competent authority for administering the said ordinance and regulations.

Pursuant to section 8 of the Telecommunications Ordinance, no person shall in Hong Kong establish or maintain any means of telecommunications, or offer in the course of business any telecommunications services save under, and in accordance with, a licence granted by the Governor in Council or with the appropriate licence granted or created by the Communications Authority. Citybus (China) has accordingly obtained the services-based operator licence for provision of Wi-Fi services on the Target Group's buses.

The Telecommunications Regulations (being the subsidiary legislation under the Telecommunications Ordinance) provides for matters in relation to, *inter alia*, validity of licences, loss or destruction of licences, and surrender of licences.

LAWS AND REGULATIONS RELATING TO FUELLING AND DIESEL STORAGE FACILITIES IN HONG KONG

The Dangerous Goods Ordinance (Chapter 295 of the Laws of Hong Kong)

Pursuant to section 6 of the Dangerous Goods Ordinance, except under and in accordance with a licence granted under the Dangerous Goods Ordinance, no person shall manufacture, store, convey or use any dangerous goods, which are defined to include, *inter alia*, explosives, gases, flammable liquids or flammable solids, substances liable to spontaneous combustion, substances that, in contact with water, emit flammable gases, oxidizing substances, organic peroxides, and toxic substances. The storage of dangerous goods in the Target Group's facilities, such as fuel tanks and refuelling areas within its bus depots and bus servicing sites, is subject to the above laws and regulations.

Any person who contravenes section 6 of the Dangerous Goods Ordinance will be liable to a fine at level 6 (currently at HK$100,000) and imprisonment for 6 months on first conviction and to a fine of HK$200,000 and imprisonment for 12 months on subsequent convictions.

The Fire Services Ordinance (Chapter 95 of the Laws of Hong Kong) and the Fire Service (Installations and Equipment) Regulations (Chapter 95B of the Laws of Hong Kong)

Under regulation 6 and 7 of the Fire Service (Installations and Equipment) Regulations (being the subsidiary legislation under the Fire Services Ordinance), no person other than a registered contractor shall install fire service installation or equipment in any premises, or maintain, inspect or repair any fire service installation or equipment which is installed in any premises. Regulation 9 of the Fire Service (Installations and Equipment) Regulations stipulates that whenever a registered contractor installs, maintains, repairs or inspects any fire service installation or equipment in any premises, he shall within 14 days after completion of the work issue to the person on whose instructions the work was undertaken a certificate and forward a copy thereof to the Fire Services Department. The installation and maintenance of fire service installation and equipment in the Target Group's facilities such as bus depots and fuelling stations are subject to the above laws and regulations.

Any person who contravenes regulations 6, 7 or 9 will be liable to a fine at level 5 (currently at HK$50,000) on conviction.

The Electricity Ordinance (Chapter 406 of the Laws of Hong Kong) and the Electricity (Wiring) Regulations (Chapter 406E of the Laws of Hong Kong)

Pursuant to regulation 20 of the Electricity (Wiring) Regulations (being the subsidiary legislation under the Electricity Ordinance), owners of fixed electrical installations in certain premises (such as premises for the storing of dangerous goods) must have their installations inspected, tested and certified at least once every 12 months to confirm that the requirements of the Electricity Ordinance have been met.

LAWS AND REGULATIONS RELATING TO LABOUR, HEALTH AND SAFETY IN HONG KONG

Employment Ordinance (Chapter 57 of the Laws of Hong Kong)

The Employment Ordinance provides for the protection of wages of employees, the regulation of general conditions of employment and employment agencies and other related matters connected therewith.

Under section 25 of the Employment Ordinance, where a contract of employment is terminated, any sum due to the employee shall be paid to him as soon as is practicable and in any case not later than 7 days after the day of termination. Any employer who wilfully and without reasonable excuse contravenes section 25 of the Employment Ordinance commits an offence and is liable to a maximum fine of HK$350,000 and imprisonment for 3 years.

Further, under section 25A of the Employment Ordinance, if any wages or any sum referred to in section 25(2)(a) of the Employment Ordinance are not paid within 7 days from the days on which they become due, the employer shall pay interest at a specified rate on the outstanding amount of wages or sum from the date on which such wage or sum become due up to the date of actual payment. Under section 63CA of the Employment Ordinance, any employer who wilfully and without reasonable excuse contravenes section 25A of the Employment Ordinance commits an offence and is liable on conviction to a fine at level 3 (currently at HK$10,000).

Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)

Under section 5 of the Employees' Compensation Ordinance, if an employee sustains an injury or dies as a result of an accident arising out of and in the course of employment, the employer is generally liable to pay compensation. Moreover, under section 32 of the Employees' Compensation Ordinance, if an employee suffers incapacity or death arising from an occupational disease, he is entitled to receive the same compensation as that payable to employees injured in occupational accidents.

Under section 15 of the Employees' Compensation Ordinance, an employer must notify the Commissioner for Labour of any work accident by submitting Form 2 (within 14 days for general work accidents and within 7 days for fatal accidents), irrespective of whether the accident gives rise to any liability to pay compensation.

Under section 40 of the Employees' Compensation Ordinance, all employers are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees). An employer who fails to comply with the Employees' Compensation Ordinance to secure an insurance cover is liable (i) to a fine at level 6 (currently at HK$100,000) and to imprisonment for one year on summary conviction, or (ii) to a fine at level 6 (currently at HK$100,000) and to imprisonment for 2 years on conviction on indictment.

Limitation Ordinance (Chapter 347 of the Laws of Hong Kong)

Under the Limitation Ordinance, the time limit for a plaintiff to commence common law claims for personal injuries is 3 years from the date on which the cause of action accrued.

Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong)

The Occupiers Liability Ordinance regulates the obligations of a person occupying or having control of premises on injury resulting to persons or damage caused to goods or other property lawfully on the land.

The Occupiers Liability Ordinance imposes a common duty of care on an occupier of premises to take such care as in all the circumstances of the case is reasonable to see that the visitor will be reasonably safe in using the premises for the purposes for which he is invited or permitted by the occupier to be there.

Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong)

The Minimum Wage Ordinance provides for a statutory minimum hourly wage rate (currently set at HK$40 per hour) during the wage period for every employee engaged under a contract of employment under the Employment Ordinance (except those specified under section 7 of the Minimum Wage Ordinance). Any provision of a contract of employment that purports to extinguish or reduce any right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong)

Under section 7 of the Mandatory Provident Fund Schemes Ordinance, an employer must take all practicable steps to ensure that the relevant employee has become a member of the registered scheme within the permitted period after the relevant time.

Under section 7A of the Mandatory Provident Fund Schemes Ordinance, an employer, who is employing a relevant employee, must, for each contribution period occurring after 1 December, 2000, contribute to the relevant registered scheme the amount determined in accordance with the Mandatory Provident Fund Schemes Ordinance from the employer's own funds; and deduct from the employee's relevant income for that period as a contribution by the employee to that scheme the amount determined in accordance with the Mandatory Provident Fund Schemes Ordinance.

Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)

The Occupational Safety and Health Ordinance provides for the protection of safety and health to employees in workplaces, both industrial and non-industrial. Employers must as far as reasonably practicable ensure the safety and health in their workplaces by, (i) providing and maintaining plant and work systems that do not endanger safety or health; (ii) making arrangements for ensuring safety and health in connection with the use, handling, storage or transport of plant or substances; (iii) providing all necessary information, instruction, training, and supervision for ensuring safety and health; (iv) providing and maintaining safe access to and egress from the workplaces; and (v) providing and maintaining a safe and healthy work environment. Under section 6 of the Occupational Safety and Health Ordinance, if the employer fails to comply with the above requirements constitutes an offence, he is liable (i) to a fine of HK$3,000,000 on summary conviction, or (ii) to a fine of HK$10,000,000 on conviction on indictment. An employer who fails to do so intentionally, knowingly or recklessly commits an offence and is liable to (i) a fine of HK$3,000,000 and imprisonment for 6 months on summary conviction, or (ii) a fine of HK$10,000,000 and imprisonment for 2 years on conviction on indictment.

HISTORY

The Target Group's history can be traced back to 1979, the year in which Citybus (now an indirect wholly-owned subsidiary of the Target Company) commenced its business of providing non-franchised bus services in Hong Kong. Leveraging its experience in providing non-franchised bus services, Citybus expanded its scope of business by operating its first franchised bus route (Route 12A) in 1991. In 1993, Citybus significantly expanded its franchised bus operations after being awarded a group of 26 franchised bus routes by the Government from a previous franchised bus operator. In 1998, NWFB (now an indirect wholly-owned subsidiary of the Target Company) was established, owned by New World First Holdings and commenced operations of franchised bus services after being awarded a new franchise to replace the bus franchise of a previous franchised bus operator.

During the Trading Record Period, the Target Group operated its franchised bus services through Citybus and NWFB. The Target Group also provides non-franchised bus services through Citybus and travel agency services through its wholly-owned subsidiary City Tours. The Target Group also separately provides advertising services through its wholly-owned subsidiary BML. As at the Latest Practicable Date, the Target Group operated more than 200 franchised bus routes across Hong Kong Island, Kowloon and the New Territories and managed a fleet of over 1,700 registered buses.

BUSINESS DEVELOPMENT MILESTONES

The Target Group has achieved the following key milestones:

Year	Event
1977	• Citybus was incorporated.
1979	• Citybus purchased its first bus and commenced its non-franchised bus operations.
1981	• City Tours was incorporated and commenced its travel agency services.
1991	• Citybus was awarded its first franchised route (Route 12A) on Hong Kong Island.
1993	• Citybus expanded its franchised bus services after being awarded by the Government a group of 26 franchised bus routes (known as "Network 26" under its promotional campaign) from a previous franchised bus operator.

Year	Event
1996	• Citybus was awarded by the Government the right to operate 13 franchised bus routes in Tung Chung and the Hong Kong International Airport following the opening of the Tsing Ma Bridge.
1998	• NWFB was incorporated.
	• NWFB was awarded a new bus franchise with 88 franchised bus routes previously operated by a previous franchised bus operator and commenced its franchised bus operations in Hong Kong.
	• Citybus launched its "Cityflyer" operating routes connecting the Hong Kong International Airport and providing transport service to visitors.
2003	• BTSL was incorporated.
	• Citybus and NWFB were brought under the same group.
2009	• The operations of the NWFB Rickshaw Sightseeing Bus and Citybus Sightseeing Bus commenced, offering sightseeing open-top bus journeys in Hong Kong.
2020	• The Target Company was incorporated.
	• The Target Company acquired the BTSL Group (including Citybus and NWFB).
2021	• BML was incorporated and commenced its advertising agency business.
	• Citybus won the competitive tender to operate 4 new routes connecting the New Territories to the Eastern District on Hong Kong Island.
	• Citybus won the competitive tender to operate new routes connecting Queen's Hill in Fanling to other areas.
	• Citybus won the competitive tender to operate new routes connecting Area 54 in Tuen Mun to other areas.
2022	• The first electric double-deck bus and the first hydrogen double-deck bus in Hong Kong were introduced by Citybus, under the Target Group's "#MissionZero" campaign.

Year	Event
2022	• The CTB (F2) 2023 Franchise was approved by the Government.
	• The merger of the CTB (F1) Franchise and NWFB Franchise into the Merged Franchise was approved by the Government.
2023	• The CTB (F2) 2023 Franchise became effective on 1 May, 2023.
	• The Merged Franchise with Citybus being the grantee became effective on 1 July, 2023, marking the end of NWFB's franchised bus operations.
	• Citybus won the competitive tender to operate new routes in the Shap Sze Heung new development area.
	• BML won the tender from Citybus for the provision of bus body advertising services.
	• BML won the tender from a railway operator in Hong Kong for the provision of advertising sales agency services.

CORPORATE DEVELOPMENT

The following is a brief corporate history of the incorporation and major changes in shareholdings of the Target Group's subsidiaries:

Target Company (i.e. BTHL)

The Target Company was incorporated under the laws of the BVI with limited liability by TWB Holdings on 23 July, 2020. The Target Company is authorised to issue up to 50,000 shares without par value. It is an investment holding company, holding the BTSL Group since the 2020 Acquisition.

On 21 August, 2020, TWB Holdings, Glorify and ABL subscribed for 89, 9 and 1 BTHL Shares, respectively, at a consideration of US$0.01 for each BTHL Share. On 30 September, 2020, TWB Holdings, Glorify and ABL further subscribed for 8,995.32, 846.91 and 57.77 BTHL Shares, respectively, at the respective consideration of approximately US$162.3 million, US$15.3 million and US$1.1 million.

On 3 December, 2021, Glorify, TWB Holdings and ABL entered into the 2021 Acquisition Agreement, pursuant to which Glorify acquired an aggregate of 700 BTHL Shares, being 695 BTHL Shares from TWB Holdings and 5 BTHL Shares from ABL, together representing 7% of the total issued shares of the Target Company at the total consideration of HK$350,000,000, in two tranches as set out below:

(i) after tranche 1 completion on 8 December, 2021, the Target Company was owned as to approximately 85.99%, approximately 13.45% and approximately 0.56% by TWB Holdings, Glorify and ABL, respectively; and

(ii) after tranche 2 completion on 28 March, 2022, the Target Company was owned as to approximately 83.90%, 15.56% and 0.54% by TWB Holdings, Glorify and ABL, respectively.

As at the Latest Practicable Date, the Target Company had a total of 10,000 issued BTHL Shares, among which, TWB Holdings, Glorify and ABL owned 8,390.32, 1,555.91 and 53.77 BTHL Shares, constituting approximately 83.90%, 15.56% and 0.54% of the total issued shares of the Target Company, respectively.

BTSL

BTSL was incorporated under the laws of the BVI with limited liability on 8 May, 2003 under its former name Merryhill Group Limited, and registered as a non-Hong Kong company under the predecessor ordinance of the Companies Ordinance on 2 March, 2004. The authorised share capital of BTSL is HK$1,000,000,000 divided into 1,000,000,000 shares of HK$1.00 each. It is an investment holding company, holding the operating subsidiaries as set out below in this section.

On 19 November, 2003, BTSL's only issued share of US$1.00, which was held by Enrich, was re-designated and sub-divided to 8 shares of HK$1.00 each.

On 9 March, 2004, it issued 250,000,008 shares to NWS Service and 250,000,000 shares to Enrich. On 14 December, 2004, it changed its name to NWS Transport Services Limited.

On 30 December, 2016, NWS Service acquired 250,000,008 BTSL Shares from Enrich and BTSL became a wholly-owned subsidiary of NWS Service and an indirect wholly-owned subsidiary of NWS Holdings.

After the completion of the 2020 Acquisition on 15 October, 2020, BTSL became a wholly-owned subsidiary of the Target Company. On 15 October, 2020, it changed to its current name.

As at the Latest Practicable Date, it had an issued shares of HK$500,000,016 divided into 500,000,016 shares of HK$1.00 each, which shares were wholly-owned by the Target Company.

Dietmar

Dietmar was incorporated under the laws of the BVI with limited liability on 24 September, 1991. The authorised capital of Dietmar is US$50,000 divided into 50,000 shares of US$1.00 each. It is an investment holding company, holding Citybus, City Tours and Citybus (China).

After a series of acquisitions, on 4 November, 1996, Dietmar owned the entire issued shares of Citybus, except for one share which was transferred by it to Citybus Nominees Limited (see paragraph headed "Citybus" below for further details).

On 2 December, 2003, Delta Pearl, a then direct wholly-owned subsidiary of BTSL (which was then indirectly and wholly owned by Chow Tai Fook Enterprises Limited), acquired the total issued shares of Dietmar (which has been holding Citybus) from SGC (HK Holdings) Limited, and since then, Citybus and NWFB have been within a group of companies under common control.

On 30 June, 2019, Delta Pearl transferred the total issued shares of Dietmar it held to BTSL and Dietmar became a direct wholly-owned subsidiary of BTSL. As at the Latest Practicable Date, Dietmar had a total of 10,000 issued shares of US$1.00 each, which were wholly owned by BTSL.

Citybus

Citybus was incorporated under the laws of Hong Kong with limited liability on 5 August, 1977 under its former name Passenger Transportation Services (Asia) Limited. It changed to its current name on 13 May, 1983.

After a series of share allotments by Citybus and transfers of shares of Citybus among the then existing shareholders of Citybus during the period from 6 December, 1991 to 4 November, 1996, the entire issued shares of Citybus became wholly owned by Dietmar on 4 November, 1996, which then transferred 1 share of Citybus to Citybus Nominees Limited (a then subsidiary of BTSL) on the same date, and such one share was transferred back to Dietmar on 25 June, 2018.

As at the Latest Practicable Date, Citybus had in issue a total of 37,500,000 shares, which were all held by Dietmar, with a total issued share capital of HK$376,295,750. Citybus is principally engaged in the provision of franchised bus services (see section headed "5. Business" in this appendix for further details).

NWFB

NWFB was incorporated under the laws of the BVI with limited liability on 8 January, 1998 under its former name Stanton Star Limited and was then owned by New World First Holdings, a then direct wholly-owned subsidiary of BTSL. On 25 February, 1998, it changed to its current name. It was registered as a non-Hong Kong company under the predecessor ordinance of the Companies Ordinance on 10 March, 1998.

NWFB issued 9,999,999 shares and 190,000,000 shares of HK$1.00 each to New World First Holdings on 22 May, 1998 and 30 July, 2003, respectively.

On 30 June, 2019, New World First Holdings transferred the total issued shares of NWFB and assigned the entire amount of its shareholder's loan therein to BTSL at a consideration of approximately HK$959,000,000. Since then, NWFB has been a direct wholly-owned subsidiary of BTSL.

As at the Latest Practicable Date, NWFB had a total of 200,000,000 issued shares of HK$1.00 each. Since 1998, NWFB had been providing franchised bus services to the public in Hong Kong, until the merger of CTB (F1) Franchise and NWFB Franchise into the Merged Franchise operated by Citybus (which took effect on 1 July, 2023), which also operates the CTB (F2) 2023 Franchise. Since the Franchise Merger, NWFB no longer has any significant business operations.

City Tours

City Tours was incorporated under the laws of Hong Kong with limited liability on 29 May, 1981.

After a series of share allotments by City Tours and transfers of shares of City Tours during the period from 15 July, 1981 to 29 July, 1995, Citybus owned the entire issued shares of City Tours (except one share of City Tours which was transferred to Citybus on 25 June, 2018).

As at the Latest Practicable Date, City Tours had an issued share capital of HK$8,000,000 divided into 800,000 shares, which were wholly owned by Citybus. City Tours is principally engaged in the provision of bus, coach and travel related services in Hong Kong, and currently operates sightseeing open-top bus tours and private hire services.

Citybus (China)

Citybus (China) was incorporated under the laws of Hong Kong with limited liability on 15 June, 1984 under its former name Pomegranate Limited. On 11 December, 1984, it changed to its current name.

As at the Latest Practicable Date, Citybus (China) had an issued share capital of HK$1,000 divided into 100 shares, which were wholly owned by Citybus. It is principally engaged in the provision of Wi-Fi services on buses.

BMHL

BMHL was incorporated under the laws of the BVI with limited liability on 26 October, 2021. It is authorised to issue a maximum of 50,000 shares of US$1.00 each. It is an investment holding company.

Since the date of incorporation and up to the Latest Practicable Date, BMHL had a total of 100 issued shares of US$1.00 each, which were wholly owned by BTHL.

BML

BML was incorporated under the laws of Hong Kong with limited liability on 28 October, 2021.

Since the date of incorporation and up to the Latest Practicable Date, BML had a total of 100 issued shares of HK$1.00 each, which were wholly owned by BMHL. It is principally engaged in the provision of advertising agency services.

Bravo Holdings (HK) Limited

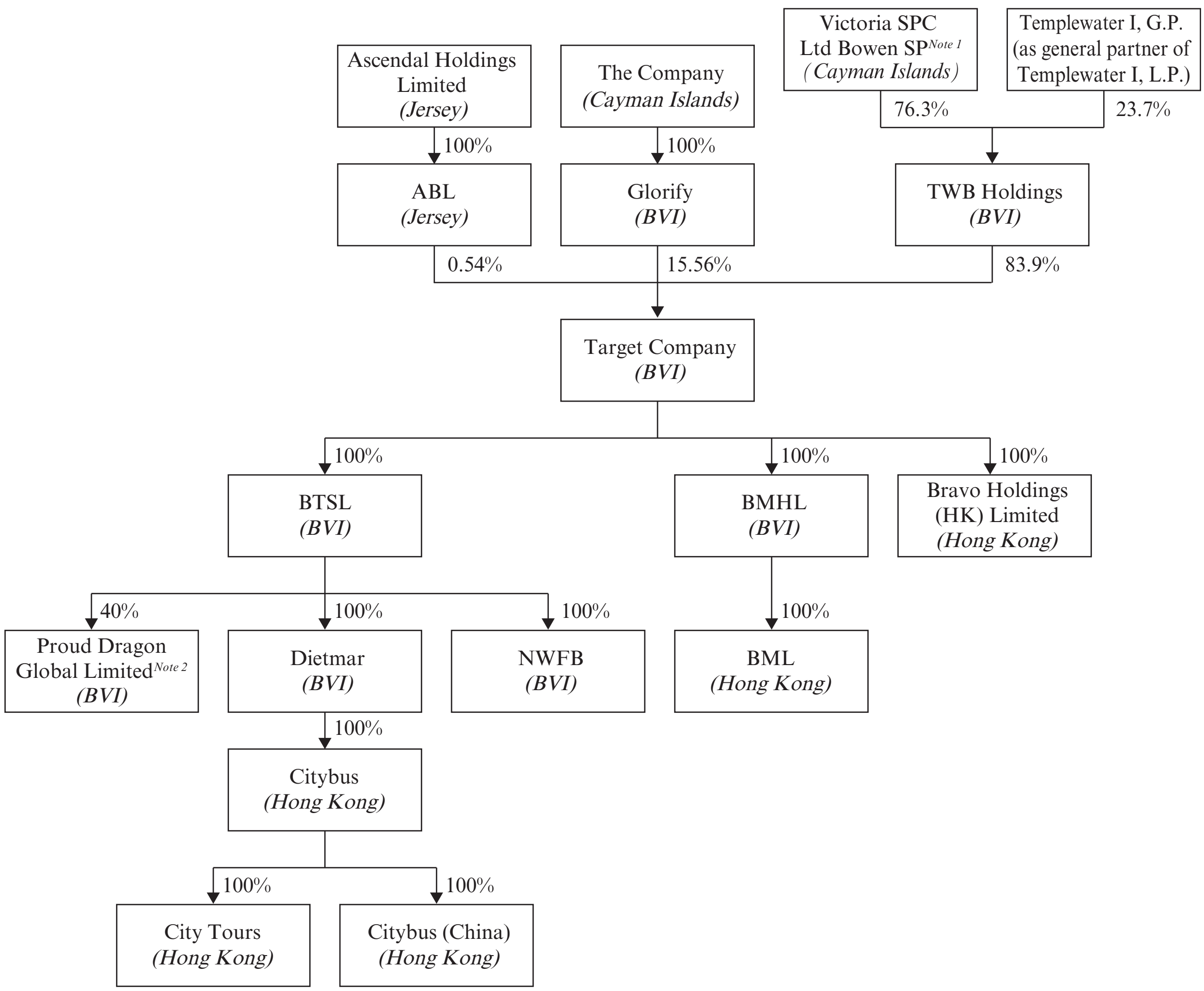
Bravo Holdings (HK) Limited was incorporated under the laws of Hong Kong on 24 May, 2023.

Since the date of incorporation and up to the Latest Practicable Date, Bravo Holdings (HK) Limited had a total of 10 issued shares of HK$1.00 each, which were wholly owned by the Target Company. It is principally engaged in handling intra group operational matters, mainly employment, for the Target Group.

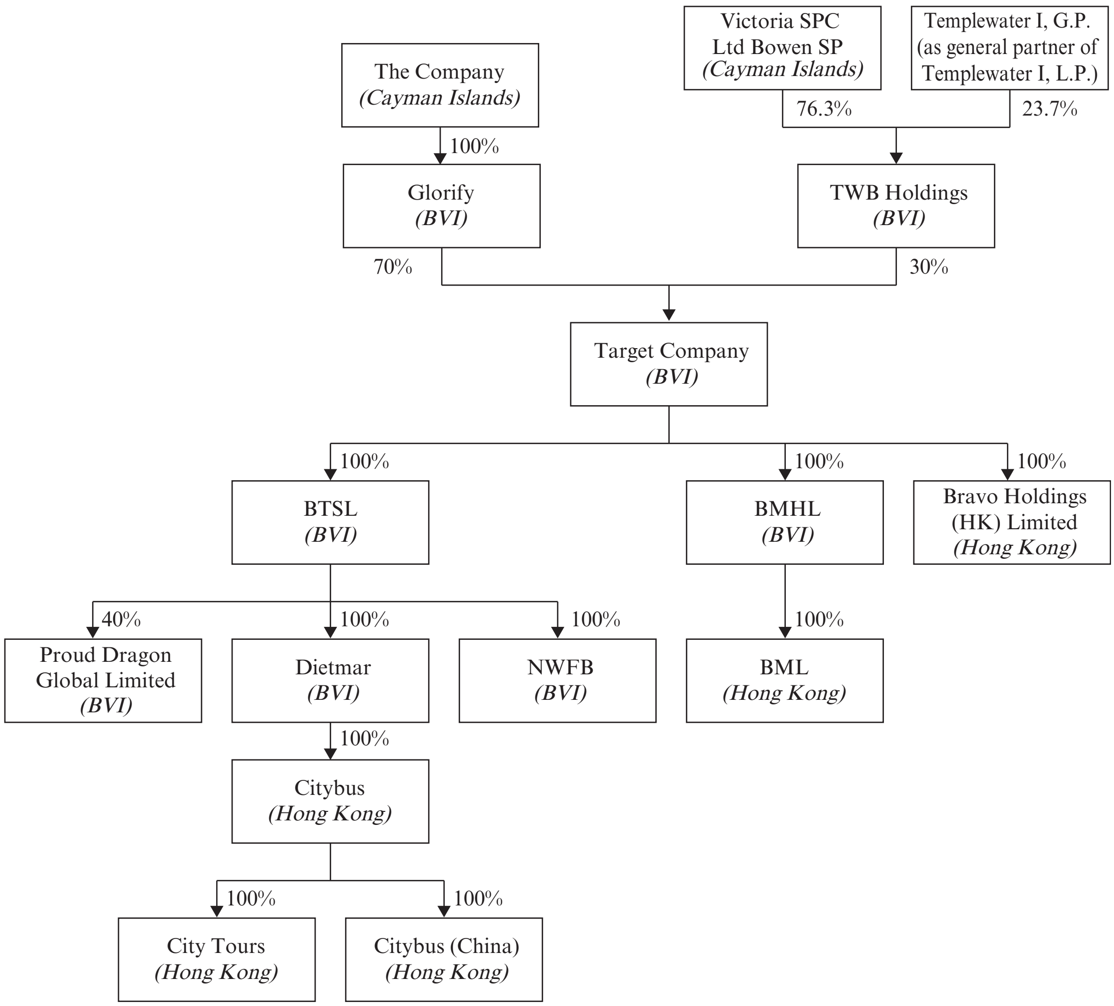
SHAREHOLDING STRUCTURE OF THE TARGET GROUP

The following charts set out the shareholding structure of the Target Group as at the Latest Practicable Date, upon Completion and upon full exercise of the Call Option and/or the Put Option.

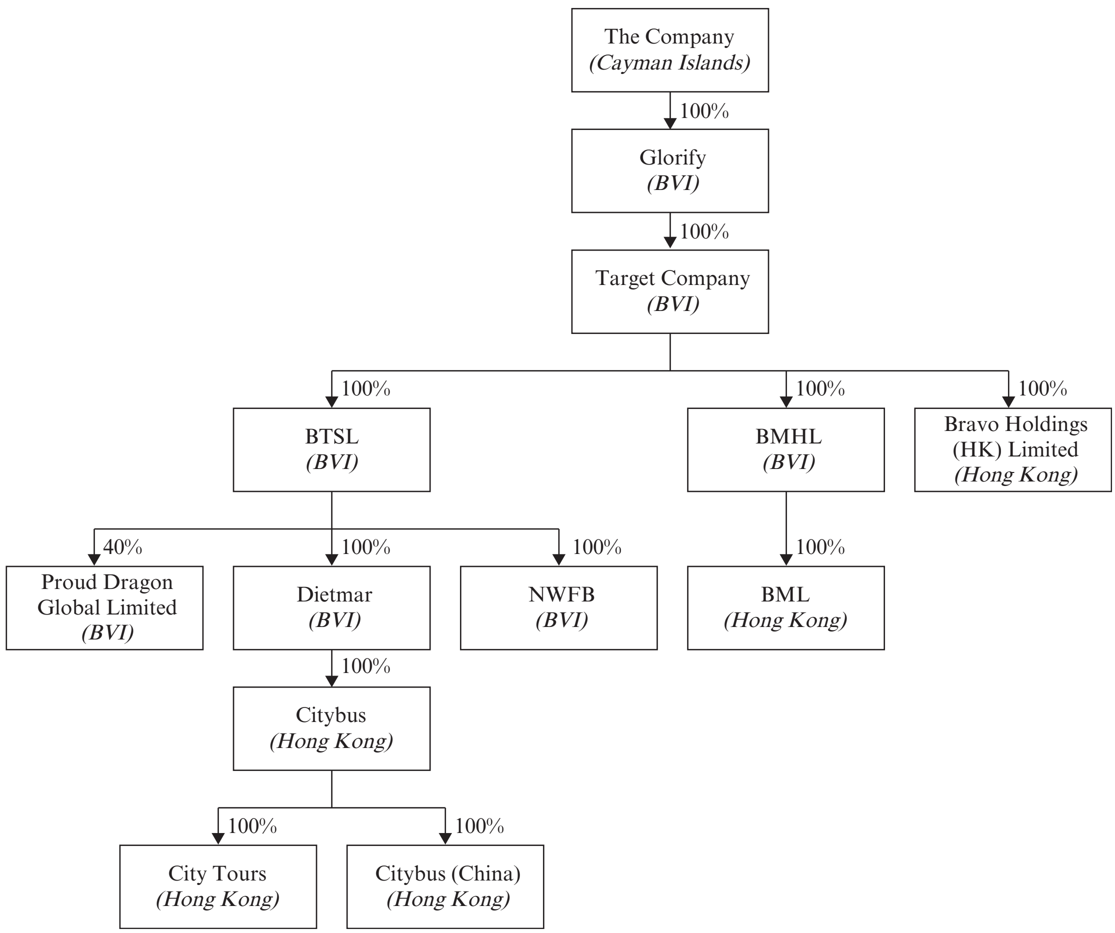
(i) Shareholding structure of the Target Group as at the Latest Practicable Date



(ii) Shareholding structure of the Target Group immediately upon Completion



(iii) Shareholding structure of the Target Group upon full exercise of the Call Option and/or the Put Option



OVERVIEW

The Target Group is principally engaged in the provision of public bus services in Hong Kong. During the Trading Record Period, the Target Group operated its public bus services through Citybus and NWFB (prior to the Franchise Merger)/ Citybus (following the Franchise Merger), which were/was among the five (prior to the Franchise Merger)/ four (following the Franchise Merger) operators of franchised public bus services in Hong Kong at the relevant time. According to Ipsos, Citybus and NWFB respectively ranked second and third among all operators of franchised public bus services in each of these areas in 2022: revenue from franchised public bus operations, number of passenger journeys operated, number of franchised bus routes operated and number of licensed buses owned. Following the Franchise Merger, Citybus ranked second among all operators of franchised public bus services in terms of the number of passenger journeys operated and the number of licensed buses owned in 2023. As at the Latest Practicable Date, the Target Group operated more than 200 bus routes across Hong Kong Island, Kowloon and the New Territories with a bus fleet of over 1,700 registered buses, and was the major franchised public bus operator based upon network coverage on Hong Kong Island.

The Target Group is committed to providing safe and reliable bus services and improving the quality of life of its passengers. The Target Group mainly provides public bus services, with fare revenue representing 90.8%, 92.1% and 92.9% of its total revenue for FY2021, FY2022 and FY2023, respectively. Prior to 1 July, 2023, the Target Group operated 3 franchised networks, including the CTB (F1) Franchise and the CTB (F2) Franchise under its "Citybus" brand, and the NWFB Franchise under its "NWFB" brand. With effect from 1 July, 2023, the CTB (F1) Franchise and the NWFB Franchise were merged into the Merged Franchise, which covers Hong Kong Island, Kowloon, New Territories and cross-harbour bus networks. The CTB (F2) Franchise was also renewed, as the CTB (F2) 2023 Franchise, with effect from 1 May, 2023, and continues to cover the Target Group's Airport and North Lantau bus networks. Both the Merged Franchise and the CTB (F2) 2023 Franchise were granted for a period of ten years to 2033. The Target Group also provides non-franchised bus services, including employee bus services for certain companies and resident bus services for residential estates, as well as private bus hire services and open-top sightseeing services in Hong Kong.

In July 2022, the Transport and Logistics Bureau of the Government stated that franchised buses, being the second major mode of public transport only after railways, carried about 3.1 million average daily passenger journeys in 2022, and accounted for around one-third of overall public transport patronage. As operators of two out of the five franchised public bus services in Hong Kong prior to the Franchise Merger, Citybus and NWFB together carried approximately 322.0 million and 276.5 million passenger journeys, or a daily average of approximately 0.88 million and 0.76 million, in 2021 and 2022, respectively, which in turn represent approximately 25.2% and 24.4% of the total daily average passenger journeys carried by all franchised bus operators in Hong Kong in the corresponding periods.

In support of the Government's target to formulate a timetable introducing the use of new energy public transport and commercial vehicles by around 2025, as well as to improving roadside air quality, Citybus has re-affirmed its commitments to cooperate with the Government in promoting the development of electric and other new energy public transport vehicles, such as conducting trials of both electric and hydrogen fuel cell buses. For example, the Target Group introduced the first batch of single decker electric buses in Hong Kong during 2015 and Hong Kong's first electric double decker bus during 2022. In 2022, the Target Group had further launched its #MissionZero strategy, a large-scale project to look towards greening its fleet and ensuring sustainable operations whilst further cutting carbon emissions, and subsequently unveiled Hong Kong's and the world's first hydrogen fuel cell double decker tri-axle bus in July 2022. Since then, the Target Group has been working closely with the Government and vehicle supply partners to design relevant regulations for the operation of hydrogen vehicles in Hong Kong. In October 2022, the Target Group announced its plan to build Hong Kong's first hydrogen refuelling station, which would be located in its bus depot in West Kowloon. In May 2023, the Government gave agreement-in-principle to the Target Group in respect of its trial projects of a hydrogen fuel cell electric bus and a hydrogen refuelling station for franchised buses. In August 2023, the Government gave agreement-in-principle to the Target Group in respect of its application of a trial project involving the setting up of a hydrogen refuelling facility at its bus depot in Chai Wan and the operation of 5 hydrogen fuel cell double decker buses. In February 2024, the Target Group launched into public service of the first hydrogen fuel cell double decker bus in Hong Kong.

The Target Group, through BML, also provides bus body advertising and other media services. The Target Group's public bus operations operate on an extensive route network and are supported by a sizeable bus fleet which provide an available advertising platform with access to a large number of customers and the general public across all key geographical regions in Hong Kong.

The Target Group recorded revenue of approximately HK$2,838.6 million, HK$2,538.4 million and HK$3,399.5 million for FY2021, FY2022 and FY2023, respectively. The following table sets forth a breakdown of the Target Group's revenue during the Trading Record Period:

	FY2021		**FY2022**		**FY2023**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Fare revenue	2,577,203	90.8	2,337,569	92.1	3,158,539	92.9
Advertising income	204,041	7.2	171,954	6.8	209,570	6.2
Bus hire income	18,071	0.6	18,506	0.7	22,395	0.7
Rental income	7,423	0.3	4,847	0.2	3,979	0.1
Dividend income	25,012	0.9	–	–	–	–
Miscellaneous	6,822	0.2	5,519	0.2	5,026	0.1
Total	**2,838,572**	**100.0**	**2,538,395**	**100.0**	**3,399,509**	**100.0**

COMPETITIVE STRENGTHS

The Target Group's management believes that the following competitive strengths have contributed to the Target Group's success and will continue to drive its future growth:

The Target Group has over 40 years of experience and a proven track record in the public bus services industry

The Target Group commenced its public bus services business in 1979 as a non-franchised bus service operator and was awarded its first franchised route in 1991. Through continued efforts for over 40 years, the Target Group has built a reputation as a high quality, safe and reliable public bus operator in Hong Kong, with a bus fleet of over 1,700 registered buses operating on over 200 franchised bus routes across Hong Kong Island, Kowloon and the New Territories as at the Latest Practicable Date and serving more than 938 million passenger journeys in aggregate (representing a daily average of 0.86 million passenger journey) during the Trading Record Period. Throughout its history, the Target Group has received numerous awards and certifications in recognition of its performance, accomplishments and commitment to maintaining high-quality standards. For details, please see "Awards and Recognitions" below.

As at the Latest Practicable Date, the Target Group operates its franchised public bus services under two franchises, namely the Merged Franchise and the CTB (F2) 2023 Franchise, each with a ten-year franchise period to 2033. The non-interrupted continuation of the Target Group's public bus franchises is a testament to the Target Group's commitment to and persistence in providing safe, reliable and high-quality bus services, which has been critical to the continuous expansion of its market share in the public bus services market in Hong Kong, not only in terms of revenue from franchised public bus operations, but also in terms of number of bus routes operated and patronage. According to Ipsos, Citybus and NWFB respectively ranked second and third among all operators of franchised public bus services in each of these areas in 2022: revenue from franchised public bus operations, number of passenger journeys operated, number of franchised bus routes operated and number of licensed buses owned. Following the Franchise Merger, Citybus ranked second among all operators of franchised public bus services in terms of the number of passenger journeys operated and the number of licensed buses owned in 2023. During the Trading Record Period, the Target Group was also awarded a number of new major franchised route packages through competitive tendering, including four new cross harbour routes linking Yuen Long/Tsuen Wan/Shatin with Island East, bus routes serving the new public housing estate at Queen's Hill in Fanling, and bus routes serving the major public housing development at Area 54 in Tuen Mun. Notably, in September 2023, the Target Group was awarded a significant new route package to operate bus services serving the new Shap Sze Heung development area covering both housing developments and one of Hong Kong's major new sports and leisure parks that will commence operations on a phased basis starting from the first quarter of 2024.

The Franchise Merger with effect from 1 July, 2023 is expected to create further synergies for bus route planning and operations through allowing a higher degree of flexibility in the deployment of bus fleet, bus captains and other resources, which is conducive to further improving the operational efficiency of the Target Group. For details, please see "Public bus services – 1. Franchised bus services – 1.1.1 Merged Franchise" below. Resources saved through the Franchise Merger would be redeployed to further enhance the Target Group's bus services and service delivery, which is expected to enable it to further increase its market share and capture future market demand, in particular around the Northern Metropolis, wider New Territories and other emerging urban development or regeneration areas.

The Transport and Logistics Bureau of the Government had stated that as road-based mass carriers, franchised buses play a pivotal role in the public transport system, particularly for serving areas without direct railway access as well as providing feeder services connecting the railway network and inter-district service. In view of the substantial use of public bus transport in Hong Kong by the general public, the Target Group is dedicated to maintaining and where possible increasing passenger usage of its buses by offering quality transport services to customers with a special emphasis on greater operational efficiency, timely operating schedules, and good customer service. The Target Group's management believes that its market position and proven track record in the public bus services industry will continue to enable it to benefit from the growing demand for public bus services in Hong Kong.

The Target Group operates its franchised bus services flexibly, which enables it to respond to market conditions and adapt to and capture passenger demand in a timely manner

The Target Group has been enhancing the flexibility of its franchised bus services through bus route rationalisation, rebasing and resources optimisation, with a view to better enabling it to respond to market changes and make adjustments to meet and capture passenger demand.

The Target Group closely monitors the service capacity of its franchised bus services and passenger demand for bus services on existing franchised routes and potential routes and maintains close communication with the Transport Department, with the aim to adapt its franchised bus services to the customer needs in a timely manner. For instance, during the Trading Record Period, the Target Group had implemented multiple service adjustments, including (i) introducing enhanced services and extending service hours for certain popular bus routes to cater for customer demand and (ii) operating special routes, implementing special traffic arrangements and providing additional services to existing routes to prepare for and accommodate the increased demand for public transport during festive periods and large-scale events, such as the Hong Kong Coliseum, West Kowloon Cultural District concerts, AsiaWorld-Expo events and The Hong Kong Sevens, to name a few.

In terms of long-term route planning, the Target Group has been submitting proposals to the Transport Department to review and adjust its franchised bus services through the RPP every year. For example, during the Trading Record Period, the Target Group proposed to streamline, extend and re-route various franchised routes and provide better and more direct linkages between certain destinations, with a view to, amongst others, enhancing customer convenience, increasing service coverage in under-served regions with business opportunity and improving connectivity. Many of these proposals have been adopted by the Transport Department after consultation with the relevant District Councils and other relevant stakeholders. The Target Group's management believes that the implementation of these proposals has enhanced the Target Group's network coverage and increased the exposure and attractiveness of the relevant franchised routes to customers whilst enabling it to better cater for the demand arising from the changing population demographics, urban development and other changes in the relevant regions.

Furthermore, as the NWFB Franchise and the CTB (F1) Franchise served, in many areas, largely parallel networks, the consolidation of the two franchises pursuant to the Franchise Merger is expected to enable the Target Group to achieve further economies of scale through enabling more efficient use of its bus fleet and higher flexibility in the deployment of bus captains and other operational staff. For example, the special approval from the Transport Department to allow NWFB to cross hire Citybus vehicles to meet ad hoc passenger demand is no longer required after the Franchise Merger. Operational adjustments can also be made in a timelier manner in the event of unforeseen situations requiring temporary redeployment of buses or bus captains (regardless of the franchise which they belong to), thus reducing the customer impact and lost trip rates. The flexibility in resources deployment achieved through the Franchise Merger is expected to further enhance the Target Group's ability to readily adapt its public bus services to meet market demand.

The Target Group has strong bus engineering and technological development capabilities

The Target Group has strong engineering and technology departments with solid development capabilities, which strive to upkeep the high engineering standards in line with a policy of continuous improvement whilst introducing new technology to the Target Group's vehicles and bus operations, with a view to continuously enhance the Target Group's safety record, operational performance, customer experience and service quality.

During the Trading Record Period, the Target Group had developed and introduced various bus engineering solutions, which have enhanced the safety of its buses, reduced accident rates and improved passenger comfort, and have also continuously upgraded the environmentally friendly features of the Target Group's bus fleet.

Furthermore, in 2022, the Target Group unveiled Hong Kong's first electric double decker bus and the first hydrogen fuel cell double decker bus, which were developed in partnership with Wisdom, a vehicle manufacturer headquartered in Fujian, China. The Target Group closely partnered with Wisdom to develop the first electric double decker bus for Hong Kong, from concept to the completion of the first production vehicle, which has enabled high levels of development and understanding at every stage, with a focus on creating a vehicle suited to Hong Kong's challenging topography and operating environment. Following the success of this project, the Target Group and Wisdom had led a consortium of experts to design and build the first hydrogen fuel cell tri-axle double decker bus, which had the additional accolade of being a world's first. Going forward, the Target Group will continue to work with various renowned international partners and suppliers of key components to develop the application of existing technology and create a path for further hydrogen double decker buses for ongoing trials in Hong Kong.

According to Ipsos, the Government has introduced multiple plans and initiatives aimed at encouraging the adoption of new energy transport technologies and achieving zero vehicular emissions by 2050. These efforts include the Hong Kong Roadmap on Popularisation of Electric Vehicles (EV Roadmap), the Clean Air Plan for Hong Kong 2035, and Hong Kong's Climate Action Plan 2050. Additionally, the Government plans to introduce a roadmap for advancing electric public transport and commercial vehicles by 2025 and developing long-term strategies for implementing hydrogen energy in road transport. The Target Group's management believes that its introduction of Hong Kong's first electric double decker bus and first hydrogen fuel cell double decker bus has demonstrated the Target Group's leading position in Hong Kong's public transportation sector's zero-emission transformation journey. The Target Group's management also believes that with both battery-electric and hydrogen fuel cell double decker buses being tested in parallel, the Target Group is well positioned to partner with the Government in formulating a comprehensive plan for Hong Kong's future transition to carbon-neutral transportation and contribute to the Government's efforts in developing more environmentally-friendly and sustainable transportation system.

The Target Group's strong bus engineering and technological development capabilities are therefore expected to help support and expand its business in new and emerging sectors with high demands for technological knowledge and technical knowhow, as well as presenting it with more business growth opportunities and reinforce its strong brand name and reputation.

The Target Group has an experienced management team with in-depth industry knowledge

The Target Group has a core management team with extensive knowledge and experience in the public bus services industry. Most of the members of the core management team of the Target Group have on average more than ten years of experience in the public transport industry. For the biographical details of the senior management team, please refer to "Appendix I – Information about the Target Group – 6. Core management team" in this circular.

Leveraging their foresight and in-depth industry knowledge, the Target Group's management team has been able to formulate sound business strategies, assess and manage risks, anticipate changes in customer demand and preferences and capture business opportunities.

The Target Group also places great emphasis on promoting ongoing professional growth among its colleagues. During the hiring process, it pays close attention to selecting and training individuals who have the potential to become valued long-term members of the Target Group. Whenever necessary, training programmes focusing on technical knowledge are organised to keep employees updated with the latest developments. The core management team of the Target Group also maintains regular interactive meetings with other employees to ensure compliance with the Target Group's governance, guidance and standards.

BUSINESS STRATEGIES

The Target Group intends to continue to strengthen its position in the public bus services market, enhance its overall competitiveness and increase its market share in the future. To achieve these goals, the Target Group is pursuing the following principal business strategies:

To further enhance operational efficiency of the Target Group's public bus service operations

The Target Group intends to further enhance the operational efficiency of its public bus service operations through the following measures:

- *Further optimisation of routes and schedules*: The Target Group has been conducting in-depth analysis of the existing franchised routes and schedules to identify areas for improvement. By further optimising bus routes based on passenger demand, traffic patterns and operational requirements, the Target Group aims to reduce travel times, minimise congestion and improve overall service efficiency. In particular, as the public transport network on Hong Kong Island continues to change, there has been some room for rationalisation in the parallel bus networks previously operated under the respective NWFB Franchise and the CTB (F1) Franchise in this region. The Franchise Merger has allowed the Target Group to create some synergy from these bus networks and the Target Group will further implement bus service review on Hong Kong Island with the aim of an overall gain in network efficiency.

Optimising routes and schedules will also allow better allocation and more efficient use of resources, including buses, drivers and maintenance personnel, which is additionally expected to help reduce dead mileage and lost trips, reduce fuel consumption and ongoing wear and tear of the bus fleet with lower overall operating costs.

- *Implementing technology solutions*: The Target Group will continue to embrace technological advancements that can streamline its bus operations, such as increasing the level of automation to streamline the bus captains' work procedures and improve their work conditions, implementing tools to collect more real-time data to shorten reaction time to changes in road conditions, and utilising data analytics to identify areas for improvement and make data-driven decisions.

- *Promoting inter-departmental collaboration*: The Target Group will continue to foster cross departmental collaboration and communication within its organisation, including the workforces previously deployed under the NWFB Franchise and the CTB (F1) Franchise prior to the Franchise Merger. This is expected to further streamline processes, identify areas at improvement, and ensure a wholly-coordinated approach to achieve increased levels of operational efficiency across various functions, including planning, scheduling, operations, maintenance and customer service.

- *Strengthening communication with local authorities and stakeholders*: The Target Group will continue to strengthen its relationships and communications with the Government and other stakeholders such as District Councils and community representatives to align its service offerings with community needs.

The Target Group's management believes that higher operational efficiency will enable it to achieve further cost-efficiencies, enhance the customer satisfaction and grow patronage, which will help ensure the long-term viability of its public bus service provision.

To expand the Target Group's market presence in the New Territories and Kowloon

Citybus and NWFB were encouraged to enter the franchised bus market in the 1990's with a view to increasing the public satisfaction of the service level of franchised buses on Hong Kong Island, and have initially focused on Hong Kong Island and cross-harbour franchised routes. As the Government has been actively promoting the ongoing development of Kowloon and the New Territories, including major infrastructure projects, new towns and transport enhancements, Kowloon and the New Territories have been experiencing rapid urban development and expansion, an increase in population density and an expansion of the residential and commercial areas that will present larger market potential for the provision of public transportation services. For instance, according to the Ipsos Report, the ongoing development of the CBD2 Kowloon East area, which includes the former Kai Tak Airport, the Kwun Tong Business area and the Kowloon Bay area, necessitates more transit mode options for commuters travelling to and from these areas, and demand for franchised bus services will rise further in these areas as they continue to develop.

To tap into this growing customer base and to cater for the commuting needs of the substantial population in Kowloon and the New Territories, as well as capitalising on the transportation needs arising from the rapid urban development in these regions, the Target Group will continue to expand upon and increase its service coverage and market presence in these regions. This will also enable the Target Group to continue to grow and achieve a more balanced service coverage across differing parts of Hong Kong, whilst ensuring alignment of its services with the changes to and evolving needs of the population and contributing to the ongoing development of the wider transportation infrastructure and development of Hong Kong as a whole.

To achieve this strategy, the Target Group has been continually conducting in-depth studies to understand the planning and development policy, demographics, commuting patterns, transportation needs and customer preferences in Kowloon and the New Territories. These studies will provide insights into the specific requirements and any gaps or opportunities in the coverage of public transportation services in the region which may be filled by the Target Group. The Target Group also intends to design service offerings that are tailored to the specific needs of the region, such as (i) designing routes and schedules to align with local commuting patterns and needs; (ii) initiating new routes to improve connectivity of underserved regions; and (iii) introducing services targeting specific segments of the population in the region, such as students or senior citizens. To strengthen the brand awareness of the Target Group in Kowloon and the New Territories and help the local community understand its vision and value propositions, the Target Group will continue to launch targeted marketing and awareness campaigns within the region and strengthen its communication with local authorities and stakeholders.

To continuously enhance the service quality of the Target Group's public bus services

The Target Group is committed to improving the quality of life for the residents of Hong Kong that it serves through providing safe, reliable and customer focused bus services. The Target Group's management believes that this commitment has established the Target Group as a reliable, customer-centric and responsible public bus operator such that its positive reputation and brand image has helped build strong trust between it and its customers, stakeholders and the wider community, as well as confidence in its service delivery. The Target Group's management also believes that continuous review and improvement of its service quality is key to maintaining the customer satisfaction of its public bus services, retaining existing passengers and attracting new ones, which may in turn contribute to increases in patronage and fare revenue. High levels of service quality will also sharpen the Target Group's competitive edge in the public bus industry and in turn enable the Target Group to grow its market share and strengthen its market position in the public transportation sector.

The Target Group aims to continuously enhance the service quality of its public bus services, mainly by (i) improving service reliability, including the optimisation of bus schedules, minimising customer wait times and ensuring adherence to timetables; (ii) enhancing customer service, principally through strengthening the training of frontline staff to deliver high standards of service and ensuring a positive and courteous interaction with customers as well as maintaining good communications and publicity on its services and offerings; (iii) continuously upgrading its bus fleet with improved features relating to comfort and accessibility as well as safety features to enhance the overall customer experience; (iv) upholding a strong safety performance along with stringent safety measures, with specific emphasis on ensuring a safety driven organisational culture at all levels and adopting technology to support this; (v) upgrading customer information systems to provide relevant and accurate real-time information on bus arrivals, routes and service updates, allowing customers to plan their journeys more effectively and stay informed about any disruptions; and (vi) actively engaging with stakeholders and the community and incorporating customer feedback where relevant in its service improvements.

SERVICES OF THE TARGET GROUP

The Target Group is principally engaged in the provision of both franchised and non-franchised bus services in Hong Kong, and separately provides advertising services in Hong Kong. The following table sets forth a breakdown of the Target Group's revenue during the Trading Record Period:

	FY2021		FY2022		FY2023	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Fare revenue	2,577,203	90.8	2,337,569	92.1	3,158,539	92.9
Advertising income	204,041	7.2	171,954	6.8	209,570	6.2
Bus hire income	18,071	0.6	18,506	0.7	22,395	0.7
Rental income	7,423	0.3	4,847	0.2	3,979	0.1
Dividend income	25,012	0.9	–	–	–	–
Miscellaneous	6,822	0.2	5,519	0.2	5,026	0.1
Total	**2,838,572**	**100.0**	**2,538,395**	**100.0**	**3,399,509**	**100.0**

For details of the changes in the Target Group's revenue during the Trading Record Period, please see "Appendix I – Information about the Target Group – 7. Management discussion and analysis – Operating results during the Trading Record Period – Discussion of the key items in respect of the consolidated income statements – Revenue".

PUBLIC BUS SERVICES

Provision of public bus services in Hong Kong is the principal business of the Target Group. In FY2021, FY2022 and FY2023, fare revenue from public bus services was approximately HK$2,577.2 million, HK$2,337.6 million and HK$3,158.5 million, respectively, representing approximately 90.8%, 92.1% and 92.9% of the total revenue of the Target Group in the corresponding periods.

The operation of public bus services in Hong Kong is carried out under a franchise granted under the PBSO or a passenger service licence granted under the RTO (Cap. 374). The Target Group provides both franchised and non-franchised public bus services.

In respect of the Target Group's franchised public bus services, BTSL wholly-owns (i) Citybus, the grantee of the Merged Franchise (being the merger of the CTB (F1) Franchise and the NWFB Franchise held by Citybus and NWFB respectively prior to the Franchise Merger) and the CTB (F2) 2023 Franchise; and (ii) NWFB, the grantee of the NWFB Franchise prior to the Franchise Merger. The Target Group's franchised bus networks serve and connect, amongst others, Hong Kong Island, Kowloon, New Territories, North Lantau, the Hong Kong International Airport, Shenzhen Bay Port and Hong Kong-Zhuhai-Macau Bridge Hong Kong Port.

In respect of the Target Group's non-franchised public bus services, Citybus provides private hire, contract operations of both buses and labour, and employee and residents bus services.

1. Franchised bus services

Citybus and NWFB were respectively awarded their first franchised routes in 1991 and 1998, respectively and the Target Group has been operating franchised bus services since then.

1.1 The Franchises

The granting of bus franchise refers to the non-exclusive right to operate a public bus service on specified routes granted by the Chief Executive in Council pursuant to the PBSO. In general, a bus franchise may be granted for a period of not exceeding 10 years, which may be extended for a further period not exceeding 5 years. A mid-term review is conducted normally at the fifth year of the franchising period taking into account the franchisee's operational performance and customer satisfaction. For details of the relevant provisions of the PBSO governing the grant of bus franchises, please see "Appendix I – Information about the Target Group – 3. Regulatory overview – Laws and regulations relating to the public bus services in Hong Kong – The Franchises – Principal provisions of the CTB (F2) 2023 Franchise and the Merged Franchise".

1.1.1 Merged Franchise

In the 1990s, NWFB and Citybus were separately encouraged to enter the franchised bus market with a view to introducing greater competition and with the aim of increasing the public satisfaction of the service level and customer standards of franchised buses on Hong Kong Island. This arrangement brought general improvements in the level and quality of bus services. However, as the demographics of Hong Kong Island changed along with the development of the public transport network, there was room for review and potential rationalisation in the distinct, but in some cases parallel, bus networks of NWFB and Citybus. The merging of the CTB (F1) Franchise of Citybus and the NWFB Franchise of NWFB was expected to create greater synergies that could be applied to bus network and route planning and their operations through creating a higher degree of flexibility in the deployment of the combined fleet and other supporting resources. The elimination of unnecessary administrative work, more efficient use of resources, reductions in dead mileage and other operational gains were also expected to bring about benefits in the operating costs. In addition, the merging of the NWFB and Citybus franchises was expected to enable opportunities for the more flexible and efficient deployment of staff.

Specifically, improvements in the following aspects of the bus operations of the Target Group were expected to be brought about by the Franchise Merger:

- *Deployment of bus fleet*: After merging the CTB (F1) Franchise and the NWFB Franchise which serve common areas and, in some cases, parallel networks, the Merged Franchise may achieve further economies of scale through enabling more efficient deployment of its bus fleet. For example, prior to the Franchise Merger, to allow better use of resources, the Target Group had sought and obtained approval from the Transport Department for NWFB to hire CTB (F1) Franchise buses (and vice versa) to meet ad hoc passenger demand arising from its customers during peak periods or to implement special service arrangements. After the Franchise Merger, such flexible operational arrangements could be adopted without the need to seek prior approval from the Transport Department, which has reduced administrative work and improved operational efficiency.

- *Staff deployment*: The Merged Franchise was expected to enable more flexibility, thereby improving operational efficiencies in areas such as the deployment of bus captains in daily operations as well as in unforeseen situations and bringing benefits to the overall working conditions of its staff by creating more flexible scheduling and rostering. For example, in the event of an unforeseen situation requiring the temporary redeployment of bus captains, the Target Group would be able to make the necessary arrangement in a timelier manner, thus potentially reducing lost trip rates.

- *Use of bus garages, depots and parking sites*: The Target Group had shared use of some of its facilities that were then utilised by the CTB (F1) Franchise and the NWFB Franchise, subject to ensuring proper cost apportionment between the two franchises for accounting and regulatory monitoring purposes. The Merged Franchise was expected to lead to efficiency gains by eliminating administrative and auditing work involved in such special arrangements, as well as helping reduce dead mileage and reducing fuel costs by allowing the use of optimal solutions for the buses and staff to be deployed from the closest facilities without being bound by applicable restrictions under the distinct franchises.

- *Entire operation*: The Merged Franchise was expected to enable full consolidation of operations relating to other common facilities, including on-street facilities such as bus stop poles, bus shelters as well as staff resting rooms, kiosks and toilets. Also, prior to the Franchise Merger, Citybus and NWFB were required to keep its own set of engineering spare parts stock and separate stores under the CTB (F1) Franchise and the NWFB Franchise, respectively. The Franchise Merger was expected to enable it to operate at a continuing reduced stock level (subject to fleet age profile and deployment). Minor efficiency gains in the administrative and maintenance work would also lead to some cost savings and help the Target Group achieve better financial sustainability.

The Target Group had accordingly applied for the Franchise Merger in September 2021, and the Merged Franchise was granted to Citybus on 12 July, 2022, conferring upon it the non-exclusive rights to operate public bus services for the bus routes previously under the CTB (F1) Franchise and the NWFB Franchise for ten years from 4:00 a.m. on 1 July, 2023 to 4:00 a.m. on 1 July, 2033.

1.1.2 CTB (F2) 2023 Franchise

Citybus has been operating the Airport and North Lantau bus networks since 1997. On 12 July, 2022, the CTB (F2) 2023 Franchise was also granted to Citybus, conferring upon it the non-exclusive right to operate its bus network for ten years from 4:00 a.m. on 1 May, 2023 to 4:00 a.m. on 1 May, 2033.

1.1.3 Key provisions of the Franchises

The Franchises stipulated various provisions which are required to be complied with by Citybus during their respective franchise periods. The franchise provisions reflect the Commissioner's regulatory power in monitoring the Target Group's franchised bus services.

The principal provisions of the CTB (F2) 2023 Franchise and the Merged Franchise are similar to the previous franchises (i.e. the CTB (F1) Franchise, the CTB (F2) Franchise and the NWFB Franchise) of the Target Group. In granting the Merged Franchise and the renewal of the CTB (F2) 2023 Franchise to Citybus in July 2022, (i) certain existing franchise conditions in the Target Group's previous franchises were incorporated; and (ii) new franchise conditions were introduced to further enhance the quality of bus services provided and Government's interactions with Citybus, such as empowering the Commissioner to request information and records on accidents or safety-related incidents and stipulate further requirements on the acquisition of new buses by Citybus, as well as requiring Citybus to establish an updated documented bus maintenance system and comply with all requirements of the Commissioner in respect of bus driver training. The management of the Target Group has confirmed that the aforementioned requests and requirements of the Commissioner had been fulfilled and complied with since the grant of the Merged Franchise and up to the Latest Practicable Date.

Set out below is a summary of certain key provisions of the CTB (F2) 2023 Franchise and the Merged Franchise, which are largely in line with those of the previous franchises (i.e. the CTB (F1) Franchise, the CTB (F2) Franchise and the NWFB Franchise) of the Target Group:

- *Provision of facilities on buses*: Citybus is required to provide safety or service enhancement facilities on its buses as reasonably required by the Commissioner. Additionally, when acquiring new buses, Citybus must comply with the specifications and requirements issued by the Commissioner.

- *Establishment of a documented bus maintenance system*: Citybus shall establish a documented bus maintenance system to the satisfaction of the Commissioner in accordance with which all buses shall be inspected and maintained before deployment for its bus services.

- *Restrictions on disposal*: Citybus shall not without the previous written consent of the Commissioner dispose of material assets as specified in the Franchises, including land, buildings and buses.

- *Making available information on each specified route*: Citybus is obligated to provide the public with information regarding its bus services on specified routes, in the form and manner and at the timings as required by the Commissioner. This includes making available the bus fares, route and timetable, location of bus stops, journey time and any other relevant information.

- *Communication with the public*: Citybus is required to establish appropriate arrangements, such as passenger liaison groups, to effectively communicate with the public and receive their opinions. These arrangements aim to assess and enhance the standards of Citybus' bus services to the satisfaction of the Commissioner.

- *Passenger satisfaction*: Citybus is obligated to establish suitable arrangements to conduct passenger satisfaction surveys. Additionally, Citybus is required to publish a passenger service pledge that outlines a reasonable timeframe for responding to public complaints and suggestions. Citybus should also disclose the achievement rate of its passenger service pledge. Furthermore, Citybus must respond to complaints and suggestions forwarded by the Commissioner in a manner and at times reasonably required by the Commissioner.

- *Regular reporting obligations*: Citybus shall provide to the Commissioner the information relating to and records kept by Citybus in respect of its bus services (including the number of passengers and the daily receipts from the passengers carried on every day on each specified route, the number of buses in use on each specified route on every day, and data and records in relation to accidents or safety-related incidents), as well as annual audited financial statements, monthly management accounts, monthly report on fuel-related expenses, and accounting policies, etc.

For details of the principal provisions of the CTB (F2) 2023 Franchise and the Merged Franchise, please see "Appendix I – Information about the Target Group – 3. Regulatory Overview – Laws and Regulations relating to the public bus services in Hong Kong – The Franchises – Principal provisions of the CTB (F2) 2023 Franchise and the Merged Franchise".

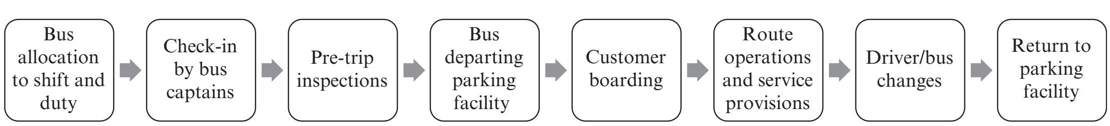
The Target Group has adopted extensive policies and measures to help ensure compliance with the provisions of the Franchises, including but not limited to the areas of bus safety, bus fleet maintenance and management, bus route planning, performance assurance and customer satisfaction. For details, please see "1.3 Bus routes", "1.4 Bus fleet management", "4. Safety" and "5. Performance assurance" below.

The management of the Target Group has confirmed that during the Trading Record Period and up to the Latest Practicable Date, the Target Group had complied with the provisions of the CTB (F1) Franchise and the NWFB Franchise (prior to the Franchise Merger), the CTB (F2) Franchise (prior to its renewal as the CTB (F2) 2023 Franchise), the Merged Franchise and the CTB (F2) 2023 Franchise in all material respects.

1.2 Bus operations

1.2.1 Key processes involved in the Target Group's bus operations

The flow chart below illustrates the key or typical processes involved in the Target Group's bus operations on a normal day of operation:



- *Bus allocation to shift and duty*: Daily operations begin with the bus allocation process, where buses are assigned to their respective routes, schedules and driver duties. The operator determines the number of buses needed for each route based on scheduling data, which is in turn generated based on passenger demand, and anticipated events or factors that may affect patronage.

- *Check-in by bus captains*: Bus captains tap their Octopus card at the system sensor of the smart system in the bus. This will initiate several automated processes within the smart system relevant to the duty or trips they will operate, including:

  (i) *GPS navigation and real time system*: The smart system automatically updates the GPS navigation and tracking feature. This allows the bus to be tracked by the Target Group's control room and on street supervisory staff. Bus captains are assisted by the real time system which provides updates on the departure time and routing when necessary.

  (ii) *Fare collection system update:* The system also automatically updates the fare collection system and electronic payment system in the bus, ensuring that the correct fares are collected from passengers for the designated route.

  (iii) *Customer display and destination screen updates:* The system also updates and displays the changes needed to the internal and external customer displays and destination screens.

- *Pre-trip inspections*: Before the buses start operating on their routes, bus captains conduct visual pre-trip inspections to ensure the safety and functionality of the vehicles. This includes visual checks of tyres, fluid levels (through automated warning systems), lights and other essential areas.

- *Bus departing parking facility*: Buses initiate their journeys as per the scheduled departure times and depart from the Target Group's parking facilities.

- *Customer boarding*: Buses pick up passengers at designated stops along their routes. Bus captains ensure that fares are collected upon boarding and passengers board and alight safely, assist passengers with special needs, and provide any necessary information or assistance.

- *Route operations and service provisions*: Bus captains follow pre-determined schedules and routes to maintain timely service. Bus captains are assisted by the GPS system to stay on track, make necessary turns at intersections, and navigate through complex road networks. This helps in maintaining route adherence, improving operational efficiency, and providing a reliable and timely bus service to passengers. The GPS tracking feature also determines the buses' real-time location, which helps monitor and track adherence to the scheduled route, whilst providing arrival times to passengers through various channels such as the Target Group's Citybus mobile app and information displays at bus stops. Bus captains maintain communication with the control centre of the Target Group to report any operational issues, receive updates, or request assistance if needed. This allows for effective coordination and swift response to any disruptions or changes in service.

- *Driver/bus changes*: Bus captains take scheduled breaks to rest and recharge at the Target Group's staff facilities or at locations of their choice. Shift changes will occur during the day, where one bus captain replaces another at designated points to ensure continuous bus operation and effective utilisation of buses. Work breaks and shifts are scheduled in accordance with the "Guidelines on Bus Captain Working Hours, Rest Times and Meal Breaks" issued by the Transport Department and other internal labour policies of the Target Group. For details, please see "Public bus services – 4. Safety – 4.1 Safety measures – Maintaining good working conditions for bus captains" below.

- *Return to parking facility – Refuelling, washing, cleaning, parking/maintenance:* At the end of the day, buses return to the designated facilities of the Target Group. Bus captains may complete post-trip inspections, report any operational concerns or incidents, ensure the refuelling and washing of the buses and then either park the buses at the designated facility or hand over the buses to the maintenance team for necessary defect maintenance or servicing.

In addition, between peak hours, buses may undergo routine maintenance or inspections at designated maintenance facilities. This includes addressing any minor issues or repairs to maintain the fleet's optimal performance.

Cash fare revenue will be collected from coin vaults of the buses parked at the Target Group's designated facilities on a regular basis. For details, see "1.2.2 Fare collection" below.

1.2.2 Fare collection

The Target Group has installed Octopus card and other electronic payment systems on its buses. Daily fare receipt information on the Octopus machines is collected every night and transmitted to the Octopus central system where Octopus Limited generates a daily report. The Target Group normally receives payment from Octopus Limited on the following business day.

