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China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)
(Stock Code: 1728)

CONTINUING CONNECTED TRANSACTIONS

Financial adviser to China ZhengTong Auto Services Holdings Limited



Independent Financial Adviser to China ZhengTong Auto Services Holdings Limited



On 1 August 2013, four Renewed Lease Agreements were entered into between some of the PRC Operating Entities or Wuhan Jietong, as lessees, and some of the Connected Counterparties, as lessors, for the renewal of the Original Lease Agreements expired on 31 July 2013.

The Connected Counterparties, being the associates of Mr. Wang, are connected persons of the Company and thus, the transactions contemplated under the Renewed Lease Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As certain of the relevant percentage ratios (other than the profits ratio), as defined under the Listing Rules, for the transactions under the Original Lease Agreements, the Renewed Baozhang Lease Agreement and the Renewed Lease Agreements are expected to be more than 0.1% but less than 5% on an annual basis, the Original Lease Agreements, the Renewed Baozhang Lease Agreement and the Renewed Lease Agreements (together with the relevant proposed annual caps) are subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

Reference is made to the Prospectus and the May Announcement in relation to, among other things, the Original Lease Agreements and Renewed Baozehang Lease Agreement.

As referred to in the Prospectus, the PRC Operating Entities or Wuhan Jietong, as lessees, had entered into eight Original Lease Agreements with the Connected Counterparties, as lessors, for the lease of certain premises or land by the Group for its operations.

The Original Baozehang Lease Agreement (being one of the Original Lease Agreements) expired on 31 May 2013. As disclosed in the May Announcement, the Renewed Baozehang Lease Agreement was entered into between Beijing Baozehang and Beijing Development on 31 May 2013 to renew the Original Baozehang Lease Agreement for a term of one year from 1 June 2013 to 31 May 2014. Pursuant to the Renewed Baozehang Lease Agreement, Beijing Baozehang shall have the option to renew the successive term of the lease agreement up to year 2020.

Four of the Original Lease Agreements expired on 31 July 2013. On 1 August 2013, some of the PRC Operating Entities or Wuhan Jietong entered into four Renewed Lease Agreements with some of the Connected Counterparties for the renewal of the four Original Lease Agreements expired on 31 July 2013. Details of the Renewed Lease Agreements are set out in the section headed “Renewed Lease Agreements” below.

RENEWED LEASE AGREEMENTS

The table below sets out the details of the Renewed Lease Agreements:

	Date of agreement	Location	Gross floor area (sq.m.)	Use	Lessor	Lessee	Monthly rental (RMB)	Term (Note)
1.	1 August 2013	4S Shop, No. Te 6 Huangpu Technological Park, Jiangnan District, Wuhan City, Hubei Province, the PRC	4,661.59	Operation of 4S businesses	Hubei Shengze	Hubei Bocheng	176,688.76	From 1 August 2013 to 31 May 2014
2.	1 August 2013	4S Shop, No. Te 6 Huangpu Technological Park, Jiangnan District, Wuhan City, Hubei Province, the PRC	6,541.52	Operation of 4S businesses	Hubei Shengze	Wuhan Kaitai	249,540.96	From 1 August 2013 to 31 May 2014

	Date of agreement	Location	Gross floor area (sq.m.)	Use	Lessor	Lessee	Monthly rental (RMB)	Term (Note)
3.	1 August 2013	Lot 6C2 Wuhan Economic and Technological Development Zone, Wuhan City, Hubei Province, the PRC	58,051.22	Operation of logistics and storage businesses	Wuhan Shengze Jieyun	Wuhan Jietong	997,373.05	From 1 August 2013 to 31 May 2014
4.	1 August 2013	Lot 5C2 Wuhan Economic and Technological Development Zone, Wuhan City, Hubei Province, the PRC	10,422.59	Operation of logistics and storage businesses	Wuhan Shengze Jiezhong	Wuhan Jietong	179,069.63	From 1 August 2013 to 31 May 2014

Note:

Pursuant to each of the Renewed Lease Agreements, the lessee shall have the option to renew the successive term of the lease agreement up to year 2020. The rental amount will be determined with reference to the then prevailing market price of the relevant premise.

HISTORICAL ANNUAL CAPS AND TRANSACTION AMOUNTS

The table below sets out the actual aggregate rents paid by the Group under the Original Lease Agreements for the three years ended 31 December 2012 and the relevant annual caps:

For the year ended 31 December	Annual cap (RMB' million)	Actual aggregate rents paid (RMB' million, approximate)
2010	11.5	10.9
2011	21.2	20.2
2012	21.2	20.2

PROPOSED ANNUAL CAPS

As referred to in the May Announcement, the proposed annual cap for the transactions contemplated under the Original Lease Agreements and the Renewed Baozhang Lease Agreement for the year ending 31 December 2013 is RMB16 million. The actual aggregate rents paid by the Group under the Original Lease Agreements and the Renewed Baozhang Lease Agreement for the seven months ended 31 July 2013 amounted to approximately RMB12.3 million. By virtue of the entering into of the Renewed Lease Agreements, the revised proposed annual cap for the year ending 31 December 2013 and the proposed annual cap for the year ending 31 December 2014 for the Continuing Connected Transactions is RMB24 million and RMB11 million respectively. The proposed annual caps are determined with reference to the amount of rents pursuant to the Original Lease Agreements, the Renewed Baozhang Lease Agreement and the Renewed Lease Agreements.