Passengers may also pay cash fares by depositing cash in the coin vault installed in the Target Group's buses. No change can be given by the bus captain. A cash collection team is responsible for unloading the loaded coin vaults from the buses and placing the loaded coin vaults onto trolleys. The Target Group's designated security service provider will collect and deliver all the trolleys with loaded coin vaults to the service provider's premises for cash counting and then deposit the counted cash into the Target Group's designated bank account at regular intervals.

The Target Group mainly collects bus fares for its franchised bus services through Octopus payments and other forms of electronic payments, which represented more than 82% of the total fare revenue (excluding revenue from TEF and concessionary fare reimbursed by the Government) for each period of the Trading Record Period. Cash fares only represented less than 4% of the total fare revenue (excluding revenue from TEF and concessionary fare reimbursed by the Government) for each period of the Trading Record Period.

For details of the pricing of the Target Group's bus fares and fare adjustments which had been effected during the Trading Record Period and up to the completion of the Franchise Merger, please see "Public bus services – 3. Fare revenue and patronage" below.

1.3 Bus routes

1.3.1 Franchised bus routes

The Franchises stipulate that the Target Group has the operating rights of the routes as specified in the relevant schedules of routes order for the time being in force as specified by the Commissioner. The schedules of routes order are updated from time to time to reflect new routes as may be awarded to the Target Group, and any changes as may be made to the existing routes operated by the Target Group pursuant to the RPP and other changes.

As at the Latest Practicable Date, the Target Group operated 234 bus routes, including 97 Hong Kong Island routes, 53 Kowloon and New Territories routes and 84 cross-harbour routes.

The CTB (F1) Franchise and the NWFB Franchise (prior to the Franchise Merger on 1 July, 2023) and the Merged Franchise (upon completion of the Franchise Merger on 1 July, 2023) primarily cover the Target Group's Hong Kong Island, Kowloon, New Territories and cross-harbour bus networks, while the CTB (F2) Franchise (prior to its expiry on 1 May, 2023) and the CTB (F2) 2023 Franchise (upon it becoming effective on 1 May, 2023) primarily cover the Target Group's Airport and North Lantau bus networks.

The table below sets out the total number of franchised bus routes operated by the Target Group as at 31 December, 2021, 2022 and 2023 and the Latest Practicable Date:

	As at 31 December,			Latest Practicable Date
	2021	**2022**	**2023**	
Citybus				
CTB (F1) Franchise[Note 1]				
Hong Kong Island routes	51	51	N/A	N/A
Cross-harbour tunnel routes	39	44	N/A	N/A
Kowloon/New Territories routes	6	10	N/A	N/A
Sub-total	**96**	**105**	**N/A**	**N/A**
CTB (F2) Franchise/CTB (F2) 2023 Franchise [Note 2]				
Cross-harbour tunnel routes	8	8	8	8
Kowloon/New Territories routes	22	22	23	23
Sub-total	**30**	**30**	**31**	**31**
Merged Franchise[Note 1]				
Hong Kong Island routes	N/A	N/A	98	97
Cross-harbour tunnel routes	N/A	N/A	76	76
Kowloon/New Territories routes	N/A	N/A	28	30
Sub-total	**N/A**	**N/A**	**202**	**203**
All franchises granted to Citybus				
Hong Kong Island routes	51	51	98	97
Cross-harbour tunnel routes	47	52	84	84
Kowloon/New Territories routes	28	32	51	53
Sub-total	**126**	**135**	**233**	**234**
NWFB				
NWFB Franchise[Note1]				
Hong Kong Island routes	47	47	N/A	N/A
Cross-harbour tunnel routes	33	32	N/A	N/A
Kowloon/New Territories routes	14	16	N/A	N/A
Sub-total	**94**	**95**	**N/A**	**N/A**
Total	**220**	**230**	**233**	**234**

Notes:

1. Pursuant to the Franchise Merger, the CTB (F1) Franchise and the NWFB Franchise expired, and the Merged Franchise took effect, on 1 July, 2023.

2. The CTB (F2) Franchise expired, and the CTB (F2) 2023 Franchise has taken effect, on 1 May, 2023.

As shown in the table above, the number of franchised bus routes operated by the Target Group remained relatively stable during the Trading Record Period and up to the Latest Practicable Date.

1.3.2 Operating new bus routes

The Target Group obtains the operating right of new bus routes primarily through (i) the route tendering process; and (ii) the direct award process under the RPP.

Route tendering

Operators of new routes are selected by the Transport Department through a competitive tendering process. For instance, as part of urban planning and development of transportation infrastructure for new development areas, new route packages will usually be introduced to serve new development areas and connect them with other parts of Hong Kong. The Transport Department will typically invite existing public bus operators to apply for the operation right of such new route packages.

Set out below is an overview of the major processes typically involved in the award of new route packages to the Target Group through tendering:

- *Identification of invitation for tenders*: The Target Group identifies potential tender opportunities and receives invitations to tender from the Transport Department. Tender invitations will be directly sent to public bus operators including Citybus by the Transport Department. The Target Group's planning department keeps track of tender notices by monitoring the trade consultations of the draft route planning programme published by the Transport Department.

- *Preparation and review of tenders*: The Target Group's planning department conducts an in-depth analysis of the tender invitation, mainly to understand the new routes to be undertaken and the current and potential transportation needs of the relevant area. This may include collection and analysis of travel characteristics information of comparable areas, demographics, planning inputs from the Transport Department and conducting site visits to understand the relevant area. The planning department will also coordinate with other departments of the Target Group, such as the engineering, technology, property and finance departments, to assess the operational and financial feasibility of the new routes and estimate the required resources to be allocated to the new routes, including bus fleet and bus captains. Based on the analysis conducted and data collected, the planning department will, after validation by the finance department on the financial modelling, prepare a proposal for the Target Group's executive management for consideration. The Target Group's executive management is responsible for submitting recommendations to the management committee or the board of directors of Citybus for decisions on whether to submit the tender, based on the planning department's proposal and taking into account factors including the nature and significance of the tender (e.g. whether it may present the Target Group with opportunities to venture into a new geographical area or increase market presence in a key geographical area), the Target Group's existing commitments and available resources, the estimated gross profit margin and market conditions at the time of submission.

- *Tender submission*: If it is decided that the Target Group shall proceed to submit the tender, the Target Group's planning department will prepare and submit a tender submission to the Transport Department with inputs from other departments. The tender includes detailed information about the proposed new route package, such as the bus type allocation, bus frequency, service hours, proposed fare structure, bus conditions and facilities, provision of passenger information, engineering arrangements, environmental, social, and governance (ESG) initiatives and staff management arrangements. The tender submission must fully follow the guidelines and requirements prescribed by the Transport Department.

- *Tender award*: Once the new route package is awarded to the Target Group, the Target Group will enter into discussions with the Transport Department to finalise the start date and exact terms of operations of the new routes.

- *Route implementation*: Once the terms of operations of the new routes are finalised, the Target Group prepares for the implementation of the new routes. This will normally include purchase of new buses, or allocation of buses from the existing bus fleet. Other preparatory work includes recruiting or redeploying bus captains to the new routes, planning the working shifts of bus captains to cater for the new routes, then preparing bus captains and operational staff for the new routes (such as conducting and documenting road risk assessments to alert bus captains of the special features and traffic risk spots of the new routes, and requiring bus captains to attend driver training along the new routes), and setting up bus stop poles and bus shelters as well as staff kiosks and toilets and other infrastructure along the new routes.

- *Commencement of operations*: Prior to commencing operations on the new routes, the Target Group will work with the Transport Department to inform the public of the new services, including the bus fares, route and timetable, location of bus stops and journey time, in compliance with the provisions of the Franchises and the requirements of the Commissioner. The Target Group will also conduct marketing activities in the area concerned and liaise with key stakeholders in the area such as members of the Legislative Council and relevant District Councils and community representatives, to raise passenger awareness of the launch of its services on the new routes.

It generally takes around 3 weeks from receipt of a tender invitation to submission of a tender for a new route package. The timeline of the award of the tender varies based on the Transport Department's judgement and may range from a few months to more than a year from submission of the tender to launch of services on the new routes.

During the Trading Record Period, the Target Group submitted tenders for the operating rights of 23 new routes, and was awarded the operating rights of 21 routes, representing a success rate of around 91%. Major new routes awarded to the Target Group through tendering during the Trading Record Period included cross harbour bus routes linking New Territories East/West with Island East, route packages serving the new public housing estate in Queen's Hill in Fanling and the major public housing development at Area 54 in Tuen Mun.

Direct award process under RPP

Under the PBSO, franchised bus operators are required to submit a five-year Forward Planning Programme (FPP) to the Transport Department annually. The FPP comprises the RPP which sets out the franchised bus operator's proposals for service improvement and rationalisation and future development under pre-established Route Planning Guidelines (as detailed below) to cope with the actual or projected change in passenger demand. The Transport Department will review and discuss with the bus operator after its submission of the RPP, and formulate an agreed proposal for presentation to the District Council or other stakeholders including other public transport operators for local consultation. After considering feedback from the local community, the Transport Department will agree, adjust or withdraw the items to form the settled RPP. A bus operator will then submit formal applications for the approval of the items concerned.

The Transport Department had issued the Route Planning Guidelines in 2010 to govern the development and planning of franchised bus routes. For instance, if improvement of the service frequency of existing routes alone is not sufficient to meet passenger demand and no practical alternatives are available, the Transport Department will give consideration to the provision of new bus services, with priority to serve areas that are beyond the catchment area of existing railways or railway feeders. In approving any new bus service, the Transport Department will also consider prevailing public transport policies, competition induced and the impact of any such new service on the traffic condition on major roads and busy corridors.

In formulating new routes for proposal under the direct award process under the RPP, the Target Group will use its experience, review its own data and statistics as well as conducting market research and analysing the transportation needs, demographics, and commuting patterns in the areas in which it proposes to operate new routes and study the statistics for comparable existing routes. This helps identify potential areas where new bus routes may be required or existing routes may need adjustments. Based on this experience and data along with market research and analysis, the Target Group will, under the guiding principles in the Route Planning Guidelines, develop route proposals that consider factors such as the nature (residential or commercial) and population density of the relevant area, urbanisation or development policies affecting the relevant area, connectivity of the relevant area, and competition with other public transport operators in the relevant area.

The Target Group's planning department is primarily responsible for preparing new route proposals for the direct award process under the RPP, which requires the Target Group's executive management's approval before submission. New route proposals under RPP are typically submitted in June every year.

If the Transport Department determines that the new route proposal is justified, other public transport operators will be consulted on the proposal. The Transport Department will assess the comments received and engage in discussions with the Target Group on the proposal to revise it if necessary. The new route proposal will then be brought forward for consultation with the relevant District Council. The Transport Department will assess the District Council's comments and feedback on the proposal, and discuss and revise the proposal with the Target Group as appropriate. Once the proposal has undergone this consultation process and revisions as appropriate, it will be settled. The Target Group will then submit formal applications to the Transport Department approximately one month before the intended implementation of the new route. The processes involved in the implementation and commencement of operations on new routes granted under the RPP are largely similar to those for new routes awarded through tendering. Please see "Route tendering" above for details.

It generally takes around four months from preparation of route proposals to putting them forward under the Target Group's RPP. Implementation of changes or new routes may take considerably longer and, in some cases, will be done in stages over an extended period.

During the Trading Record Period, the Target Group proposed to operate 48 new routes under its RPP, of which 26 had been endorsed by the Transport Department, representing a success rate of 54%. Major new routes granted to the Target Group through the RPP during the Trading Record Period include a new route A25 serving Kai Tak and Tsim Sha Tsui, two new routes 790 and 795 linking LOHAS Park and Urban Kowloon via Cross Bay Link and Tseung Kwan O – Lam Tin Tunnel, a new route 20A linking the Cruise Terminal, Kai Tak and Yau Tsim Mong and a new route 56A linking Queen's Hill and Area 54 in Tuen Mun.

1.3.3 Bus route rationalisation

Apart from proposing new routes, public bus operators could submit proposals to rationalise their existing routes under the RPP to cope with change in passenger demand and enhance bus operation efficiency. Bus route rationalisation proposals may include adjustment of service frequency, route cancellation or amalgamation and route truncation. The approval process for bus route rationalisation proposals is largely similar to that for proposals for operating new routes submitted under the RPP.

Factors that will be taken into account by the Transport Department in considering bus route rationalisation proposals are set out in the Route Planning Guidelines, which include, among others, the nature of the services proposed to be cancelled, availability of reasonable alternatives, fare of the best available alternative service, transport operational considerations, impact of the proposed service rationalisation on bus captains, and environmental benefits arising from the service rationalisation. The Transport Department also gives due consideration to ensure that the interests of passengers would be taken care of and to minimise impact on them as far as possible.

The Target Group has employed several methods to monitor its bus routes and gather data for formulating bus route rationalisation proposals:

- *Operational data analysis*: The Target Group analyses operational data, including fare collection data, to gain insights into passenger activity, fare revenue, and route utilisation. This data helps the Target Group assess the performance of its bus routes, identify trends, and make informed decisions on service adjustments.

- *Automated passenger counting systems*: The Target Group utilises automated passenger counting systems installed on some of its buses to track the number of passengers boarding and alighting at each stop. This data helps the Target Group understand passenger flow, identify peak periods, and provides insights into the utilisation of specific routes and helps identify high-demand or underutilised areas.

- *GPS tracking and vehicle telematics*: The Target Group employs GPS tracking and vehicle telematics technology to monitor the movement and location of its buses in real-time. This allows the Target Group to track bus schedules, journey time, analyse route performance, and identify areas at congestion or delays and high or low demand.

- *Citybus Mobile App*: The Target Group has a mobile application that provides real-time bus information to passengers. Through this app, passengers can track bus locations, view estimated arrival times, and receive service updates. The Target Group can utilise data from the app to monitor passenger demand, popular routes, and identify areas where service adjustments may be required.

- *Passenger feedback*: The Target Group encourages passengers and stakeholders to provide feedback and report complaints about bus services. The Target Group conducts on-board surveys and passenger user group sessions periodically to gather feedback from passengers. Monitoring and analysing this feedback can help the Target Group understand passenger preferences and satisfaction levels, and highlight issues such as overcrowding, long wait times, or low passenger satisfaction, indicating areas or routes that require attention.

As mentioned in "1.3.2 Operating new bus routes – Direct award process under RPP" above, the Target Group's planning department is primarily responsible for preparing the RPP. The planning department will coordinate with the other departments of the Target Group, including the engineering and operations department and finance department, to (i) collect and analyse the data mentioned above; (ii) identify needs for bus route rationalisation in light of the data and the Route Planning Guidelines; and (iii) propose modifications to current services, evaluate the proposed modifications, and assess the operational feasibility and financial implications of the proposed modifications. The commercial department will then prepare the bus route rationalisation proposals for the Target Group's executive management's approval before submission under the RPP. It generally takes around four months to prepare bus route rationalisation proposals for submission under the Target Group's RPP.

The processes involved in the implementation of changes proposed under the bus route rationalisation proposals are largely similar to those involved in the implementation of new routes awarded through tendering. Please see "Route tendering" above for details.

1.3.4 Minor service adjustments

Apart from implementing major route planning changes such as operating new routes and making bus route rationalisations, the Target Group makes minor service adjustments from time to time to respond to actual road situations and align with ad hoc passenger demands. These minor service adjustments may include (i) introducing peak services and extending service hours for certain bus routes to cater to passenger demand; (ii) operating special routes, implementing special traffic arrangements and providing additional services to existing routes to prepare for and accommodate the increased demand for public transport during festive periods and large-scale events; and (iii) frequency adjustments to maintain reliability.

The Target Group maintains close communication with the Transport Department in this relation, and will apply for its approvals for implementing minor service adjustments where required.

1.4 Bus fleet management

1.4.1 Bus fleet

All buses operated by the Target Group for provision of both franchised and non-franchised bus services are self-owned.

The table below sets out the total number of licensed buses operated by the Target Group as at 31 December, 2021, 2022 and 2023 and the Latest Practicable Date:

	As at 31 December,			Latest Practicable Date
	2021	**2022**	**2023**	
Franchised bus services				
Citybus				
Total number of licensed buses	959	890	1,495	1,489
Actual number of licensed buses operated on the road	898	805	1,417	1,399
NWFB				
Total number of licensed buses	688	640	–	–
Actual number of licensed buses operated on the road	628	593	–	–
Sub-total				
Total number of licensed buses	1,647	1,530	1,495	1,489
Actual number of licensed buses operated on the road	1,526	1,389	1,417	1,399
Non-franchised bus services				
Total number of licensed buses	36	37	39	33
Actual number of licensed buses operated on the road	35	32	37	32
Total				
Total number of licensed buses	1,683	1,567	1,534	1,522
Actual number of licensed buses operated on the road	1,561	1,430	1,454	1,431

The Target Group's licensed fleet size slightly decreased by approximately 6.9% from 1,683 as at 31 December, 2021 to 1,567 as at 31 December, 2022 due to buses parked up in view of the decrease in service demand during the COVID-19 pandemic, and slightly decreased by approximately 2.1% to 1,534 as at 31 December, 2023 as some of the vehicle licenses of buses were in the course of renewal.

Social distancing measures and related restrictions imposed by the Government during the outbreak of the COVID-19 pandemic in 2020 had resulted in a drastic decrease in the Target Group's patronage. Despite the relaxation of Government COVID-19 restrictions in FY2021, the total actual number of licensed buses operated on the road of the Target Group as at 31 December, 2021 and the Target Group's patronage for FY2021, were lower than those prior to the outbreak of the pandemic.

During FY2022, stringent COVID-19 restrictions were put in place to combat successive waves of the pandemic. These restrictions were in effect for an extended duration, surpassing the duration of restrictions implemented in FY2021. The adverse impact brought about by the such COVID-19 restrictions, coupled with the commencement of operations of phase 2 of the Sha Tin to Central Link (East Rail Line Cross-harbour extension) in FY2022, had contributed to a decrease in the Target Group's patronage by approximately 14.1% from approximately 322.0 million for FY2021 to approximately 276.5 million for FY2022. This has resulted in a slight decrease in the total actual number of licensed buses operated on the road of the Target Group by approximately 9.2% from 1,561 as at 31 December, 2021 to 1,430 as at 31 December, 2022.

As Hong Kong's economy is undergoing a revival after the COVID-19 pandemic was brought under control, there has been an increase in the Target Group's patronage in FY2023, which resulted in an increase in the total actual number of licensed buses operated on the road of the Target Group by approximately 1.7% from 1,430 as at 31 December, 2022 to 1,454 as at 31 December, 2023.

Following the Franchise Merger, the Target Group had undertaken a bus route rationalisation exercise, which mainly involved the cancellation of non-profit making routes, consolidation of some of the parallel bus routes previously operated under the CTB (F1) Franchise and the NWFB Franchise, and overall reorganisation of the Target Group's bus routes, to optimise the Target Group's bus networks. This has allowed and is expected to continuously enable more efficient use of the Target Group's bus fleet, as buses operating on the parallel bus networks of NWFB and Citybus, principally on Hong Kong Island, could be freed up and allocated to areas with higher demand and areas in which the Target Group intends to increase market presence, such as the New Territories. Primarily as a result of the more efficient deployment of the Target Group's bus fleet following the Franchise Merger, the total actual number of licensed buses operated on the road of the Target Group had remained relatively stable since 31 December, 2023 and up to the Latest Practicable Date notwithstanding the upward trend observed in the Target Group's patronage during that period.

For details of the reasons leading to the changes in the patronage of the Target Group during the Trading Record Period, please see "3. Fare revenue and patronage – 3.1. Fare revenue and patronage during the Trading Record Period – Changes in fare revenue and patronage during the Trading Record Period".

1.4.2 Fleet replacement and expansion

Buses have a limited economic lifespan due to wear and tear, technological advancements and regulatory requirements. Specifically, a franchised bus is required to retire from service before its age reaches a maximum of 18 years old under the requirements of the Transport Department. When buses in the Target Group's bus fleet reach the end of their economic life or become costlier to maintain and repair, do not meet environmental considerations or regulations or do not meet the customer or operational needs and requirements, the Target Group may choose to cascade or dispose of them and replace them with newer models that offer improved customer experience, better environmental credentials, performance, reliability and fuel efficiency. As at the Latest Practicable Date, the average age of the Target Group's bus fleet was around eight years.

Older buses that do not meet the latest environmental standards, such as emission requirements, will be replaced with greener and more environmentally friendly buses that reduce pollution and contribute to sustainability goals. For instance, in December 2019, the Government had tightened the emission requirements of Franchised Bus Low Emission Zones (FBLEZs) (being Yee Wo Street in Causeway Bay, the junction of Des Voeux Road Central and Pedder Street in Central, and the junction of Nathan Road and Lai Chi Kok Road in Mong Kok) to Euro V or above emission standards to further improve the roadside air quality at busy corridors within the FBLEZs as well as in those districts where low emission buses operate. As at the Latest Practicable Date, diesel buses represented 99% of the Target Group's bus fleet, of which 4%, 80% and 16% were Euro IV, Euro V and Euro VI diesel buses, respectively. The Target Group has accounted for the emission requirements for FBLEZs in the planning of its bus routes and operations, so that only Euro V or above diesel buses or electric buses are allocated to routes passing through FBLEZs.

The Target Group may also expand its bus fleet from time to time to support the operation of new routes awarded to it or expansion of services on existing routes pursuant to bus route rationalisations, accommodate growing passenger demand and enhance service coverage.

Under the provisions of the Franchises, the Target Group must comply with the base specifications and requirements issued by the Commissioner when acquiring new buses, and shall not dispose of buses without the previous written consent of the Commissioner. The Target Group submits its plans for fleet replacement and expansion to the Transport Department for approval as part of its FPP. The Target Group's central works and administration department under its engineering department is primarily responsible for formulating such plans. For the purpose of identifying fleet replacement and expansion needs, the planning department provides inputs in future peak vehicle requirement based on service improvements and rationalisation plans. Based on information collected, the Target Group will formulate plans for fleet replacement and expansion.

Additions and disposals of registered buses during the Trading Record Period

The table below sets out the additions and disposals of registered buses by the Target Group during the Trading Record Period:

	No. of registered buses of the Target Group
As at 1 January, 2021	1,767
Additions during FY2021	16
Disposals during FY2021	(16)
As at 31 December, 2021	**1,767**
As at 1 January, 2022	1,767
Additions during FY2022	16
Disposals during FY2022	(4)
As at 31 December, 2022	**1,779**
As at 1 January, 2023	1,779
Additions during FY2023	1
Disposals during FY2023	(10)
As at 31 December, 2023	**1,770**

Note: The number of additions of registered buses in each period during the Trading Record Period in the table above represents the number of new buses registered during that period.

The additions and disposals of buses by the Target Group during the Trading Record Period aligns with its fleet replacement and new route tendering strategy. This policy ensures that the Target Group strategically manages its fleet by replacing older buses with newer, more efficient models as stated above and enhances its competitive edge.

For details of the processes involved in the procurement of new buses by the Target Group, please see "Procurement of new buses" below.

Number of registered buses and licensed buses of the Target Group

Registered buses of the Target Group are buses for which the Target Group has imported and completed the first vehicle registration with the Transport Department, which is for giving the vehicle a registration mark and putting it into its appropriate class of vehicle, i.e. public bus. Registration of buses is normally a one-off procedure.

Licensed buses of the Target Group are registered buses of the Target Group that are licensed under valid vehicle licences, which are legally required for the registered buses to be operated on the road. Vehicle licences of buses are normally renewed annually at a renewal fee payable to the Transport Department.

As at 31 December, 2021, 2022 and 2023, the Target Group had 1,767, 1,779 and 1,770 registered buses, respectively (see "Additions and disposals of registered buses during the Trading Record Period" above for details), of which 1,683, 1,567 and 1,534 were licensed buses, respectively (see "1.4 Bus fleet management – 1.4.1 Bus fleet" above for details). The difference between the total numbers of the Target Group's registered buses and licensed buses (i.e. 84, 212 and 236 as at 31 December, 2021, 2022 and 2023, respectively) was mainly attributable to the Target Group's policy to keep certain of its registered buses in reserve as spare and back-up vehicles to ensure efficient supply of buses for its daily operations. Such reserve fleet mainly includes (a) idle buses required for (i) replacing licensed buses that are undergoing maintenance, repairs, or experiencing technical issues; (ii) operating new routes which may be awarded to the Target Group from time to time; or (iii) satisfying the increase in demand observed in existing routes operated by the Target Group; and (b) buses with issues identified during maintenance inspections and buses involved in road traffic accidents, which are pending assessment on whether to repair or to be disposed of. In determining its reserve fleet size, the Target Group will take into account, among others, its fleet size, age of fleet, fleet maintenance schedule and requirements, and customer demand. Vehicle licences of buses within the reserve fleet are generally not applied for or renewed until they are redeployed for operation.

To save expenses relating to the renewal of vehicle licences of the Target Group's registered buses, the Target Group may also adjust the number of its licensed buses based on the demand for its public bus services during the relevant period. For example, during the COVID-19 pandemic, the Target Group had, with the approval of the Transport Department, adjusted its services and routes to match the reduced demand in public transportation (see "1.4 Bus fleet management – 1.4.1 Bus fleet" above and "Impact of the COVID-19 Pandemic" below for details). In line with such service adjustments, the Target Group had applied for the renewals of the vehicle licences of less registered buses during the

COVID-19 pandemic, especially in FY2022 (during which the Target Group's public bus services was most severely affected by the COVID-19 pandemic), as compared to pre-pandemic periods. As a result, the total number of the Target Group's registered buses as at 31 December, 2022 (i.e. 1,779) was significantly higher than the total number of its licensed buses as at 31 December, 2022 (i.e. 1,567).

In view of the bus route rationalisation exercise undertaken by the Target Group following the Franchise Merger, buses operating on the parallel bus networks previously operated by NWFB and Citybus could be freed up and allocated to, among others, areas in which the Target Group intends to increase market presence. Before opportunities requiring the allocation of such buses arise, they would be kept in reserve as spare registered buses of the Target Group, the vehicle licences of which will not be renewed until redeployment. Following the Franchise Merger, a programme was also introduced for the repainting of NWFB buses to streamline the design and image of the Target Group's buses. NWFB buses allocated to the repainting programme were categorised as the Target Group's reserve fleet. The above factors explain the relatively large difference between the total number of the Target Group's registered buses as at 31 December, 2023 (i.e. 1,770) and the total number of its licensed buses as at 31 December, 2023 (i.e. 1,534), despite the increase in the Target Group's patronage in FY2023 after the COVID-19 pandemic was brought under control.

1.4.3 Fleet investment and modernisation

Investing in modernising the fleet can lead to improved operational efficiency, reduced maintenance costs, and enhanced passenger satisfaction along with the benefit of lowering vehicle emissions. The Target Group has implemented the following major fleet investment and modernisation measures during the Trading Record Period:

- *Green initiatives*:

  In support of the Government's target to formulate a concrete way forward along with a timeline for introducing the use of new energy public transport and commercial vehicles by around 2025, as well as to improve roadside air quality, Citybus had re-affirmed its commitments to cooperate with the Government in promoting the development of electric, hydrogen and any other new energy public transport vehicles, such as the conducting of trials of both hydrogen fuel cell and battery electric buses.

  Introducing new energy buses: For instance, the Target Group introduced the first batch of single decker battery electric buses in Hong Kong during 2015 and Hong Kong's first battery electric double decker bus in 2022. In 2022, the Target Group also introduced a prototype hydrogen bus to its fleet as part of its ongoing commitment to sustainable public transportation. As at 31 December, 2023, the Target Group operated 6 electric buses.

Retrofitting of emission reduction systems: The Target Group is conducting a trial supported by the Government of retrofitting a group of its existing buses with selective catalytic reduction technology system (SCRT) so as to reach the Euro VI emission standards. The retrofit project reduces NOx emissions, which contributes to improved air quality.

Adoption of hybrid buses: The Target Group has incorporated hybrid buses into its fleet through a partnership with the Government. Hybrid buses combine traditional internal combustion engines with electric motors. These buses offer reduced fuel consumption and emissions compared to conventional buses, contributing to improved environmental sustainability.

- *Improved passenger comfort*: The Target Group has focused on enhancing passenger comfort by introducing buses with improved seating arrangements, enhanced air conditioning systems including plasma filters, and additional accessibility features such as low-floor designs and wheelchair ramps and the inclusion of two wheelchair bays inside all new vehicles for customers with impaired mobility. These upgrades aim to provide a more pleasant and inclusive travel experience for passengers.

- *Implementation of intelligent transport systems*: The Target Group has integrated intelligent transport systems into its buses, including real-time passenger information displays, next stop destination displays, GPS tracking and automated fare collection systems. These technologies improve operational efficiency, provide accurate travel information to passengers, and streamline the boarding process.

- *Safety enhancements*: The Target Group has prioritised safety by equipping its buses with advanced safety features such as anti-lock braking systems (ABS), electronic stability control (ESC), Advanced Driver Assistance System (ADAS), Driver Status Monitoring System (DSM), door interlocks and additional surveillance cameras. These measures aim to enhance the safety of both passengers and drivers.

1.4.4 Fleet maintenance

Fleet maintenance measures

The Target Group has adopted robust fleet maintenance measures to maintain a high level of fleet reliability, safety and the optimal performance of their buses. The Target Group not only adheres to local regulations and standards concerning bus maintenance and safety but, on many occasions, enhances them, and has adopted a comprehensive set of measures to help ensure that its maintenance practices align with the requirements set out in the Franchises and those prescribed by the Transport Department. Below is an overview of its fleet maintenance measures:

- *Preventive maintenance*: Preventive maintenance helps minimise breakdowns, ensures safety, and extends the lifespan of the buses.

  The Target Group follows a comprehensive preventive maintenance programme for its bus fleet, which consists of regular programmed monthly inspections, annual COR inspections and testing by the Government (as detailed in "Inspections by the Transport Department" below), which includes the annual overhaul of its buses. Annual overhauls are carried out at the Target Group's two depots at Chai Wan, and involve comprehensive inspections, repairs, and replacements of major components on a time-based cycle, such as braking components, steering components and other critical systems. It generally takes four to five working days to complete an annual COR inspection (including the annual overhaul and testing by the Government).

  The Target Group also carries out major unit overhauls in respect of its buses' key components, including engines, gearboxes and differentials. Major unit overhauls are scheduled on an as required basis.

- *Monthly maintenance*: The Target Group conducts monthly maintenance of its buses, which is a detailed maintenance programme involving specific maintenance tasks that cover key aspects such as engine performance, electrical systems, braking system, steering system and other components. The monthly maintenance ensures that each bus of the Target Group receives routine and necessary inspections and maintenance on a monthly basis. The Target Group's team of engineers and repair and maintenance staff are trained to carry out monthly maintenance and promptly address identified issues through monitoring, repairs or part replacements. Monthly maintenance could be carried out at any garage or depot of the Target Group according to a pre-determined schedule. It generally takes around three hours to complete a monthly maintenance exercise, and buses may be handed over to operations within the same day for resuming services depending on the matters identified. Buses with issues identified during the monthly maintenance inspection will be retained at the Target Group's garage or depot for repair.

- *Running repairs*: The Target Group has a team of maintenance personnel and support vehicles including heavy recovery trucks strategically stationed throughout its operating network to provide breakdown assistance. These support teams can quickly respond to breakdowns or emergencies, offering immediate on-location repairs or arranging for the affected bus to be towed if needed to an appropriate maintenance facility.

- *Technological diagnosis*: The Target Group utilises trained staff with advanced diagnostic tools and technology to identify and rectify issues efficiently. Computerised systems and diagnostic equipment help diagnose problems with various systems and components, improving the accuracy and speed of repairs.

- *Maintenance facilities*: The Target Group operates and maintains workshop facilities that are equipped with sufficient equipment manufactured to the required standard and facilities, with segregated areas for different maintenance tasks to ensure that they can be safely and properly conducted. Workshop facilities are continually reviewed and upgraded to ensure consistent service quality and efficient repair and maintenance work. The facilities are staffed by skilled engineers, technicians and mechanics trained to work on the specific bus models in the Target Group's fleet.

Inspections by the Transport Department

As a franchised bus operator, the Target Group is responsible for applying for the COR for its licensed buses. The COR is a document that confirms a bus meets the required standards of safety, mechanical soundness, and roadworthiness to operate as a public service vehicle on the roads of Hong Kong, and is required to be renewed on an annual basis. To obtain or renew the COR, buses must undergo an inspection by authorised inspectors of the Transport Department and must comply with the required safety and roadworthiness standards set by the Transport Department to be granted the COR.

In light of the Target Group's sizeable bus fleet, and the number of buses that have completed their annual overhaul and are required to be inspected for renewal of their CORs from time to time, it has been an established practice for the Transport Department to send officials to the Target Group's Chai Wan depots several days a week to carry out the required inspection.

Apart from inspections for assessing the grant or renewal of CORs, the Transport Department also carries out spot checks on the Target Group's buses at a frequency that is pre-determined based on the bus operator's track record and safety performance. In FY2021, FY2022 and FY2023, the Transport Department conducted 407, 441 and 407 spot checks, respectively. On average, approximately 1,500 buses are examined each year.

The management of the Target Group has confirmed that during the Trading Record Period and up to the Latest Practicable Date, the Target Group's bus fleet has passed the Transport Department's inspections in material respects and the Target Group has not been subject to any material fines or penalties for any issues revealed in such inspections.

1.4.5 Garages, depots and other maintenance facilities

Routine maintenance and repair services are provided at the Target Group's five bus garages and depots in Chai Wan and Wong Chuk Hang on Hong Kong Island, Lai Chi Kok in Kowloon and Siu Ho Wan in North Lantau, of which the two garages in Chai Wan support major overhaul services. The land on which each of the Target Group's garages and depots is constructed is leased from the Government to the Target Group on a short-term tenancy, under which rentals at market rates are payable to the Government.

The table below sets out the key information of the Target Group's bus garages and depots:

No.	Depots	Major functions	Gross land area (square metres)	Commencement of operations since
1.	Chong Fu Road Garage	Serving the Urban and New Territories bus networks and performing annual overhaul services for the whole operation.	13,000	2002
2.	Chai Wan Garage	Same as above.	11,297	2004
3.	Wong Chuk Hang Bus Garage	Serving the Urban and New Territories bus networks.	3,002	1986
4.	West Kowloon Depot – Junction of Lin Cheung Road and Hing Wah Street West, Lai Chi Kok, Kowloon	Serving the Urban and New Territories bus networks.	7,750	2013
5.	Siu Ho Wan Garage, North Lantau	Serving the Airport and North Lantau bus networks.	8,800	1999

As at the Latest Practicable Date, the Target Group also operated seven bus servicing and/or parking areas in Wong Chuk Hang and Sheung Wan on Hong Kong Island, in West Kowloon, Tuen Mun and Tseung Kwan O in the New Territories, and Tung Chung in Lantau Island.

2. Non-franchised bus services

Non-franchised buses perform a supplementary role in the public transport system, filling gaps in passenger demand which cannot be met viably by the regular scheduled public transport services. Specifically, non-franchised buses provide tailor-made services to specific individuals or groups of passengers, such as employees' services (i.e. services provided by an employer to its employees for their carriage to or from their place of work), residents' services (i.e. services for the carriage of passengers to or from residential developments), and student services (i.e. services for the carriage to or from a school, university or other educational establishment of its students) along with other commercial private hire services, where the Target Group's buses are chartered for one-off events or hires.

Citybus provides non-franchised employees and residents bus services, primarily serving a residential estate in Sha Tin, a broadcasting company in Tseung Kwan O and an international health & beauty retailer headquartered in Sha Tin. Citybus has been providing shuttle services for the Hong Kong Marathon for over 25 years. Its non-franchised buses also provide charter services for individuals and organisations, for group outings or functions, and ad hoc shuttle bus service for events or venues.

See "Public bus services – 1. Franchised bus services – 1.4 Bus fleet management – 1.4.1 Bus fleet"for the total number of non-franchised licensed buses operated by the Target Group.

3. Fare revenue and patronage

3.1 Fare revenue and patronage during the Trading Record Period

Fare revenue

During the Trading Record Period, the Target Group primarily generated revenue by providing public bus services. Fare revenue of the Target Group represented approximately 90.8%, 92.1% and 92.9% of the Target Group's total revenue for FY2021, FY2022 and FY2023, respectively. It mainly consists of:

- *Bus fares*: This mainly represents income received from the provision of bus transport services through the operation of the Merged Franchise (or CTB (F1) Franchise and NWFB Franchise before the Franchise Merger), CTB (F2) Franchise and non-franchised bus services;

- *Revenue from TEF*: Since February 2019, franchised buses have been exempted from paying tolls when using Government toll tunnels and control areas. A reserve has been set up for each franchise, namely the Toll Exemption Fund, to keep the toll saved. When a franchised bus operator applies for a fare increase and the Chief Executive in Council considers that there is a justifiable need to increase the fare, the balance in the TEF would be released as revenue to mitigate the extent of the fare increase shouldered by the passengers. As stated in "3.3 Fare adjustment during the Trading Record Period" below, the Target Group obtained approval for fare increases twice during the Trading Record Period, and the magnitude of the fare increases has been mitigated by using the funds from the TEF. Such funding is recognised as revenue from TEF. For details of the regulations governing the funding of fare increases with the TEF, please see "Appendix I – Information about the Target Group – 3. Regulatory Overview – Laws and Regulations relating to the Public Bus Services in Hong Kong – Bus Fares and Rate of Return"; and

- *Concessionary fare*: Citybus provides a 50% discount in its bus fares for elderly passengers aged 65 or above under the ECFS. The Government reimburses the discount amount to the Target Group by refunding vehicle licence fees and rentals received from the Target Group in respect of government properties leased to the Target Group (such as the garages and depots referred to in "1.4 Bus fleet management – 1.4.5 Garages, depots and other maintenance facilities" above). In addition, under the Government Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities (PTFCS, or commonly known as the $2 Scheme), the Government reimburses the Target Group the actual applicable fare (less (i) any voluntary concessions offered by it and (ii) the uniform flat rate of $2 per trip paid by an eligible beneficiary under the $2 Scheme) on an accountable basis. Such refunds and reimbursements under the ECFS and the $2 Scheme are recognised as fare revenue.

The table below sets out a breakdown of the fare revenue of the Target Group during the Trading Record Period:

	FY2021		**FY2022**		**FY2023**	
	HK$'000		*HK$'000*		*HK$'000*	
Fare revenue						
– Merged Franchise[Note 1]	2,179,243	84.6	1,974,027	84.4	2,423,128	76.7
– CTB (F2) Franchise[Note 2]	245,674	9.5	228,730	9.8	544,539	17.2
– Non-franchised bus services	23,687	0.9	15,025	0.6	13,252	0.4
– Revenue from TEF	77,936	3.0	69,401	3.0	102,810	3.3
– Concessionary fare	50,663	2.0	50,386	2.2	74,810	2.4
Total	**2,577,203**	**100.0**	**2,337,569**	**100.0**	**3,158,539**	**100.0**

Notes:

1. For the period before the Franchise Merger commenced on 1 July, 2023, the fare revenue of the Merged Franchise represents the sum of CTB (F1) Franchise and NWFB Franchise.

2. For the fare revenue for FY2023, "CTB (F2) Franchise" in the table above includes both CTB (F2) Franchise (which expired on 1 May, 2023) and CTB (F2) 2023 Franchise (which took effect on 1 May, 2023).

Patronage

The table below sets out the patronage (i.e. the total number of passengers journeys carried) of the Target Group's bus fleet operated under both franchised and non-franchised operations for FY2021, FY2022 and FY2023:

	Patronage of bus fleet (million passenger journeys)		
	FY2021	**FY2022**	**FY2023**
Citybus	175.4	147.3	265.0
NWFB	146.6	129.2	74.7
Total	**322.0**	**276.5**	**339.7**

Changes in fare revenue and patronage during the Trading Record Period

The Target Group witnessed a significant decrease in the total yearly patronage of its bus services during the outbreak of COVID-19 since 2020 and the peak periods of the subsequent waves of COVID-19, particularly in 2022, as anti-epidemic measures were put in place by the Government to combat the spread. According to Ipsos, all franchised bus operators in Hong Kong had experienced decreases in their revenue during 2018 to 2022 as a result of the COVID-19 pandemic and related social distancing measures, and the revenue for the franchised bus industry in Hong Kong decreased at a CAGR of approximately 4.9%.

Despite the relaxation of the Government COVID-19 restrictions in FY2021, high level of COVID-19 restrictions was implemented to combat successive waves of COVID-19 during FY2022, which remained in effect for a longer period compared to FY2021. This had significantly impacted the Target Group's patronage in FY2022. In addition, in May 2022, phase 2 of the Sha Tin to Central Link extending the East Rail line (from Hung Hom in Kowloon to Admiralty on Hong Kong Island) operated by a local rail operator commenced operations. This has intensified the competition in the operation of cross-harbour transportation services between the railway operator and public bus operators, including the Target Group, whose cross-harbour tunnel routes represented over 30% of its total number of franchised routes throughout the Trading Record Period. The Target Group responded with a comprehensive set of actions and a strong approach with the Government to reduce and refocus its cross-harbour operations to align with this new rail link opening. The prolonged period during which stringent COVID-19 restrictions were in place and the commencement of operations of the phase 2 of the Sha Tin to Central Link in FY2022, had contributed to a decrease in the Target Group's patronage by approximately 14.1%, from approximately 322.0 million in FY2021 to approximately 276.5 million in FY2022. As a result, fare revenue decreased by approximately HK$239.6 million, or approximately 9.3%, from approximately HK$2,577.2 million for FY2021 to approximately HK$2,337.6 million for FY2022.

With Hong Kong's economy rebounding following the containment of the COVID-19 pandemic and relaxation of COVID-19-related restrictions, the Target Group had experienced a substantial rise in patronage by approximately 22.9%, from approximately 276.5 million in FY2022 to approximately 339.7 million in FY2023. Fare revenue of the Target Group had correspondingly increased by approximately HK$820.9 million, or approximately 35.1%, from approximately HK$2,337.6 million for FY2022 to approximately HK$3,158.5 million for FY2023. The growth in patronage is expected to be sustained. According to the Ipsos Report, it is forecasted that the average number of daily passenger journeys on franchised buses in Hong Kong will increase at a CAGR of around 1.4% from 2024 to 2028, which is primarily attributable to the expected completion of new residential and construction projects in various new development areas (NDAs) starting from 2023. These developments are expected to generate a higher demand for additional franchised bus routes to meet the transportation needs in the next five years. It is expected that the Target Group would benefit from such growing trend as it was awarded (through competitive tendering) the operating rights of five new franchised bus routes from the Shap Sze Heung New Development Area to Ma On Shan, Kowloon and Shatin, along with certain internal routes in the New Territories in 2023.

For details of the changes in the Target Group's fare revenue during the Trading Record Period, please see "Appendix I – Information about the Target Group – 7. Management discussion and analysis – Operating results during the Trading Record Period – Discussion of the key items in respect of the consolidated income statements – Revenue – Fare revenue".

3.2 Determination of bus fares

Fares of franchised bus services are charged in accordance with a scale of fares determined by the Chief Executive in Council, and their prior approval is required for a bus fare adjustment. Under the current Fare Adjustment Arrangement for Franchised Buses, the Government will take into account the following factors in assessing a bus fare adjustment:

- changes in operating costs and revenue since the last fare adjustment;
- forecast of future costs, revenue and return;
- the need to provide the franchised bus operator with a reasonable rate of return;
- public acceptability and affordability;
- the quality and quantity of service provided; and
- changes in price of cost elements and improvement in productivity of the franchised bus industry.

Bus fares for non-franchised bus services are not subject to similar restrictions. Indeed in most cases individual fares may not be charged, rather a hire charge for the vehicle relating to the vehicle type, distance of hire and length of hire. Using this model and/or an individual fare model they are generally priced on a cost-plus basis and determined based on either a tender or quotation basis or on direct pricing and negotiations between the Target Group and the customer.

3.3 Fare adjustment during the Trading Record Period

During the Trading Record Period, the Target Group had obtained approval for fare increases twice, primarily on the basis to deal with inflationary cost increases and that the Target Group had been loss-making during the relevant period, as the operating costs of the Target Group (including wages and fuel costs) had significantly increased and capital expenditure was spent on plant and equipment, fleet additions and replacement:

- the first round of fare adjustment applications concerned both the CTB (F1) Franchise and the NWFB Franchise. The Target Group obtained approval to increase the fares of their routes for an overall weighted average rate of 12.0% to be implemented in two phases (viz. 8.5% took effect on 4 April, 2021, and a further 3.2% took effect on 2 January, 2022); and

- the second round of fare adjustment applications concerned the CTB (F1) Franchise, the CTB (F2) Franchise and the NWFB Franchise. The Target Group obtained approval to increase the fares of the routes of the CTB (F1) Franchise and the NWFB Franchise by an overall actual weighted average rate of 4.9% (taking into account the mitigation effect by their TEFs) (i.e. 6.2% before mitigation), and to increase the fares of the routes of the CTB (F2) Franchise by an overall actual weighted average rate of 4.2% (taking into account the mitigation effect by its TEF) (i.e. 6.4% before mitigation). Each of such fare increases took effect on 18 June, 2023.

Pursuant to the Franchise Merger, the fare scales of the NWFB Franchise and the CTB (F1) Franchise were merged at the approval of the Executive Council. The fare scale of the Merged Franchise inherits the fare scale of NWFB Hong Kong Island routes and the fare scales of CTB (F1) Franchise for the rest of the route categories with effect from 1 July, 2023. The maximum permissible fares in the latest fare scales of the Merged Franchise and the CTB (F2) 2023 Franchise (taking into account the fare adjustments disclosed above) were primarily determined based on the total journey distance and route category of the bus route concerned. The extracted fare scales of the Merged Franchise and the CTB (F2) 2023 Franchise in force as at the Latest Practicable Date are set out below:

Merged Franchise

Route group *(excluding recreation, overnight and special services)*	**Journey distance not exceeding** *(km)*	**Maximum Fare chargeable** *(HK$)*
Hong Kong Island	4	3.7
	13	6.9
	27	13.0
Urban Kowloon and the New Territories	3	4.7
	18	13.2
	35	17.8
	65	23.7
Cross-harbour	18	16.4
	35	23.2
	65	27.2
	85	32.5

CTB (F2) 2023 Franchise

Route group *(excluding recreation, overnight and special services)*	**Journey distance not exceeding** *(km)*	**Maximum Fare chargeable** *(HK$)*
Airbus services	35	27.2
	65	52.4
North Lantau external services	25	13.5
	40	17.6
	65	28.5
North Lantau shuttle services	4	3.1
	12	7.2

3.4 Fare adjustment applications

The assessment and preparation of fare adjustment applications typically involve the following processes:

- *Evaluation of financial situation*: The Target Group continually assesses the Target Group's financial situation, taking into account factors such as operating costs, revenue, inflation rates, fuel prices, wage levels, investment needs and other relevant financial indicators. This evaluation helps determine whether a fare adjustment is necessary to maintain the financial viability of its bus service.

- *Fare adjustment proposal*: Based on the financial evaluation, the Target Group prepares a fare adjustment proposal which includes details such as the proposed fare adjustment rate, the reasons for the adjustment, and supporting data and analysis to qualify the need for a fare adjustment application.

- *Consultation with stakeholders*: The Target Group then engages in consultations with various stakeholders, and provides opportunity for stakeholders to express their views, raise concerns, and provide input on the fare adjustment proposal.

- *Submission to the Transport Department*: The Target Group submits the fare adjustment application to the Transport Department. The application typically includes the fare adjustment proposal, any relevant justifications and supporting data, such as operating costs, inflation rates, fuel prices, wage levels, and other relevant factors that affect the financial viability of the Target Group's franchised bus service.

The Transport Department evaluates fare adjustment applications based on established guidelines and criteria, which take into account factors including but not limited to operating costs, revenue, service quality, economic conditions, and affordability for passengers. The Transport Department normally engages the Target Group in the provision of multiple datasets to support its evaluation through an extended period.

It generally takes around three months for the Target Group to prepare and submit a fare adjustment application to the Transport Department, and around six to nine months for the Government to consider and announce its decision on the fare adjustment application after following the relevant evaluation and subsequent review and approval processes.

3.5 Fare collection

For details of the fare collection process of the Target Group's franchised bus services, please see "Public bus services – 1. Franchised bus services – 1.2.2 Fare collection" above. The fare collection process for the Target Group's non-franchised bus services is largely similar to that of the Target Group's franchised bus services, save that the Target Group's non-franchised bus services only accept Octopus and other forms of electronic payments of fares following the discontinued receipt of cash payments in 2022.

4. Safety

4.1 Safety measures

The Target Group has implemented stringent measures to ensure the safety of its passengers, drivers, and other road users. Set out below is a summary of the key measures taken by the Target Group:

- *Comprehensive safety training*: The Target Group provides comprehensive safety training programmes for its bus captains. These programmes cover a wide range of topics, including defensive driving techniques, road safety regulations, passenger safety, handling emergency situations and customer service.

  Ongoing training is also conducted to reinforce safety knowledge and skills. For instance, each bus captain is required to attend eight hours of refresher courses every three years. Bus captains are also required to attend specific training before driving a new bus route or a new bus type.

  The training record of each bus captain is also closely monitored by the operations department of the Target Group, who will ensure that the bus captain has attended the required training before allocating him/her to a specific route. The Target Group also publishes road risk assessment reports in relation to new and existing routes onto its intranet and other online media platform to alert bus captains of the special features and risk spots of the routes.

- *Driver recruitment, selection and fitness*: The Target Group has a rigorous recruitment and selection process for bus captains. They assess candidates based on their employment history, fitness, driving skills, experience, and attitude towards customers and safety. Prospective drivers undergo thorough assessments, including medicals, aptitude tests, driving tests and interviews, to ensure they meet the required standards of safety and professionalism.

Bus captains are also subject to health checks regularly and are required to follow up with health issues identified to ensure that they are fit for their driving duties. In particular, the Target Group also fully subsidises annual body checks for its bus captains aged 50 or above and designated night workers.

- *Maintaining good working conditions for bus captains*: The Target Group believes that its team of bus captains is a crucial asset to operating its public bus business, and is committed to providing and maintaining good working conditions for its bus captains.

  For instance, the Target Group complies with the "Guidelines on Bus Captain Working Hours, Rest Times and Meal Breaks" issued by the Transport Department and has internal policies in place to implement appropriate work shifts and rest breaks for its bus captains. This allows bus captains to rest and recharge, reducing fatigue and promoting driver alertness, and aims to reduce the risk of fatigue-related accidents and incidents.

  The ongoing upgrade and modernisation of the Target Group's bus fleet also takes into account designs which could improve bus captains' working conditions, such as designing bus cabins with ergonomic principles in mind to improve comfort and convenience for drivers, and increasing to an appropriate level the automation of various systems within the bus to reduce non-driving related workloads and allow bus captains to focus on driving and road conditions. For example, the Target Group's buses are installed with a smart system which automatically upgrades the GPS navigation and tracking system and fare collection system in the bus to set the pre-determined route and fare when a bus captain taps his/her staff card at the system sensor to check-in at the beginning of his/her shift. For details, please see "Public bus services – 1. Franchised bus services – 1.2 Bus operations – 1.2.1 Key processes involved in the Target Group's bus operations" above.

- *Vehicle maintenance and inspection*: The Target Group places great emphasis on vehicle maintenance and inspection. Its fleet undergoes regular maintenance checks and inspections to ensure that the buses are in optimal condition and meet safety standards. Preventive maintenance schedules are followed, and any identified issues are promptly addressed through repairs or part replacements. For details, please see "1.4 Bus fleet management – 1.4.4 Fleet maintenance" above.

- *Safety features on buses*: The Target Group incorporates advanced safety technologies into its buses to enhance safety performance. These technologies include anti-lock braking systems (ABS), electronic stability control (ESC), Advanced Driver Assistance System (ADAS), Driver Status Monitoring System (DSM), door interlocks and additional surveillance cameras. These systems help prevent accidents, mitigate risks, and improve overall safety. Since 2022, the Target Group has implemented the early warning alert function, where tailormade audio reminders will be broadcasted via the on-bus driver control panel when buses approach pre-identified blackspots (e.g. jaywalking, sharp turn) about 2 seconds in advance. The Target Group also launched the Smart Citydrive system in 2023, which has enabled it to monitor the driving performance of each bus and driver in real-time for all road sections. For details, please see "4.2 Smart Citydrive system" below.

- *Safety campaigns and public education*: The Target Group conducts extensive safety campaigns and public education programmes to promote awareness and encourage safe behaviour amongst its staff, passengers and road users. These initiatives focus on topics such as boarding and alighting safely, being seated when the bus is in motion, using seat belts, pedestrian safety, and sharing the road responsibly. Posters and signs reminding passengers of bus safety are also displayed at key bus stops, bus interchanges, on the mobile application and on the buses of the Target Group in both printed and digital formats.

- *Incident reporting and investigation*: The Target Group has a robust incident reporting and investigation system in place. All incidents, accidents, and near-miss events are reported and thoroughly investigated. Lessons learned from these incidents are used to identify areas for improvement and implement corrective measures to prevent similar occurrences in the future. Training is delivered to specific groups of staff to enhance on the back of any new lessons learned to improve learning and development with the aim of reducing or preventing further reoccurrences.

- *Collaboration with authorities and stakeholders*: The Target Group actively collaborates with the Transport Department, Hong Kong Police Force, other government authorities, and other stakeholders to address safety issues, and work together to enhance safety standards and regulations. For example, the Target Group makes suggestions on safety measures to address traffic black spots to multiple stakeholders on an as required basis and regularly meets with the Transport Department's Safety Director and different sections of the Hong Kong Police Force to discuss, amongst others, road safety issues and solutions.

These measures demonstrate the Target Group's commitment to not only maintaining a high level of safety performance but delivering focused improvements on safety in its bus operations, providing safe and reliable transportation services to its passengers, ensuring the safety of their staff and contributing to general road safety in Hong Kong.

4.2 Smart Citydrive system

The Target Group launched the in-house developed Smart Citydrive system in 2023. This system makes use of the driving performance related data to provide clear and timely feedback to bus captains and summarises their driving performance. The system monitors four types of driving safety related events, namely harsh braking, harsh acceleration, sharp cornering and tilting.

The Smart Citydrive system translates the driving performance of each bus captain into a score and dashboard for easy visibility and bus captains can view their scores via a mobile application (app) installed on their mobile phones. The system enables real-time tracking of driving behaviour of bus captains, update bus captains of road situations, and send them warnings or alerts when there is a triggering event, such as exceeding the prescribed speed limits. Reports of such warning/alert situations are sent on an exception reporting basis to the management of the Target Group, and if necessary designated staff would review CCTV images to verify whether the bus captain was engaging in any potentially dangerous driving behaviours and take follow-up actions accordingly.

When bus captains of a particular bus route receive consistently poor ratings, the relevant bus route would be further evaluated and bus captains responsible for that route will be provided with specific targeted training. Going forward, the Target Group may also take into account the scores and findings of a bus captain under the Smart Citydrive system in his/her performance appraisal and set up relevant incentive awards and/or disciplinary mechanisms.

4.3 Safety performance

Citybus, as a franchise operator, appoints a competent safety director to oversee safety-related issues and liaise with the Transport Department on safety matters.

As at the Latest Practicable Date, the Target Group was, as part of its wider strategy to improving safety, in the process of obtaining the full ISO 39001 (Road traffic safety management systems) certification for all bus routes under the CTB (F2) 2023 Franchise. For details of ISO 39001 certification, please see paragraphs headed "Risk Management – Operational Risks" below.

5. Performance assurance

5.1 Performance assurance measures

The Target Group is dedicated to maintaining a high level of performance assurance, and has adopted a wide range of measures to review, upkeep and continuously enhance its performance. These include:

- *Comprehensive maintenance programmes*: The Target Group follows rigorous maintenance programmes to ensure the proper upkeep of their bus fleet. Regular inspections, preventive and corrective maintenance, and scheduled servicing are conducted to identify and address any mechanical issues promptly. Strong relationships are also maintained with vehicle and component suppliers in order to get technical updates and bulletins, and staff training often is linked to this. Regular staff briefings and "toolbox talks" are held to keep frontline staff fully up to date of any changes. This helps maintain the reliability and safety of the buses.

- *Monitoring and reporting systems*: The Target Group utilises advanced monitoring and reporting systems to track the performance of bus services. This includes systems that capture mileage, speed and other key operational parameters. Real-time data is collected and analysed to identify any anomalies or potential issues, allowing for timely actions to be taken. For example, in 2018, Citybus and NWFB introduced the 2nd generation real-time system to strengthen fleet management and provide "Next Bus" Arrival Time Enquiry for all routes. Real-time fleet management system has empowered the Target Group's operational control centre to make better informed decisions, such as sending out instant diversion instructions to buses.

- *Driver training and performance evaluation*: The Target Group places a strong emphasis on driver training and performance evaluation. It has comprehensive training programmes in place to ensure that drivers are well-versed in safe driving techniques, customer service, and adherence to operational procedures. For details, please see "Public bus services – 4. Safety – 4.1 Safety measures" above for the Target Group's safety policies on training and performance evaluation of bus captains.

- *Customer feedback and complaint handling*: The Target Group values customer feedback and has established channels for passengers to provide feedback and lodge complaints. They have a dedicated customer service team that handles and investigates complaints promptly. Feedback and complaints play a crucial role in identifying areas for improvement and addressing any performance issues.

- *Service performance indicators*: The Target Group sets service performance indicators to measure and monitor various aspects of their operations. Service key performance indicators mainly include lost trips, first departure timing adherence, vehicle cleanliness and customer satisfaction. Regular reviews of its key performance indicators help the Target Group identify areas that require improvement and take corrective actions.

- *Continuous improvement initiatives*: The Target Group promotes a culture of continuous improvement and actively seeks ways to enhance their performance. Regular self-auditing, internal audits and quality assessments are conducted to identify opportunities for improvement. This includes evaluating operational processes, analysing data and implementing measures to optimise safety, efficiency and customer satisfaction.

- *Compliance with regulatory standards*: The Target Group has adopted internal policies to ensure compliance with the provisions of the Franchises and relevant regulatory standards and requirements set by the Transport Department or other government authorities. This includes but is not limited to maintaining proper licensing, adhering to safety regulations, and meeting environmental standards.

5.2 Performance review by the Transport Department

The Transport Department reviews the performance of the Target Group's franchised bus services regularly through, *inter alia*, passenger satisfaction surveys, site surveys, vehicle inspections, examination of regular returns submitted by the Target Group and feedback from the public.

The Transport Department commissioned an independent survey from March to April 2021 for the CTB (F2) Franchise and the NWFB Franchise, and in October 2021 for the CTB (F1) Franchise, respectively to collect passengers' overall opinions on their bus services. The results showed that 94.4%, 94.4% and 90.4% of the respondents were satisfied with the overall quality of services provided by the CTB (F1) Franchise, the CTB (F2) Franchise and the NWFB Franchise, respectively. The Commissioner has expressed satisfaction that Citybus and NWFB had been providing proper and efficient public bus services during these franchise periods.

ADVERTISING AND OTHER SERVICES

1. Advertising services

The Target Group also provides advertising services through BML and the Advertising Partner. In FY2021, FY2022 and FY2023, advertising income was approximately HK$204.0 million, HK$172.0 million and HK$209.6 million, respectively, representing approximately 7.2%, 6.8% and 6.2% of the Target Group's total revenue in the corresponding periods. This is the second largest source of revenue of the Target Group, and the Target Group has been actively developing this segment.

The Target Group provides premium out-of-home advertising opportunities throughout Hong Kong. BML is the exclusive advertising agency of the bus body exterior and interior of the Citybus' franchised bus fleet. Advertising partners with BML gain access to over 1,700 registered buses and over 200 bus routes as at the Latest Practicable Date.

Bus body advertising

Through an open tender process conducted by Citybus in 2023, BML was awarded the bus body advertising contract to act as the exclusive advertising agency of the bus body exterior and interior of the Citybus' franchised bus fleet for ten years until 2033. Under the current bus body advertising agency agreement entered into between Citybus and BML, Citybus charges BML a percentage of the gross advertising revenue of the bus body advertising business. BML is also required to pay a guaranteed amount to Citybus if the actual amount of the payment for any month during the contract period falls below the pre-determined minimum guaranteed level.

BML is committed to providing innovative advertising solutions for customers' brand building activities and campaigns, and offers various advertising packages to cater to their needs.

The advertising services provided by BML include designing and installing advertisements. For a typical advertising project, BML will first consult with the customer to understand its advertising objectives, target audience, messaging requirements and campaign goals. Based on the customer's requirements, BML's creative team will develop a comprehensive advertising campaign plan. This includes determining the optimal bus routes for the advertising campaign, identifying the suitable bus exteriors and interiors for advertising, and designing visually appealing and impactful advertisements that align with the customer's brand identity and messaging. BML will then coordinate with BTSL to ensure the availability of the selected bus spaces for the duration of the campaign. Once the advertising space is secured, BML proceeds with the production of the advertisements, ensures that the advertisements comply with the size, layout and technical specifications for the selected buses, and coordinate with BTSL to install the advertisements on the selected buses.

The pricing of BML's services is typically dependent on the number of buses involved, the duration of the advertisement and the coverage of bus body.

Other advertising agency services

In July 2023, BML won a tender from a railway operator for the provision of advertising sales agency services in respect of advertising media at certain rail lines and buses operated by the railway operator. BML will be responsible for the operation, sales and marketing of this advertising media. The contract period will cover 5 years from 1 January, 2024 to 31 December, 2028, with option to renew for another 5 years at the sole discretion of the railway operator.

2. Other services

The Target Group also owns and operates, through Citybus, City Tours. City Tours does not directly operate any bus services but offers travel agency services and holds the travel agent licence to operate bus, coach and travel related services in Hong Kong.

The Target Group also provides bus hire services through its non-franchised operations, which include (i) contract bus services that are hired according to fixed schedules; and (ii) private hire services that operate on an ad hoc basis. In FY2021, FY2022 and FY2023, bus hire income was approximately HK$18.1 million, HK$18.5 million and HK$22.4 million, respectively, representing approximately 0.6%, 0.7% and 0.7% of the Target Group's total revenue in the corresponding periods.

CUSTOMERS

Fare revenue generated by the Target Group's public bus services business accounted for over 90% of its total revenue for each period of the Trading Record Period. Due to the nature of the Target Group's business, all customers of the Target Group's franchised bus services are the general public, while customers of the Target Group's non-franchised bus services are mainly corporate and individual customers which engaged the Target Group to provide private hires, including resident or employee bus services. Customers of the Target Group's advertising services and other services are mainly corporate customers.

None of the Target Group's customers accounted for 5% or more of its total revenue for FY2021, FY2022 and FY2023 and it did not rely on any single customer during the Trading Record Period. During the Trading Record Period and up to the Latest Practicable Date, the Target Group did not enter into any long-term contracts with its customers.

PROCUREMENT FOR NEW BUSES

As stated in "1.4 Bus fleet management – 1.4.2 Fleet replacement and expansion" above, the Target Group will from time to time procure new buses to replace retired buses and expand its bus fleet to support the expansion of its services. The Target Group procures new buses from bus manufacturers. During the Trading Record Period, the Target Group mainly sourced buses from bus manufacturers headquartered in the United Kingdom and

Sweden. Buses sourced from these bus manufacturers were manufactured in Malaysia, Mainland China, North Ireland and Eastern Europe. The Target Group generally conducts open tendering for bus procurement and enters into agreements with successful tenderers.

In accordance with the provisions of the Franchises, the Target Group selects bus suppliers primarily through open tender. The Target Group has established a procurement sub-committee, led by its finance director and consists of the managing director, the risk, compliance and people director and the strategic procurement manager, to ensure impartiality and fairness in procurement. For bus purchases, an internal working group will be set up comprising representatives from the procurement department, the commercial department and the engineering department. The working group is responsible for devising the specifications and requirements, setting up the scoring criteria before tender assessment and conducting the assessment before submission of its recommendation to the procurement sub-committee for review. The Target Group assesses its fleet requirements based on factors such as capacity needs, service expansion plans, technological advancements and environmental considerations and requirements. This assessment helps determine the specifications and quantity of buses required, based on which bus procurement proposals will be prepared. After obtaining management endorsement of the bus procurement proposal, the Target Group will prepare tender documents detailing the requirements, technical specifications, contract terms and conditions for the procurement, and invite tender submissions. The Target Group will form an evaluation committee to assess the tenders received. Evaluation criteria may include factors such as technical compliance, price competitiveness, delivery timeline, after-sales service, warranty, and the supplier's track record. In general, the Target Group will select the bus manufacturer that offers the best combination of meeting its requirements and offering the most favourable terms.

In general, staged payments will be made by the Target Group to the bus manufacturer upon achievement of a stage defined in the bus supply agreement.

SUPPLIERS AND SUBCONTRACTORS

Suppliers

The principal supplies purchased by the Target Group are fuel, lubricants, bus parts and tyres. During the Trading Record Period, most of these materials and equipment were sourced from Hong Kong and international companies with local agents or sales channels in Hong Kong.

During the Trading Record Period, the major suppliers of the Target Group (in terms of the amount of operating costs of the Target Group attributable to them) included, among others, suppliers of fuel, bus parts and tools, the operator of the electronic toll collection system for toll roads and tunnels, the Government (in respect of rent and rates and TEF expenses) and insurance companies. The total amount of operating costs of the Target Group attributable to its five largest suppliers in aggregate represented less than 30% of its total amount of operating costs in FY2021, FY2022 and FY2023, respectively.

The Target Group has established long-term business relationships with its major suppliers. During the Trading Record Period, payments to its major suppliers were mainly settled by cheque and bank transfer. In terms of purchase of fuel and bus parts and tools, the credit period granted to the Target Group generally ranged from 30–45 days. Payment in advance was required for toll charges and rents and rates, and insurance premiums were generally charged on the effective date of the relevant insurance policies.

The Target Group has maintained stable business relationships with its major suppliers during the Trading Record Period. The management of the Target Group has confirmed that the Target Group did not experience any abnormal price increases in materials, material shortages or delays in delivery of supplies by its suppliers, or dispute with its suppliers that had any material adverse impact on its business operations.

Long-term fuel supply agreements

The Target Group had commenced business relationship with its major fuel supplier, Supplier A, since 2007. During the Trading Record Period, the Target Group had entered into long-term agreements with Supplier A for the supply of fuel. The latest supply agreement entered into between the Target Group and Supplier A, i.e. the 2022 Fuel Supply Agreement, is for a term of three years commencing from 1 August, 2022. Pursuant to the 2022 Fuel Supply Agreement, among others:

- *Exclusivity*: The Target Group has agreed to exclusively purchase diesel from Supplier A, which shall be for the sole consumption of the Target Group unless with the prior consent of Supplier A.

- *Obligation to maintain adequate stock*: Supplier A is required to maintain adequate stock of the relevant fuel to meet the Target Group's demand during the term of the 2022 Fuel Supply Agreement. However, if there is a delay or suspension in the supply of fuel by Supplier A in contravention of the 2022 Fuel Supply Agreement, the Target Group may purchase similar fuel from alternative sources and Supplier A shall pay the Target Group the differences in prices incurred by the Target Group in such purchase(s), subject to the terms of the 2022 Fuel Supply Agreement.

- *Order and delivery*: Orders shall be placed at least 24 hours before the intended time of delivery. Supplier A is responsible for delivering the quantity of the fuel ordered by the Target Group from time to time to its bus depots, and for the unloading and transmission of the fuel into the fuelling and diesel storage tanker facilities at the Target Group's bus depots.

- *Price*: The price of each delivery of fuel order shall comprise (i) the average of the published Mean of Platts quotations for Singapore gasoline for the relevant month during which the order is placed (i.e. the MOP Price) or the MOP Price which is fixed for each of the periods of 1 July, 2023 to 30 June, 2024 and 1 July, 2024 to 31 July, 2025; and (ii) a fixed margin comprising a delivery and handling charge. Payment shall be made on monthly basis.

- *Fuel specification*: Supplier A has warranted that the fuel to be supplied to the Target Group shall, among others, comply with the Euro V standard diesel specifications and all applicable laws (including without limitation requirements in relation to environmental compliance).

- *Quality assurance*: To ensure the quality of the fuel supplied, the Target Group is entitled under the 2022 Fuel Supply Agreement to require Supplier A to provide a qualitative analysis report on the ingredients and other properties of samples of the fuel randomly selected by the Target Group from the fuel delivered by Supplier A each month during the term of the 2022 Fuel Supply Agreement.

- *Termination*: The 2022 Fuel Supply Agreement may be terminated by either party by giving prior notice to the party under certain specified circumstances, e.g. breach or non-performance of the 2022 Fuel Supply Agreement or termination or revocation of the Franchises.

Fuel price hedging policy

The cost of fuel can fluctuate significantly and is subject to many economic and political factors that are beyond the Target Group's control, which may affect the Target Group's profitability. For details, please see "Appendix I – Information about the Target Group – 1. Risk Factors – Risks Relating to the Business and Industry of the Target Group – Changing fuel costs may reduce the Target Group's profitability".

To mitigate the financial risks associated with volatile fuel prices, the Target Group has adopted a fuel price hedging policy which mainly involves the use of fuel price swap contracts and fuel price option contracts with a view to locking in favourable fuel prices and limiting its exposure to fuel price fluctuations:

- in FY2021 and FY2022, the Target Group entered into fuel price swap contracts with a bank in Hong Kong ("**Counterparty Bank**"), whereby (i) the Target Group agreed to pay the Counterparty Bank the difference if the market fuel price on any commodity business day during the term of the contract exceeded the pre-agreed fixed price; and (ii) the Counterparty Bank agreed to pay the Target Group if the market fuel price on any commodity business day during the term of the contract fell below the pre-agreed fixed price; and

- in FY2023, the Target Group entered into fuel price option contracts with the Counterparty Bank, whereby the Target Group was given call options to purchase fuel at the pre-determined price (generally known as the "**strike price**") if the market fuel price exceeded the strike price during the term of the relevant options.

The term of the above swap contracts and option contracts ranged from six to twelve months. Payments under these contracts were generally settled on a monthly basis.

Under the Target Group's fuel price hedging policy, it hedged 80%, 90% and 80% of its expected fuel consumption for FY2021, FY2022 and FY2023, respectively, and the fuel hedge ratio of the Target Group (calculated by dividing the volume of fuel hedged by the total expected fuel consumption) for the corresponding periods was approximately 0.8, 0.9 and 0.8, respectively. The Target Group's management generally takes into account factors including, among others, market conditions, terms of the swap/option contracts, the Target Group's fuel consumption patterns and its risk tolerance and risk management objectives in determining its fuel hedge ratio for a specified period (usually twelve months).

Subcontractors

To provide flexibility in resource deployment and achieve a more cost-effective operational model, the Target Group engages subcontractors to provide ancillary services such as (i) cleaning and refuelling buses, depots and other facilities, (ii) maintaining security at bus depots and other facilities, (iii) repair and maintenance of depots and other facilities, systems and equipment; (iv) fare collection and handling services; and (v) production and installation of bus advertisements.

In FY2021, FY2022 and FY2023, total subcontracting costs were HK$116.9 million, HK$132.1 million and HK$168.9 million, respectively, representing approximately 3.7%, 4.2% and 5.0% of the Target Group's total operating costs for the corresponding periods. Subcontracting fees are generally determined through competitive tendering, with reference to estimates of market rates for comparable services.

The Target Group's subcontractors are neither employees nor agents of the Target Group, and the Target Group is not a party to the employment arrangements between its subcontractors and their employees. As the subcontractors are responsible for providing the workers, relevant labour costs are borne by the Target Group's subcontractors.

During the Trading Record Period and up to the Latest Practicable Date, there were no material non-performance issues or disputes between the Target Group and its subcontractors and it had not experienced any material difficulty in securing services from subcontractors.

Supplier and subcontractor selection

Under the terms of the Franchises, the Target Group is required to put out material contracts for procurement of products and services for tendering as far as practicable. The Target Group therefore selects suppliers and subcontractors primarily through tender, and normally sources price quotations from various potential suppliers/subcontractors for each contract. For contracts with contract sum over a fixed amount, the Target Group selects suppliers through an open tender process and publishes tender notices on its website.

The Target Group generally considers tender submissions based on factors including, among others, the Target Group's evaluation of the supplier or subcontractor's performance, its track record, scale of operation, the quality and price of the relevant supplies or services, and whether it has sufficient experience, resources and skills to provide the relevant supplies or services in conformance with the relevant the requirements of the Target Group.

The Target Group usually enters into contracts with suppliers and subcontractors for a fixed term. The Target Group appraises the performance of its suppliers and subcontractors from time to time to maintain a strong base of reliable material suppliers and subcontractors at competitive prices for the required supplies and ancillary services.

QUALITY CONTROL

The Target Group is committed to providing public bus services that prioritise safety, reliability and customer satisfaction. The Target Group believes that the implementation and adherence to its performance assurance measures set out in "Public bus services – 5.1 Performance assurance measures" above is the key to upholding high quality of its public bus services. In addition, the Target Group has adopted the following quality control measures:

- *Quality Management System*: The Target Group has established a comprehensive Quality Management System (QMS) to ensure consistent quality standards across their operations. The QMS outlines policies, procedures, and guidelines for various aspects of their services, including maintenance, operations, customer service and safety. The Target Group's QMS is subject to ongoing improvements.

- *Regular audits and inspections*: Apart from routine inspection of buses by the Target Group's engineering department as set out in "1.4 Bus fleet management – 1.4.4 Fleet maintenance" above, the Target Group conducts regular internal audits and inspections to assess compliance with quality standards and identify areas for improvement. These audits cover various aspects of operations, including maintenance practices, operational procedures, safety protocols, and customer service. Audit findings are used to implement corrective actions and drive continuous improvement.

- *Equipment and materials*: The Target Group maintains strong relationships with suppliers and subcontractors to ensure the quality of the supplies and services they provide. Regular communication, performance evaluations, and quality assessments are conducted to monitor supplier performance and address any issues.

  Specifically, the Target Group maintains stringent quality control during the procurement and acceptance of new buses. It closely communicates with bus manufacturers during the design and development stage to ensure that the new buses to be manufactured and supplied will meet the Target Group's specifications and quality standards. It also monitors the manufacturing process of new buses by requiring regular status reports from bus manufacturers, and conducts extensive quality checks on new buses before incorporating them into its bus fleet. This includes verifying the specifications, performance, and safety features of the buses to ensure they meet the Target Group's quality requirements.

The Target Group also monitors the quality of purchased materials, such as bus parts and tyres, and equipment for repair and maintenance of buses. Suppliers are required to ensure that materials and equipment are up to the quality standards specified by the Target Group. All materials are delivered for the Target Group's initial inspection before utilisation. Inspection includes checking of the type and quantity of the materials and equipment delivered, and whether there is any observable defect. Any defective materials and equipment or those that fall short of specified quality standards would be returned to the suppliers for replacement. During the Trading Record Period, there had been no material incident where the Target Group's materials were returned to suppliers due to quality deficiencies.

- *Suppliers and subcontractors:* The Target Group award supply and service contracts to suppliers and subcontractors primarily through tender, and select them based on a set of selection criteria and periodic performance appraisals. For details, please see "Suppliers and Subcontractors – Suppliers and subcontractors selection" above.

RESEARCH AND DEVELOPMENT

The Target Group places high importance on research and development as it enables it to innovate, improve operational efficiency, enhance passenger experience and address evolving challenges, ultimately ensuring the provision of high-quality and sustainable bus services and maintaining its market position and competitive edge in the highly competitive public transport market.

The Target Group's engineering department and technology department are primarily responsible for research and development projects.

The main areas at focus of the Target Group's research and development initiatives include (i) fleet modernisation and alternative fuels and energy sources, including exploring new bus technologies, such as electric or hybrid buses, to reduce emissions and improve fuel efficiency, and exploring options like biofuels, hydrogen fuel cells, or other innovative energy solutions to reduce environmental impact and enhance the efficiency of bus operations; (ii) implementation of intelligent transportation systems to utilise advanced technologies, such as real-time data collection, traffic management, and passenger information systems, to improve the efficiency, reliability, and convenience of bus services; and (iii) enhancements of safety features and systems, which includes exploring and testing new safety technologies, such as collision avoidance systems, driver assistance systems and advanced braking systems, to minimise the risk of accidents and improve overall safety performance.

During the Trading Record Period, the Target Group had introduced various solutions aimed at improving, among others, the safety and environmental features of its bus fleet. Notably, in 2022, the Target Group, in partnership with Wisdom, developed and unveiled Hong Kong's first electric double decker bus and first hydrogen fuel cell double decker. The Target Group closely partnered with Wisdom to develop the first electric double decker tri-axle bus, with a focus on creating a vehicle suited to Hong Kong's challenging topography and operating environment. Following the success of this project, the Target Group and Wisdom had led a consortium of experts to design and build the first prototype hydrogen fuel cell tri-axle double decker bus. Going forward, the Target Group will work with international partners and component suppliers to further develop the application of existing technology and future electric and hydrogen double decker buses for ongoing trials in Hong Kong.

MARKETING

The Target Group has established a well-recognised brand in the Hong Kong transportation industry, and employs a comprehensive marketing strategy to promote its bus services and establish a strong market presence. It engages in various marketing and promotional activities to attract passengers and drive revenue growth:

- *Customer engagement and relationship management*: The Target Group places significant emphasis on building and maintaining strong customer relationships. It engages with passengers through multiple channels, including direct communications, advertising, online platforms, social media and traditional media. The Target Group actively seeks customer feedback, conducts surveys, and implements customer-centric initiatives to enhance satisfaction and loyalty.

- *Community outreach:* The Target Group actively participates in multiple community events and engages in corporate social responsibility initiatives, such as working with NGO's, local charities, sponsoring community events, educational institutions and academia. These activities help build a positive brand image and contribute to the well-being of the community.

- *Online presence and digital marketing:* The Target Group strives to enhance its online presence through its websites, the Citybus Mobile App and social media platforms. They provide real-time information on routes, schedules, fares, and service updates. Digital marketing efforts will include targeted online advertising, and engaging content to reach and engage with a wider audience.

- *Partnerships and collaborations*: The Target Group actively seeks partnerships and collaborations to expand its reach and enhance its service offerings. It collaborates with other transportation providers, tourism agencies and local businesses to develop integrated travel solutions, joint promotions and special offers that benefit passengers and drive customer acquisition.

AWARDS AND RECOGNITIONS

Over the years, the Target Group had received a number of awards and certifications in recognition of its performance, achievements and quality standards. The table below sets out major examples of such awards received by the Target Group in recent years:

Award/recognition	Year(s)	Issuer(s)
15 Years Plus Caring Company Logo	2020, 2021, 2022, 2023	The Hong Kong Council of Social Service
20 Years Plus Caring Company Logo	2022	The Hong Kong Council of Social Service
Hong Kong Green Organisation Certification	2020	Co-organised by Environmental Campaign Committee, Environmental Protection Department, the Advisory Council on the Environment, Business Environment Council, the Chinese General Chamber of Commerce, the Chinese Manufacturers' Association of Hong Kong, Federation of Hong Kong Industries, the Hong Kong Chinese Importers' & Exporters' Association, Hong Kong Council of Social Service, the Hong Kong General Chamber of Commerce and Hong Kong Productivity Council

Award/recognition	Year(s)	Issuer(s)
Gold Award in 2020 Hong Kong Awards in Environmental Excellence – Transport and Logistics	2021	Co-organised by Environmental Campaign Committee, Environmental Protection Department, the Advisory Council on the Environment, Business Environment Council, the Chinese General Chamber of Commerce, the Chinese Manufacturers' Association of Hong Kong, Federation of Hong Kong Industries, the Hong Kong Chinese Importers' & Exporters' Association, Hong Kong Council of Social Service, the Hong Kong General Chamber of Commerce and Hong Kong Productivity Council
Social Capital Builder (SCB) Logo Award for 2020–2022 term	2020	The Community Investment and Inclusion Fund (CIIF) of the Labour and Welfare Bureau
Jockey Club Age-friendly City Partner	2021	The Hong Kong Jockey Club Charities Trust
Triple Gold Award in the Mobile App stream and Friendly Website in the "Web Accessibility Recognition Scheme"	2021, 2023	Hong Kong Internet Registration Corporation Limited
Honour of Manpower Developer	2013–2025	Employees Retraining Board
The HR Asia Best Companies to Work for in Asia	2023	HR Asia

COMPETITION

With only four (or prior to the Franchise Merger in July 2023, five) franchised bus operators in Hong Kong, the franchised bus services market is a highly concentrated and mature industry. According to Ipsos, Citybus and NWFB respectively ranked second and third among all operators of franchised public bus services in each of these areas in 2022: revenue from franchised public bus operations, number of passenger journeys operated, number of franchised bus routes operated and number of licensed buses owned. Following the Franchise Merger, Citybus ranked second among all operators of franchised public bus services in terms of the number of passenger journeys operated and the number of licensed buses owned in 2023. Please see "Appendix I – Information about the Target Group – 2. Industry Overview" for information on the Target Group's competitive landscape.

The Target Group competes against other public bus operators and providers of other modes of transportation in Hong Kong by focusing on service quality and innovation and aiming to meet its customer needs by providing a comfortable and reliable transportation experience The Target Group differentiates itself through its efficient operations, and customer-centric approach, striving to attract and retain passengers in a highly competitive market.

SEASONALITY

Due to the nature of the Target Group's business, it did not have any significant seasonal trends during the Trading Record Period.

INSURANCE

The Target Group's management believes that the Target Group's current insurance coverage is in line with industry practices in Hong Kong. Such insurance coverage is customary for businesses of its size and type and in line with the standard commercial practice in the industry in which it operates.

The Target Group maintains insurance policies covering major risks that are inherent to its business operations, such as motor liability and commercial vehicle insurances to cover road risk and employees' compensation insurance to cover work injury related risks. The Target Group also carries fire and theft insurance, property and computer insurance to protect it against damage to its depots and other facilities, machines, equipment and other fixed assets, as well as vehicles and losses due to fire, flood or other natural disasters. In addition, it maintains marine cargo insurance to cover more specific risks for the import and transportation of its buses manufactured outside Hong Kong to the Target Group's depots and garages. Moreover, the Target Group carries public liability insurance, which protects it from claims or liabilities in connection with body injuries or property damage to a third party in the course of its business operations. To manage its exposure in case of cybersecurity attacks, the Target Group also maintains cybersecurity insurance.

During the Trading Record Period and up to the Latest Practicable Date, there were various insurance claims in relation to traffic accidents and work injuries but none of them had any material adverse impact on the Target Group's business operations. However, should any significant uninsured damage to any of its properties, bus fleet, machineries or other assets or liabilities claims against it occur, its business, financial condition and results of operations may be adversely affected. See "Appendix I – Information about the Target Group – 1. Risk Factors – Risks Relating to the Business and Industry of the Target Group – The Target Group's insurance may not cover all losses associated with the Target Group's business operations" for details.

EMPLOYEES

The primary emphasis of the Target Group in terms of human resources management is on enhancing employee well-being and cultivating a work environment that promotes a positive and healthy organisational culture. During the Trading Record Period and up to the Latest Practicable Date, the Target Group did not experience any labour strikes, disruption of operations due to labour related issues or significant labour disputes, nor did the Target Group experience any significant difficulties in recruiting or retaining qualified employees.

As at 31 December, 2021, 2022 and 2023, the Target Group had a total of 5,370, 5,062 and 5,483 employees, respectively.

As at the Latest Practicable Date, the Target Group had a total of 5,677 employees, including 5,097 full-time employees and 580 part-time employees. All employees of the Target Group are based in Hong Kong. The following table sets out the breakdown of the Target Group's employees by function as at the Latest Practicable Date:

	Number of employees
Senior management	10
Operations function	4,719
Engineering function	588
Finance function	50
Commercial function	113
Risk, legal, compliance and human resources function	101
Other functions	96
Total	**5,677**

Recruitment

Recruitment of staff is mainly conducted via advertising through job agency websites and notice boards, agencies, the Target Group's website, bus body advertising as well as through social media. The Target Group also organises multiple recruitment campaigns and introduces different recruitment initiatives to attract people with desirable skills to join its work force. For example, the Target Group conducts district-based recruitment days and has a referral bonus scheme and new recruits with driver licence for Class 9, 10 or 17 will receive special signing bonuses. The Target Group implements various initiatives to retain its work force and increase their sense of belonging with the Target Group.

As the franchised bus industry in Hong Kong has been facing labour shortage, which is exacerbated by an ageing workforce, there may be potential difficulties for the Target Group to recruit sufficient labour (including bus captains) to maintain proper and efficient bus services. See "Appendix I – Information about the Target Group – 1. Risk Factors – Difficulty in recruiting sufficient labour including bus captains may hinder the Target Group's compliance with the franchise requirements and undermine future business strategies" for details.

Renumeration package

The Target Group offers competitive remuneration package to its employees. In addition to receiving basic monthly salary as stipulated in their employment contracts, bus captains are also compensated with over-time payment if they are required to work outside the working hours stipulated in their employment contracts. Staff are also provided with various allowances applicable to different positions; For example, bus captains are provided with overnight allowance if they have to work in overnight shift. Staff may also receive contractual or discretionary bonus depending on their performance. The Target Group makes contribution to Mandatory Provident Fund or ORSO schemes that is no less than the requirement under laws of Hong Kong and subscribe to employees' compensation insurance in accordance with the laws of Hong Kong.

On top of competitive salary, allowances and bonuses, employee benefits and staff training set out in this sub-section, the Target Group also provides 24 weeks of full pay maternity leave and 2 weeks of full pay paternity leave to its staff and organises various kinds of sports and recreational activities for employees as well as their family members such as bowling competition and baking workshop. The Target Group also held the Best Bus Captain of the Year competition annually to recognise the professionalism, high levels of customer interaction and driving techniques of bus captains.

Training

The Target Group provides comprehensive induction and orientation training to onboarding staff which covers, among others, health and safety policies of the Target Group, company structures, company cultures, company facilities as well as continuing on-the-job training with an aim to enhance staff performance. For details, please see "Public bus services – 4. Safety – 4.1 Safety measures – Comprehensive safety trainings" above.

Evaluation

The Target Group operates an appraisal system customised to assess performance of administrative staff and frontline staff separately. Bus captains are also evaluated based on their service performance and road safety record. For details, please "Public bus services – 4. Safety – 4.2 Smart Citydrive system" above.

Equal opportunities and labour rights

As an equal opportunity employer, the Target Group is also committed to preventing discrimination against job applicants and employees based on race, gender, marital status, family status, pregnancy, or disability.

The Target Group upholds labour rights and respect employees' rights to join trade unions. There are five workers organisations within the Target Group that have regular interactions with the management of the Target Group. Meetings are held to discuss employee related matters.

Turnover

The Target Group generally experiences a slightly higher turnover rate in February and March when employees might resign after receiving their annual bonus, but it did not experience any significant or unusual labour turnover during the Trading Record Period and up to the Latest Practicable Date.

The management of the Target Group has confirmed that during the Trading Record Period and up to the Latest Practicable Date, the Target Group had not experienced any significant labour disputes or significant difficulty in recruiting staff which had adversely impacted the Target Group's business operations in any material respect.

HEALTH AND WORK SAFETY

The Target Group's business is subject to various work safety and environmental protection laws and regulations. Its risk, legal, compliance and human resources department monitors compliance with legal requirements and its internal standards in respect of such matters. The Target Group adheres to the regulations outlined in the Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong).

Safety is of utmost importance to the Target Group's business and various policies and systems have been adopted by the Target Group to promote safety with the Target Group's management teams' support and commitment. All employees, including bus captains, are required to attend occupational safety training as part of their induction programme. Onboarding bus captains are required to undergo a health check and follow up with health issues identified, and to attend road safety training as part of their induction programme as well. Existing bus captains and engineers are also subject to health checks regularly and are required to follow up with health issues identified to ensure that they are fit for their driving duties. For details, please see "Public bus services – 4. Safety" above.

Apart from road safety, as bus operators, the Target Group maintains fuelling and diesel storage facilities at its bus depots and bus servicing centres. The Target Group implemented dangerous goods storage and treatment protocols regarding the handling of diesel and a designated safety team is responsible for ensuring the protocols have been complied with. The safety team is also responsible for promotion, inspection and formulating of prevention measures of depot safety so as to minimise injuries and prosecution.

The management of the Target Group has confirmed that during the Trading Record Period and up to the Latest Practicable Date, the Target Group had not been subject to any material claim or penalty in relation to health and work safety.

ENVIRONMENTAL MATTERS

In support of the Government's target to formulate a concrete way forward and a timetable introducing the use of new energy public transport and commercial vehicles by around 2045, as well as to continually improve roadside air quality, Citybus had, during the franchise negotiations, re-affirmed its commitments to cooperate with the Government in promoting the development of electric and other new energy public transport vehicles, such as conducting trials of hydrogen fuel cell buses. The Transport and Logistics Bureau has also taken the view that merging the franchises of the CTB (F1) Franchise and the NWFB Franchise will provide a wider scope for implementing major bus network re-engineering or service rationalisation, and thereby reducing roadside air pollution.

Development of a greener bus fleet

In July 2022, Citybus unveiled Hong Kong's first ever hydrogen fuel cell double decker tri-axle bus, which was specially designed and built for Hong Kong. Citybus remains committed to continuously working closely with the Government to design relevant regulations and ordinance in order to allow the operation of hydrogen vehicles in Hong Kong, with the aim to introduce production models with an estimated range of over 400 kilometres in the foreseeable future. As mentioned in "Letter from the Board – Reasons for and benefits of the Acquisition", the Company has participated and invested in the construction of the first hydrogen refuelling station in Hong Kong located in West Kowloon for the provision of hydrogen refuelling services for the operation of Hong Kong's first hydrogen fuel cell double decker tri-axle bus owned by Citybus.

Further, in July 2023, the Target Group entered into a memorandum of understanding with one of the largest energy suppliers in Hong Kong to explore the use of hydrogen as an alternative source of fuel for public buses, and to exchange information on hydrogen-related business and marketing plans. With the signing of this memorandum of understanding, the two sides will establish a strategic alliance and work together to assist the Government in setting regulations and appropriate subsidy schemes for the use of hydrogen in buses and heavy vehicles.

As at the Latest Practicable Date, diesel buses represented 99% of the Target Group's bus fleet, of which 4%, 80% and 16% were Euro IV, Euro V and Euro VI diesel buses. The Target Group is gradually increasing the composition of electric or other new energy buses in its bus fleet.

Waste treatment measures

The Target Group stores diesel at its bus depots and bus servicing centres. Diesel containers are properly labelled, stored separately by type and in specific zones within bus depots and garages. Chemical waste are also stored at designated areas before being collection by a licensed chemical waste collector to be disposed of properly. Waste oil is processed, then recycled or disposed of in compliance with the applicable legal requirements. The Target Group engages recognised external consultants to conduct environmental audits on its operations in compliance with requirements of the Environmental Protection Department. Bus batteries that have passed its useful life are disposed of by licensed chemical waste collector in compliance with protocols established by the Environmental Protection Department.

The Target Group is also committed to promoting environmental protection and sustainability in its operation. The Target Group has established an environmental protection policy to recognise environmental protection as one of the key attributes in the corporate social responsibility value system for attaining sustainable development.

The management of the Target Group considers that the annual cost of compliance with the applicable health, work safety, social and environmental laws and regulations was not material during the Trading Record Period and the cost of such compliance is not expected to be material going forward.

The management of the Target Group has confirmed that during the Trading Record Period and up to the Latest Practicable Date, the Target Group had not been subject to any material claim or penalty in relation environmental protection issues, and it has been in compliance with the applicable environmental laws and regulations of Hong Kong in all material aspects.

IMPACT OF THE COVID-19 PANDEMIC

Decrease in patronage and operational challenges

The first confirmed case of COVID-19 in Hong Kong was first reported in January 2020. Since then, there were various rounds of outbreak of COVID-19 in Hong Kong and the Government had announced various measures, including travel restrictions, compulsory quarantine measures and social distancing measures in order to reduce the risk of local transmission of COVID-19. Such Government restrictions and measures, coupled with the wide adoption of work-from-home arrangements, suspension or limited operations of retail and catering businesses, school suspensions and the shift to remote learning, as well as closure of ports and the decline in tourist arrivals, had resulted in a drastic decrease in commuter demand and significant reduction in the Target Group's patronage, as well as fare revenue, in FY2022. For instance, the Target Group's patronage had reduced by approximately 14.1% from approximately 322.0 million in 2021 to approximately 276.5 million in FY2022.

The Target Group also faced operational challenges during the COVID-19 outbreak. For instance:

- *Service adjustments*: With fewer passengers using public buses, the Target Group had, with the approval of the Transport Department, adjusted its services and routes to match the reduced demand in public transportation, e.g. modifying trip frequencies and implementing resource-saving initiatives. Closure of boundaries and the Hong Kong International Airport along with travel restrictions had also resulted in temporary suspension of the Target Group's airport bus routes.

- *Implementing health and safety measures*: The Target Group has had to implement stringent supplementary health and safety measures to ensure the well-being of both passengers and staff. This included thorough sanitisation of buses and premises, provision of personal protective equipment, enforcement of social distancing protocols, and promotion of good hygiene practices. These measures had required additional resources, staff training, and increased operational costs.

- *Workforce management*: The Target Group had also faced challenges related to workforce management during the pandemic. This included ensuring managing the health and safety of bus captains and staff, managing potential COVID-19 cases and contact tracing, providing necessary support and resources for their well-being and mental status, and addressing any staff shortages resulting from illness or quarantine requirements, which had increased administrative burden on the Target Group's workforce.

- *Communication and passenger education*: As the Target Group maintained flexibility in deploying its buses and manpower during the pandemic, the Target Group had taken extra measures to maintain timely communication with passengers on updates on service changes, health and safety guidelines, and any impacts on bus schedules or routes.

The decrease in patronage and increase in operational costs associated with implementing the above measures to cope with operational challenges during the outbreak of the COVID-19 pandemic had adversely affected the Target Group's public bus services business, its operating performance including patronage, and in turn its fare revenue during the Trading Record Period.

Despite the relaxation of Government COVID-19 restrictions in FY2021, strict COVID-19 measures were implemented to combat successive waves of the pandemic in FY2022 for a longer period compared to FY2021. The Target Group's patronage had therefore been adversely impacted by such restrictions during FY2022. Such impact, together with more intense competition arising from the commencement of operations of phase 2 of the Sha Tin to Central Link, had contributed to a decrease in the Target Group's patronage by approximately 14.1% from approximately 322.0 million in FY2021 to approximately 276.5 million in FY2022. As a result, fare revenue decreased by approximately HK$239.6 million, or approximately 9.3%, from approximately HK$2,577.2 million for FY2021 to approximately HK$2,337.6 million for FY2022.

Following the containment of the COVID-19 pandemic and the subsequent easing of related restrictions, the Target Group witnessed a substantial increase in patronage by approximately 22.9% from approximately 276.5 million in FY2022 to approximately 339.7 million in FY2023. This surge in patronage correspondingly led to a significant increase in fare revenue of approximately HK$820.9 million, or approximately 35.1%, from approximately HK$2,337.6 million for FY2022 to approximately HK$3,158.5 million for FY2023.

For details of the reasons leading to the changes in the patronage of the Target Group during the Trading Record Period, please see "3. Fare revenue and patronage – 3.1. Fare revenue and patronage during the Trading Record Period – Changes in fare revenue and patronage during the Trading Record Period".

The management of the Target Group has confirmed that as at the Latest Practicable Date, save as disclosed above, the Target Group had not encountered and did not anticipate any obstacles in its operations as a result of the COVID-19 pandemic.

Government grants and subsidies and rent concessions

The Government successively launched two tranches of "Employment Support Scheme" in 2020 to various industries to provide employers with financial support for retaining employees, and six rounds of Anti-epidemic Fund from 2020 to 2022 to, among others, help businesses stay afloat, relieve financial burdens of businesses, and assist the economy to recover once COVID-19 is contained.

During FY2021, FY2022 and FY2023, subsidies of approximately HK$1.7 million, HK$313.2 million and HK$2.4 million were granted by the Government to the Target Group, respectively, for relieving operating pressure as a result of the outbreak of the COVID-19 pandemic, which mainly included subsidies on fuel costs, regular repairs and maintenance costs, insurance premium, one-off subsidy for franchised and non-franchised buses and wage subsidy under the Employment Support Scheme. The Government also granted COVID-19-related rent concessions on lease liabilities to the Target Group. During FY2021, FY2022 and FY2023, the amounts recognised in other income related to COVID-19-related rent concessions on lease liabilities of the Target Group amounted to approximately HK$92.9 million, HK$1.0 million and nil, respectively.

These subsidies were recognised as part of the Target Group's other income and operating cashflow in its consolidated financial statements, as they were designed and modelled to replicate the temporarily affected revenue stream for the then exceptional situations and periods as well as to ensure the uninterrupted bus operations to service the general public during such challenging times. The subsidies provided support for various essential expenses such as fuel costs, regular repairs and maintenance costs, insurance premiums, one-off subsidy for franchised and non-franchised buses and wage subsidies.

The above Government's relief measures on COVID-19 pandemic are non-recurring in nature, and it is not guaranteed that the Target Group would receive the aforesaid or other forms of government subsidies at a similar level or at all. Please see "Appendix I – Information about the Target Group – 1. Risk Factors – Risks Relating to the Business and Industry of the Target Group – The Target Group received government subsidies during the Trading Record Period, some of which are non-recurring in nature, and there is no guarantee that the Target Group will continue to receive government subsidies at a similar level or at all" for details.

PROPERTIES

As at 31 December, 2023, the land on which each of the Target Group's garages and depots is constructed was leased from the Government to the Target Group on a short-term tenancy, under which rentals at market rates are payable to the Government. The aggregate gross land area of the relevant plots of land was approximately 44,000 sq.m.

As at 31 December, 2023, the Target Group owned 5 properties, with an aggregate gross floor area of approximately 122,000 sq.m.; and leased or was granted the required permission to use 161 properties in Hong Kong, with an aggregate gross floor area of approximately 30,000 sq. m. The Target Group's owned properties consisted of its garage and depot buildings, whilst its leased properties are mainly used as the Target Group's bus servicing centres, regulator offices and staff kiosks. Please see "Public bus services – 1. Franchised bus services – 1.4 Bus fleet management – 1.4.5 Garages, depots and other maintenance facilities" for further information on the Target Group's garages and depots.

The lease agreements relating to the Target Group's leased properties have terms of lease ranging from one to five years and thereafter quarterly. The management of the Target Group has confirmed that as at the Latest Practicable Date, they did not foresee any major difficulties or impediments in renewing the relevant leases upon their expiry. The Target Group did not own any properties.

To the best of the knowledge of the management of the Target Group, as at the Latest Practicable Date, there were no regulatory or environmental issues relating to the above properties that may materially affect the utilisation of the above properties by the Target Group.

INTELLECTUAL PROPERTY RIGHTS

The Target Group relies on its designs, trademarks and other intellectual property rights, including service marks, and domain names which are either owned and registered by it. As at the Latest Practicable Date, the Target Group was the registered owner of (i) 9 registered designs, including Citybus and NWFB bus designs, in Hong Kong; (ii) 38 trademarks in Hong Kong and the PRC; and (iii) 9 domain names, including the corporate websites of Citybus and the Target Group. Details of the Target Group's intellectual property rights, which are material to its business and operations, are set out in more details in "Appendix VI – General Information – 10. Intellectual properties of the Target Group".

From time to time, the Target Group may collaborate with third parties to develop new bus technology or design modifications, which may involve sharing of certain information and knowledge relating to the Target Group's existing designs. To protect its intellectual property rights, the Target Group requires its collaboration partners to enter into non-disclosure agreements before commencement of such collaborations.

The Target Group may also license its intellectual properties to third parties for manufacturing bus toys and models. In terms of monitoring risk and threats to its intellectual properties, the Target Group performs periodic sample checks on products on sale on the markets so as to identify and prevent any infringement of its intellectual property rights.

The Target Group has a dedicated team of staff that is responsible for managing and monitoring its portfolio of intellectual properties, including making applications for registration and renewal of intellectual properties.

The management of the Target Group has confirmed that as at the Latest Practicable Date, the Target Group had not been subject to any material intellectual property claims against it, and it had not experienced any material infringements of its intellectual property rights.

FRANCHISES, LICENCES AND PERMITS

The Target Group has established procedures for identifying and accessing legal and other requirements on its operations, work standards, occupational health and safety and environmental impact, and documents the legal and other requirements that are applicable to its operations.

The following table summarises the Target Group's major franchises, licences, permits and registrations as at the Latest Practicable Date:

No.	Franchise/licence/ permit/approval	Holding subsidiary of the Target Company	Granting authority	Effective period
1.	Merged Franchise (i.e. the Citybus Limited (Franchise for the Urban and New Territories bus network))	Citybus	Chief Executive in Council	1 July, 2023 to 1 July, 2033
2.	CTB (F2) 2023 Franchise (i.e. the Citybus Limited (Franchise for the Airport and North Lantau bus network))	Citybus	Chief Executive in Council	1 May, 2023 to 1 May, 2033
3.	Certificate on Passenger service licence – Public Bus Service	Citybus	Commissioner	19 May, 2023 to 18 May, 2025
4.	Travel agents licence	City Tours Limited	Registrar of Travel Agents	2 December, 2023 to 1 December, 2024
5.	Service-based operator licence	Citybus (China) Limited	Communications Authority	August 2022 to July 2024

The management of the Target Group has confirmed that, as at the Latest Practicable Date, the Target Group had obtained all necessary franchise, permits, licences, approvals and certificates that are material to its business operations.

INTERNAL CONTROL AND RISK MANAGEMENT

The directors of the Target Group and its risk, legal and compliance function along with heads of functions/departments are responsible for the formulation of and for overseeing the implementation of the internal control measures and the effectiveness of risk management systems, which are designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.

In accordance with the applicable laws and regulations, the Target Group has established procedures for developing and maintaining internal control systems. Such systems cover corporate governance, operations, management, safety, legal matters, finance, human resources and IT system, as appropriate for its needs.

Employees of the Target Group are provided with an employee code of conduct, which sets out rules and standards that employees must follow, so as to ensure upholding a high standard of integrity, dedication and professionalism in the delivery of services to the public. The code of conduct is reviewed from time to time to align with the latest regulatory and company policy changes.

The Target Group's employee code of conduct also contains a policy that encourages employees to report concerns about misconduct, malpractice, bribery, and irregularities within the group. The Target Group would take appropriate actions, including disciplinary measures, for substantiated or verified cases. Furthermore, the Target Group has engaged the Independent Commission Against Corruption (ICAC) to provide training to its employees, enhancing their awareness of anti-corruption measures and integrity management. In the event of suspected violation of the Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong), the Target Group's policy is to promptly report the matter to the ICAC. The management of the Target Group has confirmed that the Target Group has not been involved in any corruption offenses during the Trading Record Period and up to the Latest Practicable Date.

The Target Group's human resources and training department is also responsible for ensuring that the Group's employees maintain proper licences for carrying out their job duties. Bus captains have to maintain bus driver's licences, while engineers and technicians may be required to maintain various licences and registration to operate tractors, cranes, perform welding works and/or mechanic works. The Target Group keeps track of the licence and registration expiry dates (if any) and assists employees in renewing relevant licences and registration as and when necessary.

Risk Management

Operational risks

The Target Group considers safety and labour supply as its key operational risks.

The Target Group has adopted various road safety measures, in terms of training, evaluation and enhanced hardware in buses, to promote road safety. For details, please see "Heath and Work Safety". In addition, the Target Group has obtained the ISO 39001 (Road Traffic Safety Management Systems) certification, which is specifically designed for transportation-related industry, for one of its bus routes and is now applying for the ISO 39001 certification for all bus routes under the CTB (F2) 2023 Franchise. The Target Group has enhanced its risk management systems in accordance with the requirements under ISO 39001 and operated under the enhanced risk management system since early 2023. It expects to obtain the full ISO 39001 certification for all bus routes under the CTB (F2) 2023 Franchise by the fourth quarter of 2024. The risk, legal and compliance department is also responsible to ensure that the Target Group maintains sufficient insurance coverage in terms of traffic accidents, work injuries and public liability.

One of the factors that the Government takes into consideration in granting renewal of bus franchise or new bus routes to a franchisee is whether the franchisee is able to provide a proper and efficient public bus service. Shortage of bus captains may lead to undesirable deviation from bus schedules and raise concerns from the Government. To manage its labour risks, the Target Group adopts a variety of means to recruit and retain qualified bus captains, including referral mechanisms, signing bonuses, competitive remuneration and fringe benefits, as well as continuous training. It also communicates with trade unions and its joint consultative committee regularly to gauge feedback from its staff. The directors of the Target Group reviews and revises its human resources policy as well as remuneration policy taking into account the scale of operations and staffing conditions of the Target Group on a routine basis.

Personal data related risks

The Target Group has installed CCTV on its buses and record all bus journeys it operates. It has adopted internal control policies on CCTV recording, as well as storage of and access to such CCTV recordings. CCTV recordings would only be stored for a limited period of time (typically three to five days) until overwritten. CCTV recordings could only be retrieved and/or released to a third party for authorised purposes, such as investigating customer complaints or assisting law enforcements in traffic accident investigations. Approval by the data controller or management of the Target Group and consent would have to be obtained from involved parties (e.g. bus captain whose image was captured by CCTV) before a copy of CCTV recording is provided to relevant requesting party.

The Target Group collects and retains customers' personal data, including personal identifiable information (PII), in cases such as passenger complaints or accident to facilitate follow-up actions. The Target Group has the policy of limiting the scope of data collection to an extent that is appropriate for its business operations. For example, to administer certain bus-to-bus transit discounts, the Target Group has to identify and retain records of a customer's first bus journey to automatically reduce fare collected on the second bus journey. In such cases, Octopus card numbers of customers are collected and retained, but the Target Group does not collect or retain names of the customers.

Cybersecurity risks

Operations of the Target Group require it to store large volume of data over its servers and network. Examples of such data include location of its bus fleets, driving behaviour of its bus captains, personal data, CCTV recordings, etc. It also relies on its information technology system for smooth operation, as well as its website and mobile app to provide updated bus schedule or tracking information to the public. In order to prevent cybersecurity risks which may cause personal data leakage or even disruption of bus service, the IT service team of the Target Group conducts scans on its internal IT systems to identify preliminary vulnerability and weak spots, as well as propose solutions to strengthen the Target Group's cybersecurity measures. Target Group's management then reviews findings and proposal of the IT service team to adopt appropriate measures to enhance network security. The Target Group also engages external IT consultant to conduct health check on its IT infrastructure as and when necessary. The Target Group has also purchased cyber security insurance policy in 2022 to cover its exposure in case of cyber-attack.

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

From time to time, the Target Group may be subject to legal proceedings, investigations and claims incidental to the conduct of its business. The management of the Target Group has confirmed that, during the Trading Record Period and up to the Latest Practicable Date, the Target Group had not been and was not a party to any material legal, arbitral or administrative proceedings; and it was not aware of any material pending or threatened legal, arbitral or administrative proceedings against it which, in its opinion, could have a material adverse effect on the business operations or financial condition of the Target Group as a whole.

The management of the Target Group has confirmed that there had not been any penalty imposed on the Target Group under section 22 of PBSO, and the Target Group had complied with all relevant laws and regulations in all material respects, during the Trading Record Period and up to the Latest Practicable Date.

INTRODUCTION

As mentioned in the section headed "4. History and development" above, the Target Company (namely BTHL) was established as the bidding vehicle solely for the purposes of the 2020 Acquisition. After the completion of the 2020 Acquisition, the Target Company has continued to be the investment holding company for the Target Group. Accordingly, with respect to the principal business of the Target Group (i.e. the public bus services), the roles of the directors of BTHL are non-executive in nature.

Furthermore, under section 9 of the PBSO, the Government is entitled to appoint not more than two (2) additional directors to the board of directors of a grantee of a bus franchise. Prior to the merger of the two relevant bus franchises then held by Citybus and NWFB, there were generally two directors appointed by the Government to each of Citybus and NWFB. Following the Merged Franchise taking effect, the Government appointees have since ceased to be directors of NWFB. The current Government appointees (namely, Ms. Lee Bik Sai Ida and Ms. Lee Chung Yan Angela) serve only on the board of directors of Citybus. The roles of these two Government appointees are non-executive in nature.

The Target Group has a highly skilled and dedicated core management team driving its franchised and non-franchised bus operations and delivering results. The principal business of the Target Group (i.e. the public bus services) has always been, and will continue to be, carried out by its principal operating subsidiary companies, namely Citybus and (before the merger of the two bus franchises of the Target Group) NWFB. It is the current intention of the Company that the existing core management team (whose details are set out below) will remain with the Target Group after Completion.

With regard to the existing directors of the Target Group, other than those directors with senior positions in the Target Group, namely (i) Mr. CHUNG Chak Man, the Vice Chairman of Citybus and NWFB, and the former Managing Director (which title and functions have been succeeded by Mr. HALL Richard John Stoneham ("**Mr. Hall**") as part of the Target Group's governance and succession planning exercise), (ii) Mr. Hall, (iii) Mr. FUNG Ka Fai and (iv) Mr. NG Yee Kwan Newton, all being directors of BTSL and/or its subsidiaries (including Citybus and NWFB), and who will remain with the Target Group after Completion, however, adjustments may be made to certain non-executive directors as appropriate.

THE CORE MANAGEMENT TEAM

The following table sets out the core management team in respect of the principal business of the Target Group (which comprises core management personnel from the following five principal business functions and has been stable throughout the Trading Record Period and up to the Latest Practicable Date) as at the Latest Practicable Date who will continue to serve the Target Group after Completion:

Business function	Name	Age	Title	Business address
Strategy, Planning and General Business Management and Operations function	(1) Mr. Hall	52	Managing director	8 Chong Fu Road, Chai Wan, Hong Kong Island, Hong Kong
Commercial function	(2) Mr. NG Yee Kwan Newton (吳義君) (“**Mr. Ng**”)	52	Commercial director	Same as above
	(3) Mr. WONG Hon Chung (黃漢中) (“**Mr. HC Wong**”)	55	Head of planning and scheduling	Same as above
Operations and Engineering function	(4) Mr. FUNG Ka Fai (馮家輝) (“**Mr. Fung**”)	55	Operations and engineering director	Same as above
	(5) Mr. MA Chim Wai (馬詹唯) (“**Mr. Ma**”)	51	General manager (operations)	Same as above
	(6) Mr. SO Kwok Kin (蘇國健) (“**Mr. So**”)	59	General manager (engineering)	Same as above
Risk, Legal, Compliance and Human Resources function	(7) Ms. CHAN Yuen Ting (陳婉婷) (“**Ms. YT Chan**”)	50	Risk, compliance and people director	Same as above
Finance function	(8) Mr. WONG Sai Yeung Colin (王世揚) (“**Mr. SY Wong**”)	44	Finance director	Same as above
	(9) Ms. CHAN Kit Yee Lily (陳潔儀) (“**Ms. Lily Chan**”)	52	Head of finance	Same as above

Each member of the core management team assumes senior executive position in the respective principal business functions set out above, and is thus considered the core management personnel in the relevant function and accordingly a part of the core management team. Except for Mr. Hall who joined the Target Group in February 2021 and Mr. SY Wong who joined the Target Group in September 2022, all other members of the core management team have been serving the Target Group throughout the Trading Record Period and up to the Latest Practicable Date.

BUSINESS FUNCTIONS

With respect to the principal business of the Target Group, the responsibilities of each of the above five business functions as at the Latest Practicable Date are set out below:

(i) Strategy, Planning and General Business Management and Operations function

The scope of the Strategy, Planning and General Business Management and Operations function includes, amongst other things, supervising the outputs and ongoing business development as well as maintaining relations with the media, the public, trade unions and all sectors of the Government.

(ii) Commercial function

The scope of the Commercial function includes, amongst other things, the responsibility for the revenue and business development, planning of the bus route network, ensuring efficient and appropriate service levels, and handling of passenger relations.

(iii) Operations and Engineering function

The scope of the Operations and Engineering function includes, amongst other things, overseeing the daily operations, engineering, repairs and maintenance of the buses as well as bus captain staffing matters and the responsibility for delivering a high level of customer output along with ensuring safety in all areas of operations.

(iv) Risk, Legal, Compliance and Human Resources function

The scope of the Risk, Legal, Compliance and Human Resources function includes, among other things, overseeing legal and company secretariat matters, recruitment, staff relationships and communication, training, insurance, governance and risk management including both road safety and health and safety management.

(v) Finance function

The scope of the Finance function includes, amongst other things, overseeing the financial and business planning and forecasting, financial reporting and the management of the obligatory financial reporting to the Government and authorities as well as the procurement function of the business.

BIOGRAPHIES OF THE CORE MANAGEMENT TEAM

The biographical details of the members of the core management team of each of the above five business functions are set out as below:

Mr. Hall Richard John Stoneham, aged 52, is the managing director (since May 2022). Mr. Hall is a member of the board of directors of each of BTSL, Citybus and NWFB. Mr. Hall is responsible for the general management and supervision of the business affairs. Mr. Hall currently serves as a director of BTSL (since 28 July, 2023). Mr. Hall also currently serves as a director of each of Citybus and NWFB (since 13 September, 2023). Mr. Hall joined the Target Group in February 2021, on a secondment basis from Ascendal Group Limited (which he joined in November 2020), as the deputy chief operating officer of Citybus and NWFB. Mr. Hall was later promoted and served, under the direct employment of the Target Group, as the chief operating officer from December 2021 to May 2022. Mr. Hall has over 20 years of experience in the public transport industry. Prior to joining the Target Group, Mr. Hall served as the managing director of Lothian Buses Limited, a major bus operator in Edinburgh, Scotland controlled by the City of Edinburgh Council, from April 2016 to March 2020. Mr. Hall served as the managing director of London United Busways Limited from July 2013 to April 2016. Mr. Hall is a chartered fellow of the Chartered Institute of Logistics and Transport of the UK.

Mr. Ng Yee Kwan Newton (吳義君), aged 52, is the commercial director (since June 2021). Mr. Ng is a member of the board of directors of each of Citybus and NWFB. Mr. Ng is responsible for the business development, fare revenue, bus service planning and maintenance of customer satisfaction. Mr. Ng first joined the Target Group in June 1998 and has over 25 years of experience in the public transport industry. Mr. Ng previously served as the head of commercial and head of development from January 2021 to May 2021 and from April 2019 to January 2021, respectively. He held the position of assistant director – logistics and aviation at NWS Holdings (the then holding company of NWS Service and BTSL) from January 2017 to March 2019. He also served as the senior operations manager and senior operations support manager of Citybus and NWFB from September 2013 to December 2016 and from August 2007 to September 2013, respectively. Mr. Ng is a chartered member of the Chartered Institute of Logistics and Transport of Hong Kong.

Mr. Ng obtained a Bachelor's degree in Business Administration in 1993 and a Master's degree in Science in 2003 from the Chinese University of Hong Kong. He also obtained a Master's degree in Business Administration from the Richard Ivey School of Business, University of Western Ontario in Canada (through attending lectures in its campus in Hong Kong) in 2011.

Mr. Wong Hon Chung (黃漢中), aged 55, is the head of planning and scheduling (since June 2021). Mr. HC Wong is responsible for formulating and executing strategies to ensure the optimization and sustainability of route network, service level and fare strategies. Mr. HC Wong joined the Target Group in September 1998 and has over 25 years of experience in the public transport industry. Prior to his role as the head of planning and scheduling, Mr. HC Wong served as (i) the service planning and scheduling manager from March 2004 to October 2010, and (ii) the planning and scheduling manager from October 2010 to May 2021, respectively.

Mr. HC Wong obtained a Professional Diploma in Business Studies (Transport) from the Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in 1991. Mr. HC Wong further obtained a Master's degree in Transport Policy and Planning with distinction from the University of Hong Kong in 1999.

Mr. Fung Ka Fai (馮家輝), aged 55, is the operations and engineering director (since June 2021). Mr. Fung is a member of the board of directors of each of Citybus and NWFB. Mr. Fung is responsible for formulating policies on bus operations for the purpose of optimizing performance and maintaining service quality and safety of passengers. Mr. Fung joined the Target Group in January 1998 and has over 25 years of experience with the public transport industry. Prior to his current role, Mr. Fung previously served as (i) the head of operations and engineering from January 2021 to May 2021, (ii) the head of operations from April 2019 to January 2021, (iii) the senior operations manager from January 2017 to March 2019, (iv) the senior depot manager from January 2014 to December 2016, (v) the senior engineering support manager from October 2007 to December 2013, and (vi) the engineering technical support manager from March 2004 to September 2007. Mr. Fung was also the quality control manager and the senior technical engineer of Citybus from March 2002 to March 2004 and from January 1998 to February 2002, respectively. Mr. Fung was elected as a member of the Institution of Mechanical Engineers and registered as a chartered engineer in 2004. Mr. Fung was admitted as a member of the Hong Kong Institution of Engineers in 2011.

Mr. Fung obtained a Bachelor's degree in Mechanical Engineering from the Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in 1992 and a Master's degree in Mechanical Engineering from the Hong Kong University of Science and Technology in 1996. He also obtained a Master's degree in Business Administration from the Richard Ivey School of Business, University of Western Ontario in Canada (through attending lectures in its campus in Hong Kong) in 2010.

Mr. Ma Chim Wai (馬詹唯), aged 51, is the general manager (operations) (since June 2021). Mr. Ma is responsible for supervising the performance of the operations team and acting as a key point of contact with the trade unions and the Transport Department on operations matters. Mr. Ma joined the Target Group in July 1996 and has over 27 years of experience in the public transport industry. Mr. Ma previously served as the senior operations manager and the operations manager from April 2019 to May 2021 and from October 2015 to March 2019, respectively. Mr. Ma also served as the manager (traffic) from September 2013 to September 2015 and as the assistant operations manager of NWFB from August 2007 to August 2013.

Mr. Ma obtained a Bachelor's degree in Managerial Statistics from the City University of Hong Kong in 1995.

Mr. So Kwok Kin (蘇國健), aged 59, is the general manager (engineering) (since June 2021). Mr. So is responsible for overseeing and supervising the performance of the engineering operations of Citybus and NWFB, leading the development of new energy buses and refuelling facilities, and acting as a point of contact with the Transport Department on engineering matters. Mr. So joined the Target Group in December 2001 and has over 37 years of experience in the public bus industry. Mr. So previously held roles as (i) the senior engineering support manager from January 2014 to May 2021, (ii) the senior depot manager from January 2011 to December 2013, (iii) the engineering technical support manager from October 2007 to December 2010, (iv) the engineering services manager from March 2004 to September 2007 and (v) the engineering operations manager from December 2001 to March 2004. Mr. So was elected as a fellow of the Institution of Mechanical Engineers in 2023.

Mr. So obtained a Bachelor's degree in Applied Science from the University of Toronto in Canada in 1986 and a Master's degree in Engineering with distinction from the University of Hong Kong in 1995. He later obtained a Postgraduate Certificate in Business Administration from the University of Warwick in the UK in 1999. He obtained a Juris Doctor degree and Postgraduate Certificate in Laws from the City University of Hong Kong in 2007 and in 2009, respectively.

Ms. Chan Yuen Ting (陳婉婷), aged 50, is the risk, compliance and people director (since June 2021). Ms. YT Chan is responsible for overseeing the human resources, legal, insurance, internal control, training, health and safety, risk management and company secretarial functions. Ms. YT Chan also serves as an independent non-executive director of Taste Gourmet Group Limited (Stock Code: 8371, a company listed on the GEM Board of the Stock Exchange) since 20 December, 2017. Ms. YT Chan joined the Target Group in October 2011 and has over 17 years of experience in legal and compliance matters. Ms. YT Chan previously served as (i) the head of legal and company secretary from July 2016 to May 2021, and (ii) the legal counsel from October 2011 to June 2016.

Ms. YT Chan obtained (i) a Bachelor's degree in Social Sciences from the Chinese University of Hong Kong in 1995, (ii) a Master's degree in Public Administration and Public Policy from the University of York in the United Kingdom in 1998, (iii) a Postgraduate Diploma from the Manchester Metropolitan University in the United Kingdom in 2004 having followed an approved programme in English and Hong Kong Law (Common Professional Examination) at the University of Hong Kong (SPACE), (iv) a Postgraduate Certificate in Laws from the University of Hong Kong in 2005, and (v) a Master's degree in International Trade and Commercial Law from the University of Durham in the United Kingdom in 2007. She was later admitted as a Solicitor of the High Court of Hong Kong in 2008 and is a member of the Law Society of Hong Kong.

Mr. Wong Sai Yeung Colin (王世揚), aged 44, is the finance director (since September 2022). Mr. SY Wong is responsible for overseeing the finance and procurement function. Mr. SY Wong joined the Target Group in September 2022 and has over 20 years of experience in financial and business management, financial advisory, corporate finance, auditing and accounting matters in Hong Kong and Canada. Prior to joining the Target Group, Mr. SY Wong served as the chief financial officer of Vega Global Limited from

March 2019 to October 2021. Mr. SY Wong also served as the managing director and chief financial officer of CDS Translation Hub Limited from May 2013 to February 2019. Mr. SY Wong served as the assistant vice president – finance of Sino-Panel (Asia) Inc. from November 2010 to February 2013. Mr. SY Wong served as a manager of PricewaterhouseCoopers Ltd. in Hong Kong from January 2007 to October 2010. Mr. SY Wong was elected as a fellow of the Hong Kong Institute of Certified Public Accountants in October 2020. Mr. SY Wong was admitted as a member of the Chartered Professional Accountants of British Columbia, Canada (formerly known as the Institute of Chartered Accountants of British Columbia, Canada) in 2005.

Mr. SY Wong obtained a Bachelor's degree in Commerce from the University of British Columbia in Canada in 2001.

Ms. Chan Kit Yee Lily (陳潔儀), aged 52, is the head of finance (since June 2021). Ms. Lily Chan is responsible for the overall finance, accounting and taxation activities. Ms. Lily Chan joined the Target Group in May 2013 and has over 29 years of experience in auditing, accounting, financial and taxation matters. Ms. Lily Chan previously served as the senior accounting manager and accounting manager from May 2017 to May 2021 and from May 2013 to April 2017, respectively. Prior to joining the Target Group, Ms. Lily Chan joined Greenwood Industry Limited in May 2003, transferred to Greenwood Management Services (H.K.) Limited in January 2006, and to Greenwood Comercial Offshore de Macau Limitada in August 2007, and further to Greenwood Trading Company Limited in January 2009 and left in December 2012, all serving the position of accounts manager. Ms. Lily Chan also previously worked in KPMG from September 1993 to September 2001 and her last position was an audit manager. Ms. Lily Chan is a member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Ms. Lily Chan obtained a Bachelor's degree in Accountancy from the Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in 1994.

Save as disclosed above, none of the above core management team members has held directorship positions in any public companies in the past three years.

Save as disclosed above, none of the above core management team member is connected with any other directors, senior management or substantial or controlling shareholders of the Target Group or the Company. As at the Latest Practicable Date, none of the above core management team members has any interest in the shares of any company in the Target Group or the Company with the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571).

Save as disclosed above, there are no other information required to be disclosed pursuant to Rule 13.51(2) or paragraph 41(3) of Appendix 1A to the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis on the Target Group for the Trading Record Period.

OVERVIEW

The Target Group is principally engaged in the provision (i) of public bus services under the brand "Citybus" in Hong Kong and (ii) advertising services. Prior to the Franchise Merger, bus service operations were carried out through its principal operating subsidiaries, namely Citybus and NWFB, and after the Franchise Merger, primarily through Citybus, whereas advertising services are carried out through BML. The Target Group generates revenue primarily from the provision of franchised public bus services.

In respect of the Target Group's franchised public bus services, it is operated through BTSL's wholly-owned subsidiaries (i) Citybus, the grantee of the Merged Franchise (being the merger of the CTB (F1) Franchise and the NWFB Franchise held by Citybus and NWFB respectively prior to the Franchise Merger) and the CTB (F2) 2023 Franchise; and (ii) NWFB, the grantee of the NWFB Franchise prior to the Franchise Merger. The Target Group's franchised bus networks serve and connect, among others, Hong Kong Island, Kowloon, the New Territories, North Lantau, the Hong Kong International Airport, Shenzhen Bay Port and Hong Kong-Zhuhai-Macau Bridge Hong Kong Port. In respect of the Target Group's non-franchised public bus services, Citybus mainly provides employees and residents bus services.

In regard of advertising services, BML provides premium out-of-home advertising opportunities through its bus advertising network throughout Hong Kong. BML has been the exclusive agency in charge of the bus body exterior and interior advertising of the Target Group's bus fleet since November 2021.

BASIS OF PREPARATION

Pursuant to the Listing Rules, the Trading Record Period should cover a period of not less than three years preceding the year end date of its latest financial period and end on a date which is not more than six months from the date of this circular, that is, the three years ended 31 December, 2021, 2022 and 2023.

The BTHL Accounts have been prepared in accordance with applicable Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). For more information on the basis of preparation of the financial information included herein, please refer to note 1 to the accountants' report of the Target Group set out in Appendix III to this circular.

OPERATING RESULTS DURING THE TRADING RECORD PERIOD

The table below sets out the summary of consolidated statements of comprehensive income of the Target Group for the Trading Record Period which is derived from the accountants' report of the Target Group as set out in Appendix III to this circular.

	FY2021	FY2022	FY2023
	HK$'000	*HK$'000*	*HK$'000*
Revenue	2,838,572	2,538,395	3,399,509
Other income	166,137	410,842	90,788
Revenue and other income	3,004,709	2,949,237	3,490,297
Operating costs	(3,155,614)	(3,154,586)	(3,373,619)
(Loss)/profit from operations	**(150,905)**	**(205,349)**	**116,678**
Finance costs	(95,376)	(80,899)	(180,152)
Loss before income tax	**(246,281)**	**(286,248)**	**(63,474)**
Income tax credit/(expense)	25,662	79,666	(10,154)
Loss for the year	**(220,619)**	**(206,582)**	**(73,628)**
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss:			
Remeasurements of long service payments	1,562	51,477	(1,895)
Fair value change on financial asset at FVOCI	192,140	–	–
	193,702	51,477	(1,895)
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges:			
Change in fair value	138,796	189,511	(21,162)
Transferred to consolidated income statements	8,011	(33,655)	(66,611)
Income tax relating to cash flow hedges	(19,049)	(18,509)	95
	127,758	137,347	(87,678)
Other comprehensive income/(loss) for the year	**321,460**	**188,824**	**(89,573)**
Total comprehensive income/(loss) for the year	**100,841**	**(17,758)**	**(163,201)**

DISCUSSION OF THE KEY ITEMS IN RESPECT OF THE CONSOLIDATED INCOME STATEMENTS

Revenue

During the Trading Record Period, the Target Group derived revenue primarily from (i) fare revenue; (ii) advertising income; and (iii) bus hire income, all of which were generated solely in Hong Kong. The Target Group generated revenue of approximately HK$2,838.6 million, HK$2,538.4 million and HK$3,399.5 million in FY2021, FY2022 and FY2023, respectively.

The table below sets out the breakdown of the revenue of the Target Group during the Trading Record Period:

	FY2021		**FY2022**		**FY2023**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Fare revenue	2,577,203	90.8	2,337,569	92.1	3,158,539	92.9
Advertising income	204,041	7.2	171,954	6.8	209,570	6.2
Bus hire income	18,071	0.6	18,506	0.7	22,395	0.7
Rental income	7,423	0.3	4,847	0.2	3,979	0.1
Dividend income[Note]	25,012	0.9	–	–	–	–
Miscellaneous	6,822	0.2	5,519	0.2	5,026	0.1
Total	**2,838,572**	**100.0**	**2,538,395**	**100.0**	**3,399,509**	**100.0**

Note: Target Group disposed of its entire interest in Octopus Holdings Limited in January 2022.

Fare revenue

The table below sets out the breakdown of fare revenue of the Target Group during the Trading Record Period:

	FY2021	**FY2022**	**FY2023**
	HK$'000	*HK$'000*	*HK$'000*
Merged Franchise[Note]	2,179,243	1,974,027	2,423,128
CTB (F2) Franchise/CTB (F2) 2023 Franchise	245,674	228,730	544,539
Non-franchised bus services	23,687	15,025	13,252
Revenue from TEF	77,936	69,401	102,810
Concessionary fare	50,663	50,386	74,810
Total	**2,577,203**	**2,337,569**	**3,158,539**

Note: For the period before the Franchise Merger commenced on 1 July, 2023, the fare revenue of the Merged Franchise represents the sum of CTB (F1) Franchise and NWFB Franchise.

Fare revenue mainly represented income received from the provision of bus transport services through the operation of the Merged Franchise (or the CTB (F1) Franchise and NWFB Franchise before the Franchise Merger commenced on 1 July, 2023), CTB (F2) 2023 Franchise (or CTB (F2) Franchise prior to its expiry on 1 May, 2023) and non-franchised bus services in Hong Kong.

Regarding revenue from TEF, the Government implemented a mechanism from 17 February, 2019, whereby all franchised bus operators are exempted from paying toll charges for the Government's tolled tunnels as well as Tsing Ma and Tsing Sha Control Areas, with a view to relieving fare increase pressure and benefiting the general public. Each franchised bus operator is required to contribute an amount equivalent to the toll saved to the TEF. Such amount is recognised as "tolls and TEF" under operating costs and "accruals" under accounts payable and accruals of the Target Group. When a franchised bus operator applies for a fare increase or for other purposes as directed by the Commissioner, the TEF of the relevant franchised bus operator will be used for mitigating the fare increase to the extent as approved by the Government, such that passengers will not be charged the full fare increase amount. The amount of withdrawal from the TEF for mitigating the extent of fare increase is recognised by the Target Group as "fare revenue – revenue from TEF".

Regarding revenue from concessionary fare, Citybus provides a 50% discount for elderly passengers aged 65 or older under the ECFS. The Government reimburses the Target Group for this discount by exempting the vehicle licence fees and refunding rental received from the Target Group in respect of its leased government properties, including its bus depots. Such reimbursements are recognised by the Target Group as "fare revenue – concessionary fare". Effectively, the amount of rental paid by the Target Group to and licence fees exempted by the Government serve as a cap on the amount of reimbursement under the ECFS. When the amount eligible for reimbursement under the ECFS is greater than the amount of rental paid by the Target Group to and licence fees exempted by the Government, there will be a shortfall of reimbursement. During the Trading Record Period, COVID-19-related rent concessions were granted by the Government to the Target Group to reduce its rental expenses and in turn its operational difficulties as a result of COVID-19. This, however, lowered the cap on the amount of reimbursement under the ECFS, meaning that the benefit of such rent concessions (such rent concessions on lease liabilities due on or before 30 June, 2022 were recognised as "other income" of the Target Group and due after 30 June, 2022 were accounted for as lease modification by remeasuring the right-of-use assets and lease liabilities. Please refer to the paragraphs headed "Other income – Other income of FY2022 as compared to FY2021" below for further details. Such rent concessions on short-term leases that were net of rental expenses under short-term leases were charged as "rent and rates, net" under operating costs) were cancelled out by the decrease in the reimbursements under the ECFS from the Government (which were recognised as "fare revenue – concessionary fare" under revenue).

As fare revenue represents a significant portion of the Target Group's revenue, the demand for public transport has a direct impact on its total revenue. This was particularly evident during the COVID-19 pandemic as anti-epidemic measures in place to combat the spread had significantly lowered the use of public transport. The Target Group witnessed a significant decrease in the total yearly patronage of its bus services in FY2022 due to peak periods of certain waves of the COVID-19 pandemic. Specifically, its total yearly patronage decreased by approximately 14.1% from the previous year. A reduced demand adversely affected the Target Group's results from operations. The Target Group generated fare revenue amounting to approximately HK$2,577.2 million, HK$2,337.6 million and HK$3,158.5 million in FY2021, FY2022 and FY2023, respectively.

Advertising income

The Target Group takes full advantage of the synergy between its public bus services segment and advertising services segment, as the former provides a media platform, via bus bodies and bus shelters, that engaged almost a million passengers daily in FY2023 as well as the general public of Hong Kong for businesses to advertise their goods and services.

Advertising income mainly represents (i) income from the Advertising Partner for the use of bus shelters in providing advertising services; (ii) the provision of advertising services on interior and exterior surfaces of bus bodies through BML; and (iii) the production and installation income from advertisements.

During the Trading Record Period, (i) for bus shelters under NWFB, NWFB charged the Advertising Partner a fixed minimum licence fee plus a surplus licence fee (calculated with reference to the net advertising revenue); and (ii) for bus shelters under Citybus, Citybus charged the Advertising Partner a percentage of the net advertising revenue. In light of the Franchise Merger, a new agreement has been entered into between the Target Group and the Advertising Partner, pursuant to which the Target Group charged the Advertising Partner a percentage of the gross advertising revenue for bus shelters under the Merged Franchise and the CTB (F2) 2023 Franchise. The Advertising Partner is also required to pay a guaranteed amount to Citybus if the actual amount of the payment for any month during the contract period falls below the pre-determined minimum guaranteed level.

Prior to the incorporation of BML in October 2021, bus body advertising was outsourced to third party advertising agencies. Following the execution of a termination agreement (the "**Termination Agreement**") between, among others, the Target Company, Citybus, NWFB, and an independent third party advertising agency in October 2021, pursuant to which the parties agreed to terminate the agreement for the provision of bus body advertising services entered into by the independent third party advertising agency with the Target Group with effect from 1 November, 2021, BML assumed the role of exclusive advertising agent of Citybus and NWFB in respect of bus body and bus interior advertising for a term commencing from 1 November, 2021 to 30 June, 2023. Subsequently, BML, through an arms-length open tender process, won a ten-year bus body advertising contract to act as the exclusive advertising agency of the bus body (exterior) and bus interior advertising of Citybus' bus fleet for a term of ten years commencing from 1 July, 2023.

During November 2021 to June 2023, BTSL charged BML a fixed licence fee under the previous contract for bus body advertising; whereas under the current bus body advertising agreement entered into in July 2023, BTSL charges BML a percentage of the gross advertising revenue of BML (the "**Gross Revenue Payment**"). If the Gross Revenue Payment of a certain month is below the pre-determined minimum guaranteed level, BML will pay a guaranteed amount to Citybus instead. As the transactions between BTSL and BML are intercompany transactions, they were fully eliminated and had no impact to the Target Group's results and performance.

BML is committed to providing innovative advertising solutions for customers' brand building activities and campaigns, and offers various advertising packages to cater to their needs.