The Directors (including the independent non-executive Directors who have taken into account the advice of the Independent Financial Adviser as set out in the section headed “Advice of the Independent Financial Adviser” below) are of the view that the proposed annual caps for the Continuing Connected Transactions for the two years ending 31 December 2014 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Group is principally engaged in the operation of 4S dealership business, motor-related logistics business and lubricant oil trading business.

The Group has leased the premises and land under the Original Lease Agreements for the operations of its 4S businesses and logistics and storage operation since 2010. Four of the Original Lease Agreements expired on 31 July 2013. Having considered that the lessors under the Renewed Lease Agreements are the connected persons of the Company and that they have granted the lessees the option to renew the successive term of the lease agreement up to year 2020 pursuant to each of the Renewed Lease Agreements, the Directors are of the view that the entering into of the Renewed Lease Agreements are beneficial to the Group in respect of maintaining the stable business operations of the Group.

The terms of the Renewed Lease Agreements were determined after arm’s length negotiations between the relevant PRC Operating Entities or Wuhan Jietong and the relevant Connected Counterparties. The rental amounts under the Renewed Lease Agreements were determined with reference to the prevailing market rental price of premises. The Directors (including the independent non-executive Directors who have taken into account the advice of the Independent Financial Adviser as set out in the section headed “Advice of the Independent Financial Adviser” below) are of the view that the Renewed Lease Agreements were entered into in the ordinary and usual course of business of the Group and on normal commercial terms which are fair and reasonable and in the interests of the Company and Shareholders as a whole.

ADVICE OF THE INDEPENDENT FINANCIAL ADVISER

The Company has appointed the Independent Financial Adviser to advise the independent non-executive Directors in connection with the Continuing Connected Transactions in relation to the Renewed Lease Agreements. In forming its opinion, the Independent Financial Adviser has reviewed the valuation reports prepared by an independent property valuer in the PRC on the market rental price of the premises under the Renewed Lease Agreements and has based on the information, facts and representations provided by and opinions expressed by the Directors and the management of the Group. The Independent Financial Adviser is of the view that (i) the basis and assumption of the valuation reports prepared by the independent property valuer are reasonable; (ii) the Renewed Lease Agreements together with the proposed annual caps for the Continuing Connected Transactions in relation to the Renewed Lease Agreements are in the interests of the Company and the Shareholders as a whole; (iii) the terms of the Renewed Lease Agreements and the Continuing Connected Transactions in relation to the Renewed Lease Agreements are on normal commercial terms and are fair and reasonable; and (iv) the proposed annual caps of the Continuing Connected Transactions in relation to the Renewed Lease Agreements have been fairly and reasonably arrived at. Accordingly, the Independent Financial Adviser recommends the independent non-executive Directors to vote in favour of the Board resolutions approving the Renewed Lease Agreements and the proposed annual caps.

LISTING RULES IMPLICATIONS

The relevant Connected Counterparties as lessor under the Renewed Lease Agreements are as follows:

Hubei Shengze, an investment holding company, is owned as to 70.4% by Mr. Wang, a non-executive Director and the controlling Shareholder.

Wuhan Shengze Jieyun, a company principally engaged in real estate holding and is wholly-owned by Hubei Shengze.

Wuhan Shengze Jiezhong, a company principally engaged in real estate holding and is wholly-owned by Hubei Shengze.

The Connected Counterparties, being the associates of Mr. Wang, are connected persons of the Company and thus, the transactions contemplated under the Renewed Lease Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As certain of the relevant percentage ratios (other than the profits ratio), as defined under the Listing Rules, for the transactions under the Original Lease Agreements, the Renewed Baozhang Lease Agreement and the Renewed Lease Agreements are expected to be more than 0.1% but less than 5% on an annual basis, the Original Lease Agreements, the Renewed Baozhang Lease Agreement and the Renewed Lease Agreements (together with the relevant proposed annual caps) are subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Wang, the non-executive Director and the controlling Shareholder, has material interests in the transactions contemplated under the Renewed Lease Agreements and has abstained from voting on the Board resolutions approving the Renewed Lease Agreements and the transactions contemplated thereunder.