The advertising services provided by BML include designing and installing advertisements. For a typical advertising project, BML will first consult with the customer to understand its advertising objectives, target audience, messaging requirements and campaign goals. Based on the customer's requirements, BML's creative team will develop a comprehensive advertising campaign plan. This includes determining the optimal bus routes for the advertising campaign, identifying the suitable bus exteriors and interiors for advertising, and designing visually appealing and impactful advertisements that align with the customer's brand identity and messaging. BML will then coordinate with BTSL to ensure the availability of the selected bus spaces for the duration of the campaign. Once the advertising space is secured, BML proceeds with the production of the advertisements, ensures that the advertisements comply with the size, layout and technical specifications for the selected buses, and coordinates with BTSL to install the advertisements on the selected buses. Throughout the campaign, BML will monitor the performance and effectiveness of the advertisements, mainly by collecting data on reach, impressions, and audience response to assess the campaign's success, and may provide status updates and reports to the customer.

The pricing of BML's services is typically dependent on the number of buses involved, the duration of the advertisement and the coverage of bus body.

The Target Group generated total advertising income amounting to approximately HK$204.0 million, HK$172.0 million and HK$209.6 million in FY2021, FY2022 and FY2023, respectively. This was the second largest source of revenue of the Target Group for the Trading Record Period.

Bus hire income

Bus hire services consist of two distinct offerings: (i) contract bus services hired according to fixed schedules; and (ii) private hire services that operate on an ad-hoc basis. Bus hire income amounted to approximately HK$18.1 million, HK$18.5 million and HK$22.4 million in FY2021, FY2022 and FY2023, respectively.

Revenue of FY2022 as compared to FY2021

The Target Group's revenue decreased by approximately HK$300.2 million, or approximately 10.6%, from approximately HK$2,838.6 million in FY2021 to approximately HK$2,538.4 million in FY2022, mainly due to a decrease in fare revenue, advertising income and dividend income, partially offset by an increase in bus hire income.

Fare revenue decreased by approximately HK$239.6 million, or approximately 9.3%, from approximately HK$2,577.2 million in FY2021 to approximately HK$2,337.6 million in FY2022, primarily due to the decrease in fare revenue from CTB (F1) Franchise and NWFB Franchise of approximately HK$205.2 million, or approximately 9.4%, from approximately HK$2,179.2 million in FY2021 to approximately HK$1,974.0 million in FY2022. This decrease was in turn mainly caused by the decrease in the total yearly patronage of approximately 45.5 million, or approximately 14.1%, from approximately 322.0 million in FY2021 to approximately 276.5 million in FY2022 when COVID-19 restrictions were put in place to combat the spread of the virus, driving down demand for bus services as mentioned in the paragraphs headed "Revenue – Fare revenue" above. In addition, the commissioning of the phase two of the Shatin to Central Link (East Rail Line Cross-harbour Extension) in May 2022 affected the demand for certain bus services. The drop in demand for bus services was partially offset by an increase in fares charged to passengers of 3.2% starting from January 2022, resulting in a more modest decrease of approximately 9.3% in fare revenue. For the details of fare adjustment, please refer to the paragraphs headed "5. Business — Public bus services — 3. Fare revenue and patronage — 3.3 Fare adjustment during the Trading Record Period" in this appendix.

Advertising income decreased by approximately HK$32.1 million, or approximately 15.7%, from approximately HK$204.0 million in FY2021 to approximately HK$172.0 million in FY2022, primarily due to the termination fee under the Termination Agreement in FY2021. This was partially offset by the increase in production and installation income on advertisements in FY2022 as BML became the Target Group's advertising agent in October 2021 for bus body advertising which operated under a different revenue model as compared to the Target Group's previous agency. BML charged clients both (i) advertising fee and (ii) production and installation fee; whereas the previous agency only charged advertising fee and shared a percentage of the advertising fee charged with the Target Group.

Dividend income decreased from approximately HK$25.0 million in FY2021 to nil in FY2022 as a result of the disposal of the Target Group's entire interest in Octopus Holdings Limited which was completed in January 2022.

Bus hire income remained relatively stable with a marginal increase of approximately HK$0.4 million, or approximately 2.4%, from approximately HK$18.1 million in FY2021 to approximately HK$18.5 million in FY2022.

Revenue of FY2023 as compared to FY2022

The Target Group's revenue increased by approximately HK$861.1 million, or approximately 33.9%, from approximately HK$2,538.4 million in FY2022 to approximately HK$3,399.5 million in FY2023, mainly due to an increase in fare revenue, advertising income and bus hire income.

Fare revenue increased by approximately HK$821.0 million, or approximately 35.1%, from approximately HK$2,337.6 million in FY2022 to approximately HK$3,158.5 million in FY2023, as fare revenue from the Merged Franchise increased by approximately HK$449.1 million, or approximately 22.8%, from approximately HK$1,974.0 million in FY2022 to approximately HK$2,423.1 million in FY2023, as well as the CTB (F2) franchise which saw revenue increase by approximately HK$315.8 million, or approximately 138.1%, from approximately HK$228.7 million in FY2022 to approximately HK$544.5 million in FY2023. These increases were mainly driven by (i) an increase in patronage numbers as COVID-19 restrictions were in place for a long period in FY2022 but largely removed since early February 2023; (ii) resumption of airport services; (iii) growth in boundary travel; and (iv) expansion of the network through winning new franchised bus routes, leading to the increase in total patronage by approximately 63.2 million, or by approximately 22.9%, from 276.5 million in FY2022 to approximately 339.7 million in FY2023.

Advertising income increased by approximately HK$37.6 million, or approximately 21.9%, from approximately HK$172.0 million in FY2022 to approximately HK$209.6 million in FY2023, primarily due to the lifting of COVID-19 restrictions from early February 2023, and an increase in advertising income from bus shelters under the new agreement with the Advertising Partner with effect from 1 July, 2023.

Bus hire income increased by approximately HK$3.9 million, or approximately 21.0%, from approximately HK$18.5 million in FY2022 to approximately HK$22.4 million in FY2023, primarily due to the lifting of COVID-19 restrictions from early February 2023.

Other income

During the Trading Record Period, the Target Group derived other income primarily from (i) government subsidies which consisted of both recognition of government grants and COVID-19-related rent concessions on lease liabilities; and (ii) other sources of income, including (a) withdrawal from TEF, (b) gains on modification of leases and disposal of fuel price call option contracts, and (c) realised fair value gain on an interest rate swap contract. The Target Group generated other income of approximately HK$166.1 million, HK$410.8 million and HK$90.8 million in FY2021, FY2022 and FY2023, respectively.

The table below sets out the breakdown of other income of the Target Group during the Trading Record Period:

	FY2021 *HK$'000*	FY2022 *HK$'000*	FY2023 *HK$'000*
Government subsidies			
– Recognition of government grants	8,164	319,694	8,292
– COVID-19-related rent concessions on lease liabilities	92,863	1,010	–
Sub-total	**101,027**	**320,704**	**8,292**
Other sources of income			
– Liquidated damages	13,065	–	–
– Interest income from bank deposits	882	3,648	12,332
– Exchange gains, net	–	3,892	356
– Government ex-gratia payment	–	90	–
– Gain on disposal of property, plant and equipment, net	620	–	22
– Gain on disposal of fuel price call option contracts	–	33,476	–
– Realised fair value gain on an interest rate swap contract	–	–	56,000
– Gain on modification of leases	–	37,990	10
– Withdrawal from TEF	34,080	–	–
– Miscellaneous[Note]	16,463	11,042	13,776
Sub-total	**65,110**	**90,138**	**82,496**
Total	**166,137**	**410,842**	**90,788**

Note: Miscellaneous other income primarily consists of (i) accident claims income; (ii) souvenir sale income; (iii) spare parts sale income; and (iv) training subsidies for engineers.

Government subsidies

Government subsidies included a variety of subsidies granted by the Government during the Trading Record Period, such as (i) subsidies to support the continuous operation of the franchised bus services during the Trading Record Period, including (a) COVID-19-related subsidies on fuel costs, regular repair and maintenance costs, one-off subsidy for franchised and non-franchised buses, wage subsidy under the Employment Support Scheme and the Job Creation Scheme, respectively; and (b) government grants on three hybrid buses and ten electric buses; and (ii) COVID-19-related rent concessions on lease liabilities. The Target Group recognised government subsidies in the approximate amounts of HK$101.0 million, HK$320.7 million and HK$8.3 million in FY2021, FY2022 and FY2023, respectively.

Other sources of income

Other sources of income during the Trading Record Period mainly consisted of (i) withdrawal from TEF of approximately HK$34.1 million in FY2021; (ii) a gain on disposal of fuel price call option contracts of approximately HK$33.5 million in FY2022; (iii) a gain on modification of leases of approximately HK$38.0 million in FY2022; and (iv) realised fair value gain on an interest rate swap contract of HK$56.0 million in FY2023.

In respect of the withdrawal from TEF, the Government announced that, with effect from 17 February, 2019, all franchised bus operators were exempted from paying the toll charges for the Government's tolled tunnels as well as Tsing Ma and Tsing Sha Control Areas, but were required to contribute an amount equivalent to the toll saved to the TEF, which would be used for mitigating the extent of the fare increase shouldered by the passengers as approved by the Government following a franchised bus operator's application for a fare increase or for other purposes as directed by the Commissioner. The withdrawal from TEF recognised in other income was used to relieve the financial burden on the franchised bus operators due to the COVID-19 pandemic.

Due to the exposure of the Target Group's operating and financing activities to various risks, such as fuel pricing, interest rate, foreign exchange, credit, and liquidity risks, the Target Group has implemented strategies to mitigate the potential impacts of market unpredictability. These strategies involve the utilisation of specific derivative financial instruments, including swap and call options contracts. Please refer to the paragraphs headed "Financial risk management objectives and policies" below for the details of the Target Group's risk management.

A gain on disposal of fuel price call option contracts was related to the reclassification of the gain on fuel price call option contracts initially recognised in the hedging reserve through other comprehensive income to the consolidated income statement upon disposal. As the Target Group had substantial risk exposure to the price of fuel given its reliance on the consumption of fuel for its core bus operation business, various hedging strategies were adopted to mitigate the risk associated with fluctuations in the price of fuel and oil. In FY2022, the Government granted fuel subsidies to the Target Group by reimbursing the Target Group a portion of its fuel costs at market price. Accordingly, the Target Group disposed the fuel price call option contracts for the portion covered by the Government, giving rise to a gain on disposal recognised.

A realised fair value gain on an interest rate swap contract was related to the reclassification of the gain on interest rate swap contract initially recognised in the hedging reserve through other comprehensive income to the consolidated income statement upon disposal. As the Target Group was exposed to the interest rate risks arising from its interest-bearing bank loans, the Target Group entered into a floating-to-fixed interest rate swap contract to hedge the cash flow interest rate risk arising from the interest-bearing bank loans.

A gain on modification of leases was arisen from (i) the COVID-19-related rent concessions granted by the Government on lease liabilities due after 30 June, 2022; and (ii) the reduction of the lease period for a leasehold land of Citybus (ending on 30 June, 2023 instead of 30 June, 2026) to match the new franchise period following the Franchise Merger.

Other income of FY2022 as compared to FY2021

Other income increased by approximately HK$244.7 million, or approximately 147.3%, from approximately HK$166.1 million in FY2021 to approximately HK$410.8 million in FY2022, mainly attributable to (i) the increase in government subsidies; (ii) a gain on modification of leases; and (iii) a gain on disposal of fuel price call option contracts.

Government subsidies increased by approximately HK$219.7 million, or approximately 217.4%, from approximately HK$101.0 million in FY2021 to approximately HK$320.7 million in FY2022, primarily resulted from the increase in recognition of government grants of approximately HK$311.5 million, or approximately 3,815.9%, partially offset by a decrease in COVID-19-related rent concessions on lease liabilities of approximately HK$91.9 million, or approximately 98.9%.

Recognition of government grants in FY2021 mainly only consisted of (i) COVID-19 subsidies on wage of approximately HK$0.7 million and one-off subsidy for non-franchised buses of approximately HK$0.6 million; (ii) government grants on hybrid buses and electric buses of approximately HK$6.5 million; whereas that in FY2022 mainly consisted of (i) COVID-19 subsidies on fuel costs of approximately HK$117.1 million, regular repairs and maintenance costs of approximately HK$85.5 million, wage of approximately HK$57.2 million and one-off subsidy for franchised and non-franchised buses of approximately HK$53.1 million; and (ii) government grants on hybrid buses and electric buses of approximately HK$6.5 million. This was due to the subsidies granted by the Government to fight against the fifth wave of COVID-19 in FY2022.

According to the BTHL Accounts, COVID-19-related rent concessions on lease liabilities due on or before 30 June, 2022 were recognised as other income in the consolidated income statement in accordance with the practical expedient as stipulated in Amendment to HKFRS 16 – COVID-19-Related Rent Concessions ("**HKFRS 16 Amendments**"), which allowed for the option not to account for such concessions as lease modifications. However, the practical expedient as stipulated in HKFRS 16 Amendments no longer applied to COVID-19-related rent concessions on lease liabilities due after 30 June, 2022. Therefore, COVID-19-related rent concessions on lease liabilities due on or after 30 June, 2022 were accounted for as lease modification by remeasuring the right-of-use assets and lease liabilities instead of being recognised as other income in the consolidated income statement.

The Target Group received other sources of income during FY2022, which included (i) the gain on modification of leases that amounted to approximately HK$38.0 million in FY2022 primarily as a result of (a) the COVID-19-related rent concessions granted by the Government on lease liabilities due after 30 June, 2022 being accounted for as lease modifications and (b) the reduction of the lease period for a leasehold land of Citybus (ending on 30 June, 2023 instead of 30 June, 2026) based on the new franchise period of the Merged Franchise which commenced on 1 July, 2023; and (ii) the gain on disposal of fuel price call option contracts that amounted to approximately HK$33.5 million in FY2022.

Other income of FY2023 as compared to FY2022

Other income decreased by approximately HK$320.1 million, or approximately 77.9%, from approximately HK$410.8 million in FY2022 to approximately HK$90.8 million in FY2023. This was mainly attributable to (i) the decrease in government subsidies; and (ii) the gains on disposal of fuel price call option contracts and modification of leases recognised in FY2022, partially offset by the realised fair value gain on an interest rate swap contract in FY2023.

Government subsidies decreased significantly by approximately HK$312.4 million, or approximately 97.4%, from approximately HK$320.7 million in FY2022 to approximately HK$8.3 million in FY2023, as COVID-19 restrictions were in place for a longer period in FY2022 as compared to FY2023. When COVID-19 restrictions were largely lifted in February 2023, the Government correspondingly reduced the financial support provided to the Target Group.

A gain on modification of leases of approximately HK$38.0 million was recognised in FY2022 compared to HK$0.01 million in FY2023, as a result of the lease modification from (a) the COVID-19-related rent concessions on lease liabilities granted by the Government which were due after 30 June, 2022 in FY2022, and (b) the reduction of the lease period for a leasehold land of Citybus in FY2022 (ending on 30 June, 2023 instead of 30 June, 2026) based on the new franchise period of the Merged Franchise which commenced on 1 July, 2023; and (ii) a gain on disposal of fuel price call option contracts of approximately HK$33.5 million was recognised in FY2022 compared to nil in FY2023, due to the disposal of fuel price call options and purchase of oil in the spot market.

These decreases were partially offset by a realised fair value gain on an interest rate swap contract of HK$56.0 million in FY2023, as part of the Target Group's hedging strategy, as compared to nil in FY2022.

Operating costs

Operating costs of the Target Group primarily consist of staff costs, which accounted for approximately 54.5%, 52.9% and 53.0% of the total operating costs in FY2021, FY2022 and FY2023, respectively. Other operating costs primarily include (i) fuel and oil; (ii) repairs and maintenance; (iii) depreciation; and (iv) tolls and TEF, which collectively accounted for approximately 35.1%, 36.5% and 35.8% of the total operating costs in FY2021, FY2022 and FY2023, respectively. The operating costs of the Target Group were approximately HK$3,155.6 million, HK$3,154.6 million and HK$3,373.6 million in FY2021, FY2022 and FY2023, respectively.

The table below sets out the breakdown of operating costs of the Target Group during the Trading Record Period:

	FY2021	FY2022	FY2023
	HK$'000	*HK$'000*	*HK$'000*
Staff costs	(1,720,577)	(1,669,579)	(1,787,631)
Fuel and oil	(203,549)	(308,303)	(450,247)
Repairs and maintenance	(165,583)	(166,145)	(217,354)
Insurance	(125,868)	(98,085)	(89,490)
Depreciation	(495,585)	(468,688)	(326,770)
Tolls and TEF	(242,803)	(208,163)	(214,942)
Rent and rates, net	(31,515)	(32,265)	(24,455)
Cleaning, refuelling and security	(60,179)	(58,977)	(74,709)
Fare collection charges	(23,449)	(19,484)	(25,491)
Production and installation costs	(11,477)	(33,379)	(36,451)
Other expenses	(75,029)	(91,518)	(126,079)
Total	**(3,155,614)**	**(3,154,586)**	**(3,373,619)**

Staff costs

Staff costs are a major component of the Target Group's operating costs. Staff costs consist of (i) driver costs; (ii) engineering staff costs; (iii) traffic staff costs; (iv) administrative staff costs; and (v) sales staff costs. The Target Group incurred staff costs amounting to approximately HK$1,720.6 million, HK$1,669.6 million and HK$1,787.6 million in FY2021, FY2022 and FY2023, respectively, representing approximately 54.5%, 52.9% and 53.0% of the total operating costs, with driver costs accounting for approximately 72.5%, 72.1% and 72.1% of the total staff costs.

The table below sets out the staff costs by types of staff of the Target Group during the Trading Record Period:

	FY2021	FY2022	FY2023
	HK$'000	*HK$'000*	*HK$'000*
Drivers	(1,247,727)	(1,203,757)	(1,289,438)
Engineering staff	(239,340)	(207,331)	(212,136)
Traffic staff	(147,137)	(104,410)	(115,607)
Administrative staff	(83,562)	(142,985)	(156,941)
Sales staff	(2,811)	(11,096)	(13,509)
Total	**(1,720,577)**	**(1,669,579)**	**(1,787,631)**

Depreciation

Depreciation consists of the depreciation of (i) property, plant and equipment; and (ii) right-of-use assets. Due to the asset heavy nature of the Target Group's business, the Target Group incurred depreciation amounting to approximately HK$495.6 million, HK$468.7 million and HK$326.8 million in FY2021, FY2022 and FY2023, respectively, representing approximately 15.7%, 14.9% and 9.7% of the total operating costs, in respect of which depreciation arising from bus and other motor vehicles accounted for approximately 68.8%, 73.0% and 64.5% of the total depreciation.

The table below sets out the breakdown of depreciation of the Target Group during the Trading Record Period:

	FY2021	**FY2022**	**FY2023**
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	(384,717)	(388,732)	(255,286)
Right-of-use assets	(110,868)	(79,956)	(71,484)
Total	**(495,585)**	**(468,688)**	**(326,770)**

Fuel and oil

Fuel and oil consist of (i) fuel costs; (ii) hydrogen costs; (iii) AdBlue costs; and (iv) oil/lubricant costs. AdBlue is a diesel exhaust fluid used in vehicles to reduce harmful gases being released. The Target Group incurred fuel and oil costs amounting to approximately HK$203.5 million, HK$308.3 million and HK$450.2 million in FY2021, FY2022 and FY2023, respectively.

The table sets out the breakdown of fuel and oil of the Target Group during the Trading Record Period:

	FY2021	**FY2022**	**FY2023**
	HK$'000	*HK$'000*	*HK$'000*
Fuel	(192,763)	(295,719)	(436,488)
Hydrogen	–	–	(22)
AdBlue	(6,630)	(8,104)	(8,024)
Oil/lubricant	(4,156)	(4,480)	(5,713)
Total	**(203,549)**	**(308,303)**	**(450,247)**

Repairs and maintenance

Repairs and maintenance consist of (i) bus; (ii) tyres; and (iii) depot, terminus and office. The Target Group's repairs and maintenance costs amounted to approximately HK$165.6 million, HK$166.1 million and HK$217.4 million in FY2021, FY2022 and FY2023, respectively. The majority of the costs were attributable to bus, which accounted for approximately 76.8%, 78.1% and 80.3% of repairs and maintenance costs in FY2021, FY2022 and FY2023, respectively.

The table below set out the breakdown of repairs and maintenance of the Target Group during the Trading Record Period.

	FY2021	**FY2022**	**FY2023**
	HK$'000	*HK$'000*	*HK$'000*
Bus	(127,095)	(129,733)	(174,436)
Tyres	(17,820)	(15,169)	(17,051)
Depot, terminus, and office	(20,668)	(21,243)	(25,867)
Total	**(165,583)**	**(166,145)**	**(217,354)**

Tolls and TEF

Tolls and TEF consist of (i) tunnel tolls and (ii) TEF costs. Tunnel tolls represented toll expenses for Western Harbour Crossing up to 1 August, 2023 before its takeover by the Government and Tai Lam Tunnel during the Trading Record Period; whereas TEF costs represented tolls for using government toll tunnels and control area, which were transferred to TEF as outlined in the paragraphs headed "Revenue – Fare revenue" above.

The Target Group's tolls and TEF amounted to approximately HK$242.8 million, HK$208.2 million and HK$214.9 million in FY2021, FY2022 and FY2023, respectively, in which tunnel tolls accounted for approximately 67.3%, 68.3% and 47.6% of the total tolls and TEF.

The table below sets out the breakdown of tolls and TEF during the Trading Record Period.

	FY2021	**FY2022**	**FY2023**
	HK$'000	*HK$'000*	*HK$'000*
Tunnel tolls	(163,402)	(142,121)	(102,311)
TEF	(79,401)	(66,042)	(112,631)
Total	**(242,803)**	**(208,163)**	**(214,942)**

Operating costs of FY2022 as compared to FY2021

The Target Group's operating costs remained stable with a slight decrease of approximately HK$1.0 million, or approximately 0.03%, from approximately HK$3,155.6 million in FY2021 to approximately HK$3,154.6 million in FY2022, primarily as a result of the decreases in (i) staff costs; (ii) tolls and TEF; (iii) insurance; (iv) depreciation; and (v) fare collection charges, which were partially offset by the increases in (i) fuel and oil; (ii) production and installation costs; and (iii) other expenses.

Staff costs decreased by approximately HK$51.0 million, or approximately 3.0%, from approximately HK$1,720.6 million in FY2021 to approximately HK$1,669.6 million in FY2022, primarily resulted from a decrease in the total number of full-time staff from 4,836 as at 31 December, 2021 to 4,568 as at 31 December, 2022, or around 5.5%.

Tolls and TEF decreased by approximately HK$34.6 million, or approximately 14.3%, from approximately HK$242.8 million in FY2021 to approximately HK$208.2 million in FY2022, primarily due to the reduction in service level as a result of COVID-19 outbreak in FY2022.

Insurance decreased by approximately HK$27.8 million, or approximately 22.1%, from approximately HK$125.9 million in FY2021 to HK$98.1 million in FY2022, primarily due to the decrease in provision for bus accident claims given the reduced bus trips during the fifth wave of COVID-19, the reduction in total number of full-time staff in FY2022 and better insurance package negotiated.

Depreciation decreased by approximately HK$26.9 million, or approximately 5.4%, from approximately HK$495.6 million in FY2021 to approximately HK$468.7 million in FY2022, primarily due to the decrease in depreciation of right-of-use assets by approximately HK$30.9 million, from approximately HK$110.9 million in FY2021 to approximately HK$80.0 million in FY2022, as a result of lease modification which remeasured the right-of-use assets of leasehold land for depots. Lease modification was made primarily due to (i) COVID-19-related rent concessions on lease liabilities due after 30 June, 2022 could no longer be recognised as other income in the consolidated income statements as the practical expedient stipulated in HKFRS 16 Amendments not to account for such concessions as lease modification was no longer applicable for rent concessions on lease liabilities due after 30 June, 2022; and (ii) a reduction in scope of a leasehold land of Citybus which the lease period was shortened from 30 June, 2026 to 30 June, 2023 to match the new franchise period following the Franchise Merger.

Fare collection charges decreased by approximately HK$4.0 million, or approximately 16.9%, from approximately HK$23.4 million in FY2021 to approximately HK$19.5 million in FY2022, primarily due to the decrease in fare revenue in FY2022.

Fuel and oil increased by approximately HK$104.8 million, or approximately 51.5%, from approximately HK$203.5 million in FY2021 to approximately HK$308.3 million in FY2022, primarily due to the increase in fuel costs by approximately HK$103.0 million, or approximately 53.4%, from approximately HK$192.8 million in FY2021 to approximately HK$295.7 million in FY2022, mainly due to the increase in average fuel price from approximately HK$2.56 per litre in FY2021 to approximately HK$4.62 per litre in FY2022.

Production and installation costs increased by approximately HK$21.9 million, or approximately 190.8%, from approximately HK$11.5 million in FY2021 to approximately HK$33.4 million in FY2022, as BML commenced its operation since 1 November, 2021 and the income from provision of production and installation services to advertising clients was introduced by BML to the Target Group.

Other expenses increased by approximately HK$16.5 million, or approximately 22.0%, from approximately HK$75.0 million in FY2021 to approximately HK$91.5 million in FY2022.

Operating costs of FY2023 as compared to FY2022

The Target Group's operating costs increased by approximately HK$219.0 million, or approximately 6.9%, from approximately HK$3,154.6 million in FY2022 to approximately HK$3,373.6 million in FY2023, primarily due to the increases in (i) fuel and oil costs; (ii) staff costs; and (iii) repairs and maintenance costs, partially offset by the decrease in depreciation.

Fuel and oil increased by approximately HK$141.9 million, or approximately 46.0%, from approximately HK$308.3 million in FY2022 to approximately HK$450.2 million in FY2023, mainly due to (i) the increase in average fuel price from approximately HK$4.62 per litre in FY2022 to approximately HK$6.02 per litre in FY2023; and (ii) the increase in the service level hence the increase in total mileage as the COVID-19 situation gradually improved.

Staff costs increased by approximately HK$118.1 million, or approximately 7.1%, from approximately HK$1,669.6 million in FY2022 to approximately HK$1,787.6 million in FY2023, mainly due to the resumption of service level in FY2023 upon the reopening of the borders.

These increases were partially offset by the decrease in depreciation of approximately HK$141.9 million, or approximately 30.3%, from approximately HK$468.7 million in FY2022 to approximately HK$326.8 million in FY2023, mainly as a result of a reduction in the depreciation of (i) property, plant and equipment by approximately HK$133.4 million, or approximately 34.3%, from approximately HK$388.7 million for FY2022 to approximately HK$255.3 million for FY2023, primarily due to the extension of useful lives of franchised buses from 14 or 15 years to 18 years and certain other property, plant and equipment; and (ii) right-of-use assets by approximately HK$8.5 million, or approximately 10.6%, from approximately HK$80.0 million in FY2022 to approximately HK$71.5 million in FY2023, as the right-of-use assets reduced from approximately

HK$272.2 million as at 1 January, 2022 to approximately HK$3.7 million as at 1 January, 2023 primarily due to lease modification as a result of (i) COVID-19-related rent concessions granted to the Target Group which could no longer be recognised as other income in the consolidated income statement as the practical expedient stipulated in HKFRS 16 Amendments not to account for such concessions as lease modification was no longer applicable for rent concessions on lease liabilities due after 30 June, 2022; and (ii) a reduction in scope of a leasehold land of Citybus for which the lease period was shortened from 30 June, 2026 to 30 June, 2023 to match the new franchise period following the Franchise Merger, partially offset by an increase in right-of-use assets from approximately HK$3.7 million as at 1 January, 2023 to approximately HK$1,287.7 million as at 31 December, 2023, primarily due to the addition to right-of-use assets and lease liabilities of approximately HK$1,355.9 million during FY2023 after the reassessment of lease term for leasehold land of Citybus in connection with the CTB (F2) 2023 Franchise and Merged Franchise, which commenced on 1 May, 2023 and 1 July, 2023, respectively.

(Loss)/profit from operations and operating margin

(Loss)/profit from operations represents revenue and other income less operating costs, and operating margin represents (loss)/profit from operations divided by revenue. The (loss)/profit from operations of the Target Group was a loss of approximately HK$150.9 million and HK$205.3 million and a profit of HK$116.7 million in FY2021, FY2022 and FY2023, respectively, and the operating margin of the Target Group was approximately –5.3%, –8.1% and 3.4%.

The table below sets out the operating (loss)/profit and operating margin for the Trading Record Period.

	FY2021	**FY2022**	**FY2023**
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/profit from operations	(150,905)	(205,349)	116,678
Operating margin	–5.3%	–8.1%	3.4%

The loss from operations increased by approximately HK$54.4 million, or approximately 36.1%, from approximately HK$150.9 million in FY2021 to approximately HK$205.3 million in FY2022. Thereafter, the loss from operations decreased by approximately HK$322.0 million, or approximately 156.8%, from a loss of approximately HK$205.3 million in FY2022 to a profit of approximately of HK$116.7 million in FY2023.

Finance costs

Finance costs primarily consist of bank loan interests, which accounted for approximately 64.6%, 64.2% and 55.0% of total finance costs in FY2021, FY2022 and FY2023, respectively. During the Trading Record Period, the Target Group incurred finance costs amounting to approximately HK$95.4 million, HK$80.9 million and HK$180.2 million in FY2021, FY2022 and FY2023, respectively. The effective borrowing costs of the Target Group were approximately 3.28%, 3.83% and 7.92% in FY2021, FY2022 and FY2023, respectively.

The table sets out the breakdown of finance costs of the Target Group during the Trading Record Period.

	FY2021	**FY2022**	**FY2023**
	HK$'000	*HK$'000*	*HK$'000*
Bank loan interests	61,635	51,942	99,014
Amortisation of loan arrangement fees	5,535	5,535	15,771
Unwinding on discount of deferred payment	17,357	17,357	12,752
Interest on lease liabilities	10,608	4,950	51,354
Other borrowing costs	241	1,115	1,261
Total	**95,376**	**80,899**	**180,152**

Finance costs of FY2022 as compared to FY2021

The Target Group's finance costs decreased by approximately HK$14.5 million, or approximately 15.2%, from approximately HK$95.4 million in FY2021 to approximately HK$80.9 million in FY2022, mainly due to (i) the decrease in bank loan interests by approximately HK$9.7 million, or approximately 15.7%, from approximately HK$61.6 million in FY2021 to approximately HK$51.9 million in FY2022, as a result of the repayment of bank loans during FY2022; and (ii) a decrease in the interest on lease liabilities of approximately HK$5.7 million, or approximately 53.3%, from approximately HK$10.6 million in FY2021 to approximately HK$5.0 million in FY2022, primarily due to the lease modification of leasehold land for depots. Please refer to the paragraphs headed "Other income – Other income of FY2022 as compared to FY2021" above for further details.

Finance costs of FY2023 as compared to FY2022

The Target Group's finance costs increased by approximately HK$99.3 million, or approximately 122.7%, from approximately HK$80.9 million in FY2022 to approximately HK$180.2 million in FY2023, primarily due to (i) the increase in bank loan interests of approximately HK$47.1 million, or approximately 90.6%, from approximately HK$51.9 million in FY2022 to approximately HK$99.0 million in FY2023, as a result of the drawdown of bank loans during FY2023; and (ii) an increase in interest on lease liabilities of approximately HK$46.4 million, or approximately 937.5%, from approximately HK$5.0 million in FY2022 to approximately HK$51.4 million in FY2023, as the lease liabilities increased from approximately HK$10.9 million as at 31 December, 2022 to approximately HK$1,318.8 million as at 31 December, 2023, primarily due to the addition to right-of-use assets and lease liabilities of approximately HK$1,355.9 million during FY2023 after the reassessment of lease term for leasehold land in connection with the CTB (F2) 2023 Franchise and Merged Franchise which commenced on 1 May, 2023 and 1 July, 2023, respectively.

Loss after tax

The table below sets out the loss after tax of the Target Group during the Trading Record Period.

	FY2021	**FY2022**	**FY2023**
	HK$'000	*HK$'000*	*HK$'000*
Loss after tax	(220,619)	(206,582)	(73,628)

Loss after tax of FY2022 as compared to FY2021

As a result of the foregoing, the Target Group's loss after tax improved by approximately HK$14.0 million, or approximately 6.4%, from approximately HK$220.6 million in FY2021 to approximately HK$206.6 million in FY2022.

Loss after tax of FY2023 as compared to FY2022

As a result of the foregoing, the Target Group's loss after tax improved by approximately HK$133.0 million or by 64.4%, from approximately HK$206.6 million in FY2022 to approximately HK$73.6 million in FY2023.

Sensitivity analysis

Staff costs

The following table sets out a sensitivity analysis of the effect of the fluctuation of staff costs during the Trading Record Period. Such sensitivity analysis is hypothetical in nature and serves as illustrative purposes only, which indicates the potential impact on profitability during the Trading Record Period if staff costs increased or decreased to the extent illustrated, assuming that all other variables remained constant.

To illustrate the potential effect on the financial performance of the Target Group, the sensitivity analysis below shows the impact on the (loss)/profit from operations with a 2.0% and 5.0% increase or decrease in the staff costs of the Target Group for the Trading Record Period.

	Staff costs		
	FY2021	FY2022	FY2023
	HK$'000	*HK$'000*	*HK$'000*
Change in staff costs			
–5.0%	(1,634,548)	(1,586,100)	(1,698,249)
–2.0%	(1,686,165)	(1,636,187)	(1,751,878)
Current	(1,720,577)	(1,669,579)	(1,787,631)
2.0%	(1,754,989)	(1,702,971)	(1,823,384)
5.0%	(1,806,606)	(1,753,058)	(1,877,013)

	(Loss)/profit from operations					
	FY2021		FY2022		FY2023	
	HK$'000	*% Change*	*HK$'000*	*% Change*	*HK$'000*	*% Change*
Change in staff costs						
–5.0%	(64,876)	–57%	(121,870)	–41%	206,060	77%
–2.0%	(116,493)	–23%	(171,957)	–16%	152,431	31%
Current	(150,905)	–	(205,349)	–	116,678	–
2.0%	(185,317)	23%	(238,741)	16%	80,925	–31%
5.0%	(236,934)	57%	(288,828)	41%	27,296	–77%

Any unfavourable legislation or events resulting in an increase in the wages of staff will have a material adverse impact on the operating costs. If the Target Group is unable to shift the increased costs to the customers, its business, results of operations, financial conditions and profitability may also be materially and adversely affected.

Depreciation

The following table sets out a sensitivity analysis of the effect of the fluctuation of depreciation during the Trading Record Period. Such sensitivity analysis is hypothetical in nature and serves as illustrative purposes only, which indicates the potential impact on profitability during the Trading Record Period if the depreciation increased or decreased to the extent illustrated, assuming that all other variables remained constant.

To illustrate the potential effect on the financial performance of the Target Group, the sensitivity analysis below shows the impact on the (loss)/profit from operations with a 5.0% and 10.0% increase or decrease in the depreciation of the Target Group for the Trading Record Period.

	Depreciation		
	FY2021	**FY2022**	**FY2023**
	HK$'000	*HK$'000*	*HK$'000*
Change in depreciation			
–10.0%	(446,027)	(421,819)	(294,093)
–5.0%	(470,806)	(445,254)	(310,432)
Current	(495,585)	(468,688)	(326,770)
5.0%	(520,364)	(492,122)	(343,109)
10.0%	(545,144)	(515,557)	(359,447)

	(Loss)/profit from operations					
	FY2021		**FY2022**		**FY2023**	
	HK$'000	*% Change*	*HK$'000*	*% Change*	*HK$'000*	*% Change*
Change in depreciation						
–10.0%	(101,347)	–33%	(158,480)	–23%	149,355	28%
–5.0%	(126,126)	–16%	(181,915)	–11%	133,016	14%
Current	(150,905)	–	(205,349)	–	116,678	–
5.0%	(175,684)	16%	(228,783)	11%	100,339	–14%
10.0%	(200,464)	33%	(252,218)	23%	84,001	–28%

Any significant damages to the bus fleet or changes to the useful life, depreciation method, residual value and depreciation schedule will have a material adverse impact on the operating costs.

NET CURRENT ASSETS AND LIABILITIES

The following table sets out the breakdown of the current assets and current liabilities as at 31 December, 2021, 2022 and 2023.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Current assets			
Inventories	44,715	47,956	50,648
Accounts receivable, prepayments and deposits	242,180	444,311	313,840
Derivative financial assets	33,150	57,974	9,563
Current income tax assets	99	–	–
Cash and cash equivalents	505,255	298,810	342,263
Asset held-for-sale	460,000	–	–
Total current assets	**1,285,399**	**849,051**	**716,314**
Current liabilities			
Bank loans	56,715	87,840	59,060
Accounts payable and accruals	478,215	380,879	461,131
Provisions	122,384	114,521	107,705
Derivative financial liabilities	4,573	–	–
Deferred income	6,469	6,392	1,126
Contract liabilities	73,347	70,830	72,749
Lease liabilities	118,682	9,474	112,759
Deferred payment	–	348,373	112,713
Current income tax liabilities	1,719	477	19,328
Total current liabilities	**862,104**	**1,018,786**	**946,571**
Net current assets/(liabilities)	**423,295**	**(169,735)**	**(230,257)**

31 December, 2022 compared to 31 December, 2021

The financial position of the Target Group deteriorated from a net current assets position of approximately HK$423.3 million as at 31 December, 2021 to a net current liabilities position of approximately HK$169.7 million as at 31 December, 2022. This change was mainly attributable to (i) the increase in deferred payment by approximately HK$348.4 million, from nil as at 31 December, 2021 to approximately HK$348.4 million as at 31 December, 2022, as HK$355.0 million of the remaining consideration payable to NWS Service in relation to the 2020 Acquisition became due within one year; (ii) the net repayment of 2020 Loan Facilities of approximately HK$297.3 million during FY2022; (iii) the loss from operations of approximately HK$205.3 million in FY2022; and (iv) the payment of dividend amounted to HK$200.0 million during FY2022.

The increase in net current liabilities was partially offset by (i) the increase in accounts receivable, prepayments and deposits by approximately HK$202.1 million, from approximately HK$242.2 million as at 31 December, 2021 to approximately HK$444.3 million as at 31 December, 2022, which was mainly attributable to the increase in one-off government subsidies receivable on fuel and repairs and maintenance for relieving the Target Group's operating pressure from COVID-19 during FY2022; (ii) the decrease in the current portion of lease liabilities by approximately HK$109.2 million, from approximately HK$118.7 million as at 31 December, 2021 to approximately HK$9.5 million as at 31 December, 2022, mainly due to (a) the lease modification arising from the reduction of lease period for a leasehold land of Citybus to match the new franchise period following the Franchise Merger, and (b) the lease modification related to COVID-19-related rent concessions on lease liabilities due after 30 June, 2022 granted to the Target Group; and (iii) the decrease in accounts payable and accruals by approximately HK$97.3 million, from approximately HK$478.2 million as at 31 December, 2021 to approximately HK$380.9 million as at 31 December, 2022, as a result of the reduced demand for bus services when COVID-19 restrictions were being put in place in FY2022.

31 December, 2023 compared to 31 December, 2022

The net current liabilities position of the Target Group increased from approximately HK$169.7 million as at 31 December, 2022 to approximately HK$230.3 million as at 31 December, 2023. This increase was mainly attributable to (i) the payment of dividend amounted to HK$250.0 million during FY2023; (ii) HK$150.0 million of cash and cash equivalents being reclassified as restricted bank balance as at 31 December, 2023, representing the additional bank balance required by CNCBI as stipulated in the 2023 Facility Agreement; (iii) HK$115.0 million of the remaining consideration to NWS Service in relation to the 2020 Acquisition became due within one year as at 31 December, 2023 after certain payments of the remaining outstanding purchase consideration were resolved to be brought forward; and (iv) the increase in the current portion of lease liabilities by approximately HK$103.3 million, from approximately HK$9.5 million as at 31 December, 2022 to approximately HK$112.8 million as at 31 December, 2023, primarily due to the addition of lease liabilities of approximately HK$1,355.9 million during FY2023 in connection with the commencement of CTB (F2) 2023 Franchise and Merged Franchise.

The increase in net current liabilities was partially offset by (i) the net cash inflow from bank loans during FY2023 of approximately HK$448.4 million after the refinancing of loan facilities from CNCBI in FY2023 to top up the principal amount repaid; and (ii) the profit from operations of approximately HK$116.7 million in FY2023.

DISCUSSION OF THE KEY ITEMS IN RESPECT OF THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets

Property, plant and equipment

Property, plant and equipment consist of (i) buildings; (ii) depot facilities and leasehold improvements; (iii) buses and other motor vehicles; (iv) machinery and equipment; (v) computer equipment; (vi) furniture, fixtures and office equipment; and (vii) construction in progress.

The table below sets out the breakdown of the Target Group's property, plant and equipment during the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Net book value			
Buildings	481,390	458,177	438,949
Depot facilities and leasehold improvements	12,811	11,931	16,119
Buses and other motor vehicles	2,559,546	2,239,100	2,034,643
Machinery and equipment	66,842	93,033	94,647
Computer equipment	8,026	7,519	8,588
Furniture, fixtures and office equipment	2,064	1,607	1,417
Construction in progress	154,109	111,474	105,492
Total	**3,284,788**	**2,922,841**	**2,699,855**

As at 31 December, 2021, 2022 and 2023, property, plant and equipment amounted to approximately HK$3,284.8 million, HK$2,922.8 million and HK$2,699.9 million, respectively, representing approximately 67.6%, 76.5% and 55.6% of the Target Group's total assets, respectively. Property, plant and equipment represented the assets indispensable to the operations of the Target Group, in respect of which buses and other motor vehicles were the main operating assets, accounting for approximately 77.9%, 76.6% and 75.4% of property, plant and equipment, respectively.

The net book value of the Target Group's property, plant and equipment decreased by approximately HK$361.9 million, or approximately 11.0%, from approximately HK$3,284.8 million as at 31 December, 2021 to approximately HK$2,922.8 million as at 31 December, 2022, mainly due to the depreciation of property, plant and equipment amounting to approximately HK$388.7 million during FY2022, partially offset by the acquisition of property, plant and equipment which amounted to approximately HK$27.6 million net of government grants of approximately HK$61.3 million during FY2022, including mainly buses and on-bus safety equipment.

The net book value of the Target Group's property, plant and equipment further decreased by approximately HK$223.0 million, or approximately 7.6%, from approximately HK$2,922.8 million as at 31 December, 2022 to approximately HK$2,699.9 million as at 31 December, 2023, mainly due to the depreciation of property, plant and equipment amounting to approximately HK$255.3 million during FY2023, partially offset by the acquisition of property, plant and equipment which amounted to approximately HK$38.9 million net of government grants of approximately HK$9.7 million during FY2023, including mainly buses and on-bus safety equipment, and shelters buy back from the Advertising Partner.

Right-of-use assets

As at 31 December, 2021, 2022 and 2023, right-of-use assets amounted to approximately HK$272.2 million, HK$3.7 million and HK$1,287.7 million respectively, representing approximately 5.6%, 0.1% and 26.5% of the Target Group's total assets respectively. Right-of-use assets consist of (i) leasehold land for depots; (ii) leasehold land for termini; (iii) building; (iv) motor vehicles; and (v) equipment. Leasehold land for depots was the largest component, accounting for approximately 98.6%, 11.3% and 97.8% of right-of-use assets as at 31 December, 2021, 2022 and 2023, respectively.

The table below sets out the breakdown of the Target Group's right-of-use assets during the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Leasehold land for depots	268,429	420	1,259,485
Leasehold land for termini	3,478	3,105	25,471
Building	–	–	843
Motor Vehicles	–	–	1,872
Equipment	330	202	74
Total	**272,237**	**3,727**	**1,287,745**

Right-of-use assets of the Target Group decreased by approximately HK$268.5 million, or approximately 98.6%, from approximately HK$272.2 million as at 31 December, 2021 to approximately HK$3.7 million as at 31 December, 2022, primarily due to the decrease in right-of-use assets of the leasehold land for depots of approximately HK$268.0 million, or approximately 99.8%, from approximately HK$268.4 million as at 31 December, 2021 to approximately HK$0.4 million as at 31 December, 2022 as a result of lease modification as (i) COVID-19-related rent concessions due after 30 June, 2022 were granted to the Target Group; (ii) the reduction of the lease period for a leasehold land of Citybus (ending on 30 June, 2023 instead of 30 June, 2026) to match the new franchise period following the Franchise Merger; and (iii) the depreciation of right-of-use assets during FY2022.

Right-of-use assets of the Target Group increased by approximately HK$1,284.0 million, or approximately 34,451.8%, from approximately HK$3.7 million as at 31 December, 2022 to approximately HK$1,287.7 million as at 31 December, 2023, primarily due to the addition to right-of-use assets and lease liabilities of approximately HK$1,355.9 million during FY2023 after the reassessment of lease term for a leasehold land of Citybus in connection with the CTB (F2) 2023 Franchise and Merged Franchise which commenced on 1 May, 2023 and 1 July, 2023, respectively.

Accounts receivable, prepayments and deposits

As at 31 December, 2021, 2022 and 2023, accounts receivable, prepayments and deposits amounted to approximately HK$242.2 million, HK$444.3 million and HK$313.8 million respectively, representing approximately 5.0%, 11.6% and 6.5% of the Target Group's total assets respectively. Accounts receivable, prepayments and deposits consist of (i) accounts receivable; (ii) contract assets; (iii) other receivables; and (iv) prepayments and deposits. Other receivables were the largest component which accounted for approximately 41.6%, 56.2% and 9.5% of accounts receivable, prepayments and deposits respectively.

The table below sets out the breakdown of the Target Group's accounts receivable, prepayments and deposits during the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Accounts receivable[Note 1]	90,181	124,873	170,323
Contract assets	17,506	37,017	76,215
Other receivables	100,770	249,516	29,720
Prepayments and deposits[Note 2]	33,723	32,905	37,582
Total	**242,180**	**444,311**	**313,840**

Notes:

1. Accounts receivable primarily includes the portion of fare revenue collected through cashless payment options (such as Octopus, Alipay and credit cards) that is not yet transferred to the Target Group, as well as the reimbursement of fares and subsidies.

2. Prepayments and deposits include mainly rent and rates prepayments, prepaid insurance premiums and bus accident claims, and utilities and rental deposits.

Accounts receivable, prepayments and deposits of the Target Group increased by approximately HK$202.1 million, or approximately 83.5%, from approximately HK$242.2 million as at 31 December, 2021 to approximately HK$444.3 million as at 31 December, 2022, primarily due to the increase in other receivables of approximately HK$148.7 million, or approximately 147.6%, from approximately HK$100.8 million as at 31 December, 2021 to approximately HK$249.5 million as at 31 December, 2022, mainly due to the increase in government subsidies receivable on fuel and repairs and maintenance as at 31 December, 2022 given the worsening of the COVID-19 situation from FY2021 to FY2022.

Thereafter, accounts receivable, prepayments and deposits of the Target Group decreased by approximately HK$130.5 million, or approximately 29.4%, from approximately HK$444.3 million as at 31 December, 2022 to approximately HK$313.8 million as at 31 December, 2023, primarily due to the decrease in other receivables of approximately HK$219.8 million, or approximately 88.1%, from approximately HK$249.5 million as at 31 December, 2022 to approximately HK$29.7 million as at 31 December, 2023, as the government subsidies receivable on fuel and repairs and maintenance as at 31 December, 2022 was received during FY2023; partially offset by the increase in accounts receivable of approximately HK$45.5 million, or approximately 36.4%, from approximately HK$124.9 million as at 31 December, 2022 to approximately HK$170.3 million as at 31 December, 2023, primarily due to the resumption of bus operations after COVID-19 pandemic in FY2023.

Ageing analysis of accounts receivable

The table below sets out the ageing analysis of the Target Group's accounts receivable during the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 month	70,605	84,393	101,771
Over 1 month but within 2 months	19,149	15,702	42,081
Over 2 months but within 3 months	367	3,298	15,962
Over 3 months but within 6 months	35	20,310	8,265
Over 6 months	25	1,170	2,244
Total	**90,181**	**124,873**	**170,323**

The Target Group applies the HKFRS 9 simplified approach to measure expected credit losses, which permits the use of the lifetime expected credit loss provision for all accounts receivable. The expected credit loss of accounts receivable was assessed to be minimal and no allowance for impairment was made as at the end of the respective reporting periods.

Inventories

As at 31 December, 2021, 2022 and 2023, inventories amounted to approximately HK$44.7 million, HK$48.0 million and HK$50.6 million respectively, representing approximately 0.9%, 1.3% and 1.0% of the Target Group's total assets respectively. Inventories consist of (i) spare parts, fuel and oil; and (ii) stores. Spare parts, fuel and oil were the largest component which accounted for approximately 97.7%, 97.7% and 97.8% of total inventories respectively.

The table below sets out the breakdown of Target Group's inventories during the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Spare parts, fuel and oil	43,699	46,875	49,537
Stores	1,016	1,081	1,111
Total	**44,715**	**47,956**	**50,648**

Inventories of the Target Group increased by approximately HK$3.2 million, or approximately 7.2%, from approximately HK$44.7 million as at 31 December, 2021 to approximately HK$48.0 million as at 31 December, 2022, primarily due to the increase in the need for repairs and maintenance for buses and thus the demand for bus parts, as bus services gradually resumed with the improvement in the COVID-19 situation towards the end of FY2022.

Inventories of the Target Group increased by approximately HK$2.7 million, or approximately 5.6%, from approximately HK$48.0 million as at 31 December, 2022 to approximately HK$50.6 million as at 31 December, 2023, primarily due to the increase in the need for repairs and maintenance for buses and thus the demand for bus parts, as bus services gradually resumed with the improvement in the COVID-19 situation from FY2022 to FY2023.

Liabilities

Accounts payable and accruals

As at 31 December, 2021, 2022 and 2023, accounts payable and accruals amounted to approximately HK$478.2 million, HK$380.9 million and HK$461.1 million, respectively. Accruals were the largest component accounting for approximately 90.3%, 90.1% and 88.1% of accounts payable and accruals respectively.

The table below sets out the Target Group's accounts payable and accruals for the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Accounts payable[Note 1]	46,338	37,751	55,032
Accruals[Note 2]	431,877	343,128	406,099
Total	**478,215**	**380,879**	**461,131**

Notes:

1. Accounts payable relates to bus services and advertising business, which include fuel, bus parts, AdBlue and lubricants, as well as production and installation cost on advertisements.

2. Accruals include driver payroll, wages, bonuses, undertaken leave provision, cleaning expenses and purchase of fixed assets.

Accounts payable and accruals of the Target Group decreased by approximately HK$97.3 million, or approximately 20.4%, from approximately HK$478.2 million as at 31 December, 2021 to approximately HK$380.9 million as at 31 December, 2022, primarily due to the decrease in accruals of approximately HK$88.7 million, or approximately 20.5%, from approximately HK$431.9 million as at 31 December, 2021 to approximately HK$343.1 million as at 31 December, 2022, resulted from (i) the decrease in total number of full-time staff as at 31 December, 2022 compared to that as at 31 December, 2021 followed by a decrease in bonus provision as at 31 December, 2022; and (ii) the decrease in fixed assets accrual.

Accounts payable and accruals of the Target Group increased by approximately HK$80.3 million, or approximately 21.1%, from approximately HK$380.9 million as at 31 December, 2022 to approximately HK$461.1 million as at 31 December, 2023, primarily due to the increase in accruals of approximately HK$63.0 million, or approximately 18.4%, from approximately HK$343.1 million as at 31 December, 2022 to approximately HK$406.1 million as at 31 December, 2023, resulted from resumption of bus operations after the COVID-19 pandemic in FY2023.

Ageing analysis of accounts payable

The table below sets out the ageing analysis of the Target Group's accounts payable during the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 month	4,892	11,001	24,370
Over 1 month but within 3 months	38,969	26,357	27,928
Over 3 months	2,477	393	2,734
Total	**46,338**	**37,751**	**55,032**

Provisions

Provisions of the Target Group consist of claims and long service payments.

The table below sets out the breakdown of the Target Group's provisions during the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Claims	122,069	110,482	104,408
Long service payments	1,522	44,620	47,936
Total	**123,591**	**155,102**	**152,344**

Provisions amounted to approximately HK$123.6 million, HK$155.1 million and HK$152.3 million as at 31 December, 2021, 2022 and 2023, respectively. Provision for claims represented the amounts set aside by the Target Group to meet liabilities which were expected to arise from third party motor claims in connection with the Target Group's bus operations. The provision for claims amounted to HK$122.1 million, HK$110.5 million and HK$104.4 million as at 31 December, 2021, 2022 and 2023, respectively.

The provision for long service payments amounted to approximately HK$1.5 million, HK$44.6 million and HK$47.9 million as at 31 December, 2021, 2022 and 2023, respectively. The increase in provision for long service payments in FY2022 relates to additional past service cost resulting from a scheme amendment due to the abolition of the Mandatory Provident Fund-Long Service Payment ("**MPF-LSP**") offsetting arrangement that was recognised as staff costs in the consolidated income statement in FY2022.

Contract liabilities

The Target Group's contract liabilities represent advances received from customers in relation to advertising service. As at 31 December, 2021, 2022 and 2023, the Target Group's contract liabilities amounted to approximately HK$73.3 million, HK$70.8 million and HK$72.7 million respectively.

The Target Group recognised the following liabilities related to contracts with customers during the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Advances received from customers – Advertising service	73,347	70,830	72,749

CASH FLOWS DURING THE TRADING RECORD PERIOD

The table below sets out the Target Group's consolidated cash flows during the Trading Record Period.

	FY2021	**FY2022**	**FY2023**
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from operating activities			
(Loss)/profit from operations	(150,905)	(205,349)	116,678
Depreciation of property, plant and equipment	384,717	388,732	255,286
Depreciation of right-of-use assets	110,868	79,956	71,484
Amortisation of fuel price call option contracts premium	–	3,806	38,180
(Gain)/loss on disposal of property, plant and equipment	(620)	798	(22)
Gain on disposal of fuel price call option contracts	–	(33,476)	–
Realised fair value gain on an interest rate swap contract	–	–	(56,000)
Gain on modification of leases	–	(37,990)	(10)
Recognition of government grants	(6,469)	(6,469)	(5,934)
COVID-19-related rent concessions	(92,863)	(1,010)	–
Interest income	(882)	(3,648)	(12,332)
Dividend income	(25,012)	–	–
Loss on modification of deferred payment	–	–	11,471

	FY2021	FY2022	FY2023
	HK$'000	*HK$'000*	*HK$'000*
Operating profit before working capital changes	218,834	185,350	418,801
Increase in derivative financial instruments	(6,149)	(38,180)	(35,566)
Decrease/(increase) in inventories	20,728	(3,241)	(2,692)
(Increase)/decrease in accounts receivable, prepayments and deposits	(1,499)	(225,015)	122,196
Increase in accounts payable, accruals and provisions	35,518	13,101	59,370
Increase/(decrease) in contract liabilities	3,347	(2,517)	1,920
Net cash generated from/(used in) operations	270,779	(70,502)	564,029
Hong Kong Profits Tax (paid)/refunded	(587)	99	(1,380)
Net cash generated from/(used in) operating activities	**270,192**	**(70,403)**	**562,649**
Cash flows from investing activities			
Purchase of property, plant and equipment	(190,576)	(115,733)	(38,556)
Government grants for purchase of property, plant and equipment	89,021	63,870	18,408
Sale of property, plant and equipment	738	37	4,786
Sale of financial asset at FVOCI	–	460,000	–
Sale of derivative financial assets	–	35,819	56,000
Contingent consideration received from acquisition of subsidiaries[Note]	164,411	–	–
Dividend received	25,012	–	–
Interest received	194	3,319	11,687
Net cash generated from investing activities	**88,800**	**447,312**	**52,325**

Note:

According to the 2020 Acquisition Agreement, NWS Service agreed to provide a cashflow subsidy, which was calculated based on the monthly operating cash outflow for the period from 1 September, 2020 to 31 August, 2021 and was capped at HK$280 million. Upon the completion of the 2020 Acquisition, the contingent consideration receivable of HK$280 million was recorded. The total amount of the cash flow subsidy received from NWS Service for FY2021 was HK$164,411,000.

	FY2021	FY2022	FY2023
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from financing activities			
Drawdown of bank loans	105,000	150,000	871,750
Repayments of bank loans	(271,125)	(447,250)	(423,375)
Payment of loan arrangement fee	–	–	(29,700)
Capital elements of lease liabilities payments	(31,039)	(27,926)	(47,518)
Interest elements of lease liabilities payments	(2,222)	(4,950)	(51,354)
Payment of bank loan interests	(60,389)	(52,470)	(90,211)
Payment of other borrowing costs	(155)	(758)	(1,113)
Dividend paid	–	(200,000)	(250,000)
Repayment of deferred payment	–	–	(400,000)
Increase in restricted bank balance	–	–	(150,000)
Net cash used in financing activities	**(259,930)**	**(583,354)**	**(571,521)**
Net increase/(decrease) in cash and cash equivalents	**99,062**	**(206,445)**	**43,453**
Cash and cash equivalents at the beginning of the year	406,193	505,255	298,810
Cash and cash equivalents at the end of the year	**505,255**	**298,810**	**342,263**

Net cash generated from/(used in) operating activities

The cash inflows from operating activities primarily consist of receipts of fare from passengers from the franchised bus operations. The cash outflows used in operating activities primarily consist of payments in relation to the (i) staff costs; (ii) fuel and oil costs; (iii) repairs and maintenance costs; (iv) tolls and TEF; (v) insurance; and (vi) other expenses.

In FY2021, the net cash generated from operating activities was approximately HK$270.2 million, which was primarily attributable to (i) operating profit before working capital changes amounting to approximately HK$218.8 million; (ii) increase in accounts payable, accruals and provisions of approximately HK$35.5 million; and (iii) decrease in inventories of approximately HK$20.7 million. These cash inflows were partially offset by the increase in derivative financial instruments of approximately HK$6.1 million.

In FY2022, the net cash used in operating activities was approximately HK$70.4 million, which was primarily attributable to (i) the increase in accounts receivable, prepayments and deposits which amounted to approximately HK$225.0 million; (ii) the increase in derivative financial instruments which amounted to approximately HK$38.2 million; and (iii) the increase in inventories of approximately HK$3.2 million. These cash outflows were partially offset by the operating profit before working capital changes amounted to approximately HK$185.4 million.

In FY2023, the net cash generated from operating activities was approximately HK$562.6 million, which was primarily attributable to (i) the operating profit before working capital changes amounting to approximately HK$418.8 million; (ii) the decrease in accounts receivable, prepayments and deposits of approximately HK$122.2 million; and (iii) the increase in accounts payable, accruals and provisions of approximately HK$59.4 million. These cash inflows were partially offset by (i) the increase in derivative financial instruments of approximately HK$35.6 million; and (ii) the increase in inventories of approximately HK$2.7 million.

Net cash generated from investing activities

The Target Group recorded net cash from investing activities in FY2021, FY2022 and FY2023 of approximately HK$88.8 million, HK$447.3 million and HK$52.3 million respectively.

In FY2021, the net cash generated from investing activities was approximately HK$88.8 million. The cash inflows were primarily derived from (i) the contingent consideration received from acquisition of subsidiaries which amounted to approximately HK$164.4 million, which was the remaining part of the contingent consideration of the 2020 Acquisition received from NWS Service; and (ii) government grants for purchase of property, plant and equipment which accounted for approximately HK$89.0 million. These cash inflows were partially offset by the purchase of property, plant and equipment which amounted to approximately HK$190.6 million, including buses and on-bus safety equipment.

In FY2022, the net cash generated from investing activities was approximately HK$447.3 million. The cash inflows were primarily derived from (i) the sale of financial asset at FVOCI which amounted to HK$460.0 million; and (ii) government grants for purchase of property, plant and equipment which amounted to approximately HK$63.9 million. These cash inflows were partially offset by the purchase of property, plant and equipment which amounted to approximately HK$115.7 million, including buses and on-bus safety equipment.

In FY2023, the net cash generated from investing activities was approximately HK$52.3 million. The cash inflows were primarily derived from (i) the sale of derivative financial assets which amounted to HK$56.0 million; (ii) government grants for purchase of property, plant and equipment which amounted to approximately HK$18.4 million; and (iii) interest received of approximately HK$11.7 million. These cash inflows were partially offset by the purchase of property, plant and equipment which amounted to HK$38.6 million, including an electric bus, a hydrogen bus and on-bus safety equipment.

Net cash used in financing activities

The cash inflows from financing activities consist of the drawdown of bank loans. The cash outflows from financing activities primarily consist of the repayments of bank loans, payments of bank loan interests and loan arrangement fee, dividend paid, repayment of deferred payment and lease payments, as well as the increase in restricted bank balance.

In FY2021, the net cash used in financing activities was approximately HK$259.9 million. The cash outflows mainly consisted of (i) the repayments of bank loans which amounted to approximately HK$271.1 million; (ii) the payment of bank loan interests which amounted to approximately HK$60.4 million; and (iii) lease payments which amounted to approximately HK$33.3 million. These cash outflows were partially offset by the drawdown of bank loans amounting to HK$105.0 million.

In FY2022, the net cash used in financing activities was approximately HK$583.4 million. The cash outflows mainly consisted of (i) the repayments of bank loans which amounted to approximately HK$447.3 million; (ii) the dividend paid which amounted to HK$200.0 million; (iii) the payment of bank loan interests which amounted to approximately HK$52.5 million; and (iv) lease payments which amounted to approximately HK$32.9 million. These cash outflows were partially offset by the drawdown of bank loans amounting to HK$150.0 million.

In FY2023, the net cash used in financing activities was approximately HK$571.5 million. The cash outflows primarily consisted of (i) the repayments of bank loans which amounted to approximately HK$423.4 million; (ii) the repayment of deferred payment which amounted to HK$400.0 million; (iii) the dividend paid which amounted to HK$250.0 million; (iv) the increase in restricted bank balance which amounted to HK$150.0 million; (v) lease payments which amounted to approximately HK$98.9 million; and (vi) the payments of bank loan interests which amounted to approximately HK$90.2 million and loan arrangement fee of approximately HK$29.7 million. These cash outflows were partially offset by the drawdown of bank loans which amounted to approximately HK$871.8 million.

INDEBTEDNESS

As at 31 December, 2021, 2022 and 2023, the Target Group had total indebtedness of approximately HK$2,551.3 million, HK$2,021.4 million and HK$3,388.1 million respectively.

The table below sets out the breakdown of the Target Group's indebtedness during the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Non-current			
Bank loans	1,571,173	1,248,333	1,711,559
Lease liabilities	147,652	1,377	1,206,070
Deferred payment	657,066	326,050	185,933
	2,375,891	1,575,760	3,103,562
Current			
Bank loans	56,715	87,840	59,060
Lease liabilities	118,682	9,474	112,759
Deferred payment	–	348,373	112,713
	175,397	445,687	284,532
Total	**2,551,288**	**2,021,447**	**3,388,094**

Bank loans

As at 31 December, 2021 and 2022 and 2023, the Target Group had bank loans in the amount of approximately HK$1,627.9 million, HK$1,336.2 million and HK$1,770.6 million respectively.

The table below sets out the bank loans of the Target Group during the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Secured	1,627,888	1,336,173	1,770,619
Within one year	56,715	87,840	59,060
After one year but within two years	87,840	118,965	59,060
After two years but within five years	1,483,333	1,129,368	1,652,499
Total	**1,627,888**	**1,336,173**	**1,770,619**

The Target Group's bank loans as at 31 December, 2021 and 2022 represented the HK$1,845 million loan facilities obtained from CNCBI, which include (i) 2020 Acquisition Loan of HK$1,245 million for the purchase of 100% equity interest in BTSL in 2020; (ii) 2020 Term Loan with the principal amount of HK$200 million for refinancing bank borrowings; and (iii) 2020 Revolving Facilities with the principal amount of HK$400 million for refinancing bank borrowings and general working capital purposes. On 12 December, 2023, the Target Group renewed the existing loan facilities with the principal amounts of term loan of HK$1,300 million ("**New Facility A**") and revolving loan of HK$500 million ("**New Facility B**"), respectively. Please see note 26 to the accountants' report of the Target Group included in Appendix III in this circular for further details.

Bank loans decreased by approximately HK$291.7 million, or approximately 17.9%, from approximately HK$1,627.9 million as at 31 December, 2021 to approximately HK$1,336.2 million as at 31 December, 2022, as further repayment had been made mainly due to the sale of financial asset at FVOCI.

Bank loans increased by approximately HK$434.4 million, or approximately 32.5%, from approximately HK$1,336.2 million as at 31 December, 2022, to approximately HK$1,770.6 million as at 31 December, 2023, as a result of the refinancing of the HK$1,845 million loan facilities obtained from CNCBI in 2020 primarily for the repayment or prepayment of the HK$1,845 million loan facilities and general working capital purposes.

As at 31 December, 2021 and 2022, the total available amounts of 2020 Acquisition Loan and 2020 Term Loan were drawn down, approximately HK$31.1 million, HK$62.3 million and HK$93.4 million of 2020 Acquisition Loan were repaid in FY2021, FY2022 and FY2023 respectively, and as at 31 December, 2021 and 2022, the Target Group had accessed to the undrawn 2020 Revolving Facilities of HK$165.0 million and HK$400.0 million respectively. After refinancing in FY2023, as at 31 December, 2023, the total available amounts of New Facility A and New Facility B were drawn down and no repayments of New Facility A and New Facility B were made in FY2023. Please see note 26 to the accountants' report of the Target Group included in Appendix III in this circular for further details.

The Target Group's bank loans were denominated in Hong Kong dollars. The effective interest rates of the bank loans per annum as at 31 December, 2021, 2022 and 2023, respectively were as follows:

	As at 31 December,		
	2021	**2022**	**2023**
Effective interest rate	3.28%	3.83%	7.92%

As at 31 December, 2023, the Target Group's bank balances included a restricted bank balance of HK$150.0 million, representing the restricted bank balance required by the bank for the renewed loan facilities.

As at 31 December, 2021, 2022 and 2023, the Target Group's bank loans were secured and guaranteed by:

(i) the entire issued shares in certain subsidiaries; and

(ii) certain assets of certain subsidiaries.

The Target Group's bank loans contain certain standard covenants that are commonly found in lending arrangements with commercial banks. The directors of the Target Group have confirmed that they had not defaulted or delayed in any payments or breached any of the material covenants pertaining to the Target Group's bank loans during the Trading Record Period.

Lease liabilities

The Target Group's lease liabilities primarily represent the future minimum lease payments in respect of the leasehold lands in use for its public transportation business such as depots and termini.

The table below sets out the lease liabilities of the Target Group during the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Current	118,682	9,474	112,759
Non-current	147,652	1,377	1,206,070
Total	**266,334**	**10,851**	**1,318,829**

The Target Group's lease liabilities primarily represent the present value of the lease payments that are not yet paid under the tenancy agreements for the leasehold lands for depots and termini throughout Hong Kong. The lease liabilities were approximately HK$266.3 million, HK$10.9 million and HK$1,318.8 million as at 31 December, 2021, 2022 and 2023, respectively.

Lease liabilities decreased by approximately HK$255.5 million, or approximately 95.9%, from approximately HK$266.3 million as at 31 December, 2021 to approximately HK$10.9 million as at 31 December, 2022, mainly due to (i) the lease modification arising from the reduction of the lease period for a leasehold land of Citybus (ending on 30 June, 2023 instead of 30 June, 2026) to match the new franchise period following the Franchise Merger; (ii) the lease modification related to COVID-19-related rent concessions on lease liabilities due after 30 June, 2022 granted to the Target Group; and (iii) the payments of lease.

Lease liabilities significantly increased by approximately HK$1,308.0 million, or approximately 12,054.0%, from approximately HK$10.9 million as at 31 December, 2022 to approximately HK$1,318.8 million as at 31 December, 2023, primarily due to the addition to right-of-use assets and lease liabilities of approximately HK$1,355.9 million during FY2023 after the reassessment of lease term for a leasehold land of Citybus in connection with the CTB (F2) 2023 Franchise and Merged Franchise which commenced on 1 May, 2023 and 1 July, 2023, respectively; partially offset by the payments of lease.

Deferred payment

As at 31 December, 2021 and 2022

Deferred payment represents the remaining purchase consideration of HK$710 million payable to NWS Service by instalments on the third, fifth and sixth anniversary of the completion date of the 2020 Acquisition. At the acquisition date, the present value of the deferred payment of HK$636.0 million was estimated by calculating the present value of the future expected cash flows. The estimates were based on the discount rates of approximately 2.45% to 2.78% per annum.

As at 31 December, 2023

On 23 June, 2023, the board of directors of the Target Company resolved to bring forward certain payments of the remaining outstanding purchase consideration of HK$710 million under the 2020 Acquisition with the consent from NWS Service.

The deferred payment was therefore modified and the present value of this financial liability was remeasured by considering the revised future expected cash flows at the original discount rates of approximately 2.45% to 2.78% per annum. The present value at the modification date had changed from HK$636.0 million to approximately HK$647.5 million, and the difference of approximately HK$11.5 million was recognised in the consolidated income statement for FY2023.

The table below sets out the deferred payment of the Target Group during the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Current	–	348,373	112,713
Non-current	657,066	326,050	185,933
Total	**657,066**	**674,423**	**298,646**

Contingent liabilities

As at the Latest Practicable Date, the Target Group did not have any significant contingent liabilities.

CAPITAL EXPENDITURES AND COMMITMENTS

Net capital (income)/expenditure

During the Trading Record Period, the net capital (income)/expenditure of the Target Group primarily consisted of the purchase of property, plant and equipment, and contingent consideration received from acquisition of a subsidiary, BTSL. The Target Group generated net capital income of approximately HK$62.9 million in FY2021, and incurred net capital expenditures of approximately HK$51.9 million and HK$20.1 million in FY2022 and FY2023, respectively; partially offset by the government grants for purchase of property, plant and equipment of approximately HK$89.0 million, HK$63.9 million and HK$18.4 million in FY2021, FY2022 and FY2023, respectively.

The table below sets out the net capital (income)/expenditure of the Target Group during the Trading Record Period.

	FY2021	**FY2022**	**FY2023**
	HK$'000	*HK$'000*	*HK$'000*
Purchase of property, plant and equipment	190,576	115,733	38,556
Government grants for purchase of property, plant and equipment	(89,021)	(63,870)	(18,408)
Contingent consideration received from acquisition of subsidiaries	(164,411)	–	–
Total	**(62,856)**	**51,863**	**20,148**

Net capital income of approximately HK$62.9 million in FY2021 represented the cash flow subsidy of approximately HK$164.4 million received from NWS Service in accordance with 2020 Acquisition Agreement and the government grants for purchase of property, plant and equipment of approximately HK$89.0 million; partially offset by the purchase of property, plant and equipment of approximately HK$190.6 million, including buses and on-bus safety equipment.

Net capital expenditure of approximately HK$51.9 million in FY2022 mainly represented the purchase of property, plant and equipment of approximately HK$115.7 million; partially offset by the government grants for purchase of property, plant and equipment of approximately HK$63.9 million, including buses and on-bus safety equipment. The purchase of property, plant and equipment decreased by approximately HK$74.8 million, or approximately 39.3%, from approximately HK$190.6 million in FY2021 to approximately HK$115.7 million in FY2022.

Net capital expenditure of approximately HK$20.1 million in FY2023 mainly represented the purchase of property, plant and equipment of approximately HK$38.6 million, including an electric bus, a hydrogen bus and on-bus safety equipment; partially offset by the government grants for purchase of property, plant and equipment of approximately HK$18.4 million.

Capital commitments

The Target Group's capital commitments are primarily related to the acquisition of property, plant and equipment that are contracted but not provided for as at each reporting period. These commitments are financed by the Target Group's internal resources.

The table below sets out the total amounts of capital commitments of the Target Group during the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Contracted but not provided for	73,633	22,449	26,844

Operating lease commitments

The Target Group leased leasehold land for buildings and depots under the operating lease arrangement for a term of up to 3 months. The Target Group has recognised right-of-use assets for leases, except for short-term leases. The Target Group had no leases that were committed but not commenced.

The table below sets out the commitments for future aggregate lease payments under short-term leases during the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Leasehold land for buildings and depots			
Within one year	18,703	18,662	194

The operating lease commitments consisted solely of leasehold land for buildings and depots with lease period within one year. The Target Group reported total operating lease commitments of approximately HK$18.7 million, HK$18.7 million and HK$0.2 million as at 31 December, 2021, 2022 and 2023, respectively.

RELATED PARTY TRANSACTIONS

During the Trading Record Period, related party transactions of the Target Group included key management compensation, which included only the directors of the Target Company, of approximately HK$13.2 million, HK$10.2 million and HK$13.3 million in FY2021, FY2022 and FY2023, respectively.

During the Trading Record Period, the related party transactions of the Target Group also included the transactions of the Target Group with related companies including operating partnership agreement, advisory service agreement and secondment agreement, which were approximately HK$29.9 million, HK$35.5 million and HK$27.4 million in FY2021, FY2022 and FY2023, respectively.

The Target Group is of the view that these transactions were conducted on an arm's length basis with normal commercial terms, and would not distort the Target Group's results of operations during the Trading Record Period.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, the Target Group had not entered into any off-balance sheet arrangement.

KEY FINANCIAL RATIOS

The table below sets out the key financial ratios of the Target Group during the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
Current ratio *Note 1*	1.49	0.83	0.76
Quick ratio *Note 2*	1.44	0.79	0.70
Gearing ratio *Note 3*	167%	195%	336%

Notes:

1. Current ratio is calculated as total current assets divided by total current liabilities as at the end of the relevant year.

2. Quick ratio is calculated as total current assets less inventories divided by total current liabilities as at the end of the relevant year.

3. Gearing ratio is calculated as total debt (summation of bank loans and deferred payment) divided by total equity as at the end of the relevant year and multiplied by 100%.

Current ratio and quick ratio

The current ratio decreased from approximately 1.49 as at 31 December, 2021 to approximately 0.83 as at 31 December, 2022, and the quick ratio decreased from approximately 1.44 as at 31 December, 2021 to approximately 0.79 as at 31 December, 2022. These decreases were primarily due to (i) the deterioration in current assets of approximately HK$436.3 million, or approximately 33.9%, from approximately HK$1,285.4 million as at 31 December, 2021 to approximately HK$849.1 million as at 31 December, 2022, as a result of the decrease in cash and cash equivalents after (a) the net repayment of 2020 Loan Facilities of approximately HK$297.3 million during FY2022, (b) the loss from operations of approximately HK$205.3 million in FY2022, and (c) the payment of dividend amounted to HK$200.0 million during FY2022; and (ii) the significant increase in current liabilities of approximately HK$156.7 million, or approximately 18.2%, from approximately HK$862.1 million as at 31 December, 2021 to approximately HK$1,018.8 million as at 31 December, 2022, as a result of HK$355.0 million of the remaining consideration payable to NWS Service in relation to the 2020 Acquisition became due within one year according to its payment schedule.

The current ratio decreased from approximately 0.83 as at 31 December, 2022 to approximately 0.76 as at 31 December, 2023, and the quick ratio decreased from approximately 0.79 as at 31 December, 2022 to approximately 0.70 as at 31 December, 2023. These decreases were primarily resulted from the deterioration of the net current liabilities position after (i) the payment of dividend amounted to HK$250.0 million during FY2023; (ii) HK$150.0 million of cash and cash equivalents being reclassified as restricted bank balance as at 31 December, 2023, representing the additional bank balance required by CNCBI as stipulated in the 2023 Facility Agreement; (iii) HK$115.0 million of the remaining consideration to NWS Service in relation to the 2020 Acquisition became due within one year as at 31 December, 2023 after certain payments of the remaining outstanding purchase consideration were resolved to be brought forward; and (iv) the increase in the current portion of lease liabilities primarily due to the addition of lease liabilities of approximately HK$1,355.9 million during FY2023 in connection with the commencement of CTB (F2) 2023 Franchise and Merged Franchise.

Gearing ratio

The gearing ratio increased from approximately 167% as at 31 December, 2021 to approximately 195% as at 31 December, 2022. This increase was mainly attributable to the decrease in total equity of approximately HK$336.7 million, or approximately 24.7%, from approximately HK$1,365.5 million as at 31 December, 2021 to approximately HK$1,028.8 million as at 31 December, 2022, primarily due to (i) the loss for the year of approximately HK$206.6 million as a result of the reduced demand for bus services when COVID-19 restrictions were being put in place in FY2022; and (ii) the payment of dividend amounted to HK$200.0 million during FY2022.

The gearing ratio further increased from approximately 195% as at 31 December, 2022 to approximately 336% as at 31 December, 2023. This increase was mainly attributable to the decrease in total equity of approximately HK$413.7 million, or approximately 40.2%, from approximately HK$1,028.8 million as at 31 December, 2022 to approximately HK$615.1 million as at 31 December, 2023, primarily due to (i) the payment of dividend amounted to HKD250.0 million during FY2023; and (ii) the total comprehensive loss for the year of approximately HK$163.2 million in FY2023.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's operating and financing activities, in the ordinary course of business, expose it to a variety of risks, including fuel pricing risk, interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial and fuel markets and seeks to minimise their potential adverse effects on the Target Group's financial performance. The derivative financial instruments are solely used to reduce or eliminate the financial risks associated with the Target Group's liabilities and not for trading or speculation purposes. The Target Group manages and monitors such exposure to ensure appropriate measures are implemented in a timely and effective manner. These risks are managed by the Target Group's financial management policies and practices described below.

The table below sets out the summary of the derivative financial instruments outstanding of the Target Group during the Trading Record Period.

	At 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Assets:			
Fuel price swap contracts, at fair value	21,540	–	–
Fuel price call option contracts, at fair value	11,610	21,602	8,016
Interest rate swap contract, at fair value	15,131	82,188	–
Interest rate cap option contract, at fair value	–	–	2,202
Total	**48,281**	**103,790**	**10,218**
Liabilities:			
Interest rate swap contract, at fair value	(4,573)	–	–
Total	**(4,573)**	**–**	**–**

The table below sets out the summary of the hedging reserve related to the following hedging instruments of the Target Group during the Trading Record Period.

	As at 31 December,		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Fuel price swap contracts	34,832	–	–
Fuel price call option contracts	4,560	(13,843)	(14,822)
Interest rate swap contract	10,558	82,188	–
Interest rate cap option contract	–	–	(5,010)
Total	**49,950**	**68,345**	**(19,832)**

Fuel pricing risk

As the Target Group's core business involves bus operations and therefore its heavy demand for fuel, it is exposed to the upside risk of fuel prices. The Target Group manages its exposure to this risk by using fuel price swap and fuel price call option contracts when the contract price is favourable to the Target Group.

To mitigate the financial risks associated with volatile fuel prices, the Target Group has adopted a fuel price hedging policy which mainly involves the use of fuel price swap contracts and fuel price option contracts with a view to locking in favourable fuel prices and limiting its exposure to fuel price fluctuations.

The term of the above swap contracts and option contracts ranged from six to twelve months. Payments under these contracts were generally settled on a monthly basis.

Under the Target Group's fuel price hedging policy, it hedged 80%, 90% and 80% of its expected fuel consumption for FY2021, FY2022 and FY2023, respectively, and the fuel hedge ratio of the Target Group (calculated by dividing the volume of fuel hedged by the total expected fuel consumption) for the corresponding periods was approximately 0.8, 0.9 and 0.8, respectively. The Target Group's management generally takes into account factors including, among others, market conditions, terms of the swap/option contracts, the Target Group's fuel consumption patterns and its risk tolerance and risk management objectives in determining its fuel hedge ratio for a specified period (usually twelve months).

For further details, please refer to the paragraphs headed "5. Business – Suppliers and subcontractors – Fuel price hedging policy" in this appendix.

Interest rate risk

The Target Group's interest rate risk has arisen primarily from its interest-bearing bank loans, including the 2020 Acquisition Loan, the 2020 Term Loan, the 2020 Revolving Facilities, the New Facility A and the New Facility B, which carry variable interest rates based on Hong Kong Interbank Offer Rate (HIBOR).

As such, the Target Group is exposed to cash flow interest rate risk resulting from the changes in market interest rates. To manage such interest rate risk, the Target Group has entered into a floating-to-fixed interest rate swap contract and interest rate cap option contract to hedge against the cash flow interest rate risk associated with the interest-bearing bank loans.

Upon the completion of the 2020 Acquisition, the Target Group entered into a 5-year floating-to-fixed interest rate swap that converted HIBOR to a fixed rate of 0.755% per annum. The notional amount for this swap was HK$1,245 million. In May 2023, the interest rate swap contract was terminated early due to the increase in interest rates. As a result of the termination, the Target Group received an amount of HK$56.0 million, and concurrently entered into a new interest rate cap option contract, with a notional amount of HK$1.0 billion, with HIBOR cap at 5% per annum.

Foreign exchange risk

The Target Group's foreign currency exposure mainly arises from its procurement of buses and spare parts from overseas suppliers that are denominated in foreign currencies, including Pound Sterling, Euro and United States dollars, other than its functional currency. As at the end of each reporting period, the Target Group had not used any derivative financial instrument to hedge against the foreign exchange risk in view of the then market conditions.

However, the Target Group continues to monitor the foreign currency trends closely and would consider entering into foreign exchange forward contracts to cover its major foreign currency payment commitments.

The sensitivity analysis below is prepared assuming the amount of assets/liabilities denominated in foreign currencies outstanding at the end of the reporting period was outstanding for the whole period, and all other variables were held constant. In this respect, it is assumed that the pegged rate between Hong Kong dollar and United States dollar would be materially unaffected by any changes in movement in value of United States dollar against other currencies. For other foreign currencies with significant exposure at the end of the reporting period, a 500 basis point increase or decrease is used as it represents management's assessment of the reasonably possible change in exchange rates.

If the foreign exchange rate of Pound Sterling had been 5% higher/lower with all other variables held constant, the loss before income tax for the year would have been higher/lower approximately by HK$1.2 million, HK$0.2 million and HK$0.4 million in FY2021, FY2022 and FY2023, respectively.

If foreign exchange rate of Euro had been 5% higher/lower with all other variables held constant, the loss before income tax for the year would have been higher/lower approximately by HK$0.2 million, HK$0.2 million and HK$0.2 million in FY2021, FY2022 and FY2023, respectively.

Please see note 3(a)(iii) to the accountants' report of the Target Group included in Appendix III in this circular for further details regarding the foreign currency rate sensitivity analysis.

Credit risk

The Target Group's credit risk arises primarily from its accounts receivable, contract assets, other receivables, deposits, bank deposits and derivative financial instruments held by the Target Group. The Target Group has the following policies in managing its credit risks.

Management has a credit policy for its ordinary business activities. Credits are usually granted to customers with good credit history only. Bank guarantees or deposits where appropriate are usually requested from the major customers with credit limits over certain thresholds. While bus passengers pay their fares in cash or by Octopus and other electronic payment methods that do not require a credit period, customers of BML are normally granted to have a credit period of one to four months. All receivables will be closely monitored and are expected to be recoverable within one year.

The Target Group applies the HKFRS 9 simplified approach to measuring expected credit losses which use a lifetime expected loss allowance for accounts receivable and contract assets. When calculating the expected credit loss rate of accounts receivable and contract assets, the Target Group considers the historical credit loss experience to incorporate relevant, current and more forward-looking information for different classes of accounts receivable and contract assets which are grouped based on shared credit risk characteristics and the days past due. On every reporting date, the historical observed default rates are updated and changes in the forward looking estimates are analysed.

For accounts receivable and contract assets, the Target Group performs periodic credit evaluations of its customers, taking into account their financial position, past experience and other factors. The utilisation of credit limits is regularly reviewed. No material credit limits were exceeded during the Trading Record Period, and Target Group's management does not expect any material losses from non-performance by these counterparties as there was no history of material default from accounts receivable and contract assets.

For deposits and other receivables, which mainly consist of rental deposits and utilities and management fee deposits, credit quality has been assessed with reference to historical information about the default rates and financial position of the counterparties. Given there is no history of defaults from these counterparties, the Target Group does not expect that there to be any significant increase in credit risk.

For deposits with banks and financial institutions, all bank balances and bank deposits are held at leading and reputable financial institutions with low credit risk. There is no history of defaults from these counterparties.

Liquidity risk

In the management of the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the Target Group's management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The Target Group manages liquidity risk by employing projected cash flows analysis to manage liquidity risk for forecasting timing and amounts of payments and receipts.

Capital management

The Target Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern while maximising the return to its shareholders and maintaining an optimal capital structure. In order to maintain an optimal capital structure, the Target Group may adjust its capital structure through dividend payments to shareholders.

The Target Group monitors capital structure by the net debt-to-total equity ratio, which is calculated as bank loans less cash and bank balances divided by total equity.

The net debt-to-total equity ratios of the Target Group during the Trading Record Period were as follows:

	As at 31 December,		
	2021	**2022**	**2023**
Net debt-to-total equity ratio	82.21%	100.83%	207.83%

The net debt-to-total equity ratio increased from approximately 82.21% as at 31 December, 2021 to approximately 100.83% as at 31 December, 2022, primarily due to (i) the payment of dividend amounted to HK$200.0 million during FY2022; and (ii) the loss for the year of approximately HK$206.6 million as a result of the reduced demand for bus services when COVID-19 restrictions were being put in place in FY2022.

Thereafter, the net debt-to-total equity ratio increased from approximately 100.83% as at 31 December, 2022 to approximately 207.83% as at 31 December, 2023, primarily due to (i) the repayment of deferred payment amounted to HK$400.0 million as part of the remaining purchase consideration payable to NWS Service for the 2020 Acquisition during FY2023; (ii) the payment of dividend amounted to HK$250.0 million during FY2023; and (iii) the total comprehensive loss for the year of approximately HK$163.2 million in FY2023.

Despite still being loss-making, the Target Group's loss for the year narrowed in FY2023 from approximately HK$206.6 million in FY2022 to approximately HK$73.6 million in FY2023, and that the Target Group generated a loss from operations of approximately HK$205.3 million in FY2022 as opposed to a profit from operations of approximately HK$116.7 million in FY2023. This was mainly the result of the rebound of Hong Kong's economy following the containment of COVID-19 pandemic and relaxation of COVID-19-related restrictions which in turn resulted in the substantial rise in patronage by approximately 22.9%, from approximately 276.5 million in FY2022 to approximately 339.7 million in FY2023.

NO MATERIAL ADVERSE CHANGE

The directors of the Target Company have confirmed that, up to the Latest Practicable Date, there had been no material adverse change in the Target Group's financial or trading position since 31 December, 2023, the end of period reported in the accountants' report of the Target Group, and that there had been no event since 31 December, 2023 which has materially affected the information shown in the accountants' report of the Target Group as set out in Appendix III to this circular.

THE CONTROLLING SHAREHOLDER OF THE COMPANY

As at the Latest Practicable Date, Mr. An is interested in approximately 69.92% of the issued Shares and is the Controlling Shareholder of the Company.

As set out in the section headed "Letter from the Board – Effect of the Consideration Shares on the Shareholding Structure", Mr. An will be interested in approximately 65.32% of the enlarged issued Shares immediately after the allotment and issue of the Consideration Shares upon Completion. On the foregoing basis, Mr. An will remain as the Controlling Shareholder of the Company upon Completion.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDER OF THE COMPANY

The Directors are of the view that the Target Group is capable of carrying on its businesses independently or, and does not place undue reliance on, the Controlling Shareholder Group (i.e. Mr. An and his close associates), taking into account the following factors:

Operational independence

During the Trading Record Period and up to the Latest Practicable Date, the Target Group:

(i) did not share any business operations, operation team, facilities and equipment with the Controlling Shareholder Group;

(ii) had been in possession of the franchises (including the Merged Franchise and CTB (F2) 2023 Franchise), licences, permits, approvals and certificates necessary to conduct its business operations. For further details, please refer to section headed "5. Business – Franchises, licences and permits" in this appendix;

(iii) had its own organisational structure and each of its functions/departments was assigned with specific responsibilities and functions; and

(iv) had independent access to its customers (mainly bus passengers and clients of the advertising business), suppliers and subcontractors.

Accordingly, the Directors consider that the Target Group is able to operate independently of the Controlling Shareholder Group.

Management Independence

Mr. Yang Dong, an executive Director and the chief executive officer of the Company, is a director (as an appointee of the Company) of each of BTHL and BTSL.

Further, Mr. Chung Chak Man, being an independent non-executive Director, is the vice chairman of the board of directors of BTSL, a director of each of Citybus and NWFB. Mr. Li Wai Keung, being an independent non-executive Director, is a director of each of Citybus and NWFB.

As at the Latest Practicable Date, save as disclosed above, there was no overlapping of directors or members of the core management team of the Target Group and the Company. For details of the core management team of the Target Group, please refer to section headed "6. Core management team" in this appendix.

The Directors are of the view that the core management team of the Target Group is able to perform its managerial role in the Target Group independently of the Controlling Shareholder Group as (a) the day-to-day operations of the Target Group are carried out by a separate team of core management; (b) Mr. Yang Dong did not have any executive role in the Target Group and did not participate in the daily operations of the Target Group; and (c) the directorship of each of Mr. Chung Chak Man and Mr. Li Wai Keung in the Company are non-executive in nature and thus there is no overlap between their roles in the Target Group and the Group.

Financial independence

During the Trading Record Period and up to the Latest Practicable Date, the Target Group had its own internal control, accounting and financial management system, finance department, and made financial decisions according to its own business needs. As at the Latest Practicable Date, there were no outstanding loans owing by the Target Group to the Controlling Shareholder Group and there was no security or guarantee provided by the Controlling Shareholder Group for any facilities or loans of the Target Group.

The Company believes that following Completion, the Target Group will be able to fund its businesses independently by its operating cash flows and external banks and finance facilities without credit support from the Controlling Shareholder of the Company.

Having considered the above factors, the Directors consider that the Target Group will have no financial dependence on the Controlling Shareholder of the Company upon Completion.

FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial information of the Group for each of the FY2021, FY2022 and FY2023 are disclosed in the following annual reports of the Company which have been published on the website of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.hansenergy.com):

- The audited consolidated financial statements of the Group for FY2021 is disclosed in 2021 Annual Report, from pages 103 to 219. Please also see below the link to the 2021 Annual Report:

  www1.hkexnews.hk/listedco/listconews/sehk/2022/0425/2022042501067.pdf

- The audited consolidated financial statements of the Group for FY2022 is disclosed in 2022 Annual Report, from pages 117 to 231. Please also see below the link to the 2022 Annual Report:

  www1.hkexnews.hk/listedco/listconews/sehk/2023/0427/2023042701764.pdf

- The audited consolidated financial statements of the Group for FY2023 is disclosed in the 2023 Annual Report, from pages 118 to 231. Please also see below the link to the 2023 Annual Report:

  www1.hkexnews.hk/listedco/listconews/sehk/2024/0327/2024032700694.pdf

STATEMENT OF INDEBTEDNESS OF THE ENLARGED GROUP

As at the close of business on 30 April, 2024, being the latest practicable date for the purpose of this statement of indebtedness, the indebtedness of the Enlarged Group was as follows:

Borrowings

As at the close of business on 30 April, 2024, being the latest practicable date prior to the printing of this circular for the purpose of this indebtedness statement of the Enlarged Group, the Enlarged Group had a total borrowings of approximately HK$2,614 million, comprising secured and guaranteed bank loans of approximately HK$1,642 million, secured and unguaranteed bank loans of approximately HK$600 million, and unsecured and unguaranteed amounts due to a non-controlling shareholder and a Director of approximately HK$71 million and unsecured and unguaranteed deferred payment to NWS Service of approximately HK$301 million.

As at 30 April, 2024, the Enlarged Group's bank loans of approximately HK$2,242 million were pledged by investments in certain subsidiaries with carrying value of approximately HK$7,478 million, certain property, plant and equipment with carrying value of approximately HK$361 million, certain interests in leasehold land and buildings held for own use with carrying value of approximately HK$152 million, certain trade and other receivables (including amounts due from group companies within the Enlarged Group) with carrying value of approximately HK$4,241 million, certain cash and bank balances with carrying value of approximately HK$221 million and restricted bank balance with carrying value of HK$150 million.

As at the close of business on 30 April, 2024, the Enlarged Group had lease liabilities of approximately HK$1,319 million.

Disclaimer

Save as aforesaid, and apart from intra-group liabilities and normal accounts payable, the Enlarged Group did not have any outstanding bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease, hire purchases commitments, which were either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities at the close of business on 30 April, 2024. To the best knowledge of the Directors, having made all reasonable enquiries, there has been no material change in indebtedness or contingent liabilities of the Group since 30 April, 2024, and up to the Latest Practicable Date.

WORKING CAPITAL

After taking into account the effect of the Acquisition and the successful arrangement of the related funding requirements, the financial resources available to the Enlarged Group, including the internally generated funds, existing bank balances and cash, banking facilities and other credit facilities available, and in the absence of unforeseeable circumstances, the Directors, after due and careful enquiry, are of the opinion that the Enlarged Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this circular.

NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December, 2023, being the date to which the latest published audited consolidated financial statements of the Group were made up.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

The Group is a leading operator in providing integrated facilities of jetties, storage tanks, warehousing and logistic services in south China for petroleum and liquid chemicals products, offering value-added services in its own ports and storage tank farms (the "**Terminal Storage Business**"), trading of oil and petrochemical products (the "**Trading Business**") and leasing of a filling station (the "**Other Business**").

Set out below is the management discussion and analysis and other information of the Group for each of the FY2021, FY2022 and FY2023.

For FY2023

Business review

(i) Terminal Storage Business

The Group owns and operates a liquid product terminal, DZIT carried out by DZ International. DZIT is situated in Lisha Island, Humen Harbour district, Shatian county, Dongguan city, Guangdong province, the PRC, with a total of land and coastal site area of over 830,000 square metres. It was built with berths ranging from 500 to 100,000 dwt and is installed with 94 oil and petrochemical tanks of a total storage capacity of approximately 260,000 cubic metres, out of which 180,000 cubic metres are for gasoline, diesel and similar petroleum products commonly available in trading and consumption markets. Storage tanks with capacity of 80,000 cubic metres were built for petrochemical products. The Group is focused on tapping into market potentials and diversifying its terminal storage business to generate more revenue and maximize shareholders' value by utilising spare capacity from jetties and vacant land of DZIT. In the past few years, the Group has engaged in discussion with various stakeholders on DZIT second phase development about modification of the existing jetties and proposing the construction of a liquefied natural gas storage tanks and related facilities in the vacant land of approximately 150,000 square meters. The Group has already submitted the application to the local government, and as at the reporting date of the 2023 Annual Report, the application approval is still in progress.

Despite the decrease in the transshipment volume and number of drums filled in 2023, the introduction of new customers by DZ International had led to improvements in other operational statistics throughout FY2023. The number of domestic vessels visited increased, along with an increased number of trucks serving to pick up cargoes. As a result, the terminal throughput and the port jetty throughput experienced the increase of 43.4% and 33.9% respectively over FY2022. During FY2023, the average lease out rate for oil and petrochemical tanks was 95.8%, dropped by 1.7 percentage points over FY2022. This decrease was primarily attributed to the changing business models by chemical plants in recent years which are increasingly inclined to produce downstream products and deliver them directly to end customers.

(ii) Trading Business

The Group operates in trading of oil and petrochemical products carried out in the PRC (including Hong Kong) and has established long term cooperative relationships with major energy companies such as CNOOC, Sinopec and Sinochem Group. The Group's strategy for its Trading Business is to expand the customers base to the end customers of filling stations by prioritising supply the petrol and diesel to the filling stations through signing of key fuel supply agreements, and providing the brand management services, thereby enhancing the unit profit from the Trading Business. By establishing long-term cooperative relationships with key players in the industry and targeting the retail market through key fuel supply agreements and brand management services, the Group is positioning itself for long-term growth and profitability.

In view of the COVID-19 pandemic impact on the global economy during the past few years and the high volatility of crude oil price in 2022, the Group implemented a cautious strategy on its Trading Business in 2022, which involved reducing the number of sales contracts entered, to address these external uncertainties. As the pandemic restrictions eased and the global economy gradually recovered in 2023, there was an overall increase demand in the market for oil and petrochemical products. Taking advantage of this positive trend, the Group is now accelerating its Trading Business from the second quarter of 2023. During FY2023, the number of sales contracts entered and the sales volume of oil and petrochemical products significantly increased by 1,320.7% and 61.2% respectively over FY2022.

(iii) Other Business

The Group owns a filling station in Zengcheng, the PRC with a site area of approximately 12,500 square metres. Its floor area, fuel island configuration, equipment level and construction standards all meet the standards of local flagship filling stations. The Group operated its filling station since its commencement of operation from April 2020 and it has been leased to an independent third party for rental income by signing of key fuel supply agreements and providing the brand management since August 2021. As at the reporting date of the 2023 Annual Report, the Group has eight filling stations under the brand "Hans Energy" located across Guangdong Province and Guangxi Province in the PRC.

Business outlook

Looking forward to 2024, the Group's terminal storage business will continue to operate at high capacity. In the Group's trading business and filling station fuel oil distribution sector, it will strengthen cooperation with major state-owned enterprises such as CNOOC Group, Sinochem Group, as well as local state-owned enterprises in Guangdong. While ensuring effective risk management, the Group aims to reach operational volumes of gasoline, diesel, and fuel oil ranging from 250,000 to 300,000 metric ton.

Financial review

Revenue and gross profit margin

During FY2023, the Group's revenue was approximately HK$948.5 million, representing an increase of 36.5% over FY2022. The increase was mainly attributable to the increase in revenue from the Trading Business by 46.7% as compared to FY2022. During FY2023, the gross profit was approximately HK$89.2 million, a decrease of 4.7% over FY2022 and the gross profit margin was 9.4%, a decrease of 4.1 percentage points on a yearly basis. Despite an increase in the Group's revenue, the direct costs and operating expenses increased at a higher rate than the increase in revenue, it resulted in a reduced gross profit and gross profit margin during FY2023.

Direct costs and operating expenses

During FY2023, the Group's direct costs and operating expenses were approximately HK$859.3 million, representing an increase of 42.9% over FY2022, and of which cost of inventories from oil and petrochemical products were approximately HK$775.6 million, accounting for 90.3% of total direct costs and operating expenses and an increase of 48.4% on a yearly basis. The increase in direct costs and operating expenses was primarily attributable to the increase in cost of inventories which is consistent to the increase in sales revenue, as well as the increase in operating expenses, particularly maintenance costs in DZIT during FY2023.

EBIT and EBITDA

During FY2023, the Group's EBIT and EBITDA were approximately HK$2.5 million and HK$57.7 million respectively, representing decreases of 95.6% and 48.6% over FY2022. The decreases were mainly attributable to the recognition of loss on disposal of limited partnership interest of approximately HK$39.4 million, and the increase in operating expenses and administrative expenses for FY2023.

Finance costs

During FY2023, the finance costs were mainly incurred from the Group's outstanding bank loans, amounting to approximately HK$31.7 million which decreased by 38.9% over FY2022. The decrease was mainly attributable to the decrease in average bank borrowing rate during FY2023.

Taxation

No Hong Kong Profits Tax was provided for FY2023 as the Group sustained a loss for Hong Kong Profits tax purposes for the year. The applicable tax rate of the Group's PRC subsidiaries for FY2023 was 25%.

Basic and diluted loss per Share

During FY2023, the basic and diluted loss per Share were HK$0.91 cent.

Liquidity, gearing and capital structure

As at 31 December, 2023, the Group's total cash and bank balances amounted to approximately HK$374.9 million. Most of the funds were held in HK dollars, RMB and US$.

As at 31 December, 2023, the Group had total assets of approximately HK$1,957.0 million and net current assets of approximately HK$376.2 million. The current ratio as at 31 December, 2023 of the Group was 2.38.

As at 31 December, 2023, the Group had outstanding bank borrowings of approximately HK$564.0 million. The total equity of the Group as at 31 December, 2023 amounted to approximately HK$1,233.1 million. The gearing ratio (defined as total liabilities to total assets) as at 31 December, 2023 was 37.0%. The Group would continuously consider various financial methods to improve our existing financial position and reduce the degree of leverage of the Group.

Financial resources

During FY2023, the Group met its working capital requirement principally from its business operation and was financed with facilities provided by banks.

The fixed rate borrowings of lease liabilities and bank loans, were charged with effective interest rates between 2.6%–6.8% and 4.1%–4.7%, respectively.

Significant investments, material acquisitions and disposals and future plans for material investments or capital assets

As at 31 December, 2023, the Group's significant investments comprised unlisted equity securities and financial assets as set out below.

Unlisted equity securities

The unlisted equity securities are shares representing approximately 15.56% of entire issued BTHL Shares, which is engaged in investment holding. The principal subsidiaries of BTHL include Citybus (being an indirect wholly owned subsidiary), which is the holder of the current Merged Franchise and CTB (F2) 2023 Franchise, and is principally engaged in the provision of public bus in Hong Kong.

As at 31 December, 2023, the Group recorded a fair value of HK$700 million in respect of its holding in about 15.56% of such unlisted equity securities. The fair value of such unlisted equity securities represented 35.8% of the Group's total assets and 100% of the aggregate fair value of the Group's investment portfolio. In terms of performance, the investment measured at FVOCI recorded a fair value gain of approximately HK$62 million in the asset revaluation reserve for FY2023. During FY2023, dividend distribution of approximately HK$38.9 million was received from such investment.

Financial assets

The financial assets represented the Group's subscription of limited partnership interest in Templewater I, L.P. which is an unlisted fund managed by asset manager who applied various investment strategies to accomplish their respective investment objectives through investments in equity and equity related securities, mainly in companies based in Asia-Pacific and Europe and portfolio funds with a similar investment focus. The principal business of Templewater I, L.P. is to invest for returns from capital appreciation and investment income, either through the use of special purpose vehicles or by investing directly.

The limited partnership interest represented the entire interest held by Creative Apex in the limited partnership, being capital commitment of US$20 million (comprising (i) US$15.7 million of funded capital contribution and (ii) US$4.3 million of capital commitment that has yet to be funded) and 100% of Creative Apex's capital account balance (being the aforesaid funded capital contribution), and the related rights, title and interests in the Subscription Agreement in relation to the limited partnership entered into by Creative Apex and Templewater I, G.P., being the general partner of the limited partnership dated 26 March, 2019. Details of the subscription by Creative Apex of the limited partnership interest are set out the announcements of the Company dated 12 April, 2019 and 17 May, 2019.

On 23 November, 2023, Creative Apex (as transferor) entered into the Deed of Assignment with Chantilly TM Strategic Fund L.P. (as transferee) and the Templewater I, G.P., pursuant to which Creative Apex has agreed to assign and transfer to Chantilly TM Strategic Fund L.P., and Chantilly TM Strategic Fund L.P. has agreed to assume and accept all of the rights, title and interests of Creative Apex in the limited partnership interest at a consideration of approximately HK$129.6 million (equivalent to US$16,570,822.38), and the Templewater I, G.P. has given its consent to such transactions. The completion took place on the date of the Deed of the Assignment.

During FY2023, the loss on disposal of approximately HK$39.4 million was recognised in profit or loss that was based on the consideration of approximately HK$129.6 million less the carrying value of the limited partnership interest of approximately HK$169.0 million, comprising total amount of capital contribution funded by the Group of approximately HK$123.4 million (equivalent to US$15.7 million) and the accumulated fair value gains of approximately HK$58.6 million recognised up to the date of disposal, and deducting the amount of distribution of approximately HK$13.0 million received from the limited partnership interest during the term of investment. Upon completion of disposal, Creative Apex ceased to have any interest in the limited partnership. The limited partnership interest is no longer accounted for as financial assets at FVPL in the Group's consolidated financial statements.

Details of the disposal of the limited partnership interest are set out in the announcement of the Company dated 23 November, 2023.

Save for the above, there were no other significant investments, nor were there any other material acquisitions or disposals during FY2023.

Exposure to fluctuations in exchange rates and prices and related hedge

The Group's cash and bank balances are held predominately in HK dollars, RMB and US$. Operating outgoings incurred by the Group's subsidiaries in the PRC are mainly denominated in RMB, which usually receives revenue in RMB as well. Management considers that the Group exposed to fluctuation in exchange rates are not significant. Prices of oil products are affected by a wide range of global and domestic factors which are beyond the control of the Group. The fluctuations in such prices may have favourable or unfavourable impacts on the Group. However, the Group mainly operated on a back-to-back sale and purchase model and has been vigorously developing the establishment of end customers of filling stations (including branded filling stations) to reduce procurement costs by centralising procurement, retail and wholesale, which not only prevents risk of oil price fluctuations but also enhances profitability. Accordingly, management is in the opinion that the Group's exposure to foreign exchange rate and price risks are not significant, and hedging by means of derivative instruments is considered unnecessary.

Save for the above, there were no other significant risks of exchange rates and price during FY2023.

Employee and remuneration policy

As at 31 December, 2023, the Group had a total of approximately 174 employees, 145 of which worked for the terminal. The Group remunerates its employees based on industry practices and individual performance and experience. Every year, the Group devises a budget which states total salary and bonus plan for the year to encourage the Group's employees to contribute their best efforts and to make maximum economic benefits to the Group. In accordance with the relevant government regulations in the PRC, the Group is required to cover social insurance, including but not limited to retirement, medical, workman compensation and unemployment insurance as well as housing fund for every qualified employee in the PRC. With these insurance policies and staff benefits, the Group hopes to provide a reasonable welfare for each qualified employee. On top of the basic remuneration, discretionary award or bonus (in cash or other forms in kind) as may be determined by the Board may be granted to selected employees by reference to the Group's as well as individual's performances. The Group has adopted the share option scheme and share award scheme under which eligible participants may be granted options to subscribe for Shares or awards in the Shares respectively.

Share option scheme

Pursuant to an ordinary resolution passed on 28 December, 2012, the Company adopted 2012 Share Option Scheme which would expire on 27 December, 2022. In order to enable the continuity of the share option scheme of the Company, the termination of the 2012 Share Option Scheme and the adoption of 2022 Share Option Scheme were approved by the Shareholders on 15 June, 2022. The 2022 Share Option Scheme would expire on 14 June, 2032. In view of the amendments to Chapter 17 of the Listing Rules which took effect on 1 January, 2023, the termination of the 2022 Share Option Scheme and the adoption of 2023 Share Option Scheme were approved by the Shareholders at the general meeting on 31 May, 2023. The 2023 Share Option Scheme is valid for ten years from the adoption date and is due to expire on 30 May, 2033. During FY2023, no share options were granted, exercised, lapsed or cancelled by the Company under the 2012 Share Option Scheme, 2022 Share Option Scheme and 2023 Share Option Scheme.

Share award scheme

The Company adopted 2019 Share Award Scheme on 15 April, 2019, which would expire on 14 April, 2029. In view of the amendments to Chapter 17 of the Listing Rules which took effect on 1 January, 2023, the termination of the 2019 Share Award Scheme and the adoption of the 2023 Share Award Scheme were approved by the Shareholders at the general meeting on 31 May, 2023. The 2023 Share Award Scheme is valid for ten years from the adoption date. As at 31 December, 2023, no grant of awards has been made under the 2023 Share Award Scheme.

Charge on Group's assets

As at 31 December, 2023, the Group had bank loans totalling HK$564,026,000 which were secured by certain of the Group's property, plant and equipment with net book value of HK$326,072,000 and interests in leasehold land and buildings held for own use with net book value of HK$153,579,000. The aggregate banking facilities of the Group amounted to HK$574,443,000 of which HK$564,026,000 were utilised.

Contingent liabilities

As at 31 December, 2023, the Group had no material contingent liabilities.

Capital commitments

As at 31 December, 2023, the Group did not have significant capital commitments. As at 31 December, 2022, the Group had capital expenditure contracted for but not provided in the financial statements in respect of interests in a limited partnership of HK$78 million. The purpose of the limited partnership is primarily achieving capital appreciation and participating primarily through investments in equity and equity-related securities, mainly in companies based in Asia-Pacific and Europe and portfolio funds with a similar investment focus.

Events after balance sheet date

The Group has no material subsequent event after 31 December, 2023 and up to the date of this circular.

Final dividend

The Directors did not recommend any final dividend for FY2023.

For FY2022

Business review

(i) Terminal Storage Business

During FY2022, these major operational statistics of DZIT were challenged by some external factors, including (i) the consumption tax on some oil and petrochemical products imposed by the PRC government since June, 2021, (ii) the temporary closures of workplaces and lockdowns in several cities across China in early 2022 due to continued pandemic and (iii) the high volatility of oil price in 2022 that caused certain customers of DZIT to reduce its production and operating capacity. As a result, the number of foreign vessels visited, number of trucks served to pick up cargoes and terminal throughput decreased by 27.4%, 35.8% and 20.9% respectively as compared to FY2021. Nevertheless, the average lease out rate for oil and petrochemical tanks still achieved as high as 97.5% during FY2022, slightly dropped by 0.3 percentage points over FY2021.

(ii) Trading Business

The pandemic has lasted for more than three years and had a certain impact on the Group's trading business. As the China government had levied consumption tax on some refined oil products such as light cycle oil, mixed aromatics and diluted asphalt since June, 2021, and strengthened the supervision of taxation on the upstream and downstream distribution of refined oil products, which may have resulted in greater price transparency, there was a reduction in the price difference between the northern and the southern parts of the PRC, and together with the high volatility of crude oil price in 2022, the Group reduced the number of sales contracts entered into and sales volume in order to minimize the uncertainty of external environment towards its trading business.

During FY2022, the number of sales contracts entered into and sales volume of oil and petrochemical products dropped by 37.6% and 74.1% respectively as compared to FY2021. In order to improve unit profit, the Group has taken proactive measures to vigorously develop and expand the customer base to the end customers of filling stations, which not only facilitated the business operations to bring into play the advantages of centralised procurement, reduced procurement cost and gained stable profit through the way of centralized procurement, retail and wholesale, but also helped to enhance the market risk resistance and obtain higher profit by leveraging on market price fluctuation. As the pandemic slowed down, the Group actively sought to expand the customer's base and business scale, and increase the volume of trading activities to enhance the Group's profits.

(iii) Other Business

The Group leased out its filling station in Zengcheng, the PRC to an independent third party for rental income by signing of key fuel supply agreements and providing brand management in August 2021. As at the reporting date of the 2022 Annual Report, the Group had nine filling stations under the brand "Hans Energy" located across Guangdong Province and Guangxi Province in the PRC.

Financial review

Revenue and gross profit margin

During FY2022, the Group's revenue was approximately HK$694.9 million, representing a decrease of 64.8% over FY2021. The decrease was mainly attributable to the decrease in revenue from the Trading Business by 69.6%. During FY2022, the gross profit was approximately HK$93.6 million, a decrease of 12.4% over FY2021, yet the gross profit margin was 13.5%, increased by 8.1 percentage points on a yearly basis. The decrease in gross profit was mainly attributable to the reducing trading activities during FY2022. Nevertheless, the Terminal Storage Business strictly implemented cost control in FY2022, which uplifted the Group's overall gross margin during FY2022.

Direct costs and operating expenses

During FY2022, the Group's direct costs and operating expenses were approximately HK$601.2 million, representing a decrease of 67.8% over the FY2021, of which cost of inventories from oil and petrochemical products were approximately HK$522.8 million, accounting for 87.0% of total direct costs and operating expenses. The decrease of direct costs and operating expenses was mainly due to the decrease of revenue during FY2022.

EBIT and EBITDA

During FY2022, the Group's EBIT was approximately HK$55.4 million, increased by 18.3% over FY2021. The increase was mainly attributable to (i) the increase in other income which was mainly due to dividend income from unlisted equity securities of approximately HK$31.1 million, and (ii) the reduction in Group's selling and administrative expenses which was mainly due to (a) decrease of equity settled share-based payment expenses by approximately HK$40.7 million, (b) decrease of depreciation and amortisation by approximately HK$19.3 million and (c) reversal of loss allowance of trade and other receivables by HK$4.0 million in FY2022 while recognition of loss allowance of trade and other receivables of HK$13.7 million in FY2021, partially offsetting the decrease of gross profit by approximately HK$13.2 million and recognition of net fair value losses on financial assets at FVPL by approximately HK$8.1 million during FY2022. Excluding the decrease of depreciation and amortisation, EBITDA was recorded as approximately HK$112.3 million for FY2022, which decreased by 8.7% over FY2021.

Finance costs

During FY2022, the finance costs were mainly incurred from the Group's outstanding bank loans, amounting to approximately HK$51.9 million which decreased by 5.5% over FY2021. The decrease was mainly attributable to the decrease in average bank loan balance arising from repayment of bank loans during FY2022.

Taxation

The provision for Hong Kong Profits Tax for FY2022 is calculated at 16.5% of the estimated assessable profits of FY2022, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime. The applicable tax rate of the Group's PRC subsidiaries for FY2022 was 25%.

Basic and diluted earnings per Share

During FY2022, the basic and diluted earnings per Share was HK$0.01 cents.

Liquidity, gearing and capital structure

As at 31 December, 2022, the Group's total cash and bank balances amounted to approximately HK$162.3 million. Most of the funds were held in HK dollars, RMB and US$.

As at 31 December, 2022, the Group had total assets of approximately HK$1,976.7 million and net current assets of approximately HK$235.3 million. The current ratio as at 31 December, 2022 of the Group was 1.73.

As at 31 December, 2022, the Group had outstanding bank borrowings of approximately HK$584.8 million. The total equity of the Group as at 31 December, 2022 amounted to approximately HK$1,207.0 million. The gearing ratio (defined as total liabilities to total assets) as at 31 December, 2022 was 38.9%.

Financial resources

During FY2022, the Group met its working capital requirement principally from its business operation and was financed with facilities provided by banks.

The fixed rate borrowings of lease liabilities and bank loans, were charged with effective interest rates between 2.6%–6.8% and 5.4%–7.5%, respectively.

Significant investments, material acquisitions and disposals and future plans for material investments or capital assets

As at 31 December, 2022, the Group's significant investments comprised unlisted equity securities and financial assets as set out below.

Unlisted equity securities

Immediately after the completion of the 2021 Acquisition, as at 31 December, 2022, the unlisted equity securities represented 15.56% of entire BTHL Shares.

As at 31 December, 2022, the Group recorded a fair value of HK$638.0 million in respect of its holding in about 15.56% of BTHL Shares. The fair value of such unlisted equity securities represented 32.3% of the Group's total assets and 83.8% of the aggregate fair value of the Group's investment portfolio. In terms of performance, the investment measured at FVOCI recorded a fair value loss of HK$140.0 million in the asset revaluation reserve for FY2022. During FY2022, dividend distribution of approximately HK$31.1 million was received from such investment.

Financial assets

The financial assets represent the Group's subscription of limited partnership interest in Templewater I, L.P.. Please refer to the prior section headed "For FY2023 – Financial assets" for further details.

As at 31 December, 2022, the total capital contribution into Templewater I, L.P. by the Group was approximately HK$78 million (equivalent to approximately US$10 million) and the Group had committed a maximum capital commitment of HK$156 million (equivalent to US$20 million) in Templewater I, L.P. (which had total committed capital of approximately US$187 million) in respect of its holding of about 10.7% interest in such financial asset. As at 31 December, 2022, the Group recorded a fair value of HK$123.3 million of such investment. The fair value of the financial assets exceeded the purchase cost for such investment and represented 6.2% of the Group's total assets and 16.2% of the aggregate fair value of the Group's investment portfolio.

During FY2022, the Group did not invest (including advisory fee) into Templewater I, L.P.. In terms of performance, net fair value losses of HK$8.1 million on such financial assets was recognised in profit or loss for FY2022. During FY2022, distribution of HK$13.0 million was received from such investment.

As at 31 December, 2022, the subscription for the limited partnership interest had not been completed.

Save for the above, there were no other significant investments, nor there was no any other material acquisitions or disposals during FY2022.

Exposure to fluctuations in exchange rates and prices and related hedge

Save for the disclosure in prior section headed "For FY2023 – Exposure to fluctuations in exchange rates and prices and related hedge", there were no other significant risks of exchange rates and price during FY2022.

Employee and remuneration policy

As at 31 December, 2022, the Group had a total of approximately 172 employees, 146 of which worked for the terminals. Please refer to the prior section headed "For FY2023 – Employee and remuneration policy" for the details of the remuneration policy of the Group.

Share option scheme

During FY2022, no share options were granted, 3,500,000 share options were lapsed by the relevant grantees, no share options were cancelled by the Company and no share option was exercised by the relevant grantees under the 2012 Share Option Scheme.

No share options were granted, exercised, lapsed or cancelled by the Company under the 2022 Share Option Scheme.

Share award scheme

On 6 January, 2022, the trustee purchased a total number of 20,000,000 Shares on the market at a total consideration of approximately HK$3,241,000 for the purpose of the Share Award Scheme. As at 31 December, 2022, no grant of awards has been made under the 2019 Share Award Scheme.

Charge on Group's assets

As at 31 December, 2022, the Group had bank loans totalling HK$584,839,000 which were secured by certain of the Group's property, plant and equipment with net book value of HK$287,897,000 and interests in leasehold land and buildings held for own use with net book value of HK$160,447,000. The aggregate banking facilities of the Group amounted to HK$808,236,000 of which HK$584,839,000 were utilised.

Contingent liabilities

As at 31 December, 2022, the Group had no material contingent liabilities.

Capital commitments

As at 31 December, 2022, the Group had capital expenditure contracted for but not provided in the financial statements in respect of interests in a limited partnership of HK$78 million.

Please refer to section headed "32 CAPITAL COMMITMENTS" of the financial statements in the 2022 Annual Report for further details.

Events after balance sheet date

Subsequent to 31 December, 2022, the Group has repaid bank loans of HK$584,191,000 and obtained a new bank facility amounting to HK$683,978,000.

Final dividend

The Directors did not recommend any final dividend for FY2022.

For FY2021

Business review

(i) Terminal Storage Business

The major operational statistics of DZIT in FY2021 declined and were mainly affected by (i) the impact of the consumption tax on some oil and petrochemical products; and (ii) the pressure of the relocation of factories by the customers. Despite that the Group introduced some high-quality new customers in some local state-owned enterprises at the beginning of 2021, which mainly store refined oil products and pick up cargos by vessels, that drove the number of domestic vessels visited up by 53.5% as compared to FY2020, the PRC government began to levy consumption tax on some products during FY2021, which resulted in the reduction in the number of trucks served to pick up cargoes. Coupled with certain customers' plans to relocate factories and reduce their production, the Group's overall transshipment volume and terminal throughput decreased by 58.7% and 11.7% respectively as compared to FY2020. During FY2021, the average lease out rate for both oil and petrochemical tanks maintain was 97.8%, representing a slight decrease of 0.7 percentage points over FY2020.

(ii) Trading Business

During FY2021, the PRC government began to levy consumption tax on some refined oil products such as light cycle oil, mixed aromatics and diluted asphalt, which hindered the Group's expansion of the light cycle oil trade business. In addition, as the PRC government strengthened the supervision of taxation on the upstream and downstream distribution of refined oil products, the market price became more transparent and there was a reduction of price difference between the northern and the southern parts of the PRC. As a result, Shanghai Diyou Industry Co., Ltd, which is an indirect subsidiary of the Company and principally engaged in Trading Business that has been acquired by the Group since December 2019, reduced its back-to-back orders considerably during FY2021, leading to a decrease of over 25% and 50% in the number of sales contracts entered into and sales volume respectively during FY2021. In order to improve unit profit and minimize the impact of the consumption tax on the sale volumes, the Group changed its business strategies, and vigorously expanded and developed the end customers of filling stations, which not only facilitated the business operations to bring into play the advantages of centralised procurement, reduced procurement cost and gained stable profit through the way of centralised procurement, retail and wholesale, but also helped to enhance the market risk resistance and obtain higher profit by leveraging on market price fluctuation. Besides, the Group actively expanded its import trade to drive the Trading Business carried out by the Group's subsidiary in Hong Kong. The Group entered into 93 sales contracts with a total sales volume of approximately 447,000 metric ton in FY2021.

(iii) Other Business

The Group leased out its filling station in Zengcheng, the PRC to an independent third party for rental income by signing of key fuel supply agreements and providing the brand management in August, 2021. As at the reporting date of the 2021 Annual Report, there were eight filling stations under the brand "Hans Energy" located across Guangdong Province and Guangxi Province in the PRC.

Financial review

Revenue and gross profit margin

During FY2021, the Group's revenue was approximately HK$1,972.4 million, representing a decrease of 20.5% over FY2020. The decrease was mainly attributable to the decrease in revenue from Trading Business by 22.1% over FY2020. During FY2021, total revenue from Trading Business was HK$1,791.1 million, accounting for 90.8% of the Group's total revenue. During FY2021, the gross profit was approximately HK$104.4 million, an increase of 57.3% over FY2020 and gross profit margin was 5.3%, increased by 2.6 percentage points on a yearly basis. The increase was attributable to the increase of trading activities to the end customers of filling stations with higher gross profit margin.

Direct costs and operating expenses

During FY2021, the Group's direct costs and operating expenses were approximately HK$1,867.9 million, representing a decrease of 22.7% over FY2020, of which cost of inventories from oil and petrochemical products were approximately HK$1,759.5 million, accounting for 94.2% of total direct costs and operating expenses. The decrease of direct costs and operating expenses was consistent to the decrease of revenue during FY2021.

EBIT and EBITDA

During FY2021, the Group's EBIT was approximately HK$46.8 million, which increased by 304.9% over FY2020. The increase was mainly attributable to the increase in net fair value gains on financial assets at FVPL by approximately HK$73.4 million, and an increase of gross profit by approximately HK$38.0 million offset by the increase in loss allowance of trade and other receivables of approximately HK$13.7 million and increase of equity settled share-based payment expenses by approximately HK$56.0 million. As a result of the increase of EBIT, EBITDA also increased to HK$123.0 million for FY2021, increased by 43.3% over FY2020.

Finance costs

During FY2021, the finance costs were mainly incurred from the Group's outstanding bank loans, amounting to approximately HK$54.9 million which increased by 10.1% over FY2020. The increase was mainly attributable to the increase in average bank borrowing interest rate during FY2021 and the appreciation of average exchange rate in RMB as compared to FY2020.

Taxation

The provision for Hong Kong Profits Tax for FY2021 is calculated at 16.5% of the estimated assessable profits of FY2021, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime. The applicable tax rate of the Group's PRC subsidiaries for FY2021 was 25%.

Basic and diluted loss per Share

During FY2021, the basic and diluted loss per Share was HK$0.41 cents.

Liquidity, gearing and capital structure

As at 31 December, 2021, the Group's total cash and bank balances amounted to approximately HK$118.2 million. Most of the funds were held in HK dollars, RMB and US$.

As at 31 December, 2021, the Group had total assets of approximately HK$2,286.7 million and net current assets of approximately HK$354.3 million. The current ratio as at 31 December, 2021 of the Group was 2.02.

As at 31 December, 2021, the Group had outstanding bank borrowings of approximately HK$768.2 million. The total equity of the Group as at 31 December, 2021 amounted to approximately HK$1,352.4 million. The gearing ratio (defined as total liabilities to total assets) as at 31 December, 2021 was 40.9%.

Financial resources

During FY2021, the Group met its working capital requirement principally from its business operation and was financed with facilities provided by bank.

The fixed rate borrowings of lease liabilities and bank loans, were charged with effective interest rates between 1.7%–6.8% and 6.5%–7.0%, respectively.

Significant investments, material acquisitions and disposals and future plans for material investments or capital assets

As at 31 December, 2021, the Group's significant investments comprised unlisted equity securities and financial assets as set out below.

Unlisted equity securities

Please refer to the section headed "Appendix I – Information about the Target Group – 4. History and development – Corporate development – Target Company (i.e. BTHL)" to this circular and the announcements of the Company dated 3 December, 2021 and 28 March, 2022 for further details.

Financial assets

The financial assets represented the Group's subscription of limited partnership interest in Templewater I, L.P.. Please refer to the prior section headed "For FY2023 – Financial assets" for further details.

As at 31 December, 2021, the total capital contribution into Templewater I, L.P. by the Group was approximately HK$78 million (equivalent to approximately US$10 million) and the Group had committed a maximum capital commitment of HK$156 million (equivalent to US$20 million) in Templewater I, L.P. (which had total committed capital of approximately US$187 million) in respect of its holding in about 10.7% of such financial asset. As at 31 December, 2021, the Group recorded a fair value of HK$144.4 million exceeded the purchase cost for such investment and represented 6.3% of the Group's total assets and 17.7% of the aggregate fair value of the Group's investment portfolio.

During FY2021, the Group further invested approximately HK$25 million (including advisory fee) into Templewater I, L.P.. In terms of performance, a fair value gain of HK$70.0 million on such investment was recognised in profit or loss for FY2021. Proceed of HK$0.2 million was received from such investment for FY2021.

As at 31 December, 2021, the subscription for the limited partnership interest had not been completed.

Save for the above, there were no other significant investments, nor there was no any other material acquisitions or disposals during FY2021.

Exposure to fluctuations in exchange rates and prices and related hedge

Save for the disclosure in prior section headed "For FY2023 – Exposure to fluctuations in exchange rates and prices and related hedge", there were no other significant risks of exchange rates and price during FY2021.

Employee and remuneration policy

As at 31 December, 2021, the Group had a total of approximately 230 employees, 187 of which worked for the terminals. Please refer to the prior section headed "For FY2023 – Employee and remuneration policy" for the details of the remuneration policy of the Group.

Share option scheme

During FY2021, 639,427,600 share options were granted by the Company, 3,000,000 share options were cancelled by the Company, no share option was exercised and lapsed by the relevant grantees under the 2012 Share Option Scheme.

Share award scheme

As at 31 December, 2021, no grant of awards has been made under the 2019 Share Award Scheme.

Charge on Group's assets

As at 31 December, 2021, the Group had banking facilities totalling HK$768,175,000 which were secured by certain of the Group's property, plant and equipment with net book value of HK$332,032,000 and interests in leasehold land and buildings held for own use with net book value of HK$180,384,000. The banking facilities of the Group amounted to HK$928,325,000 of which HK$768,175,000 were utilised.

Contingent liabilities

As at 31 December, 2021, the Group had no material contingent liabilities.

Capital commitments

As at 31 December, 2021, the Group had capital expenditure contracted for but not provided in the financial statements in respect of interests in a limited partnership of HK$78 million and the BTHL Shares of HK$106 million.

Please refer to section headed "32 CAPITAL COMMITMENTS" of the financial statements in the 2021 Annual Report for further details.

Events after balance sheet date

Subsequent to 31 December, 2021, the trustee purchased a total number of 20,000,000 Shares on the market at a total consideration of approximately HK$3,234,000 for the purpose of the 2019 Share Award Scheme on 6 January, 2022.

On 28 March, 2022, the Group completed the HK$106 million tranche 2 subscription for 211 shares of unlisted equity securities in BTHL.

Please refer to section headed "36 NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE" of the financial statements in the 2021 Annual Report for further details.

Final dividend

The Directors did not recommend any final dividend for FY2021.

The following is the text of a report set out on pages III-1 to III-73, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF BRAVO TRANSPORT HOLDINGS LIMITED AND ITS SUBSIDIARIES TO THE DIRECTORS OF HANS ENERGY COMPANY LIMITED

Introduction

We report on the historical financial information of Bravo Transport Holdings Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages III-5 to III-73, which comprises the consolidated statements of financial position of the Target Group as at 31 December 2021, 31 December 2022 and 31 December 2023, the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended 31 December 2021, 31 December 2022 and 31 December 2023 (the "**Relevant Periods**"), and material accounting policy information and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages III-5 to III-13 forms an integral part of this report, which has been prepared for inclusion in the circular of Hans Energy Company Limited (the "**Company**") dated 21 June 2024 (the "**Circular**") in connection with the acquisition of 54.44% interests in the Target Company.

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of the Target Group as defined on page III-4, on which the Historical Financial Information is based, were prepared by the directors of the Target Company. The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2021, 31 December 2022 and 31 December 2023 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on pages III-4 have been made.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 June 2024

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG under separate terms of engagement with the Target Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

The Historical Financial Information is presented in Hong Kong dollars and all values are rounded to the nearest thousand ($'000) except when otherwise indicated.

CONSOLIDATED INCOME STATEMENTS

	Note	Year ended 31 December 2021 *HK$'000*	2022 *HK$'000*	2023 *HK$'000*
Revenue	*6*	2,838,572	2,538,395	3,399,509
Other income	*6*	166,137	410,842	90,788
		3,004,709	2,949,237	3,490,297
Operating costs				
Staff costs	*11*	(1,720,577)	(1,669,579)	(1,787,631)
Fuel and oil		(203,549)	(308,303)	(450,247)
Repairs and maintenance		(165,583)	(166,145)	(217,354)
Insurance		(125,868)	(98,085)	(89,490)
Depreciation		(495,585)	(468,688)	(326,770)
Tolls and Franchised Bus Toll Exemption Fund		(242,803)	(208,163)	(214,942)
Other expenses		(201,649)	(235,623)	(287,185)
		(3,155,614)	(3,154,586)	(3,373,619)
(Loss)/profit from operations	*7*	(150,905)	(205,349)	116,678
Finance costs	*8*	(95,376)	(80,899)	(180,152)
Loss before income tax		(246,281)	(286,248)	(63,474)
Income tax credit/(expense)	*9*	25,662	79,666	(10,154)
Loss for the year		(220,619)	(206,582)	(73,628)

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December		
	Note	**2021**	**2022**	**2023**
		HK$'000	*HK$'000*	*HK$'000*
Comprehensive loss				
Loss for the year		(220,619)	(206,582)	(73,628)
Other comprehensive income/(loss)				
Items that will not be reclassified to profit or loss				
Remeasurements of long service payments	*21(b)*	1,562	51,477	(1,895)
Fair value change on financial asset at fair value through other comprehensive income ("**FVOCI**")	*18*	192,140	–	–
		193,702	51,477	(1,895)
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges:				
Changes in fair value		138,796	189,511	(21,162)
Transferred to consolidated income statements		8,011	(33,655)	(66,611)
Income tax relating to cash flow hedges		(19,049)	(18,509)	95
		127,758	137,347	(87,678)
Other comprehensive income/(loss) for the year		321,460	188,824	(89,573)
Total comprehensive income/(loss) for the year		100,841	(17,758)	(163,201)

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
	Note	**2021**	**2022**	**2023**
		HK$'000	*HK$'000*	*HK$'000*
ASSETS				
Non-current assets				
Property, plant and equipment	*14*	3,284,788	2,922,841	2,699,855
Right-of-use assets	*16*	272,237	3,727	1,287,745
Derivative financial assets	*23(a)*	15,131	45,816	655
Restricted bank balance	*26*	–	–	150,000
		3,572,156	2,972,384	4,138,255
Current assets				
Inventories	*19*	44,715	47,956	50,648
Accounts receivable, prepayments and deposits	*20*	242,180	444,311	313,840
Derivative financial assets	*23(a)*	33,150	57,974	9,563
Current income tax assets		99	–	–
Cash and cash equivalents	*29(b)*	505,255	298,810	342,263
		825,399	849,051	716,314
Asset held-for-sale	*18*	460,000	–	–
Total assets		4,857,555	3,821,435	4,854,569
EQUITY				
Capital and reserves				
Share capital	*25*	1,384,481	1,384,481	1,384,481
Deficit		(18,985)	(355,695)	(769,395)
Total equity		1,365,496	1,028,786	615,086

	Note	As at 31 December 2021 *HK$'000*	2022 *HK$'000*	2023 *HK$'000*
LIABILITIES				
Non-current liabilities				
Bank loans	*26*	1,571,173	1,248,333	1,711,559
Provisions	*21*	1,207	40,581	44,639
Deferred income tax liabilities	*24*	238,805	149,861	139,591
Deferred income		14,052	7,661	5,120
Lease liabilities	*16*	147,652	1,377	1,206,070
Deferred payment	*28*	657,066	326,050	185,933
		2,629,955	1,773,863	3,292,912
Current liabilities				
Bank loans	*26*	56,715	87,840	59,060
Accounts payable and accruals	*21*	478,215	380,879	461,131
Provisions	*21*	122,384	114,521	107,705
Derivative financial liabilities	*23(b)*	4,573	–	–
Deferred income		6,469	6,392	1,126
Contract liabilities	*22*	73,347	70,830	72,749
Lease liabilities	*16*	118,682	9,474	112,759
Deferred payment	*28*	–	348,373	112,713
Current income tax liabilities		1,719	477	19,328
		862,104	1,018,786	946,571
Total liabilities		3,492,059	2,792,649	4,239,483
Total equity and liabilities		4,857,555	3,821,435	4,854,569

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Hedging reserve	Remeasurement reserve	Financial asset at FVOCI revaluation reserve	Accumulated losses	Deficit	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2021	1,384,481	4,794	20,204	–	(62,222)	(37,224)	1,347,257
Comprehensive loss							
– Loss for the year	–	–	–	–	(220,619)	(220,619)	(220,619)
Other comprehensive income							
– Remeasurements of long service payments	–	–	1,562	–	–	1,562	1,562
– Net gain on cash flow hedges	–	127,758	–	–	–	127,758	127,758
– Fair value change on financial asset at FVOCI	–	–	–	192,140	–	192,140	192,140
	–	127,758	1,562	192,140	–	321,460	321,460
Total comprehensive income/(loss) for the year	–	127,758	1,562	192,140	(220,619)	100,841	100,841
Reclassification of cash flow hedge reserve (to inventory)	–	(82,602)	–	–	–	(82,602)	(82,602)
At 31 December 2021	1,384,481	49,950	21,766	192,140	(282,841)	(18,985)	1,365,496

	Share capital HK$'000	Hedging reserve HK$'000	Remeasurement reserve HK$'000	Financial asset at FVOCI revaluation reserve HK$'000	Accumulated losses HK$'000	Deficit HK$'000	Total equity HK$'000
At 1 January 2022	1,384,481	49,950	21,766	192,140	(282,841)	(18,985)	1,365,496
Comprehensive loss							
– Loss for the year	–	–	–	–	(206,582)	(206,582)	(206,582)
Other comprehensive income							
– Remeasurements of long service payments	–	–	51,477	–	–	51,477	51,477
– Net gain on cash flow hedges	–	137,347	–	–	–	137,347	137,347
	–	137,347	51,477	–	–	188,824	188,824
Total comprehensive income/(loss) for the year	–	137,347	51,477	–	(206,582)	(17,758)	(17,758)
Transfer upon disposal of financial asset at FVOCI to accumulated losses	–	–	–	(192,140)	192,140	–	–
Reclassification of cash flow hedge reserve (to inventory)	–	(118,952)	–	–	–	(118,952)	(118,952)
Dividend paid *(note 10)*	–	–	–	–	(200,000)	(200,000)	(200,000)
At 31 December 2022	1,384,481	68,345	73,243	–	(497,283)	(355,695)	1,028,786

	Share capital *HK$'000*	Hedging reserve *HK$'000*	Remeasurement reserve *HK$'000*	Accumulated losses *HK$'000*	Deficit *HK$'000*	Total equity *HK$'000*
At 1 January 2023	1,384,481	68,345	73,243	(497,283)	(355,695)	1,028,786
Comprehensive loss						
– Loss for the year	–	–	–	(73,628)	(73,628)	(73,628)
Other comprehensive loss						
– Remeasurements of long service payments	–	–	(1,895)	–	(1,895)	(1,895)
– Net loss on cash flow hedges	–	(87,678)	–	–	(87,678)	(87,678)
	–	(87,678)	(1,895)	–	(89,573)	(89,573)
Total comprehensive loss for the year	–	(87,678)	(1,895)	(73,628)	(163,201)	(163,201)
Reclassification of cash flow hedge reserve (to inventory)	–	(499)	–	–	(499)	(499)
Dividend paid *(note 10)*	–	–	–	(250,000)	(250,000)	(250,000)
At 31 December 2023	1,384,481	(19,832)	71,348	(820,911)	(769,395)	615,086

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED CASH FLOW STATEMENTS

	Note	Year ended 31 December 2021 *HK$'000*	2022 *HK$'000*	2023 *HK$'000*
Cash flows from operating activities				
Net cash generated from/(used in) operations	*29(a)*	270,779	(70,502)	564,029
Hong Kong Profits Tax (paid)/ refunded		(587)	99	(1,380)
Net cash generated from/(used in) operating activities		270,192	(70,403)	562,649
Cash flows from investing activities				
Purchase of property, plant and equipment		(190,576)	(115,733)	(38,556)
Government grants for purchase of property, plant and equipment		89,021	63,870	18,408
Sale of property, plant and equipment		738	37	4,786
Sale of financial asset at FVOCI		–	460,000	–
Sale of derivative financial assets		–	35,819	56,000
Contingent consideration received from acquisition of subsidiaries *(note 27)*		164,411	–	–
Dividend received		25,012	–	–
Interest received		194	3,319	11,687
Net cash generated from investing activities		88,800	447,312	52,325

	Note	Year ended 31 December 2021	2022	2023
		HK$'000	HK$'000	HK$'000
Cash flows from financing activities				
Drawdown of bank loans	29(c)	105,000	150,000	871,750
Repayments of bank loans	29(c)	(271,125)	(447,250)	(423,375)
Payment of loan arrangement fee	29(c)	–	–	(29,700)
Capital elements of lease liabilities payments	29(c)	(31,039)	(27,926)	(47,518)
Interest elements of lease liabilities payments	29(c)	(2,222)	(4,950)	(51,354)
Payment of bank loan interests	29(c)	(60,389)	(52,470)	(90,211)
Payment of other borrowing costs		(155)	(758)	(1,113)
Dividend paid		–	(200,000)	(250,000)
Repayment of deferred payment	29(c)	–	–	(400,000)
Increase in restricted bank balance		–	–	(150,000)
Net cash used in financing activities		(259,930)	(583,354)	(571,521)
Net increase/(decrease) in cash and cash equivalents		99,062	(206,445)	43,453
Cash and cash equivalents at the beginning of the year		406,193	505,255	298,810
Cash and cash equivalents at the end of the year	29(b)	505,255	298,810	342,263

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

The Target Company was incorporated in the British Virgin Islands on 23 July 2020 with limited liability.