DEFINITIONS

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

“4S”	sales, spare parts, service and survey
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing Baozhang”	北京寶澤行汽車銷售服務有限公司 (Beijing Baozhang Automobile Sales Services Co., Ltd.*), a company incorporated in the PRC and one of the PRC Operating Entities
“Beijing Development”	北京寶澤汽車科技發展有限公司 (Beijing Baoze Automobile Technology Development Co., Ltd.*), a company incorporated in the PRC and one of the Connected Counterparties
“Board”	the board of Directors
“Company”	China ZhengTong Auto Services Holdings Limited (中國正通汽車服務控股有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed and traded on the Stock Exchange
“Connected Counterparties”	collectively, Beijing Development, Hubei Shengze, Wuhan Shengze Jieyun, Wuhan Shengze Jiezhong, 長沙聖澤瑞寶電子產品貿易有限公司 (Changsha Shengze Ruibao Electronics Trading Co., Ltd.*) and 內蒙古聖澤鼎杰汽車貿易有限公司 (Inner Mongolia Shengze Dingjie Automobile Trading Co., Ltd.*)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the leases contemplated under the Original Lease Agreements, the Renewed Baozhang Lease Agreement and the Renewed Lease Agreements
“Director(s)”	the director(s) of the Company

“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hubei Bocheng”	湖北博誠汽車銷售服務有限公司 (Hubei Bocheng Automobile Sales Services Co., Ltd.*), a company incorporated in the PRC and one of the PRC Operating Entities
“Hubei Shengze”	湖北聖澤實業有限公司 (Hubei Shengze Industry Co., Ltd.*), a company incorporated in the PRC and one of the Connected Counterparties
“Independent Financial Adviser”	Baron Capital Limited, which is a corporation permitted under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) to carry out types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities and the independent financial adviser to the independent non-executive Directors in relation to the Continuing Connected Transactions
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“May Announcement”	the announcement of the Company dated 31 May 2013
“Mr. Wang”	Mr. Wang Muqing, the non-executive Director and the controlling Shareholder
“Original Baozhang Lease Agreement”	the lease agreement dated 1 June 2010 entered into between Beijing Development, as the lessor, and Beijing Baozhang, as the lessee, for the lease of a premise located at No. 59, West Third Ring South Road, Feng Tai District, Beijing City, the PRC
“Original Lease Agreements”	the lease agreements (including the Original Baozhang Lease Agreement), as referred to in the Prospectus, entered into between the PRC Operating Entities or Wuhan Jietong and the Connected Counterparties in 2010
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan

“PRC Operating Entities”	collectively, Beijing Baozhang, Hubei Bocheng, Wuhan Kaitai, 呼和浩特市祺寶汽車銷售有限公司 (Huhhot Qibao Automobile Sales Services Co., Ltd.*), 長沙瑞寶汽車銷售服務有限公司 (Changsha Ruibao Automobile Sales Services Co., Ltd.*) and 內蒙古鼎杰汽車貿易有限公司 (Inner Mongolia Dingjie Automobile Trading Co., Ltd.*), all being the subsidiaries of the Company operating 4S businesses in the PRC
“Prospectus”	the prospectus of the Company dated 29 November 2010
“Renewed Baozhang Lease Agreement”	the lease agreement entered into between Beijing Development and Beijing Baozhang on 31 May 2013 for the renewal of the Original Baozhang Lease Agreement
“Renewed Lease Agreements”	the lease agreements entered into between some of the PRC Operating Entities or Wuhan Jietong and some of the Connected Counterparties to renew the Original Lease Agreements expired on 31 July 2013
“Shareholder(s)”	holder(s) of the share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Wuhan Jietong”	武漢聖澤捷通物流有限公司 (Wuhan Shengze Jietong Logistics Co., Ltd.*), an indirect wholly foreign owned enterprise established in the PRC under the control of the Group
“Wuhan Kaitai”	武漢開泰汽車銷售服務有限公司 (Wuhan Kaitai Automobile Sales Services Co., Ltd.*), a company incorporated in the PRC and one of the PRC Operating Entities
“Wuhan Shengze Jieyun”	武漢聖澤捷運貿易有限公司 (Wuhan Shengze Jieyun Trading Co., Ltd*), a company incorporated in the PRC and one of the Connected Counterparties
“Wuhan Shengze Jiezhong”	武漢聖澤捷眾物流有限公司 (Wuhan Shengze Jiezhong Logistics Co., Ltd*), a company incorporated in the PRC and one of the Connected Counterparties

* For identification purpose only

“RMB”	Renminbi, the lawful currency of the PRC
“sq.m.”	square metres
“%”	percent.

By order of the Board
China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司
WANG Kunpeng
Chief Executive Officer and Executive Director

Hong Kong, 1 August 2013

As at the date of this announcement, the Board comprises Mr. WANG Kunpeng (Chief Executive Officer), Mr. LI Zhubo, Mr. CHEN Tao and Mr. SHAO Yong Jun as executive Directors; Mr. WANG Muqing as a non-executive Director; and Dr. WONG Tin Yau, Kelvin, Mr. TAN Xiangyong and Mr. ZHANG Yansheng as independent non-executive Directors.