The Target Company is an investment holding company. The Target Group are principally engaged in the provision of public bus, travel related and media services in Hong Kong.

The Target Company is jointly owned by Templewater Bravo Holdings Limited, a company incorporated in the British Virgin Islands, Glorify Group Limited, a company incorporated in the British Virgin Islands, and Ascendal Bravo Limited, a company incorporated in Jersey.

The Historical Financial Information has been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the HKICPA. Further details of the material accounting policies adopted by the Target Group are set out in note 2.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the Target Group has consistently adopted all applicable new and revised HKFRSs throughout the Relevant Periods.

The Target Group has not applied any new and revised accounting standards and interpretations that are issued but not yet effective for the Relevant Periods, which are set out in note 36.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Target Group had net current liabilities of HK$230,257,000 as at 31 December 2023. The directors have assessed the Target Group's cash flow projections, which cover a period of twelve months from the date of this report and are of the opinion that the Target Group will have sufficient working capital to meet its liabilities and obligations as and when they fall due and to sustain its operations for the next twelve months from the date of this report. As a result, the directors consider that the Target Group will continue as a going concern. Consequently, the directors have prepared the financial statements on a going concern basis.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2 MATERIAL ACCOUNTING POLICIES

(a) Basis of measurement

The Historical Financial Information are presented in Hong Kong dollars ("**HK$**") and prepared on the historical cost basis except that the derivative financial instruments, asset held-for-sale and financial asset at FVOCI are stated at their fair value as explained in notes 2(i), 2(k) and 2(h) respectively.

(b) Use of estimate and judgement

The preparation of Historical Financial Information in conformity with HKFRSs which requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 4.

(c) Group accounting

(i) Basis of consolidation

Subsidiaries are fully consolidated from the date when the control is transferred to the Target Group. They are de-consolidated from the date when the control ceases. Any investment retained in a former subsidiary is recognised at its fair value at the date when the control is lost.

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the Target Group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Target Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Inter-company transactions, balances and unrealised gains or losses on transactions between group companies are eliminated.

Where necessary, adjustments are made in the Historical Financial Information to conform the accounting policies of the subsidiaries with those of the Target Group.

(ii) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The investments in subsidiaries are stated at cost less provision for impairment losses in the statement of financial position of the Target Company. Cost includes direct attributable costs of investment and the consideration arising from contingent events. The results of subsidiaries are accounted for in the income statement of the Target Company in form of dividend income from the subsidiaries.

(iii) Associates

An associate is a company other than a subsidiary and a joint venture, in which the Target Group has significant influence exercised through representatives on the board of directors.

The Target Group's interest in an associate includes the loans and advances to the associate which, in substance, form part of the Target Group's interest in the associate. The provision of loans and advances to the associate are a form of commercial arrangement between the parties to the associate to finance the development of projects and viewed as a means by which the Target Group invests in the relevant projects.

Investment in an associate is accounted for by the equity method of accounting and is initially recognised at cost. The Target Group's investment in an associate includes goodwill (net of any accumulated impairment loss) identified on acquisition. The interest in an associate also includes long-term interests that, in substance, forms part of the Target Group's net investment in the associate.

The Target Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Target Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Target Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Target Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Target Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Target Group and its associate are recognised in the Target Group's Historical Financial Information only to the extent of unrelated investor's interest in the associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated income statement when they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to write off the costs to the residual values of property, plant and equipment over their estimated useful lives, as follows:

Buildings	
– Depots and servicing sites	40–50 years
– Other buildings	10 years or over the terms of the land leases (including extensions and renewal periods)
– Built-in utility facilities	7–10 years
Depot facilities and leasehold improvements	40–50 years or over the terms of the land leases
Buses (other than single deck electric buses)	12–20 years from the date of first registration
Single deck electric buses	8 years from the date of first registration
Other motor vehicles	4–15 years
Machinery and equipment	7–15 years
Furniture, fixtures and equipment	3–15 years
Computer equipment	3–10 years

No depreciation is provided in respect of construction in progress until its completion and the relevant assets have been put into use. Cost on completed construction work is then transferred to appropriate category of property, plant and equipment and depreciation will then be commenced accordingly.

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each reporting period. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

(e) Inventories

Inventories comprising spare parts, fuel, oil and stores are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(f) Accounts receivable and contract assets

Accounts receivable are recognised initially at fair value and subsequently re-measured at amortised cost using the effective interest method, less provision for impairment except where the effect of discounting would be immaterial or the discount is not measurable as the receivables are interest-free and without any fixed repayment term. In such cases, the receivables are stated at cost less provision for impairment.

Contract assets are the right to consideration in exchange for goods or services transferred to the customer. If the Target Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

(g) Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss represents the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is recognised in the consolidated income statement upon recognition. When the impairment loss (except those related to goodwill) decreases in the subsequent period, and the decrease can be related objectively to an event occurred after the recognition of the impairment, the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(h) Other financial assets

(i) Classification

The Target Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("**OCI**") or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

For investments in equity instruments that are not held for trading, this will depend on whether the Target Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Target Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Target Group commits to purchase or sell the asset.

The Target Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Target Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Target Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(iii) Measurement

At initial recognition, in the case of a financial asset at FVOCI, the Target Group measures it at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. In the case of a financial asset at fair value through profit or loss ("**FVPL**"), the Target Group measures it at its fair value and transaction costs are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Target Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Target Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income or other expenses. Impairment losses are presented as separate line item in the consolidated income statement.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other income or other expenses. Interest income from these financial assets is included in other income using the effective interest method. Foreign exchange gains and losses are presented in other income or other expenses and impairment expenses are presented as separate line item in the consolidated income statement.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other income or other expenses in the period in which it arises.

Equity instruments

The Target Group subsequently measures all equity investments at fair value. Where the Target Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as revenue when the Target Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other income or other expenses in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value

(iv) Impairment

The Target Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For accounts receivable and contract assets, the Target Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 3(a)(iv) for further details. The expected credit losses on accounts receivable and contract assets are calculated using a provision matrix where a provision rate applies based on its historical observed default rates adjusted by current and forward looking information.

Impairment on other receivables, deposits and bank deposits are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

(i) Derivative financial instruments

Derivatives are initially recognised at fair value when a derivative contract is entered into and are subsequently re-measured at their fair values. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

When derivatives qualify for hedge accounting, the Target Group designates derivatives employed as either (i) a fair value hedge: to hedge the fair value of recognised assets or liabilities or a firm commitment; or (ii) a cash flow hedge: to hedge a particular risk associated with the cash flows of a recognised asset and liability or a highly probable forecast transaction.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 23. Movements in the Target Group's hedging reserve in shareholders' equity are shown in the consolidated statement of changes in equity.

(i) Cash flow hedge

Changes in the fair value of the effective portion of the derivatives that are designated and qualified as cash flow hedges is recognised directly in equity and as other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Amounts accumulated in equity are transferred to the consolidated income statement in the periods when the hedged item will affect profit or loss. The forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were previously recognised in equity are transferred from equity and included in the initial measurement of the cost of the asset.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to the consolidated income statement.

(ii) Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated income statement.

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities not more than three months.

(k) Asset held-for-sale

An asset classified as held-for-sale when its carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. It is stated at the lower of carrying amount and fair value less costs of disposal if its carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

(l) Provisions

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow in respect of any one item in the same class of obligations may be small.

Where the time value of money is material, provisions are stated at the present value of the resources which is expected to be used to settle the obligation.

(m) Accounts payable and accruals

Accounts payable and accruals are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(n) Contract liabilities

A contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Target Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(o) Leases

Leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Target Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following items:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets represent those US$5,000 (equivalent to approximately HK$39,000) or below.

Some leases contain variable payment terms that are linked to sales or net profits generated. Variable lease payments that depend on sales or net profits are recognised in profit or loss in the period in which the condition that triggers those payments occurs. Most leases are subject to fixed payments.

The Target Group has adopted an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; b) any reduction in lease payments affects only payments due on or before 30 June 2022; and c) there is no substantive change to other terms and conditions of the lease. Lessees applying the practical expedient should recognise the effects of a rent concession occurring as a direct consequence of the COVID-19 pandemic as other income in the consolidated income statement at the time of grant.

The Target Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. For COVID-19-related rent concessions due beyond 30 June 2022, lease modification has been adopted to remeasure the right-of-use assets and lease liabilities. Any gains or losses arising from the lease modification are recognised in the consolidated income statement.

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Target Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Retirement benefit

The Target Group contributes to defined contribution retirement schemes which are available to all employees. The assets of the schemes are held separately from those of the Target Group in independently administered funds.

The contributions are recognised as an employee benefit expense when they are due.

(iv) Long service payments

Long service payments are payable upon cessation of employment in certain circumstances under the Hong Kong Employment Ordinance. The Target Group's long service payments obligations are assessed using the projected unit credit method, discounted to its present value and reduced by certain benefits accrued to the employees under the Target Group's defined contribution plan.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity and recognised in other comprehensive income in the period when they arise.

Current and past-service costs are recognised immediately in the consolidated income statement.

(q) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the jurisdiction where the Target Group operates and generates taxable income. It is the tax expected to be payable on the taxable income of the period and adjustments to tax payable in respect of prior periods.

Deferred income tax is provided in full, using the liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction (other than a business combination) that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the tax losses being carried forward can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and there is an intention to settle the income tax balances on a net basis.

(r) Government grants

A government grant is not recognised until there is reasonable assurance that the Target Group will comply with the condition attaching to it, and that the grant will be received. A government grant with unfulfilled attaching conditions will only be recorded as a deferred income in the consolidated statement of financial position.

When the grant with attaching conditions being fulfilled and relates to an asset, it will be released from deferred income and credited to the consolidated income statement on a systematic basis over the expected useful life of the relevant asset or deducted from the carrying amount of the asset and released to the consolidated income statement by way of a reduced depreciation charge. When it relates to an expense item, it is released from deferred income and recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

(s) Recognition of revenue and other income

Revenue comprises the fair value of the consideration received or receivable from the ordinary activities of the Target Group. Revenue is shown net of rebates and discounts.

The Target Group recognises revenue and other income on the following bases:

Revenue from contracts with customers

(i) Fare revenue and bus hire income are recognised over time because customers simultaneously receive and consume the benefits provided by the Target Group.

(ii) Advertising income from customers is recognised over time when the advertisement or commercial appears before the public. Advertising income from awarded advertising licences is recognised over time and on an accrual basis in accordance with the related agreements.

(iii) Driver hire income is recognised over time when the services are rendered.

(iv) Fuel refilling income is recognised at a point in time when the services are rendered.

Revenue from other sources

(v) Rental income is recognised in accordance with the terms of lease.

(vi) Dividend income from unlisted investment is recognised when the right to receive is established.

(vii) Interest income is recognised on a pro-rata time basis using the effective interest method.

(t) Foreign currencies translation

(i) Functional and presentation currency

Items included in the Historical Financial Information of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"), which is HK$.

The Historical Financial Information is presented in HK$, which is the presentation currency of the Target Group.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing on the transaction dates. Foreign exchange gains and losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at period end exchange rates are recognised in the consolidated income statement except when deferred in equity as qualifying cash flow hedges.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each statement of financial position are translated at the closing rate at the end of the reporting period;

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated at the rates on the transaction dates); and

(3) all resulting exchange differences are recognised as a separate component of equity.

(u) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities when the Target Group does not have the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the end of the reporting period.

(v) Borrowing costs

Borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

(w) Dividends distribution

Dividends distribution is recognised as a liability in the period when the dividends are approved by the Target Company's shareholders or directors as appropriate.

(x) Related parties

(a) A person, or a close member of that person's family, is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) The entity and the group are members of the same Target Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Target Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Target Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Target Group's operating and financing activities expose it to a variety of financial risks, namely fuel pricing risk, interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial and fuel markets and seeks to minimise their potential adverse effects on the Target Group's financial performance. The derivative financial instruments are solely used to reduce or eliminate the financial risks associated with the Target Group's liabilities and not for trading or speculation purposes. The policies to mitigate the aforesaid financial risks are set out below.

(i) Fuel pricing risk

The Target Group is exposed to the upside risk of fuel prices as it has heavy demand on fuel for its bus operations. The Target Group manages its exposure to this risk by using fuel price swap and fuel price call option contracts when the contract price is favorable to the Target Group. The fair values and details of its fuel price swap and fuel price call option contracts as of the end of each reporting period are set out in note 23.

(ii) Interest rate risk

The Target Group's interest rate risk arises from its interest bearing bank loans. Such borrowings expose the Target Group to cash flow interest rate risk because of changes in market interest rates.

The Target Group has entered into a floating-to-fixed interest rate swap contract and interest rate cap option contract to hedge the cash flow interest rate risk arising from the interest bearing bank loans. The fair values and details of its interest rate swap contract and interest rate cap option contract are set out in note 23.

(iii) Foreign exchange risk

The Target Group's foreign currency exposure mainly arises from its procurement of buses and spare parts from overseas suppliers that are denominated in foreign currencies, including Pound Sterling, Euro and United States dollars, other than the functional currency of Target Group's entities. As of the end of each reporting period, the Target Group does not use any derivative financial instrument to hedge against the foreign exchange risk in view of the current market conditions. However, the Target Group continues to monitor the foreign currency trend closely and would consider to enter into foreign exchange forward contracts to cover its major foreign currency payment commitments.

Foreign exchange risk sensitivity analysis

The analysis is prepared assuming the amount of assets/liabilities denominated in foreign currencies outstanding at the end of the reporting period was outstanding for the whole period, and all other variables were held constant. In this respect, it is assumed that the pegged rate between Hong Kong dollar and United States dollar would be materially unaffected by any changes in movement in value of United States dollar against other currencies. For other foreign currencies with significant exposure at the end of the reporting period, a 500 basis point increase or decrease is used as it represents management's assessment of the reasonably possible change in exchange rates.

	As at 31 December					
	2021		2022		2023	
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in loss before income tax for the year *HK$'000*	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in loss before income tax for the year *HK$'000*	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in loss before income tax for the year *HK$'000*
Pound Sterling	5%	1,206	5%	200	5%	387
	(5%)	(1,206)	(5%)	(200)	(5%)	(387)
Euro	5%	158	5%	246	5%	177
	(5%)	(158)	(5%)	(246)	(5%)	(177)

(iv) Credit risk

Credit risk refers to the risk that a counterparty will be unable to pay when the amounts fall due. This may arise from accounts receivable, contract assets, other receivables, deposits, bank deposits and derivative financial instruments held by the Target Group. The Target Group has the following policies in managing its credit risks.

Management has a credit policy for its ordinary business activities other than the provision of public bus services. Provision of public bus services is settled in cash or using major credit cards or Octopus. Credit is usually granted only to travel-related and media services customers with good credit history only. Bank guarantees or deposits where appropriate are usually requested from the major customers with credit limits over certain amounts. A credit period of one to four months is normally granted to customers. All receivables will be closely monitored and are expected to be recoverable within one year.

The Target Group applies the HKFRS 9 simplified approach to measuring expected credit losses which use a lifetime expected loss allowance for accounts receivable and contract assets.

When calculating the expected credit loss rate of accounts receivable and contract assets, the Target Group considered the historical credit loss experience to incorporate relevant, current and more forward looking information for different classes of accounts receivable and contract assets which are grouped based on shared credit risk characteristics and the days past due. At every reporting date the historical observed default rates are updated and changes in the forward looking estimates are analysed.

Credit risk of accounts receivable and contract assets

Accounts receivable include receivables from electronic payment service providers, which are due within T+1 from the date of invoice. The Target Group performs periodic credit evaluations of its travel-related and media services customers, taking into account their financial position, past experience and other factors. The utilisation of credit limits is regularly reviewed. No material credit limits were exceeded during the Relevant Periods, and management does not expect any material losses from non-performance by these counterparties. The Target Group applies the simplified approach to provide for expected credit losses ("**ECL**") prescribed by HKFRS 9, which permits the use of the lifetime ECL provision for all accounts receivable and contract assets. To measure the ECL, accounts receivable and contract assets have been grouped based on shared credit risk characteristics and days past due. The ECL rates are based on the past repayment history and the historical credit loss experience. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the electronic payment service providers and customers to settle the receivables. The ECL allowance provided on a collective basis is insignificant as there was no history of material default from accounts receivable and contract assets. For accounts receivable and contract assets relating to accounts in which objective evidence that the debtor faces significant financial difficulties or enter liquidation, they are assessed individually for impairment allowance.

Credit risk of deposits and other receivables

Deposits and other receivables were mainly rental deposits and utilities and management fee deposits. The credit quality of deposits and other receivables has been assessed with reference to historical information about the default rates and financial position of the counterparties. Given there is no history of defaults from these counterparties, the directors of the Target Company are of the opinion that there was no significant increase in credit risk and the expected credit loss was limited to 12-month expected credit losses. Therefore, ECL rate of the deposits and other receivables is assessed to be close to zero and no provision was made as at 31 December 2021, 2022 and 2023.

Credit risk of deposits with banks and financial institutions

As at 31 December 2021, 2022 and 2023, all bank balances and bank deposits are held at reputable financial institutions which are leading and reputable with low credit risk and there is no history of defaults from these counterparties. The ECL rate is close to zero and no provision was made as at 31 December 2021, 2022 and 2023.

(v) Liquidity risk

Liquidity risk refers to the risk that the Target Group is unable to meet its current obligations when they fall due. The Target Group employs projected cash flows analysis to manage liquidity risk for forecasting timing and amounts of payments and receipts.

The table below analyses the Target Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statements of financial position date to the contractual maturity date:

	Contractual undiscounted cash flows				
	Less than 1 year or repayable on demand	**Between 1 year and 2 years**	**Between 2 years and 5 years**	**Total**	**Carrying amount**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2021					
Non-derivative financial liabilities					
Accounts payable	46,338	–	–	46,338	46,338
Accruals	431,877	–	–	431,877	431,877
Bank loans	114,613	136,035	1,567,654	1,818,302	1,627,888
Lease liabilities	126,104	62,488	91,432	280,024	266,334
Deferred payment	–	355,000	355,000	710,000	657,066
Total	718,932	553,523	2,014,086	3,286,541	3,029,503
Derivative financial liabilities					
Net settled interest rate swap contract – outflow	4,573	–	–	4,573	4,573

	Contractual undiscounted cash flows				
	Less than 1 year or repayable on demand	**Between 1 year and 2 years**	**Between 2 years and 5 years**	**Total**	**Carrying amount**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2022					
Non-derivative financial liabilities					
Accounts payable	37,751	–	–	37,751	37,751
Accruals	343,128	–	–	343,128	343,128
Bank loans	137,603	164,778	1,162,184	1,464,565	1,336,173
Lease liabilities	9,685	1,248	150	11,083	10,851
Deferred payment	355,000	–	355,000	710,000	674,423
Total	883,167	166,026	1,517,334	2,566,527	2,402,326

	Contractual undiscounted cash flows					
	Less than 1 year or repayable on demand	Between 1 year and 2 years	Between 2 years and 5 years	Over 5 years	Total	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2023						
Non-derivative financial liabilities						
Accounts payable	55,032	–	–	–	55,032	55,032
Accruals	406,099	–	–	–	406,099	406,099
Bank loans	201,727	196,190	2,016,659	–	2,414,576	1,770,619
Lease liabilities	208,937	198,914	594,131	838,459	1,840,441	1,318,829
Deferred payment	115,000	195,000	–	–	310,000	298,646
Total	986,795	590,104	2,610,790	838,459	5,026,148	3,849,225

(b) Capital management

The Target Group's primary objectives in managing its capital are to safeguard its ability to continue as a going concern while maximising the return to its shareholders and maintaining an optimal capital structure.

In order to maintain an optimal capital structure, the Target Group may adjust its capital structure through dividend payments to shareholders.

The Target Group monitors capital structure by the net debt-to-total equity ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as bank loans less cash and bank balances.

The net debt-to-total equity ratio at 31 December 2021, 2022 and 2023 was as follows:

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Bank loans	1,627,888	1,336,173	1,770,619
Less: Cash and bank balances	(505,255)	(298,810)	(492,263)
Net debt position	1,122,633	1,037,363	1,278,356
Total equity	1,365,496	1,028,786	615,086
Net debt-to-total equity ratio	82.21%	100.83%	207.83%

(c) Fair value estimation

The carrying amounts and fair value disclosures of the financial instruments of the Target Group are as follows:

(i) Unlisted investments are stated at fair values which are estimated using other prices observed in recent transactions or valuation techniques when the market is not readily available.

(ii) The fair value of derivative financial instruments is estimated by discounting the future contractual cash flows at the current market interest rate or current fuel price that is available to the Target Group for similar financial instruments.

(iii) The carrying values of bank balances, receivables, payables and short-term borrowings approximate their fair values due to the short-term maturities of these assets and liabilities.

The financial instruments are measured in the consolidated statements of financial position at fair values and disclosed, under the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active market for identical assets and liabilities;

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the assets and liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the assets or liabilities that are not based on observable market data (i.e. unobservable inputs).

At 31 December 2021, the unlisted equity investment and derivative financial instruments of the Target Group were categorised in Level 2 and Level 3 and the fair values were summarised as follows:

	Level 2	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Asset held-for-sale			
Unlisted equity investment in financial asset at FVOCI	–	460,000	460,000
Derivative financial instruments			
Fuel price swap contracts	21,540	–	21,540
Fuel price call option contracts	11,610	–	11,610
Interest rate swap contract	15,131	–	15,131
	48,281	460,000	508,281
Liabilities			
Derivative financial instruments			
Interest rate swap contract	4,573	–	4,573

At 31 December 2022, the derivative financial instruments of the Target Group were categorised in Level 2 and the fair values were summarised as follows:

	Level 2
	HK$'000
Assets	
Derivative financial instruments	
Fuel price call option contracts	21,602
Interest rate swap contract	82,188
	103,790

At 31 December 2023, the derivative financial instruments of the Target Group were categorised in Level 2 and the fair values were summarised as follows:

	Level 2
	HK$'000
Assets	
Derivative financial instruments	
Fuel price call option contracts	8,016
Interest rate cap option contract	2,202
	10,218

The fair value of the Target Group's financial asset at FVOCI, which is categorised in Level 3, is determined based on the market approach or income approach. The significant unobservable inputs on market approach include the availability of comparable companies and lack of marketability discount. For income approach, the significant unobservable inputs include revenue growth, terminal value, terminal growth rate and discount rate.

The movement in the fair value of asset within Level 3 of the hierarchy can be seen from the table below:

	Year ended 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
At the beginning of the year	267,860	460,000	–
Total gain for the year recognised in other comprehensive income under "Fair value change on financial asset at FVOCI"	192,140	–	–
Disposal during the year	–	(460,000)	–
At the end of the year	460,000	–	–

During the Relevant Periods, there were no transfers between the levels.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Target Group makes certain estimates and assumptions in preparing this Historical Financial Information. Estimates and judgements are continually evaluated by the Target Group based on its experience and other factors such as expectations of future events that are believed to be reasonable under the circumstances.

The critical accounting estimates and judgements adopted in the preparation of this Historical Financial Information are as follows:

(a) Provision for claims

The provision for claims (note 21(b)) in connection with the Target Group's bus operations was based on the actuarial valuation reports issued by an independent professional actuary. As the ultimate claim amount may be affected by future external events such as possible changes in the courts' attitude in their awards towards like cases, possible changes in the laws affecting liabilities and the claimants' attitude towards settlement of their claims, the actual claim amounts may deviate from these estimations. Any increase or decrease in the provision would affect the Target Group's results in future periods.

(b) Purchase price allocation

The purchase price allocation of the Target Group's business combination (note 27) requires the determination of fair value of the identifiable assets acquired and liabilities assumed that involve management's judgements and estimates which should use different valuation techniques or assumptions, the bargain purchase resulted from the purchase price allocation could be impacted.

5 SEGMENT INFORMATION

The Target Group are principally engaged in the provision of public bus, travel related and media services in Hong Kong. The Target Group does not distinguish revenue, costs and expenses between segments in its internal reporting, and reports costs and expense by nature as a whole.

The Target Group's chief operating decision-maker ("**CODM**") has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Target Group as a whole and hence, the Target Group has only one reportable segment. The Target Group does not distinguish between markets or segments for the purpose of internal reports. As all of the Target Group's non-current assets are located in Hong Kong and all of the Target Group's revenue are derived from Hong Kong, no geographical information is presented.

During the years ended 31 December 2021, 2022 and 2023, there was no revenue derived from transactions with a single external customer which amounted to 10% or more of the Target Group's revenue.

6 REVENUE AND OTHER INCOME

Revenue is analysed as follows:

	Year ended 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Revenue			
Fare revenue	2,577,203	2,337,569	3,158,539
Advertising income *(note)*	204,041	171,954	209,570
Bus hire income	18,071	18,506	22,395
Rental income	7,423	4,847	3,979
Dividend income *(note 18)*	25,012	–	–
Miscellaneous	6,822	5,519	5,026
	2,838,572	2,538,395	3,399,509

Note:

An amount of HK$50,716,000, HK$Nil and HK$Nil was included in the advertising income representing a forfeiture of benefits upon termination of an advertising agreement for the years ended 31 December 2021, 2022 and 2023 respectively.

Revenue is analysed as follows:

	Year ended 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
External revenue from contracts with customers:			
Timing of revenue recognition			
At a point in time	3,148	1,928	1,174
Over time	2,802,989	2,531,620	3,394,356
External revenue from other sources:			
Rental income	7,423	4,847	3,979
Dividend income	25,012	–	–
	2,838,572	2,538,395	3,399,509

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year:

	Year ended 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year			
Advertising contracts	2,909	6,827	4,310

Unsatisfied performance obligations

The following table shows unsatisfied performance obligations resulting from fixed-price long-term advertising contracts:

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Aggregate amount of the transaction price allocated to long-term advertising contracts that are partially or fully unsatisfied as at the end of each reporting period	67,091	66,520	66,520
Analysed by revenue being recognised:			
Within 1 year	17,694	23,828	37,127
Over 1 year but within 5 years	49,397	42,692	29,393
	67,091	66,520	66,520

The amount disclosed above does not include variable consideration which is constrained.

As permitted under HKFRS 15, the Target Group has elected the practical expedient of not disclosing the remaining performance obligations (unsatisfied or partially unsatisfied) for the types of contracts which are expected to be recognised as revenue within one year from contract inception.

Other income is analysed as follows:

	Year ended 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Other income			
Recognition of government grants *(note (i))*	8,164	319,694	8,292
COVID-19-related rent concessions on lease liabilities *(note (ii))*	92,863	1,010	–
Liquidated damages	13,065	–	–
Interest income from bank deposits	882	3,648	12,332
Exchange gains, net	–	3,892	356
Government ex-gratia payment	–	90	–
Gain on disposal of property, plant and equipment, net	620	–	22
Gain on disposal of fuel price call option contracts	–	33,476	–
Realised fair value gain on an interest rate swap contract	–	–	56,000
Gain on modification of leases *(notes (ii) and (iii))*	–	37,990	10
Withdrawal from Franchised Bus Toll Exemption Fund	34,080	–	–
Miscellaneous	16,463	11,042	13,776
	166,137	410,842	90,788

Notes:

(i) The nature and extent of the government grants that were recognised in the consolidated income statements are as follows:

(a) During the years ended 31 December 2021, 2022 and 2023, the subsidies of HK$1,695,000, HK$313,225,000 and HK$2,358,000 were granted by the Government of the Hong Kong Special Administrative Region (the "**Government**") for relieving the operating pressure as a result of the outbreak of COVID-19 pandemic which mainly included subsidies on fuel costs, regular repairs and maintenance costs, one-off subsidy for franchised and non-franchised buses, wage subsidy under the Employment Support Scheme and the Job Creation Scheme, respectively.

(b) During the years ended 31 December 2021, 2022 and 2023, the government grants of HK$6,469,000, HK$6,469,000 and HK$5,934,000 were recognised in the consolidated income statements over the useful lives of hybrid buses and electric buses respectively. Among the three hybrid buses and ten electric buses with costs of HK$59,240,000 in total, five electric buses with total costs, net book values and remaining deferred income of HK$24,250,000, HK$1,873,000 and HK$1,873,000 respectively were voluntarily disposed of in October 2023 upon obtaining the consent from the Government at an aggregate sum of HK$72,000 before the end of their useful lives. No gain or loss on such disposal was recognised in the consolidated income statement during the year ended 31 December 2023 because any proceeds from the disposal would be payable to the Government in accordance with the terms of the subsidy agreements entered into with the Government if these subsidised buses are withdrawn voluntarily from the service before the end of their useful lives.

(ii) The COVID-19-related rent concessions on lease liabilities due on or before 30 June 2022 were recognised as other income in the consolidated income statements at the point of grant by applying the practical expedient stipulated in Amendment to HKFRS 16 – COVID-19-Related Rent Concessions to elect not to account for COVID-19-related rent concessions as lease modification. Since the practical expedient was no longer applicable for COVID-19-related rent concessions on lease payments originally due after 30 June 2022, COVID-19-related rent concessions on lease payments originally due after 30 June 2022 were accounted for as lease modification by remeasuring the right-of-use assets and lease liabilities. Gain arising from lease modification was recognised as other income in the consolidated income statements.

The COVID-19-related rent concessions on short-term leases were net of rental expenses under short-term leases charged as an expense in the consolidated income statements.

The benefit of COVID-19-related rent concessions was cancelled out by the decrease in elderly concessionary fare reimbursements from the Government recognised as fare revenue included under revenue.

During the years ended 31 December 2021, 2022 and 2023, the amounts recognised in other income related to COVID-19-related rent concessions on lease liabilities were HK$92,863,000, HK$1,010,000 and HK$Nil respectively.

During the years ended 31 December 2021, 2022 and 2023, the amount recognised as gain on modification of leases related to COVID-19-related rent concessions on lease liabilities was HK$Nil, HK$22,547,000 and HK$Nil respectively.

(iii) During the year ended 31 December 2022, there was a reduction in the scope of the leasehold land of Citybus Limited, a subsidiary, due to the shortening of the lease period from 30 June 2026 to 30 June 2023, which was based on the franchised period of the Franchise for Hong Kong Island and Cross-Harbour Bus Network ("**CTB (F1) Franchise**") of Citybus Limited in which the leasehold land belongs to, following the merge of CTB (F1) Franchise and the franchise of New World First Bus Services Limited, a subsidiary, into a new franchise granted to Citybus Limited, namely Franchise for the Urban and New Territories Bus Network, on 1 July 2023. Lease modification was adopted to remeasure the right-of-use assets and lease liabilities. Gain arising from lease modification was recognised in other income in the consolidated income statement.

During the years ended 31 December 2021, 2022 and 2023, the amounts recognised as gain on modification of leases due to the shortening of the lease term were HK$Nil, HK$15,443,000 and HK$10,000 respectively.

7 (LOSS)/PROFIT FROM OPERATIONS

(Loss)/profit from operations is stated after charging the following items:

	Year ended 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Auditor's remuneration	517	1,861	1,925
Depreciation of property, plant and equipment *(note 14)*	384,717	388,732	255,286
Depreciation of right-of-use assets *(note 16)*	110,868	79,956	71,484
Staff costs *(note 11)*	1,720,577	1,669,579	1,787,631
Fuel and oil *(note (i))*	203,549	308,303	450,247
Repairs and maintenance	165,583	166,145	217,354
Tolls and Franchised Bus Toll Exemption Fund *(note (ii))*	242,803	208,163	214,942
Rental expenses under short-term leases *(note 16)*	20,156	20,793	10,927
Provision for claims *(note 21(b))*	49,535	29,837	29,575
Loss on disposal of property, plant and equipment, net	–	798	–
Loss on modification of deferred payment *(note 28)*	–	–	11,471

Notes:

(i) During the years ended 31 December 2021, 2022 and 2023, it included a credit amount of HK$98,925,000, HK$122,283,000 and HK$598,000 arising from fuel price swap contracts and fuel price call option contracts transferred from hedging reserve to inventory and deferred tax, and subsequently to profit or loss. During the years ended 31 December 2021, 2022 and 2023, it also included an amortisation of fuel price call option contracts premium of HK$Nil, HK$3,806,000 and HK$38,180,000 respectively.

(ii) The Government announced that with effect from 17 February 2019, all franchised bus operators are exempted from paying the toll charges for franchised buses using the Government's tolled tunnels as well as Tsing Ma and Tsing Sha Control Areas with a view to relieving fare increase pressure and benefiting the general public. Each franchised bus operator is required to contribute an amount equivalent to the toll saved to the Franchised Bus Toll Exemption Fund (the "**Fund**") as included in "Tolls and Franchised Bus Toll Exemption Fund" and "Accruals", which would be used for mitigating the extent of fare increase shouldered by the passengers as approved by the Government when a franchised bus operator applies for a fare increase or for other purposes as directed by the Commissioner for Transport. The amount of withdrawal from the Fund for mitigating the extent of fare increase is included in "Fare revenue" whereas the amount of withdrawal from the Fund for relieving the financial burden of the franchised bus operator due to the COVID-19 pandemic is recognised as other income.

8 FINANCE COSTS

	Year ended 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Bank loan interests *(note)*	61,635	51,942	99,014
Amortisation of loan arrangement fees	5,535	5,535	15,771
Unwinding on discount of deferred payment	17,357	17,357	12,752
Interest on lease liabilities *(note 16)*	10,608	4,950	51,354
Other borrowing costs	241	1,115	1,261
	95,376	80,899	180,152

Note:

During the years ended 31 December 2021, 2022 and 2023, it included a debit amount of HK$8,011,000, a credit amount of HK$5,703,000 and a credit amount of HK$10,611,000 arising from an interest rate swap contract transferred from hedging reserve respectively. During the years ended 31 December 2021, 2022 and 2023, it also included an amortisation of interest rate cap option contract premium of HK$Nil, HK$Nil and HK$2,588,000 respectively.

9 INCOME TAX (CREDIT)/EXPENSE

	Year ended 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Current income tax			
Hong Kong Profits Tax			
– Provision for the year	1,681	2,087	20,429
– Over-provision in prior year	–	–	(163)
	1,681	2,087	20,266
Deferred income tax *(note 24)*	(27,343)	(81,753)	(10,112)
Income tax (credit)/expense	(25,662)	(79,666)	10,154

The taxation on the Target Group's loss before income tax differs from the theoretical amount that would arise using the Profits Tax rate of Hong Kong where the Target Group operates and the differences are set out below:

	Year ended 31 December		
	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*
Loss before income tax	(246,281)	(286,248)	(63,474)
Calculated at the Hong Kong Profits Tax rate of 16.5%	(40,637)	(47,231)	(10,473)
Income not subject to income tax	(4,466)	(52,193)	(11,664)
Expenses not deductible for tax purposes	18,064	18,002	28,508
Utilisation of previously unrecognised tax losses	–	(20)	(24)
Tax losses not recognised	1,287	1,746	3,611
Temporary differences not recognised	–	16	–
Over-provision in prior year	–	–	(163)
Others	90	14	359
Income tax (credit)/expense	(25,662)	(79,666)	10,154

10 DIVIDEND

	Year ended 31 December		
	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*
Interim dividend declared and paid of HK$Nil, HK$20,000 and HK$25,000 per ordinary share for the year	–	200,000	250,000

11 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December		
	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*
Wages, salaries and allowances	1,646,949	1,502,782	1,691,738
Retirement benefit costs – defined contribution plans	74,521	68,778	73,389
(Write-back of provision for)/provision for unutilised annual leave	(42)	63	14,870
(Write-back of provision for)/provision for long service payments *(note 21(b)) (note)*	(851)	97,956	7,634
	1,720,577	1,669,579	1,787,631

Note:

Provision for long service payments for the year ended 31 December 2022 has taken into account the past service cost resulting from the abolition of the MPF – LSP offsetting arrangement by virtue of the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022.

12 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to Section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Year ended 31 December 2021				
	Directors' fee	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Director					
Zhang, Kun	–	–	–	–	–
De Mascarel de la Corbiere, Nicolas Charles Philippe (Appointed as alternate director)	–	–	–	–	–
Yang, Dong	–	–	–	–	–
Crosby, Tanis Lee	–	–	–	–	–
Leishman, Adam Daniel	–	–	–	–	–
Burg, Gary Zalman	235	–	–	–	235
Koseff, Stephen	235	–	–	–	235
Wong, Wai Sing	–	–	–	–	–
	470	–	–	–	470

	Year ended 31 December 2022				
	Directors' fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Director					
Zhang, Kun	–	–	–	–	–
De Mascarel de la Corbiere, Nicolas Charles Philippe (Appointed as alternate director)	–	–	–	–	–
Yang, Dong	–	–	–	–	–
Crosby, Tanis Lee	–	–	–	–	–
Leishman, Adam Daniel	–	–	–	–	–
Burg, Gary Zalman	477	–	–	–	477
Koseff, Stephen	478	–	–	–	478
Wong, Wai Sing	–	–	–	–	–
	955	–	–	–	955

	Year ended 31 December 2023				
	Directors' fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Director					
Zhang, Kun	–	–	–	–	–
De Mascarel de la Corbiere, Nicolas Charles Philippe (Appointed as alternate director)	–	–	–	–	–
Yang, Dong	–	–	–	–	–
Crosby, Tanis Lee	–	–	–	–	–
Leishman, Adam Daniel	–	–	–	–	–
Burg, Gary Zalman	480	–	–	–	480
Koseff, Stephen	480	–	–	–	480
Wong, Wai Sing	–	–	–	–	–
	960	–	–	–	960

No amount was paid by the Target Company to the directors as an inducement to join or upon joining the Target Company or as compensation for loss of office for the Relevant Periods.

13 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the directors are of the five highest-paid individuals for the years ended 31 December 2021, 2022 and 2023 respectively whose emoluments are disclosed in note 12. The aggregate of the emoluments in respect of the five highest-paid individuals are as follows:

	Year ended 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other emoluments	11,071	9,879	12,915
Discretionary bonuses	1,041	720	–
Retirement scheme contributions	882	813	925
	12,994	11,412	13,840

The emoluments of the above individuals with the highest emoluments are within the following bands:

	Year ended 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
HK$Nil – HK$1,000,000	–	–	–
HK$1,000,001 – HK$1,500,000	–	–	–
HK$1,500,001 – HK$2,000,000	1	1	–
HK$2,000,001 – HK$2,500,000	2	3	2
HK$2,500,001 – HK$3,000,000	1	1	2
HK$3,000,001 – HK$3,500,000	–	–	–
HK$3,500,001 – HK$4,000,000	–	–	–
HK$4,000,001 – HK$4,500,000	1	–	1
	5	5	5

No amount was paid by the Target Group to the five highest-paid individuals as an inducement to join or upon joining the Target Group or as compensation for loss of office for the Relevant Periods.

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Depot facilities and leasehold improvements	Buses and other motor vehicles	Machinery and equipment	Computer equipment	Furniture, fixtures and office equipment	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost								
At 1 January 2021	567,474	29,188	2,925,516	56,214	10,948	2,273	164,177	3,755,790
Additions *(note)*	–	–	29,003	25,906	1,510	597	9,495	66,511
Disposals	–	–	(778)	(1,007)	(288)	(263)	(60)	(2,396)
Transfers	–	–	17,151	2,045	307	–	(19,503)	–
At 31 December 2021	567,474	29,188	2,970,892	83,158	12,477	2,607	154,109	3,819,905
Accumulated depreciation and impairment								
At 1 January 2021	62,873	15,473	71,198	2,195	795	144	–	152,678
Charge for the year	23,211	904	340,868	15,128	3,944	662	–	384,717
Disposals	–	–	(720)	(1,007)	(288)	(263)	–	(2,278)
At 31 December 2021	86,084	16,377	411,346	16,316	4,451	543	–	535,117
Net book value								
At 31 December 2021	481,390	12,811	2,559,546	66,842	8,026	2,064	154,109	3,284,788

	Buildings	Depot facilities and leasehold improvements	Buses and other motor vehicles	Machinery and equipment	Computer equipment	Furniture, fixtures and office equipment	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost								
At 1 January 2022	567,474	29,188	2,970,892	83,158	12,477	2,607	154,109	3,819,905
Additions *(note)*	–	19	6,796	15,442	476	74	4,813	27,620
Disposals	–	–	(3,304)	(414)	–	–	–	(3,718)
Transfers	–	–	44,397	787	2,136	128	(47,448)	–
Reclassification	–	–	(121,358)	121,358	–	–	–	–
At 31 December 2022	567,474	29,207	2,897,423	220,331	15,089	2,809	111,474	3,843,807
Accumulated depreciation and impairment								
At 1 January 2022	86,084	16,377	411,346	16,316	4,451	543	–	535,117
Charge for the year	23,213	899	342,311	18,531	3,119	659	–	388,732
Disposals	–	–	(2,469)	(414)	–	–	–	(2,883)
Reclassification	–	–	(92,865)	92,865	–	–	–	–
At 31 December 2022	109,297	17,276	658,323	127,298	7,570	1,202	–	920,966
Net book value								
At 31 December 2022	458,177	11,931	2,239,100	93,033	7,519	1,607	111,474	2,922,841

	Buildings	Depot facilities and leasehold improvements	Buses and other motor vehicles	Machinery and equipment	Computer equipment	Furniture, fixtures and office equipment	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost								
At 1 January 2023	567,474	29,207	2,897,423	220,331	15,089	2,809	111,474	3,843,807
Additions *(note)*	–	234	10,270	20,997	1,681	279	5,476	38,937
Disposals	–	–	(29,816)	–	–	(78)	–	(29,894)
Transfers	–	5,194	2,835	1,499	1,872	58	(11,458)	–
At 31 December 2023	567,474	34,635	2,880,712	242,827	18,642	3,068	105,492	3,852,850
Accumulated depreciation and impairment								
At 1 January 2023	109,297	17,276	658,323	127,298	7,570	1,202	–	920,966
Charge for the year	19,228	1,240	210,925	20,882	2,484	527	–	255,286
Disposals	–	–	(23,179)	–	–	(78)	–	(23,257)
At 31 December 2023	128,525	18,516	846,069	148,180	10,054	1,651	–	1,152,995
Net book value								
At 31 December 2023	438,949	16,119	2,034,643	94,647	8,588	1,417	105,492	2,699,855

Note:

Additions to property, plant and equipment during the years ended 31 December 2021, 2022 and 2023 were net of government grants of HK$90,178,000, HK$61,344,000 and HK$9,652,000 respectively.

The Target Group has changed its estimate for the useful lives of its franchised buses (other than single deck electric buses) from 14–15 years to 18 years with effect from 1 January 2023. This change better reflects the expected service lives of franchised buses, the Target Group's commitment to replacing buses before they reach 18 years of age, and the current government policy prohibiting operation of franchised buses that are 18 years or older without special approval. This change in accounting estimate was applied prospectively from 1 January 2023, has resulted in a decrease in the depreciation charge for the year ended 31 December 2023 of HK$107,596,000. The Target Group has also changed its estimate for the useful lives of certain other property, plant and equipment with effect from 1 July 2023. This change aligns with the expected useful life of these assets. As a result of this change in accounting estimate, which was applied prospectively from the same date, the depreciation charge for the year ended 31 December 2023 has decreased by HK$14,639,000. As it is impracticable to forecast the impact of this change in accounting estimate on future periods, such disclosure has not been made.

15 INVESTMENT IN AN ASSOCIATE

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Cost of investment, unlisted	1	1	1
Share of post-acquisition losses and other comprehensive loss	(1)	(1)	(1)
	–	–	–

Particulars of the Target Group's associate, which is indirectly held by the Target Company, are as follows:

Company name	Share capital	Place of registration	Proportion to the Target Group's ownership	Principal activity
Proud Dragon Global Limited	US$100	The British Virgin Islands	40%	Inactive

In the opinion of the directors of the Target Company, the associate is not material to the Target Group.

During the years ended 31 December 2021, 2022 and 2023, the Target Group's unrecognised share of losses of the associate is HK$10,000, HK$3,000 and HK$3,000 respectively.

As at 31 December 2021, 2022 and 2023, the Target Group has not incurred any contingent liabilities and commitments relating to its investment in the associate.

16 LEASES

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Right-of-use assets			
Leasehold land for depots *(note (i))*	268,429	420	1,259,485
Leasehold land for termini *(note (ii))*	3,478	3,105	25,471
Building	–	–	843
Motor vehicles	–	–	1,872
Equipment	330	202	74
	272,237	3,727	1,287,745
Lease liabilities			
Current	118,682	9,474	112,759
Non-current	147,652	1,377	1,206,070
	266,334	10,851	1,318,829
Lease liabilities			
Within 1 year	118,682	9,474	112,759
After 1 year but within 2 years	59,422	1,228	110,752
After 2 years but within 5 years	88,230	149	383,837
After 5 years	–	–	711,481
	147,652	1,377	1,206,070
	266,334	10,851	1,318,829

Notes:

(i) The Target Group leased from the relevant government authorities on leasehold lands for its public transportation business as bus depots. The Target Group recognised their right-of-use periods based on the shorter of the useful life of the respective bus depots or the franchised period in which the bus depots belong to, which is 10 years. Periodical rental payments are made based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

The COVID-19-related rent concessions on lease liabilities due on or before 30 June 2022 were recognised as other income in the consolidated income statements at the point of grant by applying the practical expedient stipulated in Amendment to HKFRS 16 – COVID-19-Related Rent Concessions to elect not to account for COVID-19-related rent concessions as lease modification. Since the practical expedient was no longer applicable for COVID-19-related rent concessions on lease payments originally due after 30 June 2022, COVID-19-related rent concessions on lease payments originally due after 30 June 2022 were accounted for as lease modification by remeasuring the right-of-use assets and lease liabilities. Gain arising from lease modification was recognised as other income in the consolidated income statements.

During the years ended 31 December 2021, 2022 and 2023, the amounts recognised in other income related to COVID-19-related rent concessions on lease liabilities were HK$92,863,000, HK$1,010,000 and HK$Nil respectively.

During the years ended 31 December 2021, 2022 and 2023, the amount recognised as gain on modification of leases related to COVID-19-related rent concessions on lease liabilities was HK$Nil, HK$22,547,000 and HK$Nil respectively.

During the year ended 31 December 2022, there was a reduction in the scope of a leasehold land of Citybus Limited due to the shortening of the lease period from 30 June 2026 to 30 June 2023, which was based on the franchised period of CTB (F1) Franchise of Citybus Limited in which the leasehold land belongs to, following the merge of CTB (F1) Franchise and the franchise of New World First Bus Services Limited into a new franchise granted to Citybus Limited, namely Franchise for the Urban and New Territories Bus Network, on 1 July 2023. Lease modification was adopted to remeasure the right-of-use assets and lease liabilities. Gain arising from lease modification was recognised in other income in the consolidated income statement.

During the years ended 31 December 2021, 2022 and 2023, the amounts recognised as gain on modification of leases due to the shortening of the lease term were HK$Nil, HK$15,443,000 and HK$10,000 respectively.

(ii) The Target Group has obtained the right to use other leasehold lands as its staff rest kiosks and bus regulators' offices through tenancy agreements. These leases typically run for a period of 3–10 years.

(iii) Additions to the right-of-use assets and lease liabilities for the years ended 31 December 2021, 2022 and 2023 were HK$4,643,000, HK$1,478,000 and HK$1,355,928,000 respectively.

The analysis of expense items in relation to leases recognised in profit or loss and cash flow on leases is as follows:

	Year ended 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Depreciation charge of right-of-use assets by class of underlying asset *(note 7)*:			
Leasehold land for depots	108,598	77,976	68,152
Leasehold land for termini	2,100	1,852	3,113
Building	–	–	77
Motor vehicles	–	–	14
Equipment	170	128	128
	110,868	79,956	71,484
Interest on lease liabilities *(note 8)*	10,608	4,950	51,354
Rental expenses under short-term leases *(note 7)*	20,156	20,793	10,927
Total cash outflow on leases	53,417	53,669	109,799

17 PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries of the Target Company as at 31 December 2021, 2022 and 2023 are as follows:

Name	Place of incorporation and operation and kind of legal entity	Principal activities	Particulars of issued share capital/registered capital	As at 31 December 2021		As at 31 December 2022		As at 31 December 2023	
				Direct interest held	Indirect interest held	Direct interest held	Indirect interest held	Direct interest held	Indirect interest held
# Bravo Transport Services Limited	The British Virgin Islands/ Hong Kong, limited liability company	Investment holding	500,000,016 ordinary shares of HK$1 each	100%	–	100%	–	100%	–
# Citybus Limited	Hong Kong, limited liability company	Provision of franchised and non-franchised bus services	37,500,000 ordinary shares of HK$376,295,750	–	100%	–	100%	–	100%
# City Tours Limited	Hong Kong, limited liability company	Provision of bus, coach and travel related services	800,000 ordinary shares of HK$8,000,000	–	100%	–	100%	–	100%
# * New World First Bus Services Limited	The British Virgin Islands/ Hong Kong, limited liability company	Provision of franchised bus services in Hong Kong	200,000,000 ordinary shares of HK$1 each	–	100%	–	100%	–	100%
^ Bravo Media Limited	Hong Kong, limited liability company	Provision of media services	100 ordinary shares of HK$1 each	–	100%	–	100%	–	100%

#) The statutory financial statements of these subsidiaries for the period from 1 July 2020 to 31 December 2021 and year ended 31 December 2022 were audited by PricewaterhouseCoopers.

*) New World First Bus Services Limited ceased its franchised bus services with effect from 04:00 hours (Hong Kong time) on 1 July 2023.

ˆ) The statutory financial statements of Bravo Media Limited for the period from 28 October 2021 (date of incorporation) to 31 December 2022 were audited by PricewaterhouseCoopers.

The above table only consists of the direct or indirect principal subsidiaries of the Target Company. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length and those undisclosed subsidiaries will not have any material impact on the financial results and/or net assets of the Target Group.

18 ASSET HELD-FOR-SALE AND FINANCIAL ASSET AT FVOCI

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Asset held-for-sale *(note)*	460,000	–	–

Note:

On 17 January 2022 and 19 January 2022, agreements were entered into by the subsidiaries in respect of the disposals of their entire interest in Octopus Holdings Limited at a total consideration of HK$460,000,000. The disposals were completed in January 2022. The interest in Octopus Holdings Limited was reclassified from financial asset at FVOCI to asset held-for-sale as at 31 December 2021.

During the Relevant Periods, the following gains were recognised in the consolidated income statements and the consolidated statements of comprehensive income.

	Year ended 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Consolidated income statements			
Dividend income *(note 6)*	25,012	–	–
Consolidated statements of comprehensive income			
Fair value change on financial asset at FVOCI	192,140	–	–

19 INVENTORIES

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Spare parts, fuel and oil	43,699	46,875	49,537
Stores	1,016	1,081	1,111
	44,715	47,956	50,648

20 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Accounts receivable *(notes (a) and (c)(i))*	90,181	124,873	170,323
Contract assets *(notes (b) and (c)(i))*	17,506	37,017	76,215
Other receivables *(note (c)(ii))*	100,770	249,516	29,720
Prepayments and deposits *(note (c)(ii))*	33,723	32,905	37,582
	242,180	444,311	313,840

(a) Ageing analysis of accounts receivable

As at the end of the reporting periods, the ageing analysis of accounts receivable, based on the invoice date, is as follows:

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 month	70,605	84,393	101,771
Over 1 month but within 2 months	19,149	15,702	42,081
Over 2 months but within 3 months	367	3,298	15,962
Over 3 months but within 6 months	35	20,310	8,265
Over 6 months	25	1,170	2,244
	90,181	124,873	170,323

(b) The Target Group performs services in advance of receiving consideration, and the right to consideration is conditional.

(c) The Target Group adopts the following credit policies for different financial instruments:

(i) In determining the recoverability of accounts receivable and contract assets, the Target Group assesses the recoverable amount of each individual accounts receivable and contract assets whether there is objective evidence that the accounts receivable and contract assets are impaired. This evidence may include observable data including that there has been an adverse change in the payment status of the debtors, the local economic conditions as well as forward looking estimates at the end of each reporting period.

The Target Group applies the HKFRS 9 simplified approach to measure expected credit losses which use a lifetime expected loss allowance for all accounts receivable and contract assets. Management considers that the expected credit loss for accounts receivable and contract assets is minimal and no allowance for impairment is made at 31 December 2021, 2022 and 2023.

(ii) In determining the recoverability of other receivables and deposits, the Target Group assesses the recoverable amount of each individual other receivables and deposits whether there is objective evidence that the other receivables and deposits are impaired. This evidence may include observable data including that there has been an adverse change in the payment status of the debtors, the local economic conditions as well as forward looking estimates at the end of each reporting period.

Other receivables and deposits are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. They are considered to be of low credit risk and the counterparties have the ability to meet its contractual cash flow. Management considers that the expected credit loss for other receivables and deposits is minimal and no allowance for impairment is made at 31 December 2021, 2022 and 2023.

(iii) The carrying amounts of accounts receivable, prepayments and deposits were denominated in the following currencies:

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong dollar	238,114	440,004	313,754
United States dollar	3,801	4,136	–
Pound Sterling	236	148	86
Euro	29	21	–
Swedish Kronor	–	2	–
	242,180	444,311	313,840

21 ACCOUNTS PAYABLE, ACCRUALS AND PROVISIONS

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Accounts payable *(note (a))*	46,338	37,751	55,032
Accruals	431,877	343,128	406,099
	478,215	380,879	461,131
Provisions *(note (b))*	123,591	155,102	152,344
	601,806	535,981	613,475
Less: non-current portion – Provision for long service payments	(1,207)	(40,581)	(44,639)
Current portion – Accounts payable, accruals and provisions	600,599	495,400	568,836

(a) Ageing analysis of accounts payable

As at the end of the reporting periods, the ageing analysis of accounts payable, based on the invoice date, is as follows:

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 month	4,892	11,001	24,370
Over 1 month but within 3 months	38,969	26,357	27,928
Over 3 months	2,477	393	2,734
	46,338	37,751	55,032

(b) Movements of provisions during the years are as follows:

	Claims *(note (i))*	**Long service payments** *(notes (ii) and (iii))*	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2021	119,126	4,614	123,740
Utilisations	(46,592)	(679)	(47,271)
Additions and remeasurement	49,535	–	49,535
Current service cost	–	(861)	(861)
Net interest expense	–	10	10
Total amount recognised in profit or loss	49,535	(851)	48,684
Remeasurement:			
– Gain due to demographic experience	–	(1,480)	(1,480)
– Gain due to changes in financial assumptions	–	(82)	(82)
Total amount recognised in other comprehensive income	–	(1,562)	(1,562)
At 31 December 2021	122,069	1,522	123,591

	Claims *(note (i))* *HK$'000*	Long service payments *(notes (ii) and (iii))* *HK$'000*	Total *HK$'000*
At 1 January 2022	122,069	1,522	123,591
Utilisations	(41,424)	(3,381)	(44,805)
Additions and remeasurement	29,837	–	29,837
Current service cost	–	72	72
Past service cost – scheme amendment due to abolition of MPF-LSP offsetting arrangement	–	97,873	97,873
Net interest expense	–	11	11
Total amount recognised in profit or loss	29,837	97,956	127,793
Remeasurement:			
– Loss due to demographic experience	–	13,937	13,937
– Gain due to changes in financial assumptions	–	(65,477)	(65,477)
– Loss due to changes in demographic assumptions	–	63	63
Total amount recognised in other comprehensive income	–	(51,477)	(51,477)
At 31 December 2022	110,482	44,620	155,102

	Claims *(note (i))* *HK$'000*	Long service payments *(notes (ii) and (iii))* *HK$'000*	Total *HK$'000*
At 1 January 2023	110,482	44,620	155,102
Utilisations	(35,649)	(6,213)	(41,862)
Additions and remeasurement	29,575	–	29,575
Current service cost	–	6,101	6,101
Net interest expense	–	1,533	1,533
Total amount recognised in profit or loss	29,575	7,634	37,209
Remeasurement:			
– Gain due to demographic experience	–	(491)	(491)
– Loss due to changes in financial assumptions	–	2,071	2,071
– Loss due to changes in demographic assumptions	–	315	315
Total amount recognised in other comprehensive loss	–	1,895	1,895
At 31 December 2023	104,408	47,936	152,344

Notes:

(i) Provision for claims represented the amounts set aside by the Target Group to meet liabilities which are expected to arise from third party motor claims in connection with the Target Group's bus operations.

(ii) Past service cost resulting from a scheme amendment due to the abolition of the MPF – LSP offsetting arrangement was valued under the assumptions as at 31 December 2021 and recognised as staff costs in the consolidated income statement for the year ended 31 December 2022.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity and recognised in other comprehensive income in the period in which they arise. The principal actuarial assumptions used in assessing the present value of expected future long service payments required to settle the obligation resulting from employee service in current and prior years are as follows:

	As at 31 December		
	2021	**2022**	**2023**
	% p.a.	*% p.a.*	*%p.a.*
Discount rate	0.80	3.80	3.50
Long-term salary growth rate	1.80	3.50	4.50
Long-term expected increase of maximum salary and amount of long service payments	2.00	0.00	N/A
Long-term expected increase of MPF relevant income limit	2.00	2.50	2.50
Long-term expected return on the defined contribution plans			
– MPF balances	4.50	6.00	5.50
– ORSO balances	4.75	6.50	6.00

(iii) The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	As at 31 December					
	2021		**2022**		**2023**	
	Increase by 0.25 percentage points	**Decrease by 0.25 percentage points**	**Increase by 0.25 percentage points**	**Decrease by 0.25 percentage points**	**Increase by 0.25 percentage points**	**Decrease by 0.25 percentage points**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Discount rate	(10)	10	(1,031)	1,070	(1,185)	1,233
Long-term salary growth rate	42	(44)	89	(89)	69	(73)
Long-term expected increase of maximum salary and amount of long service payments	72	(75)	3,874	–	N/A	N/A
Long-term expected increase of MPF relevant income limit	–	–	11	(12)	11	(15)
Long-term expected return on the defined contribution plans	(103)	110	(203)	210	(164)	165

The above sensitivity analyses are based on a change in one assumption while all other assumptions remain constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

(c) The carrying amounts of accounts payable, accruals and provisions were denominated in the following currencies:

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong dollar	564,730	522,953	597,773
Pound Sterling	26,193	4,360	8,072
Euro	5,640	5,605	3,944
Japanese Yen	3,709	1,189	1,240
United States dollar	680	199	492
Other currency	854	1,675	1,954
	601,806	535,981	613,475

22 CONTRACT LIABILITIES

The Target Group has recognised the following liabilities related to contracts with customers:

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Advances received from customers			
– Advertising service	73,347	70,830	72,749

23 DERIVATIVE FINANCIAL INSTRUMENTS

(a) Derivative financial assets

The contracted notional amounts, fair values and maturities based on contractual undiscounted cash flows of the financial instruments outstanding are as follows:

	Fuel price swap contracts As at 31 December			Fuel price call option contracts As at 31 December			Interest rate swap contract As at 31 December			Interest rate cap option contract As at 31 December			Total As at 31 December		
	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK'$000*	*HK$'000*	*HK$'000*	*HK'$000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash flow hedges:															
Notional amount	74,547	–	–	6,187	38,065	25,789	1,213,875	1,151,625	–	–	–	1,000,000	1,294,609	1,189,690	1,025,789
Fair value	21,540	–	–	11,610	21,602	8,016	15,131	82,188	–	–	–	2,202	48,281	103,790	10,218
Contractual undiscounted cash flows maturing within 1 year															
Net settled:															
– inflow	21,540	–	–	11,610	21,602	8,016	–	36,372	–	–	–	1,547	33,150	57,974	9,563
Contractual undiscounted cash flows maturing in 1 to 5 years															
Net settled:															
– inflow	–	–	–	–	–	–	15,131	45,816	–	–	–	655	15,131	45,816	655
Maturity date	30 June 2022	N/A	N/A	31 December 2022	31 December 2023	31 December 2024	15 October 2025	15 October 2025	N/A	N/A	N/A	19 June 2025			
Price/Rate	US$70.20	N/A	N/A	US$100.00	US$120.00 US$125.00 US$130.00 US$135.00	US$115.00 US$120.00 US$125.00	0.755% per annum	0.755% per annum	N/A	N/A	N/A	5.00% per annum			

(b) Derivative financial liabilities

The contracted notional amounts, fair values and maturities based on contractual undiscounted cash flows of the financial instruments outstanding are as follows:

	Interest rate swap contract As at 31 December		
	2021	**2022**	**2023**
	HK'$000	*HK$'000*	*HK$'000*
Cash flow hedges:			
Notional amount	1,213,875	–	–
Fair value	(4,573)	–	–
Contractual undiscounted cash flows maturing within 1 year			
Net settled:			
– outflow	(4,573)	–	–
Maturity date	15 October 2025	N/A	N/A
Price/Rate	0.755% per annum	N/A	N/A

(c) Hedging reserve

The Target Group's hedging reserve disclosed in the consolidated statements of changes in equity relate to the following hedging instruments:

	Fuel price swap contracts	**Fuel price call option contracts**	**Interest rate swap contract**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2021	25,594	–	(20,800)	4,794
Changes in fair value of hedging instrument recognised in other comprehensive income	109,988	5,461	23,347	138,796
Reclassification of cash flow hedge reserve (to inventory)	(82,602)	–	–	(82,602)
Transferred to consolidated income statement	–	–	8,011	8,011
Deferred tax	(18,148)	(901)	–	(19,049)
As at 31 December 2021	34,832	4,560	10,558	49,950

	Fuel price swap contracts	Fuel price call option contracts	Interest rate swap contract	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2022	34,832	4,560	10,558	49,950
Changes in fair value of hedging instrument recognised in other comprehensive income	53,161	59,017	77,333	189,511
Reclassification of cash flow hedge reserve (to inventory)	(79,220)	(39,732)	–	(118,952)
Transferred to consolidated income statement	–	(27,952)	(5,703)	(33,655)
Deferred tax	(8,773)	(9,736)	–	(18,509)
As at 31 December 2022	–	(13,843)	82,188	68,345

	Fuel price call option contracts	Interest rate swap contract	Interest rate cap option contract	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2023	(13,843)	82,188	–	68,345
Changes in fair value of hedging instrument recognised in other comprehensive loss	(575)	(15,577)	(5,010)	(21,162)
Reclassification of cash flow hedge reserve (to inventory)	(499)	–	–	(499)
Transferred to consolidated income statement	–	(66,611)	–	(66,611)
Deferred tax	95	–	–	95
As at 31 December 2023	(14,822)	–	(5,010)	(19,832)

Note:

As at 31 December 2021, 2022 and 2023, the total notional principal amounts of the outstanding derivative financial instruments were HK$1,294,609,000, HK$1,189,690,000 and HK$1,025,789,000 respectively.

The Target Group enters into the hedging instruments that have similar critical terms as the hedged items.

The Target Group does not hedge all of its commodities, bank loans and foreign currencies, therefore the hedged items are identified as a proportion of the outstanding hedged items up to the notional amount of the hedging instruments with one-to-one hedge ratio. As all critical terms matched substantially, the economic relationship was highly effective during the Relevant Periods.

During the Relevant Periods, there was insignificant ineffectiveness in relation to the hedging instruments.

24 DEFERRED INCOME TAX

	Year ended 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
At the beginning of the year	263,395	238,805	149,861
Credited to income tax *(note 9)*	(27,343)	(81,753)	(10,112)
Charged/(credited) to the hedging reserve	19,049	18,509	(95)
Credited to fuel and oil	(16,296)	(25,700)	(63)
At the end of the year	238,805	149,861	139,591

During the years ended 31 December 2021, 2022 and 2023, deferred income tax is calculated in full on temporary differences under the liability method using a tax rate of 16.5%.

For the purpose of presentation in the Historical Financial Information, certain deferred income tax assets and liabilities have been offset. The following is the analysis of the deferred income tax balances for financial reporting purposes:

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Deferred income tax liabilities	238,805	149,861	139,591

The components and movement in deferred income tax liabilities/(assets) (prior to offsetting of balances within the same jurisdiction) of the Target Group during the years are as follows:

	Accelerated depreciation allowance	**Tax losses**	**Other taxable/ (deductible) temporary difference**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2021	555,640	(281,028)	(11,217)	263,395
(Credited)/charged to income tax *(note 9)*	(54,029)	13,542	13,144	(27,343)
Charged to the hedging reserve	–	–	19,049	19,049
Credited to fuel and oil	–	–	(16,296)	(16,296)
At 31 December 2021	501,611	(267,486)	4,680	238,805

	Accelerated depreciation allowance	Tax losses	Other taxable/ (deductible) temporary difference	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2022	501,611	(267,486)	4,680	238,805
Credited to income tax *(note 9)*	(51,022)	(30,559)	(172)	(81,753)
Charged to the hedging reserve	–	–	18,509	18,509
Credited to fuel and oil	–	–	(25,700)	(25,700)
At 31 December 2022	450,589	(298,045)	(2,683)	149,861

	Accelerated depreciation allowance	Tax losses	Other deductible temporary difference	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2023	450,589	(298,045)	(2,683)	149,861
(Credited)/charged to income tax *(note 9)*	(75,360)	65,250	(2)	(10,112)
Credited to the hedging reserve	–	–	(95)	(95)
Credited to fuel and oil	–	–	(63)	(63)
At 31 December 2023	375,229	(232,795)	(2,843)	139,591

At 31 December 2021, 2022 and 2023, deferred tax assets have not been recognised in respect of unused tax losses of HK$33,667,000, HK$44,125,000 and HK$65,869,000, respectively, as they have arisen in certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Such tax losses may be carried forward indefinitely without a fixed term.

25 SHARE CAPITAL

	Ordinary shares of a single class		
	Number of shares	*US$*	*HK$'000*
Authorised:			
As at 31 December 2021, 2022 and 2023 *(note)*	50,000	–	–
Issued and fully paid:			
As at 31 December 2021, 2022 and 2023	10,000	178,661,172	1,384,481

Note:

The Target Company was incorporated on 23 July 2020 with an authorised share capital of 50,000 shares. There is no par value for the shares of the Target Company.

26 BANK LOANS

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Bank loans			
– Secured	1,627,888	1,336,173	1,770,619

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
The bank loans are repayable as follows:			
– Within 1 year	56,715	87,840	59,060
– After 1 year but within 2 years	87,840	118,965	59,060
– After 2 years but within 5 years	1,483,333	1,129,368	1,652,499
	1,571,173	1,248,333	1,711,559
	1,627,888	1,336,173	1,770,619

Notes:

(i) The Target Group obtained a term loan facility with the principal amount of HK$1,245,000,000 ("**Existing Facility A**"), the interest rate swap contract, and the interest rate cap option contract in relation to the loan facility. As at 31 December 2021 and 2022, the total available amount under Existing Facility A has been drawn down, and HK$31,125,000, HK$62,250,000 and HK$93,375,000 were repaid during the years ended 31 December 2021, 2022 and 2023 respectively. On 12 December 2023, the Target Group renewed the existing term loan facility and entered into a loan facility letter ("**New Facility Agreement**") with the principal amount of term loan of HK$1,300,000,000 ("**New Facility A**"). As at 31 December 2023, the total available amount under New Facility A has been drawn down and no repayment has been made during the year ended 31 December 2023.

(ii) The Target Group obtained a term loan facility and a revolving loan facility with the principal amounts of HK$200,000,000 ("**Existing Facility B**") and HK$400,000,000 ("**Existing Facility C**") respectively. As at 31 December 2021 and 2022, the total available amount under Existing Facility B has been drawn down, and as at 31 December 2021 and 2022, the Target Group had accessed to the undrawn Existing Facility C of HK$165,000,000 and HK$400,000,000 respectively. On 12 December 2023, the Target Group renewed the existing loan facilities and entered into the New Facility Agreement with the principal amount of revolving loan of HK$500,000,000 ("**New Facility B**"). As at 31 December 2023, the total available amount under New Facility B has been drawn down and no repayment has been made during the year ended 31 December 2023.

(iii) The bank loans at 31 December 2021, 2022 and 2023 were secured and guaranteed by:

(a) the entire issued shares in certain subsidiaries; and

(b) certain assets of certain subsidiaries.

(iv) During the Relevant Periods, the Target Group has complied with the financial covenants of its loan facilities on a semi-annually basis.

(v) The Target Group's loan facilities are also subject to a covenant related to a change of control. The covenant will not be met if 1) Templewater Bravo Holdings Limited ("**Templewater**") ceases to beneficially own, directly or indirectly, at least 51% of the entire issued share capital of the Target Group; 2) Templewater ceases to control the Board of the Target Group; 3) all or substantially all of the business or assets of the Target Group are disposed of. The Target Group has complied with this covenant on a semi-annually basis. On 12 December 2023, the Target Group renewed the existing loan facilities and entered into the New Facility Agreement in such a manner that the covenant will remain in compliance upon a change of control of the Target Group.

(vi) As of 31 December 2021 and 2022, the bank loans carried an effective interest rate of approximately 3.28% and 3.83% per annum, respectively. These loans are on a repayment schedule to be completely settled by 30 October 2025. The bank loan as of 31 December 2023, with an effective interest rate of approximately 7.92% per annum, is also on a repayment schedule to be completely settled by 12 December 2028.

(vii) The carrying amount of the bank loans approximates its fair value.

(viii) As at 31 December 2021, 2022 and 2023, the carrying amounts of the bank loans are shown as the net amount of the sum of HK$1,648,875,000, HK$1,351,625,000 and HK$1,800,000,000 outstanding, respectively, and the unamortised portion of loan arrangement fees of HK$20,987,000, HK$15,452,000 and HK$29,381,000 respectively.

(ix) As at 31 December 2023, the Target Group's bank balances included a restricted bank balance of HK$150,000,000 representing the additional restricted bank balance required by the bank.

27 BUSINESS COMBINATION

On 21 August 2020, the Target Company entered into an agreement with NWS Service Management Limited ("**NWSSM**") to acquire 100% equity interest in Bravo Transport Services Limited ("**BTSL**") (formerly known as NWS Transport Services Limited) at a consideration of HK$3,200,000,000, including a deferred payment (see note 28). BTSL and its subsidiaries (the "**BTSL Group**") are principally engaged in the provision of public bus and travel related services in Hong Kong. The acquisition was completed on 15 October 2020.

The acquisition was made as part of the Target Group's strategy to facilitate the transport business in Hong Kong.

Contingent consideration received

According to the sale and purchase agreement, in the event that the monthly operating cash flow of the BTSL Group for every month from 1 September 2020 to 31 August 2021 is negative, NWSSM agrees to subsidise the Target Company such amount as would be required to make up the monthly operating cash flow for that month to breakeven. The total amount of the cash flow subsidy received from NWSSM for the period from 23 July 2020 (date of incorporation) to 31 December 2020 and the year ended 31 December 2021 are HK$115,589,000 and HK$164,411,000 respectively.

28 DEFERRED PAYMENT

As at 31 December 2021 and 2022

Deferred payment represents the remaining purchase consideration of HK$710,000,000 payable to NWSSM by instalments on the dates which are the third, fifth and sixth anniversary of the completion date in relation to the acquisition of 100% equity interest in BTSL by the Target Company. At the acquisition date, the present value of the deferred payment of HK$636,000,000 is estimated by calculating the present value of the future expected cash flows. The estimates are based on the discount rates of 2.45%–2.78% per annum.

As at 31 December 2023

On 23 June 2023, the Board of Directors of the Target Company resolved to amend certain payments of the remaining purchase consideration of HK$710,000,000 with the consent from NWSSM. The deferred payment is therefore modified and the present value of this financial liability is remeasured by considering the revised future expected cash flows at the original discount rates of 2.45%–2.78% per annum. The present value at the modification date changed from HK$636,000,000 to HK$647,471,000, and the difference of HK$11,471,000 was recognised in the consolidated income statement for the year ended 31 December 2023. Please refer to note 29(c) for the details of the movement of deferred payment.

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of (loss)/profit from operations to net cash generated from/(used in) operations

	Year ended 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/profit from operations	(150,905)	(205,349)	116,678
Depreciation of property, plant and equipment	384,717	388,732	255,286
Depreciation of right-of-use assets	110,868	79,956	71,484
Amortisation of fuel price call option contracts premium	–	3,806	38,180
(Gain)/loss on disposal of property, plant and equipment	(620)	798	(22)
Gain on disposal of fuel price call option contracts	–	(33,476)	–
Realised fair value gain on an interest rate swap contract	–	–	(56,000)
Gain on modification of leases	–	(37,990)	(10)
Recognition of government grants	(6,469)	(6,469)	(5,934)
COVID-19-related rent concessions	(92,863)	(1,010)	–
Interest income	(882)	(3,648)	(12,332)
Dividend income	(25,012)	–	–
Loss on modification of deferred payment	–	–	11,471
Operating profit before working capital changes	218,834	185,350	418,801
Increase in derivative financial instruments	(6,149)	(38,180)	(35,566)
Decrease/(increase) in inventories	20,728	(3,241)	(2,692)
(Increase)/decrease in accounts receivable, prepayments and deposits	(1,499)	(225,015)	122,196
Increase in accounts payable, accruals and provisions	35,518	13,101	59,370
Increase/(decrease) in contract liabilities	3,347	(2,517)	1,920
Net cash generated from/(used in) operations	270,779	(70,502)	564,029

(b) Analysis of cash and cash equivalents

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Time deposits with original maturities less than three months	84,000	199,500	216,000
Bank balances	420,389	98,363	124,195
Cash on hand	866	947	2,068
Cash and cash equivalents	505,255	298,810	342,263

Notes:

(i) As at 31 December 2021, 2022 and 2023, the bank balances included restricted bank balance of HK$9,959,000, HK$5,964,000 and HK$6,026,000 representing the designated bank account maintained for the balance of the excess of 50% of the return over a prescribed triggering point of return on the Target Group's average property, plant and equipment, and right-of-use assets in prior years, respectively.

(ii) As at 31 December 2021, 2022 and 2023, the bank balances also included restricted bank balance of HK$4,523,000, HK$2,030,000 and HK$1,084,000 representing the designated bank account maintained for the balance of Franchised Bus Toll Exemption Fund, respectively.

(iii) As at 31 December 2021, 2022 and 2023, the bank balances also included restricted bank balance of HK$5,340,000, HK$8,681,000 and HK$36,415,000 respectively. As at 31 December 2021 and 2022, the amounts represented the debt service reserve account maintained at least equalling to the aggregate of the amount of bank loan interest payable on the immediately succeeding date of payment of the relevant bank loan interest. As at 31 December 2023, the amount represented the debt service reserve account maintained at least equalling to the aggregate of the amount of bank loan interest payable on the immediately succeeding three months payment of the relevant bank loan interest.

(iv) The carrying amounts of cash and cash equivalents were denominated in the following currencies:

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong dollar	497,799	296,720	340,914
Pound Sterling	1,845	203	239
United States dollar	3,151	1,224	711
Euro	2,460	663	399
	505,255	298,810	342,263

(c) Reconciliation of liabilities arising from financing activities:

	Lease liabilities *HK$'000*	**Bank loans** *HK$'000*	**Interest payable on bank loans** *HK$'000*	**Deferred payment** *HK$'000*
Balance as at 1 January 2021	(377,207)	(1,788,478)	(699)	(639,709)
Changes from financing cash flows:				
Drawdown of bank loans	–	(105,000)	–	–
Repayments of bank loans	–	271,125	–	–
Payment of bank loan interests	–	–	60,389	–
Capital elements of lease liabilities payments	31,039	–	–	–
Interest elements of lease liabilities payments	2,222	–	–	–
	33,261	166,125	60,389	–
Other changes:				
Amortisation of loan arrangement fee	–	(5,535)	–	–
COVID-19-related rent concessions on lease liabilities	92,863	–	–	–
New leases	(4,643)	–	–	–
Interest expenses	(10,608)	–	(61,635)	–
Unwinding on discount of deferred payment	–	–	–	(17,357)
	77,612	(5,535)	(61,635)	(17,357)
Balance as at 31 December 2021 and 1 January 2022	(266,334)	(1,627,888)	(1,945)	(657,066)
Changes from financing cash flows:				
Drawdown of bank loans	–	(150,000)	–	–
Repayments of bank loans	–	447,250	–	–
Payment of bank loan interests	–	–	52,470	–
Capital elements of lease liabilities payments	27,926	–	–	–
Interest elements of lease liabilities payments	4,950	–	–	–
	32,876	297,250	52,470	–
Other changes:				
Amortisation of loan arrangement fee	–	(5,535)	–	–
COVID-19-related rent concessions on lease liabilities	1,010	–	–	–
New leases	(1,478)	–	–	–
Interest expenses	(4,950)	–	(51,942)	–
Lease modifications	228,025	–	–	–
Unwinding on discount of deferred payment	–	–	–	(17,357)
	222,607	(5,535)	(51,942)	(17,357)
Balance as at 31 December 2022	(10,851)	(1,336,173)	(1,417)	(674,423)

	Lease liabilities *HK$'000*	Bank loans *HK$'000*	Interest payable on bank loans *HK$'000*	Deferred payment *HK$'000*
Balance as at 1 January 2023	(10,851)	(1,336,173)	(1,417)	(674,423)
Changes from financing cash flows:				
Drawdown of bank loans	–	(871,750)	–	–
Repayments of bank loans	–	423,375	–	–
Payment of bank loan interests	–	–	90,211	–
Payment of loan arrangement fee	–	29,700	–	–
Repayment of deferred payment	–	–	–	400,000
Capital elements of lease liabilities payments	47,518	–	–	–
Interest elements of lease liabilities payments	51,354	–	–	–
	98,872	(418,675)	90,211	400,000
Other changes:				
Amortisation of loan arrangement fee	–	(15,771)	–	–
New leases	(1,355,928)	–	–	–
Interest expenses	(51,354)	–	(96,426)	–
Lease modifications	432	–	–	–
Loss on modification of deferred payment *(note 28)*	–	–	–	(11,471)
Unwinding on discount of deferred payment	–	–	–	(12,752)
	(1,406,850)	(15,771)	(96,426)	(24,223)
Balance as at 31 December 2023	(1,318,829)	(1,770,619)	(7,632)	(298,646)

30 COMMITMENTS

(a) Capital commitments

The capital commitments in respect of property, plant and equipment were as follows:

	As at 31 December		
	2021 *HK$'000*	2022 *HK$'000*	2023 *HK$'000*
Contracted but not provided for	73,633	22,449	26,844

(b) Commitments under operating leases

The Target Group has recognised right-of-use assets for leases, except for short-term leases. The Target Group had no committed but not commenced leases. The future aggregate lease payments under short-term leases are as follows:

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Leasehold land for buildings and depots			
Within one year	18,703	18,662	194

(c) Future minimum rental payments receivable

The Target Group had aggregate future minimum lease receipts under non-cancellable leases as follows:

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
(i) Buildings – within one year	34	993	–
(ii) Buses – within one year	15,006	15,225	15,435

31 RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the Historical Financial Information, a summary of significant related party transactions which were carried out in the normal course of the Target Group's business is stated below:

(a) Key management compensation

The compensation paid or payable to key management, which includes only the directors of the Target Company and its subsidiaries, for services is shown below:

	Year ended 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
Directors' fee	1,299	1,783	1,788
Salaries and other emoluments	9,983	7,129	10,045
Discretionary bonuses	1,206	720	761
Retirement scheme contributions	705	568	684
	13,193	10,200	13,278

(b) Transaction with related companies

Nature of Transaction	Note	Year ended 31 December 2021 HK$'000	2022 HK$'000	2023 HK$'000
Management service fee	*(i)*	21,750	20,317	9,250
Accommodation fee	*(i)*	1,185	1,000	514
Advisory service fee	*(ii), (iii)*	5,056	12,191	17,635
Secondment fee	*(ii), (iii)*	1,951	2,040	–

Notes:

(i) In 2020, the Target Company entered into an operating partnership agreement with a shareholder as amended by way of a new fleet management and operating agreement in 2021 and an amendment and restatement agreement relating to the fleet management and operating agreement in 2022 for the provision of services to the Target Group which include the provision of a support team comprised of experienced senior managers and specialists to work for the execution of support services, leadership and operation of the Target Group's services. There is no outstanding balance due from the shareholder as at 31 December 2021, 2022 and 2023.

(ii) In 2021, the Target Group entered into an advisory service agreement and a secondment agreement with a related company as amended by way of a new advisory service agreement in 2022 for the provision of advisory services for the enhancement of operational effectiveness and efficiency of the Target Group and seconding its employees to the Target Group for specific assignments. The amount of advisory service fee for the years ended 31 December 2021, 2022 and 2023 was HK$2,003,000, HK$Nil and HK$Nil respectively. The amount of secondment fee for the years ended 31 December 2021, 2022 and 2023 was HK$229,000, HK$Nil and HK$Nil respectively. There is no outstanding balance due from the related company as at 31 December 2021, 2022 and 2023.

(iii) In 2021, the Target Group entered into an advisory service agreement and a secondment agreement with a related company for the provision of advisory services for the enhancement of operational effectiveness and efficiency of the Target Group and seconding its employees to the Target Group for specific assignments. The amounts of advisory service fee for the years ended 31 December 2021, 2022 and 2023 were HK$3,053,000, HK$12,191,000 and HK$17,635,000 respectively. The amounts of secondment fee for the years ended 31 December 2021, 2022 and 2023 were HK$1,722,000, HK$2,040,000 and HK$Nil respectively. There is no outstanding balance due from the related company as at 31 December 2021, 2022 and 2023.

32 STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

	Note	As at 31 December		
		2021	2022	2023
		HK$'000	HK$'000	HK$'000
ASSETS				
Non-current assets				
Investments in subsidiaries		2,846,001	2,846,001	2,846,001
Current assets				
Amounts due from subsidiaries	34	11	11	911
Interest receivables		31	372	68
Cash and cash equivalents		350,028	116,138	37,447
		350,070	116,521	38,426
Total assets		3,196,071	2,962,522	2,884,427
EQUITY				
Capital and reserves				
Share capital		1,384,481	1,384,481	1,384,481
Accumulated losses	33	(68,830)	(317,570)	(21,514)
Total equity		1,315,651	1,066,911	1,362,967
LIABILITIES				
Non-current liabilities				
Deferred payment	28	657,066	326,050	185,933
Current liabilities				
Other payables and accruals		2,101	2,786	3,854
Amounts due to subsidiaries	34	1,221,253	1,218,402	1,218,960
Deferred payment	28	–	348,373	112,713
		1,223,354	1,569,561	1,335,527
Total liabilities		1,880,420	1,895,611	1,521,460
Total equity and liabilities		3,196,071	2,962,522	2,884,427

33 RESERVES MOVEMENT OF THE TARGET COMPANY

	Accumulated losses
	HK$'000
As at 1 January 2021	(27,238)
Loss for the year	(41,592)
As at 31 December 2021	(68,830)
As at 1 January 2022	(68,830)
Loss for the year	(48,740)
Dividend paid	(200,000)
As at 31 December 2022	(317,570)
As at 1 January 2023	(317,570)
Profit for the year	546,056
Dividend paid	(250,000)
As at 31 December 2023	(21,514)

34 AMOUNTS DUE FROM/(TO) SUBSIDIARIES

The amounts due from/(to) subsidiaries unsecured, interest-free and have no fixed terms of repayment.

35 EVENT AFTER THE RELEVANT PERIODS

There is no material event after 31 December 2023.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the Relevant Periods and which have not been adopted in the Historical Financial Information. These developments include the following which may be relevant to the Target Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current ("**2020 amendments**")*	1 January 2024
Amendments to HKAS 1, *Presentation of financial statements: Non-current liabilities with covenants ("**2022 amendments**")*	1 January 2024
Amendments to HKFRS 16, *Leases: Lease liability in a sale and leaseback*	1 January 2024
Amendments to HKAS 7, *Statement of cash flows and HKFRS 7, Financial Instruments: Disclosures: Supplier finance arrangements*	1 January 2024
Amendments to HKAS 21, *The effects of changes in foreign exchange rates: Lack of exchangeability*	1 January 2025

The Target Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far the Target Group has concluded that the adoption of them is unlikely to have a significant impact on the Target Group's financial information.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group comprising the Target Company and its subsidiaries in respect of any period subsequent to 31 December 2023.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative unaudited pro forma financial information of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**"), including the unaudited pro forma consolidated balance sheet, the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated cash flow statement of the Enlarged Group, for the purpose of illustrating the effect of the proposed acquisition of Bravo Transport Holdings Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") (the "**Proposed Acquisition**"), as if the Proposed Acquisition had been completed on (i) 1 January 2023 for the unaudited pro forma consolidated income statement, unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated cash flow statement; and (ii) 31 December 2023 for the unaudited pro forma consolidated balance sheet.

The Unaudited Pro Forma Financial Information has been prepared by the Directors based on the consolidated balance sheet of the Group as at 31 December 2023, consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year ended 31 December 2023 as set out in the published annual report of the Group for the year ended 31 December 2023, the historical financial information of the Target Group as at 31 December 2023 and for the year ended 31 December 2023 which has been extracted from the Accountants' Report as set out in Appendix III to this circular, and the pro forma adjustments prepared to reflect the effects of the Proposed Acquisition as described in the accompanying notes. These pro forma adjustments are (i) directly attributable to the Proposed Acquisition and not relating to other future events or decisions and (ii) factually supportable.

The accompanying Unaudited Pro Forma Financial Information has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules for illustrative purpose only and is based on certain assumptions, estimates, uncertainties and other currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position, results of operations and cash flows of the Enlarged Group had the Proposed Acquisition been completed as at 31 December 2023 or 1 January 2023, where applicable, or at any future dates.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with other financial information included elsewhere in this circular.

Unaudited Pro Forma Consolidated Balance Sheet

(Expressed in Hong Kong dollars)

	The Group as at 31 December 2023	Target Group as at 31 December 2023	Pro forma adjustments					Enlarged Group as at 31 December 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4A)*	*(Note 4B)*	*(Note 4C)*	*(Note 5)*	
Non-current assets								
Property, plant and equipment	373,390	2,702,644	1,170,875					4,246,909
Derivative financial asset	–	655						655
Restricted bank balance	–	150,000						150,000
Interests in leasehold land and buildings held for own use	176,224	1,284,956						1,461,180
Investment property	37,734	–						37,734
Prepayments and other receivables	11,813	–						11,813
Other investments	700,000	–			(700,000)			–
Intangible assets	756	–	1,902,400					1,903,156
Interest in an associate	1,015	–						1,015
Interest in a joint venture	1,777	–						1,777
Goodwill	4,674	–			1,328,442			1,333,116
	1,307,383	4,138,255						9,147,355
Current Assets								
Inventories	184,713	50,648						235,361
Trade and other receivables, prepayments and deposits	90,065	313,840						403,905
Derivative financial assets	–	9,563		5,707				15,270
Cash and bank balances	374,862	342,263		(500,000)				217,125
	649,640	716,314						871,661
Current liabilities								
Trade and other payables and contract liabilities	57,096	642,711					14,000	713,807
Bank loans	136,703	59,060						195,763
Lease liabilities	3,879	112,759						116,638
Deferred payment	–	112,713		242,253				354,966
Current taxation	1,604	19,328						20,932
Amounts due to related parties	74,182	–						74,182
	273,464	946,571						1,476,288
Net current assets/(liabilities)	376,176	(230,257)						(604,627)
Total assets less current liabilities	1,683,559	3,907,998						8,542,728

	The Group as at 31 December 2023	Target Group as at 31 December 2023	Pro forma adjustments					Enlarged Group as at 31 December 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4A)*	*(Note 4B)*	*(Note 4C)*	*(Note 5)*	
Non-current liabilities								
Bank loans	427,323	1,711,559						2,138,882
Lease liabilities	23,159	1,206,070						1,229,229
Provisions	–	44,639						44,639
Other payable	–	–		1,349,812				1,349,812
Deferred income tax liabilities	–	139,591	507,090					646,681
Deferred income	–	5,120						5,120
Deferred payment	–	185,933		1,730,317				1,916,250
	450,482	3,292,912						7,330,613
NET ASSETS	1,233,077	615,086						1,212,115
Capital and reserves								
Share capital	395,664	1,384,481		27,892		(1,384,481)		423,556
Reserves	816,031	(769,395)		27,333	(62,187)	769,395	(14,000)	767,177
Total equity attributable to equity shareholders of the Company	1,211,695	615,086						1,190,733
Non-controlling interests	21,382	–						21,382
TOTAL EQUITY	1,233,077	615,086						1,212,115

Unaudited Pro Forma Consolidated Income Statement

(Expressed in Hong Kong dollars)

	The Group for the year ended 31 December 2023	Target Group for the year ended 31 December 2023	Pro forma adjustments			Enlarged Group for the year ended 31 December 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 5)*	*(Note 6)*	*(Note 7)*	
Revenue	948,510	3,399,509				4,348,019
Direct costs and operating expenses	(859,327)	(2,820,621)			(187,060)	(3,867,008)
Gross Profit	89,183	578,888				481,011
Other income	8,860	90,788		(38,898)		60,750
Selling and administrative expenses	(96,591)	(552,998)	(14,000)			(663,589)
Reversal of loss allowance of trade and other receivables	1,000	–				1,000
Profit/(loss) from operations	2,452	116,678				(120,828)
Finance costs	(31,700)	(180,152)			(191,967)	(403,819)
Loss before taxation	(29,248)	(63,474)				(524,647)
Income tax (expense)/credit	(3,821)	(10,154)			30,865	16,890
Loss for the year	(33,069)	(73,628)				(507,757)
Attributable to:						
Equity shareholders of the Company	(35,125)	(73,628)				(509,813)
Non-controlling interests	2,056	–				2,056
Loss for the year	(33,069)	(73,628)				(507,757)

Unaudited Pro Forma Consolidated Statement of Comprehensive Income

(Expressed in Hong Kong dollars)

	The Group for the year ended 31 December 2023	Target Group for the year ended 31 December 2023	Pro forma adjustments			Enlarged Group for the year ended 31 December 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 5)*	*(Note 6)*	*(Note 7)*	
Loss for the year	(33,069)	(73,628)	(14,000)	(38,898)	(348,162)	(507,757)
Other comprehensive income for the year (after tax and reclassification adjustments):						
Items that may be reclassified subsequently to consolidated income statement:						
Exchange differences on translation of financial statements of subsidiaries	(2,925)	–				(2,925)
Cash flow hedges:						
Changes in fair value	–	(21,162)				(21,162)
Transferred to consolidated income statement	–	(66,611)				(66,611)
Income tax relating to cash flow hedges	–	95				95
Items that will not be reclassified subsequently to consolidated income statement:						
Increase/(decrease) in fair value of investments at fair value through other comprehensive income ("**FVOCI**")	62,045	–		(62,045)		–
Remeasurements of long service payments	–	(1,895)				(1,895)
Other comprehensive income for the year	59,120	(89,573)				(92,498)
Total comprehensive income for the year	26,051	(163,201)				(600,255)

Unaudited Pro Forma Consolidated Cash Flow Statement

(Expressed in Hong Kong dollars)

	The Group for the year ended 31 December 2023	Target Group for the year ended 31 December 2023	Pro forma adjustments			Enlarged Group for the year ended 31 December 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 5)*	*(Note 6)*	*(Note 7)*	
Loss before taxation	(29,248)	(63,474)	(14,000)	(38,898)	(379,027)	(524,647)
Adjustments for:						
Interest income	(5,019)	(12,332)				(17,351)
Finance costs	31,700	180,152			191,967	403,819
Depreciation	55,054	326,770			123,647	505,471
Amortisation of intangible assets	170	–			63,413	63,583
Amortisation of fuel price call option contracts premium	–	38,180				38,180
Gain on disposal of property, plant and equipment	–	(22)				(22)
Realised fair value gain on an interest rate swap contract	–	(56,000)				(56,000)
Gain on modification of leases	–	(10)				(10)
Recognition of government grants	–	(5,934)				(5,934)
Reversal of loss allowance of trade and other receivables	(1,000)	–				(1,000)
Disposal loss on investment at fair value through profit or loss	39,392	–				39,392
Dividend income	(38,898)	–		38,898		–
Exchange differences	2,217	–				2,217
Loss on modification of deferred payment	–	11,471				11,471
Changes in working capital:						
Increase in inventories	(66,020)	(2,692)				(68,712)
Decrease in trade and other receivables, prepayments and deposits	182,253	122,196				304,449
(Decrease)/increase in trade and other payables and contract liabilities	(19,248)	61,290				42,042
Decrease in amounts due to related parties	(2,300)	–				(2,300)
Increase in derivative financial assets	–	(35,566)				(35,566)
Cash generated from operations	149,053	564,029				699,082
PRC corporate income tax paid	(3,334)	–				(3,334)
Hong Kong Profits Tax paid	(734)	(1,380)				(2,114)
Net cash generated from operating activities	144,985	562,649				693,634

	The Group for the year ended 31 December 2023	Target Group for the year ended 31 December 2023	Pro forma adjustments			Enlarged Group for the year ended 31 December 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 5)*	*(Note 6)*	*(Note 7)*	
Investing activities						
Payment for purchase of property, plant and equipment	(7,559)	(38,556)				(46,115)
Payment for the additions to investment property	(763)	–				(763)
Payment for purchase of other investments	(45,153)	–				(45,153)
Proceeds received from the disposal of property, plant and equipment	–	4,786				4,786
Proceeds received from the disposal of other investment	129,597	–				129,597
Interest received	5,019	11,687				16,706
Dividend received from unlisted equity investment	38,898	–		(38,898)		–
Sale of derivative financial assets	–	56,000				56,000
Cash consideration paid for the Proposed Acquisition	–	–			(500,000)	(500,000)
Government grants for purchase of property, plant and equipment	–	18,408				18,408
Net cash generated from/(used in) investing activities	120,039	52,325				(366,534)

	The Group for the year ended 31 December 2023	Target Group for the year ended 31 December 2023	Pro forma adjustments			Enlarged Group for the year ended 31 December 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 5)*	*(Note 6)*	*(Note 7)*	
Financing activities						
Proceeds from new bank loans	687,993	871,750				1,559,743
Repayment of bank loans	(702,301)	(423,375)				(1,125,676)
Payment of loan arrangement fee	–	(29,700)				(29,700)
Interest element of lease rentals paid	(1,674)	(51,354)				(53,028)
Capital element of lease rentals paid	(4,969)	(47,518)				(52,487)
Interest paid	(30,767)	(91,324)			(6,250)	(128,341)
Dividend paid	–	(250,000)		175,000		(75,000)
Repayment of deferred payment	–	(400,000)			(250,000)	(650,000)
Increase in restricted bank balance	–	(150,000)				(150,000)
Net cash used in financing activities	(51,718)	(571,521)				(704,489)
Net increase/(decrease) in cash and cash equivalents	213,306	43,453				(377,389)
Cash and cash equivalents at 1 January	162,297	298,810				461,107
Effect of foreign exchange rate changes	(741)	–				(741)
Cash and cash equivalents at 31 December	374,862	342,263				82,977

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The amounts are extracted from the audited consolidated financial statements of the Group as set out in the published annual report of the Group for the year ended 31 December 2023.

2. The amounts are extracted from the accountants' report of the Target Group as set out in Appendix III to this circular.

3. The adjustment represents the inclusion of identifiable assets and liabilities of the Target Group to be acquired by the Group assuming the Proposed Acquisition was completed on 31 December 2023. Upon completion of the Proposed Acquisition ("**the Completion**"), the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Group at fair value under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standards 3 (Revised) *Business Combinations* ("**HKFRS 3**").

   For the purpose of preparing the unaudited pro forma consolidated balance sheet of the Enlarged Group, the Directors have estimated the fair values of the identifiable assets and liabilities of the Target Group as at 31 December 2023 and have appointed an independent professional qualified valuer, to carry out the purchase price allocation exercise in accordance with HKFRS 3, including the assessment of fair value of the acquired assets and liabilities of the Target Group.

   With reference to the valuation report, the Directors estimate that (i) fair value adjustments to the Target Group's property, plant and equipment of HK$1,170,875,000; and (ii) intangible assets identified as a result of the Proposed Acquisition (being franchise for bus networks of the Target Group) of HK$1,902,400,000.

   The corresponding deferred income tax liabilities of HK$507,090,000 are measured at the tax rate that is expected to apply when related taxable temporary difference is settled, which is 16.5% as applicable to the Target Group in Hong Kong.

   The actual amounts of all these assets and liabilities can only be determined at the Completion.

4. A. Pursuant to the share purchase agreement dated 24 May 2024 (the "**Acquisition Agreement**"), the Group conditionally agreed to acquire 54.44% equity interests in the Target Company at the consideration of HK$2,722,045,000 (the "**Consideration**"). At any time during the period commencing on the date of Completion ("**Completion Date**") up to and including the fifth anniversary of the Completion Date (the "**Call Option Period**"), the Group shall have the option ("**Call Option**") to purchase all or part of the remaining equity interests in the Target Company held by the First Vendor. If the Group does not exercise its aforesaid Call Option in full during the Call Option Period, during the period of two years following the end of the Call Option Period (the "**Put Option Period**"), the First Vendor shall have the option ("**Put Option**") to require the Group to purchase the remaining equity interests in the Target Company by tranches. At the end of the Put Option Period, the Put Option shall be deemed exercised on the last day of the Put Option Period in respect of all of equity interests in the Target Company held by the First Vendor. Details of the terms of the Call Option and Put Option are set out in the subsection headed Glorify's call option and TWB Holdings' put option in this Circular. The Consideration shall be payable by the Group to the Vendors in the manner below:

   – Cash consideration to be settled by the Purchaser, in stages (a) HK$175,000,000 upon signing of the Acquisition Agreement and HK$325,000,000 not more than 10 Business Days after the extraordinary general meeting of the Company to approve the Acquisition; (b) HK$250,000,000 on the first anniversary of the Completion; (c) HK$150,000,000 on the date which is eighteen months after the Completion Date; (d) HK$550,000,000 on the second anniversary of the Completion; (e) HK$450,000,000 on the third anniversary of the Completion; and (f) HK$600,000,000 on the fourth anniversary of the Completion; and

   – The Company's issue of 278,915,965 new shares ("**Consideration Shares**") to one of the Vendors at the Issue Price of HK$0.7961 per Consideration Share, amounting to HK$222,045,000.

Consideration Shares

Consideration amounting to HK$222,045,000 will be settled by the issue of the Consideration Shares, being an aggregate of 278,915,965 shares, to the First Vendor at the Issue Price of HK$0.7961 per Consideration Share. For the purpose of this Unaudited Pro Forma Financial Information, the fair value of each Consideration Share is deemed to be HK$0.198 (being the closing price of the Shares on 31 December 2023).

With reference to the terms of the Call Option and Put Option, the Directors have determined that the First Vendor will not have present access to the returns associated with the remaining ownership interest of the Target Group. As a result, no non-controlling interest is recognised in the Unaudited Pro Forma Financial Information.

The fair value of the consideration should be estimated in accordance with HKFRS 13 *Fair value measurement* that is consistent with the accounting policies adopted by Group. For the purpose of the Unaudited Pro Forma Financial Information, the fair value of the total consideration is estimated to be HK$3,871,900,000, which comprises:

i. Aggregated cash consideration of HK$500,000,000, among which HK$175,000,000 to be settled by the Group upon signing of the Acquisition Agreement and HK$325,000,000 not more than 10 Business Days after the extraordinary general meeting of the Company to approve the Acquisition. The Directors have assumed there would be financing through various channels, including but not limited to bank loans, shareholder's loan and working capital;

ii. Deferred cash consideration of HK$2,000,000,000 which is recognised as a consideration payable. For the purpose of the Unaudited Pro Forma Financial Information, the consideration amount is discounted at an adjusted industrials corporate curve with HK$242,253,000 and HK$1,730,317,000 recognised within current liabilities and non-current liabilities respectively;

iii. The Company's issue of 278,915,965 Consideration Shares. Each of the ordinary shares of the Company carry a par value of HK$0.1. For the purpose of the Unaudited Pro Forma Financial Information, the Directors have assumed the fair value of the Consideration Shares is HK$55,225,000, using the closing quoted market price of the Company's shares of HK$0.198 as at 31 December 2023, in which HK$27,892,000 shall be recognised as share capital while the remaining HK$27,333,000 shall be recognised in share premium; and

iv. The Call Option/Put Option represent options to settle the consideration for the remaining equity interest in the Target Company with an early repayment option/extension option. For the purpose of the Unaudited Pro Forma Financial Information, the consideration amount is discounted with HK$1,349,812,000 recognised as non-current other payable and the Call Option/Put Option is recognised as an embedded derivative assets of HK$5,707,000.

B. An analysis of the deemed cost of investment in the Target Group upon completion of the Proposed Acquisition is as follows:

	HK$'000
Total consideration for acquisition of 84.44% of the issued share capital of Target Company	3,871,900
Fair value of 15.56% of the issued share capital of the Target Company held by the Group *(note b)*	637,813
Deemed cost of investment in the Target Company	4,509,713

Notes:

a. The Group held 15.56% of the issued share of the Target Company with the carrying amount of HK$700,000,000 at 31 December 2023 and was included in other investments at 31 December 2023. The fair value of 15.56% of the issued share capital of the Target Company (see note (b) below) will be revalued at the Completion Date and the fair value change of HK$62,187,000 will be recognised in other comprehensive income. This investment will be derecognised and the assets and liabilities of the Target Group will be consolidated into the Group at the Completion Date.

b.

	HK$'000
Total consideration for acquisition of 84.44% of the issued share capital of Target Company	3,871,900
Implied 15.56% of equity interest of the Target Company before discount for lack of control *(being HK$3,871,900,000 ÷ 84.44% × 15.56%)*	713,437
Discount for lack of control	(75,624)
Fair value of 15.56% of the issued share capital of the Target Company held by the Group	637,813

c. The fair value of 15.56% of the issued share capital of the Target Company is subject to change because the fair value will be reassessed and updated on the Completion Date.

The excess of the Consideration over the fair value of the net identifiable assets of the Target Group acquired is recorded as goodwill in accordance with HKFRS 3. If the Consideration is less than the fair value of the net identifiable assets of the Target Group acquired, the difference is recognised directly in profit or loss as a bargain purchase. Assuming the Proposed Acquisition is completed on 31 December 2023, the goodwill arising from the Proposed Acquisition of the Target Group is calculated as follows:

	HK$'000
Deemed cost of investment in the Target Company	4,509,713
Less: Fair value of identifiable assets and liabilities of the Target Group	(3,181,271)
Goodwill on the Proposed Acquisition *(note i)*	1,328,442

Note:

i. It is expected that the completion of the Proposed Acquisition may generate a goodwill of approximately HK$1,328,442,000 to the Group. As the fair value of the assets and liabilities of the Target Group at the Completion Date are yet to be identified and measured, the actual amount of goodwill can only be determined at the Completion.

C. For the purpose of the Unaudited Pro Forma Financial Information, the share capital and reserves of the Target Group are eliminated upon consolidation by the Group. Therefore, the share capital of HK$1,384,481,000 and reserves of HK$(769,395,000) of the Target Group have been eliminated.

D. Since the fair values of the consideration and the identifiable net assets of the Target Group at the Completion Date of the Proposed Acquisition may substantially be different from the fair values used in the preparation of the Unaudited Pro Forma Financial Information, the final amounts of the identifiable net assets (including intangible assets) and goodwill to be recognised in connection with the Proposed Acquisition may be different from the amounts presented above and the differences may be significant.

E. The Directors have assessed whether there is any indication of impairment in respect of goodwill arising from the Proposed Acquisition with reference to the principles in Hong Kong Accounting Standard 36 "Impairment of Assets" ("**HKAS 36**") which is consistent with the accounting policies of the Group. The Directors have engaged an independent professional qualified valuer to perform a valuation of the Target Group for the purpose of goodwill impairment assessment. Based on the valuation report, it is of the view that the recoverable amount of cash-generating unit is higher than the carrying amount. As a result, the Directors are not aware of any indication that an impairment of goodwill arising from the Proposed Transaction is required. The Directors confirm that they will apply consistent accounting policies for impairment assessment of goodwill arising from the Proposed Transaction in subsequent reporting periods in accordance with the requirements of HKAS 36.

5. The adjustment represents the additional estimated legal and professional service fees and other direct expenses in relation to the Proposed Acquisition of approximately HK$14,000,000 as if the Proposed Acquisition had been completed on 1 January 2023 and 31 December 2023 for the purpose of the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated balance sheet respectively. This adjustment will have no continuing effect on the Enlarged Group in the subsequent years.

6. For the purpose of the unaudited pro forma consolidated income statement, as the Target Group becomes a subsidiary of the Group after the completion of the Proposed Acquisition, the dividend income of the Group amounting to HK$38,898,000 is eliminated with the dividend declared by the Target Company, along with the reversal of the dividend paid by the Target Company upon consolidation, amounting to HK$175,000,000.

   In addition, the increase of fair value of 15.56% equity interest in the Target Group recognised in other comprehensive income of HK$62,045,000 is reversed. This adjustment will have no continuing effect on the Enlarged Group in the subsequent years.

7. The adjustment represents: (a) additional amortisation of HK$63,413,000 on the fair value of the intangible assets arising from the Proposed Acquisition of the Target Group; (b) additional depreciation of HK$123,647,000 on the property, plant and equipment; (c) the related reversal of deferred income tax liabilities of HK$30,865,000 as a consequence of the recognition of depreciation and amortisation arising from the fair value adjustment of intangible assets and property, plant and equipment; and (d) finance costs of HK$191,967,000 for unpaid consideration (being deferred payment of HK$1,972,570,000 and other payable of HK$1,349,812,000). For the purpose of this Unaudited Pro Forma Financial Information, the Directors considered and assumed that there are no significant changes on the fair value of the intangible assets, property, plant and equipment and interests in leasehold land and buildings held for own use of the Target Group as set out in the valuation report dated 21 May 2024 prepared by an independent professional valuer between 1 January 2023 and 31 December 2023 and no separate valuation report as at 1 January 2023 was prepared. Had this report been prepared, the amounts of the additional amortisation expenses, depreciation expenses and reversal of deferred income tax liabilities for the compilation of the Unaudited Pro Forma Financial Information of the Enlarged Group may be different from the amounts presented in this appendix.

For the purpose of the unaudited pro forma consolidated income statement, the amortisation of intangible assets and depreciation of property, plant and equipment are calculated using the straight-line method over their estimated useful lives which is consistent with the accounting policies of the Group.

The adjustments in the investing activities of the unaudited pro forma consolidated cash flow statement represent cash consideration of HK$500,000,000 to be settled on or before the Completion Date.

The adjustments in the financing activities of the unaudited pro forma consolidated cash flow statement represent cash consideration of HK$250,000,000 to be settled on the first anniversary of the Completion and its related interest of HK$6,250,000.

This pro forma adjustment is expected to have a continuing effect on the Enlarged Group in the subsequent years.

8. In the unaudited pro forma consolidated balance sheet of the Enlarged Group, apart from Notes 3, 4 and 5 above relating to the Proposed Acquisition, no other adjustment has been made to reflect any trading results or other transactions of the Group or the Target Group entered into subsequent to 31 December 2023.

9. In the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated cash flow statement of the Enlarged Group, apart from Notes 5, 6 and 7 above relating to the Proposed Acquisition, no other adjustment has been made to reflect any trading results or other transactions of the Group or the Target Group entered into subsequent to 31 December 2023.

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.

KPMG

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF HANS ENERGY COMPANY LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Hans Energy Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2023 and the Unaudited Pro Forma Consolidated Income Statement, pro forma consolidated statement of comprehensive income and pro forma consolidated cash flow statement for the year ended 31 December 2023 and related notes as set out in Part A of Appendix IV to the circular dated 21 June 2024 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of Bravo Transport Holdings Limited (the "**Proposed Acquisition**") on the Group's financial position as at 31 December 2023 and the Group's financial performance and cash flows for the year ended 31 December 2023 as if the Proposed Acquisition had taken place at 31 December 2023 and 1 January 2023, respectively. As part of this process, information about the Group's financial position as at 31 December 2023 and the Group's financial performance and cash flows for the year ended 31 December 2023 has been extracted by the Directors from the consolidated financial statements of the Company for the year then ended, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements", which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("**HKSAE**") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 31 December 2023 or 1 January 2023 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
21 June 2024

The following is the full text of the valuation report received from Kroll (HK) Limited, the independent valuer of the Company, prepared for the purpose of incorporation in this circular.

The Directors
Hans Energy Company Limited
Unit 2608, 26th Floor
Harbour Centre, 25 Harbour Road
Wanchai, Hong Kong

May 21, 2024

Re: Business Enterprise Valuation for Bravo Transport Holdings Limited (Our Ref.: E025651Q)

Dear Sirs,

Pursuant to the terms, conditions and purpose of an engagement agreement dated August 14, 2023, an addendum agreement dated December 20, 2023 and an addendum agreement dated March 21, 2024 (altogether known as the "**Engagement Agreements**") between Hans Energy Company Limited (the "**Company**" or the "**Client**") and Kroll (HK) Limited ("**Kroll Hong Kong**"), we have performed a valuation of business enterprise value (the "**Valuation**") to determine the 100% equity interest of Bravo Transport Holdings Limited ("**BTHL**" or the "**Subject Company**" or the "**Target Company**"), on a consolidated basis, as of December 31, 2023 (the "**Valuation Date**"). We understand that the Company contemplates the acquisition of a controlling stake of BTHL (the "**Transaction**") and the Valuation is prepared based on the prospective financial information, underlying assumptions and information provided by the management of the Company and the Subject Company (together the "**Management**").

This letter identifies the asset appraised, describes the scope of work, states the basis of value, specifies key inputs and assumptions, explains the valuation methodology utilized, and presents our conclusion of value. In preparing this letter, we aim to largely comply with the International Valuation Standards ("**IVS**") recommended by the International Valuation Standards Council. The depth of discussion contained in this letter is specific to the needs of the Client and for the intended use as stated below. Supporting documentation concerning these matters have been retained in our work papers.

We understand that the Company, with our consent, will disclose this letter in the circular to the shareholders and to The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the requirements of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange. No third party shall have the right of reliance on this letter and neither receipt nor possession of this letter by any third party shall create any express or implied third-party beneficiary rights.

PURPOSE OF VALUATION

The Client intends to acquire a controlling stake of BTHL from its shareholders. With the Client's approval and as stipulated by the Engagement Agreements in formulating our opinion on the market value of business enterprise value in the Subject Company, we relied upon completeness and accuracy of operational and financial information provided by the Management. To the extent that any of these assumptions or facts changed, the result of our market value conclusion should be different.

With respect to financial forecasts regarding the Subject Company provided to or otherwise reviewed by or discussed with Kroll Hong Kong, it has been represented by the Management and was assumed for the purposes of this opinion that such analyses and forecasts were reasonably prepared based on assumptions reflecting the best currently available estimates and judgments of the Management as to the expected future results of operations and financial conditions of the Subject Company to which such analyses or forecasts relate. Kroll Hong Kong can give no assurances, however, that such financial analyses and forecasts can be realized or that actual results will not vary materially from those projected.

The intended use of the Valuation is to serve a part of the information the Company considered in assessing its own decision regarding the Transaction and the corresponding transaction price as the basis for compliance of the Listing Rules. The ultimate transaction, if it happens, and the corresponding acquisition prices would be the result of negotiations between the transacting parties. The responsibility for determining the transaction price of the equity interest of the Subject Company rests solely with the Company. The results of our analysis should not be construed to be a fairness opinion, a solvency opinion, or an investment recommendation. It is inappropriate to use our valuation report for any purpose other than its intended use or by third parties. These third parties should conduct their own investigation and independent assessment of the financial projections and underlying assumptions.

STANDARD AND BASIS OF VALUE

The Valuation was prepared on the basis of market value, which is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion under IVS.

Business enterprise is defined as the combination of all tangible assets (buildings, machinery and equipment), long-term investment, net working capital and intangible assets of a continuing business. Alternatively, the business enterprise is equivalent to the invested capital of the business, that is, the combination of the value of shareholders' equity, shareholders' loans and interest-bearing debt.

DESCRIPTION OF THE SUBJECT COMPANY

BTHL, through its wholly owned subsidiary Bravo Transport Services Limited ("**BTSL**"), is engaged in franchised and non-franchised bus services under Citybus Limited ("**Citybus**") in Hong Kong. BTHL was set up as a consortium between Templewater Bravo Holdings Limited ("**TWB Holdings**") (90.8%), Glorify Group Limited ("**Glorify**", a wholly owned subsidiary of the Company) (8.6%) and Ascendal Bravo Limited ("**ABL**") (0.6%) in 2020. On August 21, 2020, it was announced that BTHL would acquire the entire issued share capital of BTSL (formerly known as NWS Transport Services Limited ("**NWS Transport**")) for HK$3.2 billion from NWS Service Management Limited. At the time of this acquisition, the principal subsidiaries of BTSL included Citybus and New World First Bus Services Limited ("**NWFB**"). On December 3, 2021, Glorify acquired and TWB Holdings and ABL agreed to sell, an aggregate of 700 BTHL Shares (being 695 BTHL Shares from TWB Holdings and 5 BTHL Shares from ABL), together representing 7% of the entire issued share capital of BTHL. Upon the completion of the acquisition, each of TWB Holdings, Glorify and ABL held approximately 83.90%, 15.56%, and 0.54%, respectively, of the entire issued share capital of BTHL. In July 2022, BTSL announced that the bus franchises then granted to Citybus and NWFB would be merged and it would be discontinuing the New World First Bus brand, and the franchise merger took effect on July 1, 2023.

Citybus was founded on August 5, 1979 by former China Motor Bus Company Limited ("**China Motor Bus**") traffic manager Lyndon Rees with one Volvo B55 double-deck bus, providing a shuttle service for the Hong Kong United Dockyard in Hung Hom. In 1981, it commenced operating a residential bus route between City One Shatin and Kowloon Tong MTR station. In 1991, the Hong Kong Government awarded Citybus its first franchised route, 12A (Admiralty Tamar Street to Macdonnell Road) on Hong Kong Island, which was originally operated by China Motor Bus and then withdrawn in the 1980s.

NWFB was incorporated in the BVI with limited liability on January 8, 1998 under its former name Stanton Star Limited and was then owned by New World First Holdings Limited. It was registered as a non-Hong Kong company under the predecessor ordinance of the Companies Ordinance on March 10, 1998. In 1998, it took over the franchise of 88 bus routes in Hong Kong Island.

Bus franchises are issued by the Hong Kong Government. Prior to July 1, 2023, the Subject Company operated three franchised networks, including the CTB (F1) Franchise and the CTB (F2) Franchise under its "Citybus" brand, and the NWFB Franchise under its "NWFB" brand. With effect from July 1, 2023, the CTB (F1) Franchise and the NWFB Franchise were merged into one franchise ("**Merged Franchise**"), which covers Hong Kong Island, Kowloon, the New Territories and cross-harbour bus networks. The CTB (F2) Franchise was also renewed, as the CTB (F2) 2023 Franchise, with effect from May 1, 2023, and continues to cover the Airport and North Lantau bus networks. Both the Merged Franchise and the CTB (F2) 2023 Franchise were granted for a period of ten years to 2033. The Subject Company also provides non-franchised bus services including, employee bus services for certain companies and resident bus services for residential estates, as well as private hire services, and open-top sightseeing services in Hong Kong. As of December 31, 2023, Citybus operated 233 bus routes, including 98 Hong Kong Island routes, 84 cross-harbour routes and 51 routes Kowloon and the New Territories routes and had 1,534 licensed buses.

FINANCIAL REVIEW OF THE SUBJECT COMPANY

We have received the consolidated financial statements of the Subject Company in different financial years ("**FY**"). We have reviewed the actual consolidated financial statements for the years ended December 31, 2021 ("**FY2021**"), December 31, 2022 ("**FY2022**") and December 31, 2023 ("**FY2023**") provided by the Management and we have not independently verified these financial statements.

The historical consolidated financial statements were presented as below:

HK$'000 unless specified otherwise	**FY2021**	**FY2022**	**FY2023**
Revenue and other income	3,004,709	2,949,237	3,490,297
Operating costs	(3,155,614)	(3,154,586)	(3,373,619)
(Loss)/profit from operations	(150,905)	(205,349)	116,678
Loss before income tax	(246,281)	(286,248)	(63,474)
Loss for the year	(220,619)	(206,582)	(73,628)
Current assets and asset held-for-sale	1,285,399	849,051	716,314
Non-current assets	3,572,156	2,972,384	4,138,255
Current liabilities	862,104	1,018,786	946,571
Non-current liabilities	2,629,955	1,773,863	3,292,912
Shareholders' equity	1,365,496	1,028,786	615,086

Source: Actual financial statements

The Subject Company primarily generates revenue from fare revenue, revenue from the Franchised Bus Toll Exemption Fund ("**TEF**"), elderly concessionary fare scheme ("**ECFS**"), contract and private hire services, advertising income, and production and installation income. During the COVID-19 period, the recorded consolidated revenue of the Subject Company has dropped from HK$3,005 million in FY2021 to HK$2,949 million in FY2022. Upon the ease of all travel restrictions in early 2023, the revenue of the Subject Company had recovered to HK$3,490 million and the Subject Company successfully turned from loss to profit from operations of HK$117 million in FY2023. Operating costs primarily include driver costs, fuel and oil costs, repair and maintenance costs, depreciation and other expenses. Operating costs were HK$3,156 million in FY2021 and decreased to HK$3,155 million in FY2022, followed by an increase to HK$3,374 million in FY2023. Loss for the year was HK$221 million in FY2021, decreased to HK$207 million in FY2022 and further narrowed to HK$74 million in FY2023. There was significant reduction of the Subject Company's loss for the year in FY2023 compared to FY2021 and FY2022.

Based on the actual consolidated financial statements of the Subject Company, as of December 31, 2023, total assets amounted to approximately HK$4,855 million. Book value of fixed assets amounted to approximately HK$2,700 million and are mainly buses.

ECONOMIC OUTLOOK

A sound appraisal of a business or business interest must consider current and prospective economic conditions of the national economy. The major variables reviewed in order to evaluate the overall state of the national economy include the current level of and changes in the gross domestic product (GDP), exchange rate, and the inflation rate. An overview of the economy of Hong Kong was essential to develop this outlook. The following economic discussion was extracted from the "Country Outlook" report issued by Economist Intelligence Unit ("**EIU**") dated November 29, 2023.

Hong Kong

Economic Growth: The EIU forecasts that Hong Kong's GDP will expand by 3.2% in 2024. This represents a deceleration from estimated growth of 3.4% in 2023, with private consumption growth slowing as the post-pandemic rebound settles down. Helping to offset this will be faster growth in foreign trade and services exports as global trade gathers pace. Tourism from mainland China will also support growth in retail and consumption. Real GDP will return to its 2018 level by end-2024.

Inflation: Consumer price inflation will remain low throughout the forecast period in comparison with the 2010s average of 3.3%. Weaknesses in private residential rents, which account for more than a third of the consumer price basket, will keep a lid on overall inflation, although this effect is offset by imported inflation from elevated global oil prices and their transmission effect on the global supply chain. Later in EIU's forecast period, inflation will pick up speed as rents return to an upward trajectory. Strong fixed investment will also support inflation.

Exchange Rates: The Hong Kong dollar will remain pegged to its US counterpart throughout 2024–2028, owing to the peg's benefits for trade and investment, especially for the territory's large financial services sector. The currency will appreciate over the forecast period towards the stronger end of its trading band against the US dollar (HK$7.75–7.85: US$1), as the economic recovery is consolidated, inflows pick up in financial markets and US interest rates fall. The Hong Kong Monetary Authority will intervene from time to time to preserve the pegged band. The authorities will not entertain debate on an alternative to the peg in the absence of the opening of China's capital account and liberalisation of the renminbi. Hong Kong's large reserve assets mean that it can easily defend the peg and will not be under pressure to reconsider its exchange-rate policy.

INDUSTRY OVERVIEW

The following section was extracted from "Annual Transport Digest 2023" released by Transport Department on February 5, 2024 and recent press release from Hong Kong Tourism Board on January 13, 2024.

Public Transport

Hong Kong has a diverse multi-modal public transport system, comprising a Mass Transit Railway, a tramway, franchised buses, public light buses, taxis, non-franchised buses and ferry services, extending to almost every part of the territory. Rehabus services are also available for persons with mobility difficulties.

Public transport patronage decreased by 8.3% in 2022 when compared with 2021 to around 9.7 million passenger journeys per day. The Mass Transit Railway, which carried 4.03 million passengers per day in 2022 is the largest passenger carrying mode. There was a decrease of average daily railway patronage by 6.1% over 2021. Coming next were the franchised buses, which carried 3.11 million passenger journeys per day in 2022, representing a decrease of 10.5% against 2021.

Railways, being the most environmentally friendly form of mass transport, will continue to expand in network. It will form the backbone of Hong Kong's transport system with other modes playing supplementary but still important roles to ensure a choice of services for commuters. There were continuing improvements in the quality of franchised bus services. As of the end of 2022, all franchised buses were air-conditioned and Euro III or above buses with less emissions. To ensure more efficient use of bus resources and to provide passengers with more choices of routes, bus-bus interchange schemes were continuously promoted. By the end of 2022, there were a total of 522 bus-bus interchange schemes.

The market share of ferry decreased slightly to 0.8% in 2022 with an average of 82,060 passengers trips daily. As of the end of 2022, there were altogether 11 franchised and licensed ferry operators running 22 regular passenger ferry services, two dangerous goods vehicular ferry services and two special services at the harbour and to the new towns and outlying islands.

Tourism

According to provisional statistics released by the Hong Kong Tourism Board in early January 2024, Hong Kong saw nearly 34 million visitor arrivals in 2023, with the figure for December reaching 65% of the pre-pandemic level as the city rolled out a series of events to attract tourists during the festive season. Half of inbound visitors to Hong Kong are overnight tourists, which is a higher proportion than the pre-pandemic levels. They stay in Hong Kong for 3.6 nights on average, which is longer than before the pandemic.

On a full-year basis, the Mainland remained the largest visitor source market for Hong Kong, with satisfactory visitor arrivals during Labour Day Golden Week, the summer holidays, and National Day Golden Week. On the other hand, the Southeast Asian markets recovered the most quickly. Visitor arrivals from the Philippines and Thailand in December exceeded the pre-epidemic level (average of years 2017 and 2018), reaching 116% and 106% of the pre-epidemic level respectively. By travel purpose, the number of MICE (Meetings, Incentives, Conferencing and Exhibitions) travelers recovered to about 70% of that before the pandemic, surpassing the leisure segment and making it the fastest recovering segment.

SCOPE OF WORK AND KEY ASSUMPTIONS

Our investigation included discussions with the Management with regard to the history, operations and prospects of the Subject Company, overview of certain financial data, an analysis of the industry and competitive environment, an analysis of comparable companies, and a review of transactions, operating statistics and other relevant documents. For this appraisal, we made reference to or reviewed the following major documents and data:

- Actual financial statements for the years ended December 31, 2021, December 31, 2022 and December 31, 2023 provided by the Management
- Financial projections for the financial years ending December 31, 2024 to December 31, 2029 prepared by the Management
- Management discussion on market condition of the franchised bus services industry in Hong Kong
- Other relevant documents

We assumed that the data we obtained in the course of the valuation, along with the opinions and representations provided to us by the Management, are true and accurate and accepted them without independent verification except as expressly described herein. We have no reason to suspect that any material facts have been omitted, nor are we aware of any facts or circumstances, which would render the information, opinion and representations made to us to be untrue, inaccurate or misleading. In arriving at our opinion of value, we have considered the following principal factors:

- the stage of development of the Subject Company
- the historical costs of the Subject Company
- the economic outlook for Hong Kong affecting the industry
- the legal and regulatory issues of the franchised bus services industry in Hong Kong in general and other specific legal opinions relevant to the Subject Company
- the risks associated with the Subject Company
- the history of the Subject Company and its historical performance and experience in the public bus services industry in Hong Kong

Due to the changing environment in which the Subject Company operates, a number of assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation are:

- no major changes are expected in political, legal and economic conditions in Hong Kong;

- regulatory environment and market conditions for the franchised bus services industry in Hong Kong will be developing according to prevailing market expectations;

- there will be no major changes in the current taxation law applicable to the Subject Company;

- the availability of finance will not be a constraint on the forecast growth of the Subject Company's operations in accordance with its current business plans;

- the future movement of exchange rates and interest rates will not differ materially from prevailing market expectations;

- the Subject Company continues to retain competent management, key personnel and operational staff to support its ongoing operations;

- there will be no changes to the terms of the franchises granted to the Subject Company, all relevant legal approvals and licenses necessary for the normal course of operations have been obtained and will not be revoked; and

- applications for fare increase in respect of the franchised bus operations will be approved on the scale applied for.

While our work has involved an analysis of financial information and accounting records, our engagement does not include an audit in accordance with generally accepted auditing standards of the Subject Company's existing business records. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided by and on behalf of the Subject Company.

The valuation of businesses is not a precise science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. There is therefore no indisputable single value. While we consider the concluded value to be both reasonable and defensible based on the information available to us, others may place a different value on the equity value.

VALUATION METHODOLOGY OVERVIEW

In the appraisal of the equity, or the net assets, of a business, regardless of their diversity, location, or technological complexity, there are three basic approaches to perform a valuation. The descriptive titles typically attached to these approaches are cost, income, and market. In normal circumstances, the appraiser is obliged to consider all three approaches, as any, or perhaps all, may provide reliable measures of value.

Cost approach establishes value based on the cost of reproducing or replacing the property less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. This approach might be considered the most consistently reliable indication of value for assets without a known used market or separately identifiable cash flows attributable to assets appraised.

Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the property than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent property with similar risk.

Market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established used market may be appraised by this approach.

To develop our opinion of value, the three generally accepted approaches to value are considered: cost, market and income. While useful for certain purposes, the cost approach is generally not considered applicable to the valuation of a going concern, as it does not capture future earning potential of the business. Thus, cost approach is not utilized in the valuation.

With regards to the market approach, it is not considered to be an appropriate valuation methodology as neither market transactions under the Guideline Transaction Method nor companies under the Guideline Company Method ("**GCM**") are comparable to the Transaction or Subject Company for arriving at a valuation result. When it comes to market transactions, different considerations would be placed on the transaction price as each target company is unique in terms of many factors such as location, regulatory environment, population, stage of operation and status of the bus assets. Similarly, guideline companies are not appropriate as (i) each guideline company has its own unique bus franchise/operations; (ii) guideline companies do not have estimated results which were not adversely impacted by COVID-19 pandemic in full year for the purpose of applying forward looking multiples; and (iii) some of these guideline companies also carry out businesses other than franchised bus services business.

We believe the income approach is appropriate to be adopted in determining the equity value of BTHL given the resuming sustainable profitability of the Subject Company in FY2024. Under IVS, income approach is more relevant when the forecast is reliably estimated, and we believe public transportation falls into this category. Also, under The Appraisal Foundation, market participant acquisition premium (e.g. merger of NWFB and Citybus) should be more appropriate to be reflected in cash flows and, thus, by income approach. In addition, income approach can reduce certain adjustments appliable to the Subject Company from the comparable companies' parameters, e.g. synergies of Franchise Merger, asset efficiency, differentiation on gearing, etc. which can affect valuation results significantly. We consider more on other fundamental factors such as the detailed future performance of the Subject Company in our analysis.

In view of the above, in forming our opinion, we have solely relied upon the income approach to determine the market value of the equity value of the Subject Company.

On top of the valuation, it is a good practice to conduct a sanity check of the valuation result by using an alternative valuation approach. Although the market approach is not appropriate for valuing the Subject Company directly, the guideline companies are primarily engaged in the same industry as the Subject Company, and thus it is able to provide a relevant range for checking purpose.

INCOME APPROACH

Discounted Cash Flow ("**DCF**") method of the income approach was used to value the Subject Company. This method explicitly recognizes that the current value of an investment is premised upon the expected receipt of future economic benefits such as periodic income, cost savings, or sale proceeds. Indication of value is developed by discounting future net cash flow to the present value at a rate that reflects both the current return requirements of the market and the risks inherent in the specific investment. In using the DCF method, we relied on the prospective financial information and working capital forecast of the Subject Company on a consolidated basis and assumptions ("**Financial Projections**") prepared by the Management.

DEFINITION OF FREE CASH FLOW

The term *free cash flow* ("**FCF**") can be represented by the following equation:

FCF = NP + DEPR + INT – CAPEX – NWC

Where:

FCF	=	projected free cash flow available to equity and debt holders
NP	=	net profit after tax
DEPR	=	depreciation and amortization expenses
INT	=	interest expense after tax
CAPEX	=	capital expenditures
NWC	=	changes in net working capital

A major requirement of the DCF method is an earnings forecast, in particular a cash flow projection. The yearly FCF for the projection period was derived based on the above formula. Since the enterprise was assumed to have indeterminate life, the value into perpetuity was calculated by applying a perpetuity growth rate of 2% per annum to the FCF from 2030 and onwards based on the forecasted inflation rate of Hong Kong.

The market value of the business enterprise of the Subject Company was then calculated by adding the present values of the projected yearly FCF between 2024 and 2029 and the terminal value in 2030. The present values were derived by discounting the FCF by a discount rate that was appropriate for the risk of investing in the Subject Company.

Discount Rate

The rate at which the annual net cash flows discounted to present value is based on the estimated weighted average cost of capital ("**WACC**"), which incorporates the cost of equity and debt, weighted by the proportionate amount of each source of capital in the capital structure.

WACC Computation:

WACC	=	Ke × (Eq/IC) + Kd × (D/IC)
9.90% (rounded)	=	13.35% × 50% + 6.49% × 50%

Where:

Ke	=	Cost of equity
Eq	=	Equity
IC	=	Invested capital (equity plus all interest-bearing debt)
Kd	=	After-tax cost of debt
D	=	Debt

The capital structure is based on the average of debt ratios of the three comparable companies, namely, Transport International Holdings Limited (SEHK: 62), Kwoon Chung Bus Holdings Limited (SEHK: 306) and Sichuan Fulin Transportation Group Co., Ltd. (SZSE: 002357), extracted from Capital IQ. The cost of equity for the valuation was developed through the application of the Capital Asset Pricing Model ("**CAPM**"), which is the most commonly adopted method of estimating the required rate of return for equity. CAPM states that the cost of equity is the risk-free rate plus a linear function of a measure of systematic risk ("**Beta**") times equity market premium in general. The guideline companies identified were used in estimating the Beta for the Subject Company and, in turn, the cost of equity. The guideline companies were selected based on the criteria below:

1. Primarily conducting business in Hong Kong and/or major cities in the Mainland China;

2. Being listed in the Hong Kong Stock Exchange or Major Stock Exchange in Mainland China;

3. Having similar business with the Target Company (i.e. principally engaged in bus transportation service with over 70% of annual revenue generated from this segment in the latest financial years); and

4. Having a market capitalization below HK$8 billion.

	Comparable Companies	Capital IQ Code	Market Capitalisation as of December 31, 2023 (in million)	Principal Business Activities
1	Transport International Holdings Limited	SEHK: 62	HK$4,657	Transport International Holdings Limited, an investment holding company, provides franchised and non-franchised public transportation services with The Kowloon Motor Bus Company (1933) Limited ("KMB") as the flagship operating company together with other operating companies, in the PRC.
2	Kwoon Chung Bus Holdings Limited	SEHK: 306	HK$753	Kwoon Chung Bus Holdings Limited, an investment holding company, provides bus and bus-related services in Hong Kong, Macau, and Mainland China.
3	Sichuan Fulin Transportation Group Co., Ltd.	SZSE: 002357	RMB2,367	Sichuan Fulin Transportation Group Co., Ltd. engages in the road passenger transport services and station services in the PRC.

Although the major business of Sichuan Fulin Transportation Group Co., Ltd. is in the PRC, it also satisfied the selection criteria as mentioned above. Thus, it is considered as a comparable company in our valuation. It is fair and reasonable to include both Hong Kong and the PRC as business locations in terms of the transportation operations due to the following reasons:

Integrated transportation environment

The transportation environment between Hong Kong and the PRC is inherently integrated due to their geographical proximity, passenger demand and the cultural blend which has been occurring over more than 25 years since Hong Kong handover.

In fact, there are already joint infrastructure linking Hong Kong and the PRC, such as the Hong Kong-Zhuhai-Macau Bridge, high-speed rail links, and various border crossings. These developments have built strong connections between the two regions. For example, the high-speed railway line, which is jointly operated by MTR Corporation Limited and China State Railway Group Co., Ltd, has connected Hong Kong and Beijing via Guangzhou and Shenzhen. Also, there are established (i) cross-border franchised bus services, including B-routes operated by the Target Company and KMB, which provide transportation to Shenzhen Bay Port; and (ii) non-franchised buses to Zhuhai and Guangzhou.

Considering the close collaboration between operators and governments, it is evident that the transportation environment between Hong Kong and the PRC is highly integrated.

Non-severable economic conditions

Hong Kong and the PRC have a strong economic relationship with close connections between their capital markets. There is significant capital flow and cross-border collaborations in terms of business operations, supply chains, and demand sources between Hong Kong and the PRC. For example, the Stock Connect programs linking the Hong Kong Stock Exchange with the Shanghai Stock Exchange and the Shenzhen Stock Exchange, which enable investors to trade shares listed on these exchanges. Also, Hong Kong and the PRC are leading investors of each other in the capital markets. According to the Census and Statistic Department, the PRC made the largest contribution to the inward direct investment of Hong Kong in FY2022. The investment amounted to approximately HK$351.6 billion, accounting for approximately 32.2% of the total inward direct investment for that year. On the other hand, Hong Kong is the key source of overseas direct investment in the PRC. According to the State Council Information Office of the PRC, the foreign direct investment inflow amounted to approximately US$189.1 billion (equivalent to approximately HK$1,475.2 billion) in FY2022. Based on the Census and Statistic Department, Hong Kong had contributed approximately HK$469.4 billion, accounting for approximately 31.8% of the total investment.

As a result, although the economic conditions of Hong Kong and the PRC may not be the same, such deep integration would render two markets to share certain degree of similarities.

Regardless of the specific operational locations, bus transportation operators share substantially similar business and revenue models. Some key aspects include: (i) fleets of buses being the primary capital expenditure item, (ii) revenue streams generated from transportation fares based on passenger journeys, (iii) costs primarily related to fuel, driver wages, and vehicle maintenance, and (iv) principal business operations centered around implementing regular schedules to meet passengers' commuting needs. While there may be variations in operational details, the fundamental principles of the bus transportation business and revenue models remain consistent across Hong Kong and the PRC.

Based on the above, we are of the view that it is fair and appropriate to include PRC operators, including Sichuan Fulin Transportation Group Co., Ltd., as comparable companies.

Following is the derivation of cost of equity:

Ke	=	Rf + MRP × Beta + SSR + CSR
13.35%	=	2.907% + 6.40% × 0.74 + 1.21% + 4.5%

Where:

Ke	=	13.35%	Required rate of return for equity
Rf	=	2.907%	risk-free rate, based on the yield of longest tenor available of Hong Kong government bond
MRP	=	6.40%	market risk premium, which is the return the market portfolio is expected to generate in excess of the risk-free rate, based on the US equity risk premium plus the market systematic risk in Hong Kong
Beta	=	0.74	the "beta coefficient" that measures the relative risk of the asset being valued as compared to the risk of the market portfolio. It is computed by regressing returns on a comparable security on returns for the market index. It is a measure of the systematic risk of the asset.
SSR	=	1.21%	small company risk premium taken from empirical study
CSR	=	4.5%	company-specific risk premium

In developing Beta, we obtained the raw betas of the three comparable companies from Bloomberg using a 5-year look-back period with a monthly frequency. In this valuation of the Target Company, the raw betas were derived from weekly and monthly data with a significance level of 0.0000 provided by Bloomberg. The levered betas as of Valuation Date were 0.577 and 0.551 for Transport International Holdings Limited (SEHK: 62) and Sichuan Fulin Transportation Group Co., Ltd. (SZSE: 002357) respectively. Since the t-test results exceeded the significance level of 0.000, the raw beta of Kwoon Chung Bus Holdings Limited (SEHK: 306) at 0.25 is considered statistically inconclusive, and thus excluded from the analysis. Then, we unlevered the raw betas with their respective debt ratios and the average of unlevered raw betas was derived. Lastly, we relevered the average of unlevered raw betas to arrive at a relevered beta of 0.74.

US equity risk premium is considered as a starting point because:

(i) the US equity market has the longest history in well-developed markets. We did not directly refer to the market risk premium of Hong Kong and the PRC markets given the relatively short history of Hong Kong and PRC capital markets as compared with the US;

(ii) it is not uncommon to use a base market as a reference and consider market-specific premiums as adjustments. This approach allows for consistency and comparability across different valuations;

(iii) regarding the selection of the base market, we prioritised the market's historical length, as base market is preferred to be stable and reliable. Although the stock markets of Hong Kong and the PRC have histories of approximately 38 years (1986 to current) and 33 years (1990 to current) respectively, they are relatively shorter compared to the US stock market's history of approximately 230 years (1792 to current); and

(iv) Hong Kong Dollars is pegged to US Dollars. US equity risk premium is a more acceptable benchmark from the viewpoint of most institutional investors.

MRP uses US equity risk premium as the base market reference, the US equity risk premium is then adjusted to the MRP of the PRC and Hong Kong markets respectively by using the default risk premium of bond market and volatility indices between bond and equity markets in Mainland China and Hong Kong.

SSR refers to the additional risk premium that investors expect to earn by investing in small-cap companies compared to large-cap companies, and market capitalisation is a crucial factor when determining the value of SSR.

Based on the study by Kroll, the actual return of a company normally exceeds the return as estimated by CAPM. In general, the smaller the size of a company, the higher the actual return would be. SSR of 1.21% is added to cost of equity based on the empirical study of similar size of the Subject Company. The SSR is determined based on the size premium associated with low market capitalisation companies. This category includes companies with market capitalisations ranging from approximately HK$3 billion to HK$18 billion. Thus, we made reference to the low cap size premium value of 1.21%, which was sourced from our proprietary research tool, namely the Kroll Cost of Capital Navigator. This tool covers various risk premiums for different market capitalisation categories and is widely used in the market. The risk premiums are derived based on the differences between the estimated returns and actual returns derived from mid-cap, low-cap and micro-cap portfolios.

In addition, CAPM only captures systematic risks which cannot be diversified through holding a portfolio of investments. In valuing a particular business, CSR should be considered. Taking into consideration the Subject Company's historical development with an intensive labour cost structure, uncertainty of government policies and fluctuations in historical financial performance, a risk premium of 4.5% is added. We have also considered the long operating history, track record of stable financial performance (excluding the COVID-19 period) and the Target Company's leading position in the market growth projection. According to the Management, the recovery of travelling in the post-COVID-19 period will have positive impact on the Target Company's revenue growth rate.

Another component of WACC is after-tax cost of debt, which was derived based on the latest borrowing cost of the Subject Company at 7.77% and the standard tax rate of 16.5%. The WACC is then computed by summing the weighted cost of equity and after-tax cost of debt weighted by the debt-to-equity ratio of the average of the three comparable companies. As such, our analysis concludes that a discount rate of 9.90% is appropriate for valuing the Subject Company.

Projection Assumption

We received the Financial Projections for the years ended December 31, 2024 to December 31, 2029 provided by the Management as of December 31, 2023. The major projection assumptions are listed below:

HK$'000	**FY2024** *(Forecast)*	**FY2025** *(Forecast)*	**FY2026** *(Forecast)*	**FY2027** *(Forecast)*	**FY2028** *(Forecast)*	**FY2029** *(Forecast)*
Revenue and other income	4,158,695	4,402,205	4,640,213	4,807,156	4,968,929	5,129,234
Operating costs	(3,663,864)	(3,835,331)	(3,960,616)	(4,085,981)	(4,220,824)	(4,362,738)
EBITDA	901,898	985,356	1,099,932	1,146,759	1,183,547	1,215,378
EBIT	494,831	566,874	679,597	721,175	748,104	766,495
Net profit	234,160	300,348	404,387	445,584	477,870	509,958
FCF	436,547	633,719	728,446	805,516	588,987	584,960
Present value factor	0.9538	0.8677	0.7896	0.7184	0.6537	0.5948
Present value of FCF	416,366	549,905	575,163	578,722	385,038	347,958

Revenue and other income

The total revenue of the Subject Company is principally generated from (i) fare revenue; (ii) revenue from the Franchised Bus Toll Exemption Fund (the "**TEF**"); (iii) elderly concessionary fare scheme ("**ECFS**"); (iv) contract and private hire services; (v) advertising income; and (vi) production and installation income.

The major source of revenue is fare revenue, which is expected to contribute more than 80% of total revenue during the projection period. Ridership is expected to gradually return to pre-COVID levels in 2027 and the compound annual growth rate ("**CAGR**") of fare revenue is projected to be 6.39% from FY2023 to FY2029. Forecasted fare revenue of BTHL is projected based on (i) historical operational data; (ii) the fare scale approved by the Hong Kong Executive Council; (iii) anticipated blended fare; and (iv) anticipated annual patronage. Franchised bus services account for over 99% of the total fare revenue while non-franchised bus services comprise the remaining portion. From FY2024 to FY2029, the CAGR of franchised bus services fares is projected to be approximately 1.00%–1.25%, depending on franchise and with reference to the anticipated increase in the related costs. With regards to patronage, it is projected to have a CAGR of around 3.00%–4.40%, depending on franchise, from FY2024 to FY2029 mainly driven by fare adjustment and patronage growth.

In particular, the projected growth of revenue and other income of approximately 19.2% in FY2024 is derived from several aspects, including:

(i) with regards to fare revenue, it is primarily determined by fare and patronage levels, and is forecasted to increase by approximately 16.3% for FY2024 due to (a) expected blended fare growths of approximately 5.4% for the Merged Franchise and 8.6% for the CTB (F2) 2023 Franchise resulting from the 2023 fare increases implemented on June 18, 2023, which are expected to be fully reflected in FY2024 compared to second half of 2023 [Note 1] and the increased portion of passengers without concessions, such as tourists; (b) expected patronage growth of approximately 8.1% for the Merged Franchise, which is mainly driven by on going recovery from COVID-19, the increase in patronage on boundary services and the expansion of operation network into Kowloon and the New Territories; and (c) expected patronage growth of approximately 17.1% for CTB (F2) 2023 Franchise [Note 2], which is mainly driven by on going recovery from COVID-19, the remaining growth as the newly opened runway ramps up capacity with the new terminal at the airport and the improved tourism resulting from the Government's investment and tourism-related initiatives;

(ii) with regards to revenue from TEF, it is expected to decrease by 8.4% due to the alignment of the tolls of the three road harbour crossing tunnels starting from December 2023, leading to the reduction in overall toll spending and therefore revenue from TEF. Specifically, the Western Harbour Crossing tunnel toll was reduced from HK$200 to HK$50 as part of the Time Varying Tunnel Toll Scheme, resulting from an estimate reduction of HK$8.7 million in FY2024;

(iii) with regards to net revenue from ECFS, it is forecasted to increase significantly by approximately 183.6% for FY2024, which is mainly due to, among others, the assumptions of (i) rental concessions were offered by the Government only in FY2023 [Note 3]; (ii) a higher portion of ridership over the age of 65 [Note 4]; and (iii) an expected increase in fares;

(iv) contract and private hire services are projected to have a significant growth of approximately 52.5% in FY2024 as the tourist-related activities are projected to rebound after COVID-19 pandemic and there is an increasing demand for private hire related to large events and gatherings for staff-hire services; and

(v) according to the advertising contract with a railway operator, it is expected to commence and contribute approximately HK$61.6 million in FY2024, which represents approximately 9.2% of the increment of total revenue and other income in FY2024.

Notes:

1. The actual fare increases of CTB (F1) Franchise, CTB (F2) Franchise and NWFB Franchise approved by the Chief Executive in Council after Toll Exemption Fund mitigation were 4.9%, 4.2% and 4.9% (or 6.2%, 6.4% and 6.2% before Toll Exemption Fund mitigation), respectively, effective from June 19, 2023.

   With regards to blended fare, it represents the average fare per passenger, which takes into account passenger mix and fare structure, being the passenger eligible for concessions.

   With regards to Toll Exemption Fund mitigation, franchised buses have been exempted from paying toll when using Government tolled tunnels and roads pursuant to Regulation 12(3) of the Road Tunnels (Government) Regulations (Cap. 368A) since February 2019. A dedicated account has been set up for each franchise, namely the Toll Exemption Fund, to keep the toll saved. When a franchised bus operator applies for a fare increase and the Chief Executive in Council considers that there is a justifiable need to increase the fare, the magnitude of the increase may be reduced by using the Toll Exemption Fund and, at the same time, funds would be released from such fund account for the benefit of the franchised bus operator. If a franchised bus operator does not face the pressure for a fare increase, and the toll savings exceed the relevant cap of the Toll Exemption Fund set by the Government, such excess would be distributed to the passengers through appropriate fare concession arrangements.

2. According to Ipsos research referencing Transport Department, the forecasted growth of average daily passenger journeys for franchised buses in FY2024 is expected to be approximately 21.6%. Regarding the assumption of airport route patronage, reference is made to, among others, the International Air Transport Association's revised passenger traffic projection for Hong Kong, which sees a full recovery to pre-pandemic levels by the end of FY2024. According to the Fuller Disclosure of Citybus, the pre-pandemic patronage (and before social unrest) for CTB (F2) Franchise were approximately 38 million in the years ended June 30, 2018 and 2019, which is similar to the forecast of approximately 38 million for CTB (F2) 2023 Franchise in FY2025.

3. With regards to rental concession, it should be noted that the maximum amount of ECFS reimbursed is capped at the rent payable to the Government, which means that the rental concession by the Government may affect the revenue received under ECFS reimbursement. A total of approximately HK$95.0 million of net ECFS forgone incurred in FY2023 was mainly related to COVID-19 concessions provided by the Government, and is anticipated to decrease to approximately HK$19.9 million in FY2024 as it is not expected to provide further rental concessions. The decrease in rental concessions plus ECFS loss of approximately HK$75.1 million represents approximately 11.2% of the increase in total revenue and other income in FY2024.

4. According to the study from Hong Kong Census and Statistics Department, the projected portion of aged 65 or above people grows from 20% in 2021 to 26% in 2026 and thus it is expected to have a higher portion of ridership over the age of 65.

Breakdown of projected revenue and other income in FY2024

HK$'000	**FY2023**	**As a percentage of revenue and other income**	**FY2024** *(Forecast)*	**As a percentage of revenue and other income**	**Difference between FY2023 and FY2024**	**Change in percentage between FY2023 and FY2024**
Fare revenue	2,980,919	85.4%	3,465,808	83.3%	484,889	16.3%
Revenue from TEF	102,810	3.0%	94,130	2.3%	(8,680)	(8.4%)
Contract and private hire services	22,395	0.6%	34,152	0.8%	11,757	52.5%
Advertising income	139,570	4.0%	229,995	5.5%	90,425	64.8%
Net revenue from ECFS	74,810	2.1%	212,169	5.1%	137,359	183.6%
Production and installation income	70,000	2.0%	85,110	2.1%	15,110	21.6%
Other income	99,793	2.9%	37,331	0.9%	(62,462)	(62.6%)
Total	3,490,297	100.0%	4,158,695	100.0%	668,398	19.2%

Operating costs

Operating costs include driver costs, fuel and oil, repairs and maintenance, tunnel tolls and TEF, fare collection charge, depreciation and other expenses. During the projection period, the largest component is expected to be driver costs which is estimated to be on average about 41.1% of total operating costs. Fuel and oil is the second largest portion at on average about 13.5% of total operating costs. Both driver costs and fuel and oil are directly related to the level of service.

By merging the CTB (F1) Franchise and the NWFB Franchise into the Merged Franchise, the Subject Company is expected to capitalise on a number of synergies, specifically in terms of direct costs. For example, following the merger, Citybus is expected to be able to deploy bus captains from NWFB and Citybus as needed, reducing the amount of overtime pay required and improving scheduling and rostering. Additionally, there is a reduction in training resources required to cover similar routes previously operated by the different franchises, and it is no longer necessary to have two separate pools of spare drivers in the case of any unexpected events.

The merger also allows the Subject Company to reduce the amount of dead mileage incurred on a daily basis. A large portion of dead mileage was due to the inability to share resources across the franchises, with buses having to travel long distances to visit the franchise-specific depot, instead of the nearest one. This improved efficiency impacts all direct costs (excluding fare collection charges and depreciation expenses) as it removes duplication in routes, allows more frequent runs on popular routes with fewer buses, which improves fuel efficiency, and streamlines repairs and maintenance.

The percentage of total operating costs to total revenue is expected to decrease from 88.1% in FY2024 to 85.1% in FY2029.

Percentage of overtime pay and training resources costs to total operating costs:

HK$'000	**FY2021**	**FY2022**	**FY2023**
Overtime pay	228,018	172,017	254,035
Training resources costs *Note*	1,313	9,639	13,024
Sub-total	**229,331**	**181,656**	**267,059**
Total operating costs	3,155,614	3,154,586	3,373,619
Ratio	**7%**	**6%**	**8%**

Note: Training resources costs refer to the operating expense for the learning and development department of the Subject Company.

Projected growth of EBITDA and EBIT for FY2024

The projected growth of EBITDA of approximately 103% are mainly due to (i) the revenue and other income growth of approximately 19.2% as mentioned above; and (ii) the lower growth of total operating costs of approximately 8.6%, which are derived from several aspects, including:

1. direct costs of fare revenue, including driver costs, fuel and oil, and repairs and maintenance, which are forecasted to increase by approximately 12.7% from HK$1.96 billion in FY2023 to HK$2.21 billion in FY2024 mainly due to the increase in service level that is starting to recover to pre-pandemic level;

2. tunnel tolls and TEF, which is forecasted to decrease by approximately 42% from HK$215 million in FY2023 to HK$124 million in FY2024 mainly due to the alignment of the tolls of the three road harbour crossing tunnels starting from December 2023, leading to the reduction in overall toll spending;

3. other staff costs, which is forecasted to increase by approximately 11.9% from HK$498 million in FY2023 to HK$557 million in FY2024 mainly due to the planned expansion of the sales team of BML resulting from the required headcount for the contract with a railway operator;

4. insurance, which is forecasted to decrease moderately by approximately 13.5% from HK$89.5 million in FY2023 to HK$77.4 million in FY2024; and

5. cleaning, refuelling and security, which is forecasted to increase stably by approximately 0.6% from HK$74.7 million in FY2023 to HK$75.1 million in FY2024.

With regards to EBIT, the projected growth of EBIT of approximately 324% from HK$117 million in FY2023 to HK$495 million in FY2024 is mainly due to (i) the revenue and other income growth of approximately 19.2% as mentioned above; and (ii) the lower growth of total operating costs of approximately 8.6%, including lower Tunnel Tolls and TEF, insurance expenses and the exclusion of other one-off expenses related to the acquisition incurred in FY2023. The total costs of these 3 items are expected to decrease from HK$431 million in FY2023 to HK$322 million in FY2024.

Overall, the EBITDA margin and EBIT margin in FY2024 is expected to be 21.7% and 11.9% respectively, which are reasonably close to the range of the combined EBIT margin and EBITDA margin of Citybus and NWFB of around 4.1%–11.8% and 15.3%–21.0% respectively in the years ended June 30, 2017 and 2018 prior to the social unrest and COVID-19 outbreak.

Projected growth of net profit from FY2024 to FY2029

For the projection period from FY2024 to FY2029, the growth in net profit is primarily driven by fare adjustments, patronage growth and cost-saving synergies from the Merged Franchise.

Moreover, it is noted that the first quarter of 2023 was still significantly affected by the impact of COVID-19, resulting in substantial losses. Also, the recovery of airport and cross-boundary services took time, and thus FY2023 cannot be considered a fully normalised year. However, as the impact of COVID-19 largely subsided around the fourth quarter of 2023, a turnaround from loss to profit is expected in 2024. The growth since then is projected to be relatively stable.

Income Tax

The Subject Company is subject to Hong Kong profit tax. The tax rate applied in the valuation analysis is 16.5%.

Capital Expenditure

Capital expenditure ("**CAPEX**") includes investments in buses and other property, plant and equipment ("**PPE**"). For buses, there are two categories of capital expenditure, i.e. traditional fleet and new energy buses, including double-deck electric vehicles and double-deck hydrogen powered electric vehicles. For other PPE, projected CAPEX mainly includes leasehold improvements and upgrading depot facilities, the relocation of Tuen Mun depot, the construction of the first hydrogen refuelling station in West Kowloon, the replacement of kiosks at bus interchanges, and the upgrade of IT infrastructure.

Projected CAPEX and the corresponding growth rates

HK$'000	**FY2024** *(Forecast)*	**FY2025** *(Forecast)*	**FY2026** *(Forecast)*	**FY2027** *(Forecast)*	**FY2028** *(Forecast)*	**FY2029** *(Forecast)*
CAPEX						
– Buses	1,506	–	–	–	224,486	224,486
– Other PPE	76,531	29,407	44,407	38,748	23,748	23,748
Total	78,037	29,407	44,407	38,748	248,234	248,234

As shown above, the CAPEX for buses is projected to be incurred in FY2024, FY2028 and FY2029. For FY2024, the projected CAPEX is mainly related to investment in trialing double-deck electric vehicles and double-deck hydrogen powered electric vehicles, which commenced in FY2022 and is expected to be invested in over 3 years. For FY2028 and FY2029, the projected CAPEX is related to the replacement of around 70 traditional diesel fleet. Citybus is not expected to replace buses before FY2028 as the current fleet is relatively young and the Merged Franchise and the corresponding service rationalisation can help reduce the peak vehicle requirement. No maintenance CAPEX for buses has been included under CAPEX as the projected "repairs and maintenance" costs under direct costs has already taken into account that and any retrofits and safety upgrades required by the Transport Department can be met.

The breakdown of other PPE under CAPEX from FY2024 to FY2029 is set out below:

	Items of other PPE					
HK$'000	**FY2024** *(Forecast)*	**FY2025** *(Forecast)*	**FY2026** *(Forecast)*	**FY2027** *(Forecast)*	**FY2028** *(Forecast)*	**FY2029** *(Forecast)*
Tuen Mun depot relocation	1,500	15,000	15,000	15,000	–	–
Leasehold improvement Note 1	55,180	6,418	27,077	20,000	20,000	20,000
Computer equipment Note 2	18,694	6,062	1,367	1,070	1,070	1,070
Others Note 3	1,157	1,927	963	2,678	2,678	2,678
Total	**76,531**	**29,407**	**44,407**	**38,748**	**23,748**	**23,748**

Notes:

1. Leasehold improvement includes renovation of depots, new control rooms and new bus shelters.

2. Computer equipment includes Enterprise Resource Planning system.

3. Others include depot equipment, motor equipment and other equipment.

Other Cashflow Adjustments

Under the Passenger Reward Arrangement ("**PRA**") agreed between BTSL and Hong Kong Government, 50% of the return on average net fixed assets ("**Return on ANFA**") in an accounting year in excess of a prescribed triggering point would be shared with passengers for the Merged Franchise and the CTB (F2) 2023 Franchise. As of Valuation Date, the prescribed triggering point is 8.7%, which has been adopted since 2019, when the interest rate was relatively lower. Nevertheless, interest rate increased sharply since 2022. Therefore, it is expected by the Management that the triggering point will be adjusted from time to time. In this valuation, the estimated amounts to be returned to the passengers if the Return on ANFA is higher than the triggering point are considered as part of adjustments to cash outflow during the projection period.

Working Capital

For the working capital assets, they consist of (i) inventories, which mainly include bus spare parts used in the repairs and maintenance process; (ii) accounts receivable, which mainly include the portion fare revenue collected through cashless payment options (such as Octopus, Alipay and credit cards) that is not yet transferred to Citybus, advertising receivable as well as the reimbursement of fares and subsidies; and (iii) prepayments and deposits, which mainly include rent and rates payments, insurance premiums and bus accident claims, utilities deposits and the acquisition loan upfront fee.

For the working capital liabilities, they consist of various expense items, including, (i) accounts payable for bus services and advertising business, which includes fuel, bus parts and lubricants, production and installation costs and sales staff commission; and (ii) accrual and provisions, which include driver payroll and wages, cleaning expenses and bus accident claim provisions.

Working capital is estimated at around (4.3%) to (2.7%) of revenue based on the 21 to 23 and 32 to 33 turnover days for accounts receivable and accounts payable for bus services respectively.

Calculations of working capital as a percentage of revenue are as follows:

HK$'000	**FY2024** *(Forecast)*	**FY2025** *(Forecast)*	**FY2026** *(Forecast)*	**FY2027** *(Forecast)*	**FY2028** *(Forecast)*	**FY2029** *(Forecast)*
Revenue	4,158,695	4,402,205	4,640,213	4,807,156	4,968,929	5,129,234
Inventories	54,483	63,988	65,424	67,400	69,246	71,532
Accounts receivable	297,907	329,630	293,247	304,855	316,408	329,351
Prepayment	55,297	49,486	59,783	36,577	45,140	52,376
Accounts payable	51,425	52,838	53,421	55,194	56,894	58,941
Accruals and provisions	533,872	534,174	491,197	507,837	523,687	542,971
Total Working Capital	(177,610)	(143,908)	(126,164)	(154,199)	(149,787)	(148,653)
Working Capital as % of Revenue	(4.3%)	(3.3%)	(2.7%)	(3.2%)	(3.0%)	(2.9%)

We considered that the Financial Projections provided by the Management were prepared with due care and consideration and are appropriate for use in this valuation analysis. In the assessment of whether the Financial Projections are prepared in due care and consideration, we have:

- compared projected revenue growth with the Subject Company's historical growth and economic growth as well as the nature of the industry and bus franchise;
- discussed with Management and assessed the calculation of ANFA and its related excess returns performed by the Management and the impact to cash outflow; and

- reviewed working capital requirement according to turnover day and aging analysis.

Overall Analysis

While Hong Kong would experience a slow pace of recovery due to low demand and high interest rates, the impact to each industry will be different. For example, the demand for those daily goods/necessities will be irrelevant to the economy recovery pace. Moreover, due to lock-down in previous years, many tourists and citizens in Hong Kong cannot travel. We are of the view that it is reasonable to assume that travelling activities will resume post-COVID-19.

With regards to competition in the modes of transportation, we noted that railway would remain the mainstream. However, the Subject Company is of the view that it can provide an alternative choice of public transportation to citizens and travelers against the railway and outperform the market in 2024 primarily due to the following reasons: (i) the expected network improvement resulting from the bus route planning program launched by the Transport Department in FY2023 and FY2024; (ii) an expansion into the Northern New Territories in the next five years; (iii) service improvement; (iv) continued growth in the airport-routes as flight and passenger traffic is expected to fully recover to a post-pandemic level in FY2024, according to the Airport Authority; and (v) the Government continues to invest significantly in tourism-related initiatives to revive Hong Kong as an international travel destination. Moreover, the Subject Company can gain market share from minibuses when new tenders are awarded to franchised buses, especially in areas previously dominated by minibuses. For the remaining period of the Financial Projections, we consider the growth is in line with other competitors mainly from fare adjustment and patronage growth.

DISCOUNT FOR LACK OF MARKETABILITY ("DLOM")

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

In the Valuation, Finnerty Model, an option-pricing method, was used as the primary method to estimate the DLOM at enterprise value level which is a commonly accepted method. Under the option-pricing method, the cost of put option, which can hedge the price change before the privately held shares can be sold, was considered as a basis to determine the DLOM. The cost of put option was determined by option pricing with consideration of the estimated time required to sell the Subject Company's shares and volatilities of the comparable companies' shares during that period. Generally speaking, the farther the valuation date is from an expected liquidity event, the higher the put option value and thus the higher the implied DLOM.

Firstly, the model assumes the expected time to exercise is 3 years and the asset volatility is 14%. Annualized dividend yield is assumed to be 0% since the Target Company has no stable dividend payout policy at this moment. For the calculation of the asset volatility, we obtained the equity volatilities of the comparable companies from Bloomberg, unlevered them with their respective debt ratios and adopted the median. DLOM is primarily affected by assumed volatilities either on the asset (enterprise) level or equity level. Applying DLOM on the equity level would be subject to more judgment on the assumed capital structure, which may be different between the comparable companies and the Subject Company.

The formula of Finnerty Model is as follows:

$$DLOM = V_0 e^{-qT}\left[N\left(\frac{v\sqrt{T}}{2}\right) - N\left(-\frac{v\sqrt{T}}{2}\right)\right]$$

where:

$$v\sqrt{T} = \sqrt{\sigma^2 T + \ln\left[2\left(e^{T\sigma^2} - \sigma^2 T - 1\right)\right] - 2\ln\left(e^{T\sigma^2} - 1\right)}$$

N(.)	=	Cumulative probability function for a normal distribution
Ln(.)	=	The natural log function
e	=	A mathematical constant; the base of the natural logarithm
q	=	Annualized dividend yield of security
T	=	Time to expiration of put option (in years) – i.e. holding period
σ	=	Annualized volatility of the underlying security
Vo	=	Value of the otherwise identical unrestricted interest

The DLOM of 5% is applied on the enterprise value level, which is an ungeared number, instead of the equity level so it would be smaller than the DLOM if applied on the equity level. In addition, the model is based on the assumed timeframe that it takes about 3 years to transfer the Subject Company which is not unreasonable according to the recent transactions of similar companies and highlighted by the transfer of BTSL to BTHL in 2020. We deemed this reference to be reasonable due to:

(i) the exit period is determined based on the most recent transactions;

(ii) the transactions are not conducted between connected parties;

(iii) the time gap already incorporates the time for solicitation, negotiation, and execution; and

(iv) the transaction price is irrelevant to this parameter as it solely pertains to the duration of the holding period.

CONCLUSION OF VALUE BY INCOME APPROACH

After deriving the enterprise value of operation of the Subject Company and making necessary adjustments, we adjust for 5% DLOM and consider the below items to arrive at the market value of the entire equity interest of the Subject Company:

- add total cash and bank balances attributable to the Subject Company of HK$492 million;
- subtract deferred income tax liabilities of HK$140 million;
- subtract outstanding debt attributable to the Subject Company of HK$2,069 million

Based on the above analysis, the market value of total enterprise value and equity value of the Subject Company as of Valuation Date are HK$7,102 million and HK$5,033 million respectively.

SENSITIVITY/SCENARIO ANALYSIS

As part of our valuation, a sensitivity/scenario analysis of value indication arrived at using income approach was performed. We have tested the sensitivity of the equity value of the Subject Company to changes in the discount rate and fare increases of franchised bus services during the projection period since it is the major source of revenue.

Equity Value HK$ (Million)	**CAGR of franchised bus services blended fare from FY2023–FY2029**			
WACC	**1.92%–2.23% (Base case)**	**1.85%–2.23%**	**1.75%–2.23%**	**1.50%–2.23%**
9.00%	5,828	5,682	5,574	5,310
9.30%	5,542	5,400	5,297	5,045
9.60%	5,278	5,139	5,041	4,800
9.90% (Base case)	5,033	4,899	4,804	4,574
10.20%	4,807	4,675	4,585	4,364
10.50%	4,596	4,467	4,381	4,169
10.80%	4,399	4,273	4,190	3,986

SANITY CHECK – GUIDELINE COMPANY METHOD

As mentioned in previous sections, we have also searched for publicly listed companies for a sanity check purpose. Since each guideline company has its own bus franchise/operation which is unique and some companies also carry out businesses other than franchised bus services, it would be inappropriate to conclude a valuation by adopting the multiples of these companies as the principal method in our valuation analysis. Although the market approach is not appropriate for valuing the Subject Company, the guideline companies are primarily engaged in the same industry as the Subject Company, and thus it is able to provide a relevant range for checking purpose.

GCM method employs market price data of stocks of corporations engaged in the same or a similar line of business as that of the Subject Company and is considered as an appropriate valuation method for established businesses. Stocks of these corporations are actively traded in a public, free, and open market, either on an exchange or over-the-counter. We have computed the implied performance multiples of the Subject Company using its financial performance for its latest full financial year, i.e. FY2023 and its enterprise value ("**EV**") derived from our income approach above, and cross checked them with the three guideline companies as mentioned in the "Income Approach – Definition of Free Cash Flow – Discount Rate" section above to further validate the EV of the Subject Company derived from our income approach.

The Subject Company was loss-making in FY2023. In addition, earnings before interest, tax, depreciation and amortization ("**EBITDA**") and earnings before interest and tax ("**EBIT**") were not representative mainly due to, among others, (i) margins of routes were heavily distorted because of the impact of COVID-19, and despite the impact on revenue, operating costs remained sticky due to the need to maintain the required operational level with minimal patronage; (ii) the Subject Company was not operating at optimal efficiency in areas such as bus routes, bus captains, maintenance costs, etc. which led to distorted EBITDA and EBIT margins; (iii) business operations require time and effort to return to normal and stable levels post-COVID-19; and (iv) financial performance in FY2023 has not fully reflected the positive synergies of the merger of NWFB and Citybus. We also observed that the EV/EBITDA and EV/EBIT multiples of comparable companies fluctuated and were unstable in the past three years as compared with their EV/revenue multiples. Hence, we are of the view that the EV/EBITDA and EV/EBIT multiples were not reliable for sanity check purposes. Therefore, the EV/revenue multiples of the guideline companies are the most appropriate for our analysis due to their coherence with that of the Subject Company. We noted that the implied EV/revenue multiple of the Subject Company is within the range of the EV/revenue multiples of the guideline companies.

	Comparable Companies	Capital IQ Ticker	EV/ Revenue
1	Transport International Holdings Limited	SEHK: 62	0.96x
2	Kwoon Chung Bus Holdings Limited	SEHK: 306	1.33x
3	Sichuan Fulin Transportation Group Co., Ltd.	SZSE: 002357	3.33x
		Highest	3.33x
		Lowest	0.96x
		Average	1.87x
		Median	1.33x
	Subject Company's implied EV/revenue multiple based on income approach		2.03x

Source: Capital IQ

In this valuation, we have used income approach as our only approach. As discussed under Valuation Methodology Overview, we believe income approach is appropriate to be used in determining the equity value of BTHL. Under IVS, income approach is more relevant when the forecast is reliably estimated, and we believe public transportation falls into this category. Also, under The Appraisal Foundation, market participant acquisition premium (e.g. merger of NWFB and Citybus) should be reflected more appropriately in cash flows and, thus, by income approach. GCM was used only to cross check and evaluate the reasonableness of the income approach because we are of the view that given the industry nature, each guideline company has its own bus franchise which is unique and some of these companies also carry out businesses other than franchised bus services businesses. It would be inappropriate to conclude a valuation by simply adopting the trading multiples of the guideline companies as the principal method in our valuation analysis. Instead, income approach can reduce certain adjustments appliable to the Subject Company from the comparable companies' parameters, e.g. synergies of the Merged Franchise, asset efficiency, difference in gearing, etc. which can affect the results drastically. We place more emphasis on fundamental factors such as the details of the Financial Projections of the Subject Company in our analysis.

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above, it is our opinion that the market value of the equity value of the Subject Company, as of Valuation Date, is reasonably represented at HONG KONG DOLLARS FIVE BILLION THIRTY-THREE MILLION.

This conclusion of value is based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Up to the date of this report, we have not been made aware of any material events or information that would lead to a significant change in the concluded value as of the Valuation Date.

We do not provide assurance on the achievability of any financial results estimated by the Subject Company because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of Management.

We hereby certify that we have neither present nor prospective interests in the Subject Company or the value reported.

Respectfully submitted,
For and on behalf of
Kroll (HK) Limited

Ricky Lee	**William Leung**
Managing Director	*Managing Director*

Note: This valuation was prepared under the direct supervision of Mr. William Leung as project-leader-in-charge with substantial professional assistance from Mr. Ray Leung and Mr. Mark Chow and concurring technical review by Mr. Ricky Lee, another Managing Director based in Hong Kong.

Mr. William Leung has been involved in business valuation for the purpose of joint venture, merger and acquisition and public listing for over 15 years. Mr. William Leung has prior experience in conducting equity interest valuation in transportation industry. He is a current member of American Institute of Certified Public Accountants (AICPA) with Accredited in Business Valuation (ABV) credential and a fellow member of the Hong Kong Institute of Certified Public Accountants (HKICPA).

Mr. Ricky Lee has been involved in business valuation for the purpose of joint venture, merger and acquisition and public listing for over 20 years. Mr. Ricky Lee has prior experience in conducting equity interest valuation in transportation industry. He is a charter holder/qualified member of the Chartered Financial Analyst (CFA), the American Society of Appraisal (ASA), the Association of Chartered Certificated Accountants (FCCA) and the Canadian Institute of Chartered Business Valuators (CBV). Mr. Ricky Lee also serves as one of the Financial Reporting Valuation Panels in an advisory capacity to the Financial Reporting Standards Committee (FRSC) of the Hong Kong Institute of Certified Public Accountants (HKICPA) on financial reporting related valuation and a chapter officer (and former President) of the American Society of Appraisers/Hong Kong Chapter.

Kroll (HK) Limited, Mr. William Leung and Mr. Ricky Lee have no present or prospective interest in the property that is the subject of this report, and has no personal interest or bias with respect to the parties involved. Compensation for Kroll (HK) Limited is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.

A. REPORT FROM KPMG

The following is the full text of a report received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for inclusion in this circular.

KPMG

REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF BRAVO TRANSPORT HOLDINGS LIMITED

TO THE BOARD OF DIRECTORS OF HANS ENERGY COMPANY LIMITED

We refer to the discounted future cash flows on which the business valuation ("**the Valuation**") dated 21 May, 2024 prepared by Kroll (HK) Limited in respect of the appraisal of the fair value of Bravo Transport Holdings Limited and its subsidiaries ("**the Target Group**") as at 31 December, 2023 is based. The Valuation is prepared based on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

The directors of Hans Energy Company Limited (the "**Directors**") are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to report, as required by paragraph 14.60A(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

Basis of Opinion

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other matters

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Target Group or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relates to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.60A(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
24 May, 2024

B. LETTER FROM ANGLO CHINESE

The following is the full text of the letter from Anglo Chinese, for the purpose of, among other things, incorporation into this circular.

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
www.anglochinesegroup.com
英高財務顧問有限公司

The Board of Directors
Hans Energy Company Limited
Unit 2608, 26th Floor
Harbour Centre
25 Harbour Road
Wan Chai, Hong Kong

24 May, 2024

Dear Sirs,

We refer to the announcement of the Company dated 24 May, 2024 (the "**Announcement**") in relation to the proposed acquisition of 54.44% equity interest in Bravo Transport Holdings Limited by Glorify Group Limited, a direct wholly-owned subsidiary of Hans Energy Company Limited, from Templewater Bravo Holdings Limited and Ascendal Bravo Limited, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Announcement unless the context otherwise requires.

As disclosed in the Announcement, the Consideration was determined with reference to the market value (the "**Valuation**") of 100% equity interest in the Target Company as at 31 December, 2023 appraised by Kroll (HK) Limited (the "**Independent Valuer**"), details of which are contained in the valuation report dated 21 May, 2024 prepared by the Independent Valuer (the "**Valuation Report**"). We understand that the Valuation Report and certain other documents related to the Acquisition have been provided to you as the Directors in connection with your consideration of the Acquisition.

According to the Valuation Report, the Valuation has been arrived at using the income approach based on discounted cash flows. As such, the Valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

For the purpose of preparing this letter, we have reviewed the forecast of future cash flows of the Target Company (the "**Forecast**") underlying the Valuation, for which you as the Directors are solely responsible, and have discussed with the management of the Company and the Independent Valuer on the bases and assumptions upon which the

Forecast has been prepared. We have also considered the letter from KPMG, the Company's reporting accountants (the "**Reporting Accountants**"), dated 24 May, 2024 addressed to you containing its opinion, based on its engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants, on the arithmetical calculations and the compilations of the discounted future cash flows, details of which are set out in Appendix I to the Announcement.

We have not independently verified the computations leading to the determination of the Valuation by the Independent Valuer. The assessment, review and discussions carried out by us as described in this letter are based on financial, economic, market and other conditions in effect, and the information made available to us as of the date of this letter and we have, in arriving at our views, relied on information and materials provided to us by the Company, the Independent Valuer and the Reporting Accountants and opinions expressed by, and representations of, the employees and/or management of the Company, the Independent Valuer and the Reporting Accountants. We have assumed, without independent verification, that all the information, materials and representations so provided, including all the information, materials and representations referred to or contained in the Announcement, for which you as the Directors are wholly responsible, were true, accurate, complete and not misleading in all material respects at the time they were provided or made and continued to be so up to the date of this letter, and that no material facts have been withheld or omitted from the information, materials and representations provided. No representation or warranty, expressed or implied, is made by us on the truth, accuracy or completeness of such information, materials, opinions and/or representations referred to or contained in the Announcement, and we have not assumed any responsibility or liability therefor. Circumstances could have developed or could develop in the future that, if known to us at the time of this letter, would have altered our assessment and review.

It should be noted that the Forecast has been prepared using a set of assumptions which include hypothetical assumptions about future events that may or may not occur and therefore the Forecast may not be appropriate for purposes other than for deriving the Valuation. Even if the events anticipated under the hypothetical assumptions occur, actual financial performance may still differ from the Forecast since such anticipated events frequently may or may not occur as expected and the variation could be material.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions adopted in the Valuation, for which the Independent Valuer and the Company are responsible, we are of the opinion that the Forecast, for which you as the Directors are solely responsible, has been made by you after due and careful enquiry. For the avoidance of doubt, this letter does not constitute an independent valuation or fairness opinion and is expressly limited to the matters described herein.

The work undertaken by us in giving the above opinion has been undertaken for the purpose of reporting solely to you under Rule 14.60A(3) of the Listing Rules and for no other purpose. This letter may not be used or disclosed, referred or communicated (in whole or in part) to any party for any other purpose whatsoever, except with our prior written approval. We accept no responsibility to any other person in respect of, arising out of or in connection with our work or this letter.

Yours faithfully,
For and on behalf of
Anglo Chinese Corporate Finance, Limited
Stephen Clark
Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the allotment and issue of the Consideration Shares (assuming there is no other change to the share capital of the Company prior to such allotment and issue), will be as follows:

(i) As at the Latest Practicable Date

	Number of Shares	**Amount**
		HK$'000
Authorised:	10,000,000,000	1,000,000
Issued and fully paid:	3,956,638,000	395,664

(ii) Immediately after the allotment and issue of the Consideration Shares (assuming there is no other change to the share capital of the Company prior to the allotment and issue thereof)

	Number of Shares	**Amount**
		HK$'000
Authorised:	10,000,000,000	1,000,000
Issued and fully paid:	3,956,638,000	395,664
Consideration Shares to be allotted and issued upon Completion:	278,915,965	27,892
Total:	4,235,553,965	423,556

All Shares in issue rank *pari passu* with each other in all respects, including the rights as to dividends, voting and return of capital. The Consideration Shares will, when issued and fully paid, rank *pari passu* in all respects with the then existing Shares in issue on the dates of allotment and issue of the aforesaid Shares.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares and the Consideration Shares, or any other securities of the Company to be listed or dealt in on any other stock exchange.

3. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at the Latest Practicable Date, the interests and short positions of Directors and the chief executive of the Company and their associates in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in the Shares and underlying Shares:

Name of Director	Capacity	Number of Shares held	Approximate percentage in number of Shares held to the issued share capital of the Company	Number of underlying Shares held pursuant to share options	Total interests	Approximate percentage in number of Shares held to the issued share capital of the Company
Mr. An	Founder of a discretionary trust	2,548,203,980 *(Note 1)*	64.40%	–	2,548,203,980	64.40%
	Beneficial owner	218,390,000	5.52%	636,427,600 *(Note 2)*	854,817,600	21.61%

Notes:

1. Mr. An was taken to be interested in those Shares by virtue of being a founder of a discretionary trust. Those Shares are held directly as to 209,773,980 Shares by Extreme Wise and 2,338,430,000 Shares by Vand Petro-Chemicals. Both companies are wholly-owned by Julius Baer which is a trustee of the discretionary trust. By virtue of the SFO, Mr. An was deemed to be interested in the 2,548,203,980 Shares.

2. The interest in underlying Shares of the Company held by Mr. An represented 636,427,600 share options carrying the rights to subscribe for 636,427,600 Shares granted by the Company to him under the 2012 Share Option Scheme (as defined below). By virtue of the SFO, Mr. An was deemed to be interested in the 636,427,600 underlying Shares to be issued and allotted by the Company upon the exercise of the share options granted, which is subject to such exercise not resulting in the Company not being in compliance with the public float requirement under the Listing Rules.

For details of the long position of Mr. An's and other Directors' interests in the underlying Shares of the share options granted under the share option schemes of the Company, please refer to the section headed "9. Share schemes" in this appendix.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have 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 were taken or deemed to have under such provisions), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

Save as disclosed below, as at the Latest Practicable Date, so far as was known to the Directors, there was no other person, other than the Directors or the chief executive of the Company and (in the case of the other members of the Group) other than the Company, who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Shareholders	Capacity	Number of Shares held as at the Latest Practicable Date	Approximate percentage to the issued share capital of the Company as at the Latest Practicable Date
Julius Baer *(Note)*	Trustee (other than a bare trustee)	2,548,203,980	64.40%
Vand Petro-Chemicals *(Note)*	Beneficial owner	2,338,430,000	59.10%
Extreme Wise *(Note)*	Beneficial owner	209,773,980	5.30%

Note: Mr. An was taken to be interested in those Shares by virtue of being a founder of a discretionary trust. Those Shares are held directly as to 209,773,980 Shares by Extreme Wise and 2,338,430,000 Shares by Vand Petro-Chemicals. Both companies are wholly-owned by Julius Baer which is the trustee of the discretionary trust. As such, Julius Baer was taken to be interested in those Shares held by Vand Petro-Chemicals and Extreme Wise. By virtue of the SFO, Mr. An was deemed to be interested in the 2,548,203,980 Shares.

5. DISCLOSURE OF OTHER INTERESTS

(i) Interests in competing business of the Enlarged Group

To the best of the knowledge of the Directors, as at the Latest Practicable Date, none of the Directors or their respective close associates had an interest in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group which would be required to be disclosed under the Listing Rules.

(ii) Interests in assets, contracts or arrangements of the Enlarged Group

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group since 31 December, 2023 (being the date to which the latest published audited consolidated accounts of the Group were made up).

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, which was subsisting and was significant in relation to the business of the Enlarged Group.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into a service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Enlarged Group within two years immediately preceding the date of this circular and are or might be material:

(a) the Acquisition Agreement dated 24 May, 2024;

(b) the 2023 Facility Agreement dated 7 December, 2023; and

(c) the TW Advisory Agreement dated 8 April, 2024.

8. MATERIAL LITIGATION

As at the Latest Practicable Date, the Enlarged Group was not engaged in any litigation or claims of material importance and there was no litigation or claims of material importance known to the Directors to be pending or threatened by or against the Enlarged Group.

9. SHARE SCHEMES

As at the Latest Practicable Date, none of the members of the Target Group had any share schemes which were subject to Chapter 17 of the Listing Rules.

Share schemes of the Company

From 1 January, 2023 and up to the Latest Practicable Date, no options or awards had been granted by the Company, and there were no Shares of the Company that might be issued in respect of share options or awards granted under all share option schemes and the share award scheme of the Company during the said period. As at the Latest Practicable Date, the total number of Shares which may fall to be issued in respect of share options and awards available for grant under the scheme mandate and the service provider sublimit were 395,663,800 Shares and 39,566,380 Shares, respectively. Please see below for details of the share option schemes and share award schemes of the Company.

Share option schemes of the Company

Pursuant to an ordinary resolution passed on 28 December, 2012, the Company adopted 2012 Share Option Scheme which would expire on 27 December, 2022. In order to enable the continuity of the share option scheme of the Company, the termination of the 2012 Share Option Scheme and the adoption of 2022 Share Option Scheme were approved by the Company's Shareholders at the general meeting on 15 June, 2022. The 2022 Share Option Scheme would expire on 14 June, 2032. In view of the amendments to Chapter 17 of the Listing Rules which took effect on 1 January, 2023, the termination of the 2022 Share Option Scheme and the adoption of a new share option scheme namely the 2023 Share Option Scheme were approved by the Shareholders at the general meeting on 31 May, 2023. The 2023 Share Option Scheme is valid for 10 years from the adoption date and is due to expire on 30 May, 2033.

Details of the adoption of the 2023 Share Option Scheme and the termination of the 2022 Share Option Scheme were set out in the 2023 Annual Report. Details of the 2012 Share Option Scheme and 2022 Share Option Scheme were set out in the 2022 Annual Report.

2012 Share Option Scheme

Details of the share options granted under the 2012 Share Option Scheme as at 31 December, 2023 and the Latest Practicable Date are set out below:

Eligible participants	Date of grant	Vesting period	Exercise period	Exercise price *(HK$)*	Outstanding as at the Latest Practicable Date
Executive Directors					
Mr. An	23 December, 2020	–	25 January, 2021– 22 December, 2025 *(Note 1)*	0.400	243,763,800
	14 April, 2021	2 June, 2021– 13 April, 2022	14 April, 2022– 13 April, 2027 *(Note 2)*	0.340	392,663,800
Mr. Yang Dong	30 August, 2018	30 August, 2018– 30 May, 2019	30 August, 2019– 29 August, 2028 *(Note 3)*	0.236	20,000,000
Mr. Zhang Lei	23 December, 2020	–	23 December, 2020– 22 December, 2025 *(Note 4)*	0.400	5,000,000
Independent non-executive Directors					
Mr. Li Wai Keung	30 August, 2018	30 August, 2018– 30 May, 2019	30 August, 2019– 29 August, 2028 *(Note 3)*	0.236	3,000,000
Mr. Chan Chun Wai, Tony	30 August, 2018	30 August, 2018– 30 May, 2019	30 August, 2019– 29 August, 2028 *(Note 3)*	0.236	3,000,000
				Sub-total	667,427,600
Employees	30 August, 2018	30 August, 2018– 30 May, 2019	30 August, 2019– 29 August, 2028 *(Note 3)*	0.236	34,000,000
Consultant	30 August, 2018	30 August, 2018– 30 May, 2019	30 August, 2019– 29 August, 2028 *(Note 3)*	0.236	10,000,000
				Total	711,427,600

Notes:

1. The relevant share options became valid upon obtaining the independent Shareholders' approval at the general meeting held on 25 January, 2021 and the relevant options were vested on 25 January, 2021 and are exercisable from 25 January, 2021 to 22 December, 2025.

2. The relevant share options became valid upon obtaining the independent Shareholders' approval at the general meeting held on 2 June, 2021 and the relevant options were vested on 14 April, 2022 and are exercisable from 14 April, 2022 to 13 April, 2027.

3. The relevant share options were vested on 31 May, 2019 and are exercisable from 30 August, 2019 to 29 August, 2028.

4. The relevant share options were vested on 23 December, 2020 and are exercisable from 23 December, 2020 to 22 December, 2025.

5. The closing price of the Shares immediately before the date on which the relevant share options were granted on 29 August, 2018, 22 December, 2020 and 13 April, 2021 was HK$0.225, HK$0.390 and HK$0.340, respectively.

6. The options granted above are not subject to any performance targets.

As at 31 December, 2023 and the Latest Practicable Date, the total number of Shares which may fall to be issued upon exercise of all outstanding share options granted under the 2012 Share Option Scheme was 711,427,600 Shares, being 18.0% of the issued Shares of the Company as at the Latest Practicable Date.

2022 Share Option Scheme

From the adoption date on 15 June, 2022 and up to the termination date on 31 May, 2023, no share options were granted, exercised, lapsed or cancelled under the 2022 Share Option Scheme. There were no outstanding share options granted by the Company under the 2022 Share Option Scheme as at 31 December, 2023 and the Latest Practicable Date.

2023 Share Option Scheme

The maximum number of Shares in respect of all share options to be granted under the 2023 Share Option Scheme and all share options and awards to be granted under other share schemes of the Company were 395,663,800 Shares, representing 10% of the issued share capital of the Company as at the adoption date of the 2023 Share Option Scheme. The maximum number of Shares in respect of all share options to be granted under the 2023 Share Option Scheme and all share options and awards to be granted to the service providers under other share schemes of the Company were 39,566,380 Shares, representing 1% of the total number of Shares in issue as at the adoption date of the 2023 Share Option Scheme.

From the adoption date on 31 May, 2023 and up to the Latest Practicable Date, no share options were granted, exercised, lapsed or cancelled under the 2023 Share Option Scheme. There were no outstanding share options granted by the Company under the 2023 Share Option Scheme as at 31 December, 2023 and the Latest Practicable Date.

Share Award Schemes of the Company

The Company adopted 2019 Share Award Scheme on 15 April, 2019, which would expire on 14 April, 2029. In view of the amendments to Chapter 17 of the Listing Rules which took effect on 1 January, 2023, the termination of the 2019 Share Award Scheme and the adoption of the Hans Energy Share Award Scheme II, being a new share award scheme of the Company, namely the 2023 Share Award Scheme were approved by the Company's Shareholders at the general meeting on 31 May, 2023. The 2023 Share Award Scheme is valid for 10 years from the adoption date. Details of the adoption of the 2023 Share Award Scheme and the termination of the 2019 Share Award Scheme were set out in the 2023 Annual Report.

2019 Share Award Scheme

As at 31 December, 2023 and the Latest Practicable Date, no grant of awards had been made under the 2019 Share Award Scheme. As at Latest Practicable Date, no Shares were held by the trustee under the 2019 Share Award Scheme. The 78,590,000 Shares purchased for the purpose of the 2019 Share Award Scheme were transferred to the 2023 Share Award Scheme.

2023 Share Award Scheme

The maximum number of Shares in respect of all awards to be granted under the 2023 Share Award Scheme and all share options and awards to be granted under other share schemes of the Company was 395,663,800 Shares, representing 10% of the issued share capital of the Company at the adoption date of the 2023 Share Award Scheme. The maximum number of Shares in respect of all awards to be granted under the 2023 Share Award Scheme and all share options and awards to be granted to the service providers under other share schemes of the Company was 39,566,380 Shares, representing 1% of the total number of Shares in issue as at the adoption date of the 2023 Share Award Scheme.

As at 31 December, 2023 and the Latest Practicable Date, the number of the Company's Shares held for the purpose of the 2023 Share Award Scheme was 78,590,000 Shares. As at the Latest Practicable Date, no grant of awards had been made under the 2023 Share Award Scheme since its adoption.

10. INTELLECTUAL PROPERTIES OF THE TARGET GROUP

As at the Latest Practicable Date, the Target Group had registered or had applied for the registration of the following intellectual property rights which are material to the Target Group's businesses.

Trademarks

As at the Latest Practicable Date, the Target Group had registered the following trademarks in Hong Kong:

No.	Trademark	Registered owner	Class	Registration number	Expiry Date
1.		BTSL	6, 9, 16, 28, 35, 39, 41, 42	305493312	28 December, 2030
2.		BTSL	6, 9, 16, 28, 35, 39, 41, 42	305493349	28 December, 2030
3.		BTSL	6, 9, 16, 28, 35, 39, 41, 42	305867911	24 January, 2032
4.		BTSL	6, 9, 16, 28, 35, 39, 41, 42	305867920	24 January, 2032
5.		BTSL	6, 9, 16, 28, 35, 39, 41, 42	305867939	24 January, 2032
6.	BRAVO TRANSPORT	BTSL	6, 16, 42	305493321AA	28 December, 2030
7.	BRAVO	BTSL	6, 16, 42	305493330AA	28 December, 2030
8.		BTSL	6, 16, 42	305493358AA	28 December, 2030
9.		Citybus	16	199400846	30 December, 2032
10.	Cityflyer	Citybus	39	1998B13032	14 October, 2024
11.		Citybus	39	199905904	24 October, 2033

No.	Trademark	Registered owner	Class	Registration number	Expiry Date
12.	CITYBUS	Citybus	39	199905983	24 October, 2033
13.	城巴	Citybus	39	199905984	24 October, 2033
14.	CITYBUS	Citybus	28	2000B13609	4 June, 2026
15.	城巴	Citybus	28	2000B13610	4 June, 2026
16.		Citybus	28	200013611	4 June, 2026
17.	CITYBUS 城巴	Citybus	28	2002B15390	18 September, 2028
18.	City Flyer 城巴機場快綫	Citybus	28	2002B15391	18 September, 2028
19.	CITYBUS 城巴	Citybus	16, 28	200300799	18 September, 2028
20.	CITYBUS 城巴	Citybus	39	200300800	18 September, 2028
21.		Citybus	9, 16, 28, 42	302409444	17 October, 2032
22.	城巴 Citybus 城巴 Citybus	Citybus	9, 16, 28, 42	302409453	17 October, 2032
23.		Citybus	6, 9, 16, 28, 35, 39, 41, 42	305696623	22 July, 2031
24.		Citybus	6, 9, 16, 28, 35, 39, 41, 42	306010460	13 July, 2032
25.		Citybus	6, 9, 16, 28, 35, 39, 41, 42	306010479	13 July, 2032
26.		Citybus	6, 9, 16, 28, 35, 39, 41, 42	306242562	11 May, 2033

No.	Trademark	Registered owner	Class	Registration number	Expiry Date
27.		Citybus	6, 9, 16, 28, 35, 39, 41, 42	306244461	15 May, 2033
28.		Citybus	6, 9, 16, 28, 35, 39, 41, 42	306248070	18 May, 2033
29.		Citybus	6, 9, 16, 28, 35, 39, 41, 42	306257773	30 May, 2033
30.		Citybus	6, 9, 16, 28, 35, 39, 41, 42	306257782	30 May, 2033
31.		Citybus	6, 9, 16, 28, 35, 39, 41, 42	306257791	30 May, 2033
32.		Citybus	6, 9, 16, 28, 35, 39, 41, 42	306258989	31 May, 2033
33.		Citybus	6, 9, 16, 28, 35, 39, 41, 42	306259014	31 May, 2033
34.	城巴快線	Citybus	6, 9, 16, 28, 35, 39, 41, 42	306284016	29 June, 2033
35.	Cityflyer	Citybus	6, 9, 16, 28, 35, 39, 41, 42	306284025	29 June, 2033
36.	城巴機場快線	Citybus	6, 9, 16, 28, 35, 39, 41, 42	306284034	29 June, 2033
37.	CityExpress	Citybus	6, 9, 16, 28, 41, 42	306284007AA	29 June, 2033

As at the Latest Practicable Date, the Target Group had registered the following trademarks in the PRC:

No.	Trademark	Registered owner	Class	Registration number	Expiry date
1.		Citybus	39	1129801	20 November, 2027

As at the Latest Practicable Date, the Target Group had applied for the registration of the following trademarks in Hong Kong:

No.	Trademark	Applicant	Class	Application number	Application date
1.	BRAVO TRANSPORT	BTSL	9, 28, 35, 39, 41	305493321AB	29 December, 2020
2.	BRAVO	BTSL	9, 28, 35, 39, 41	305493330AB	29 December, 2020
3.	A B C D	BTSL	9, 28, 35, 39, 41	305493358AB	29 December, 2020
4.	CityExpress	Citybus	39	306284007AB	30 June, 2023
5.	SMART CITYDRIVE; smart citydrive; Smart Citydrive; Smart CityDrive	Citybus	6, 9, 12, 16, 28, 35, 39, 41, 42	306510627	25 March, 2024
6.	智駕全城 智驾全城	Citybus	6, 9, 12, 16, 28, 35, 39, 41, 42	306510618	25 March, 2024
7.	BRAVO	BML	9, 16, 35, 41, 42	305796811	9 November, 2021
8.		Citybus	6, 9, 16, 28, 35, 39, 41, 42	306567058	30 May, 2024

Domain Names

As at the Latest Practicable Date, the Target Group had registered the following domain names:

No.	Domain name	Registrant	Expiry date
1.	citybus.hk	Citybus	20 April, 2027
2.	ctb.com.hk	Citybus	29 November, 2024
3.	citybus.com.hk (bundled 城巴.公司.HK/.公司.香港)	Citybus	31 August, 2025
4.	rickshawbus.com	Owned by NWFB through Network Solutions, LLC	30 July, 2025
5.	bravotransport.com.hk	BTSL	5 October, 2025
6.	bravotransport.hk	BTSL	5 October, 2025
7.	bravobus.com.hk	BTSL	5 October, 2025
8.	bravobus.hk	BTSL	5 October, 2025
9.	bravoholdings.com.hk	BTHL	2 November, 2028

Registered designs

As at the Latest Practicable Date, the Target Group had registered the following designs in Hong Kong:

No.	Design	Registrant	Locarno classification number	Registration number	Expiry date
1.		Citybus	21–01	2016336.4M002	15 June, 2025
2.		Citybus	21–01	2016336.4M001	15 June, 2025
3.		Citybus	21–01	2016247.5	28 May, 2025
4.		Citybus	21–01	2016057.2	23 April, 2025

No.	Design	Registrant	Locarno classification number	Registration number	Expiry date
5.		Citybus	19–04	1914657.0	12 September, 2024
6.		Citybus	3–01	1914656.8	12 September, 2024
7.		NWFB	21–01	2016584.9	29 July, 2025
8.		NWFB	21–01	2016056.0	23 April, 2025
9.		Citybus	6–01	2422793.4	5 February, 2029

As at the Latest Practicable Date, the Target Group had applied for the registration of the following designs in Hong Kong:

No.	Design	Registrant	Locarno Classification No	Application Date
1.		Citybus	2–02, 03, 04, 05, 07, 99	17 April, 2024
2.		Citybus	3–01, 03, 99	17 April, 2024
3.		Citybus	6–01, 09, 13	17 April, 2024
4.		Citybus	9–03	17 April, 2024
5.		Citybus	19–01, 02, 03, 04, 06, 07, 08, 99	17 April 2024

11. EXPERTS AND CONSENTS

The following is the name and qualification of the experts who have provided advice which is contained or referred to in this circular:

Name	Qualification
Anglo Chinese	A corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
KPMG	Certified Public Accountants, Hong Kong
Kroll (HK) Limited	Independent Valuer
Ipsos Asia Limited	Industry consultant

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and/or the reference to its name or opinion in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts was not beneficially interested in the share capital of any member of the Enlarged Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

As at the Latest Practicable Date, each of the above experts did not have any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group since 31 December, 2023 (being the date to which the latest published audited consolidated accounts of the Group were made up).

12. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there had been no material adverse change in the financial or trading position of the Group since 31 December, 2023, being the date to which the latest published audited consolidated financial results of the Group were made up.

13. MISCELLANEOUS

(a) The registered office of the Company is situated at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(b) The principal place of business in Hong Kong is Unit 2608, 26th Floor, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong.

(c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(d) The company secretary of the Company is Ms. Lam Lai Wan, Bondie, who is a fellow member of both The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants and a member of Chartered Professional Accountants of Canada.

(e) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation, except that if there is any inconsistency between the Chinese names of PRC entities, departments, facilities or titles mentioned in this circular and their English translation, the Chinese version shall prevail.

(f) As at the Latest Practicable Date, other than the Company's listing on the Stock Exchange, no part of the Shares or loan capital of the Company is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought.

(g) No commissions, discounts, brokerages or other special terms have been granted within the two years immediately preceding the date of this circular in connection with the issue or sale of any capital of any member of the Group.

14. DOCUMENTS ON DISPLAY

Copies of the following documents are published on the Company's website (www.hansenergy.com) and the website of Hong Kong Exchange and Clearing Limited (www.hkexnews.hk), from the date of this circular up to and including the date of the EGM:

(a) the amended and restated memorandum and articles of association of the Company;

(b) the accountants' report of the Target Group from KPMG, the text of which is set out in Appendix III to this circular;

(c) the report on the unaudited pro forma financial information of the Enlarged Group from KPMG, the text of which is set out in Appendix IV to this circular;

(d) a copy of each of the material contracts referred to in the section headed "7. Material contracts" in this appendix;

(e) the written consents referred to in the section headed "11. Experts and consents" in this appendix;

(f) 2021 Annual Report, 2022 Annual Report and 2023 Annual Report;

(g) the valuation report issued by the Independent Valuer, the text of which is set out in Appendix V to this circular;

(h) the Ipsos Report;

(i) the report from KPMG on the discounted future cash flows in connection with the business valuation of the Target Company, the text of which is set out in Appendix VI to this circular;

(j) the letter from Anglo Chinese on the discounted future cash flows in connection with the business valuation of the Target Company, the text of which is set out in Appendix VI to this circular; and

(k) this circular.

HANS ENERGY COMPANY LIMITED
漢 思 能 源 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00554)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Hans Energy Company Limited 漢思能源有限公司 (the "**Company**") will be held at Boardroom 3–4, M/F., Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Wednesday, 17 July, 2024 at 10:30 a.m. for the purpose of considering, and if thought fit, passing the following resolution with or without amendments, as ordinary resolution of the Company. Unless otherwise indicated, capitalised terms used in this notice shall have the same meanings as those defined in the circular dated 21 June, 2024 issued by the Company (the "**Circular**").

ORDINARY RESOLUTION

1. "**THAT**:

   (a) the Acquisition Agreement dated 24 May, 2024 (a copy of the Acquisition Agreement marked "A" is produced to the EGM and initialled by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder (including the Acquisition, the Strategic Purchase, the grant of the Call Option and the Put Option, the exercise of the Call Option and the Put Option, and the New Shareholders' Agreement (a copy of the New Shareholders' Agreement marked "B" is produced to the EGM and initialled by the chairman of the EGM for identification purpose)), be and are hereby ratified, confirmed and approved;

   (b) the grant of a specific mandate so that the Directors are authorised to allot and issue the 278,915,965 Consideration Shares be and is hereby approved; and

(c) any one Director be and is hereby authorised on behalf of the Company to do all such acts and things and execute all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director may in his sole opinion and absolute discretion consider necessary, appropriate or desirable to implement or give effect to or in connection with the Acquisition Agreement, the New Shareholders' Agreement and the transactions contemplated thereunder."

By order of the Board
Hans Energy Company Limited
漢思能源有限公司
Yang Dong
Chief Executive Officer and Executive Director

Hong Kong, 21 June, 2024

Registered office:
P.O. Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Head office and principal place of business:
Unit 2608, 26th Floor
Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

Notes:

1. The resolution at the EGM will be taken by poll (except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and the results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and of the Company in accordance with the Listing Rules.

2. A member of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company. If more than one proxy is appointed, the number of shares in respect of which each such proxy so appointed must be specified in the relevant form of proxy.

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person duly authorised.

4. In order 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 that power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for the holding of the EGM (i.e. by 10:30 a.m. on Monday, 15 July, 2024) or any adjournment thereof. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the EGM and, in such event, the said form of proxy shall be deemed to be revoked.

5. For determining the qualification as members of the Company to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 12 July, 2024 to Wednesday, 17 July, 2024, both days inclusive, during which period no transfer of shares will be registered. In order to qualify as members to attend and vote at the EGM, investors are required to lodge all transfer documents accompanied by the relevant share certificates with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Thursday, 11 July, 2024.

6. If a Typhoon Signal No. 8 or above is hoisted or "extreme conditions" is announced by the Government of Hong Kong or a Black Rainstorm Warning Signal is in force at or at any time after 9:00 a.m. on the date of the EGM, the EGM will be postponed or adjourned. The Company will post an announcement on the websites of the Hong Kong Exchanges and Clearing Limited and the Company to notify shareholders of the date, time and place of the rescheduled EGM.

7. The EGM will be held as scheduled when an Amber or Red Rainstorm Warning Signal is in force. Shareholders should decide on their own whether they would attend the meeting under bad weather conditions bearing in mind their own situation.

As at the date of this notice, the Board comprises three executive Directors, namely Mr. David An (Chairman), Mr. Yang Dong and Mr. Zhang Lei and three independent non-executive Directors, namely Mr. Li Wai Keung, Mr. Chan Chun Wai, Tony and Mr. Chung Chak Man, William.