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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)**

#### **BACKGROUND OF THE RELEVANT MATTERS IN RESPECT OF MAJOR AND CONNECTED TRANSACTIONS AND UPDATE ON INVESTIGATION**

This announcement is made by China ZhengTong Auto Services Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcements of the Company dated 22 December 2021 and 31 December 2021 (the “**Announcements**”) in relation to, among other things, transactions that may have constituted undisclosed major and connected transactions of the Company at the relevant time (the “**Relevant Matters**”). Reference is also made to the announcement of the Company dated 10 January 2022 in relation to, among other things, the establishment of an independent board committee (the “**IBC**”) to conduct an investigation into the Relevant Matters.

#### **BACKGROUND OF THE RELEVANT MATTERS**

The following background was the result of review of court documents and related materials.

## 2016 Undertaking

In 2016, Wuhan Zhengtong United Industrial Investment Group Co., Ltd.\* 武漢正通聯合實業投資集團有限公司 (“**Wuhan Zhengtong**”), an indirect wholly owned subsidiary of the Company, undertook (the “**Undertaking**”) to pay for any shortfalls in the event of default by Beijing Guangze Real Estate Development Co., Ltd.\* 北京廣澤房地產開發有限公司 (“**Beijing Guangze**”), in support of Beijing Guangze’s (i) redemption obligations under certain investment agreements (the “**2016 Investment Agreements**”) relating to the investment made by Ningbo Yuchen Fengze Equity Investment Partnership (Limited Partnership)\* 寧波禹宸豐澤股權投資合夥企業(有限合夥) (“**Yuchen Fengze**”) in Beijing Baoze Automobile Technology Development Co., Ltd.\* 北京寶澤汽車科技發展有限公司 (“**Beijing Baoze**”) and Beijing Zunbaocheng Real Estate Co., Ltd.\* 北京尊寶成置業有限公司 (“**Beijing Zunbaocheng**”); and (ii) repayment obligations in respect of a loan provided under an entrusted loan agreement (the “**2016 Entrusted Loan Agreement**”).

Under the 2016 Investment Agreements dated 29 March 2016, Yuchen Fengze had agreed to contribute an aggregate of RMB420,000,000 to the capital of Beijing Baoze and Beijing Zunbaocheng, provided that Beijing Guangze commits to pay an investment return ranging from 7.5% to 9% per annum and redeem its equity interest within a four-year redemption period (the “**2016 Equity Investment Obligations**”).

Under the 2016 Entrusted Loan Agreement dated 30 March 2016, Hengfeng Bank Co., Ltd. Yangzhou Branch\* (恒豐銀行股份有限公司揚州分行) (the “**Lender**”, who was entrusted by Yuchen Fengze to provide the Loan (as defined below) to Beijing Guangze), agreed to provide a loan (the “**Loan**”) in the principal amount of RMB1,380,000,000 to Beijing Guangze at an interest rate of 7.5% per annum for a term of 48 months commencing from 30 March 2016 and ending on 29 March 2020 (the “**2016 Loan Obligations**”).

The 2016 Equity Investment Obligations and 2016 Loan Obligations were secured by (among others) real estate owned by Beijing Baoze and Beijing Zunbaocheng and a joint and several personal guarantee from Wang Weize (王偉澤).

To the best knowledge and belief of the current directors of the Company (the “**Directors**”), Wuhan Zhengtong entered into the Undertaking at or around the same time the 2016 Investment Agreements and the 2016 Entrusted Loan Agreement were entered into. Pursuant to the Undertaking, Beijing Guangze is the primary debtor of its 2016 Equity Investment Obligations and 2016 Loan Obligations. Pursuant to the Undertaking, where such obligations are not met by Beijing Guangze as the primary debtor, or by its controller Wang Weize (王偉澤) who has given a joint and several guarantee in respect of the same, or with operating income from Beijing Guangze and its subsidiaries, then Wuhan Zhengtong shall be responsible for any shortfalls.

## **2020 Shortfall Agreements**

The Undertaking was replaced by certain Shortfall Agreements (as defined below) entered into by Wuhan Zhengtong in 2020.

In March 2020, the terms of the 2016 Equity Investment Obligations were amended pursuant to certain supplemental investment agreements and redemption agreements (the “**2020 Redemption Agreements**”). Following such amendments, (among others) the redemption period under the 2016 Investment Agreements was extended to 30 March 2022, and while the redemption price of RMB420,000,000 remained unchanged, the investment return ranged from 9.5% to 10% per annum for the additional two years (the “**2020 Equity Investment Obligations**”).

In March 2020, the terms of the 2016 Loan Obligations were amended pursuant to a loan extension agreement (the “**2020 Loan Extension Agreement**”). Following such amendments, (among others) the term of the Loan was extended for 24 months to 29 March 2022, the Loan principal was adjusted to RMB1,350,000,000 (being the then remaining balance of the Loan) and the interest rate ranged from 9.5% to 10% per annum for the additional two years (the “**2020 Loan Obligations**”).

To the best knowledge and belief of the Directors, Wuhan Zhengtong entered into three shortfall agreements (the “**Shortfall Agreements**”) at or around the same time the 2020 Redemption Agreements and the 2020 Loan Extension Agreement were entered into. Pursuant to the Shortfall Agreements, where the 2020 Equity Investment Obligations and/or 2020 Loan Obligations are not met by Beijing Guangze, then Wuhan Zhengtong shall (among others) be responsible for any shortfalls.

The 2020 Equity Investment Obligations and 2020 Loan Obligations were also secured by, among others, real estate owned by Beijing Baoze and Beijing Zunbaocheng (the “**Real Estate**”). As stated in the Company’s announcement of the annual results for the year ended 31 December 2021 (the “**Results Announcement**”), according to the valuation report issued by an external valuer, the fair value of the Real Estate as at 31 December 2021 was RMB2.88 billion.

## **Information on the Parties**

The Group is principally engaged in 4S dealership business, supply chain business, financial services and comprehensive properties business in the People’s Republic of China. Wuhan Zhengtong is an indirect wholly-owned subsidiary of the Company and is principally engaged in investment holding.

Based on publicly available information, the Lender is a branch of Hengfeng Bank Co., Ltd.\* (恆豐銀行股份有限公司), a banking institution in the PRC. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, the Lender and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Based on publicly available information, Yuchen Fengze is principally engaged in equity investment and related advisory services. Based on publicly available information as at 6 April 2022, (i) the general partner of Yuchen Fengze is Beijing Nine Asset Management Co., Ltd.\* (北京壹玖資產管理有限公司) (“**Beijing Nine**”), which is owned as to 65% and 35% by Shenzhen Xinzhenghua Financial Holding Co., Ltd.\* (深圳新正華金融控股有限公司) (“**Shenzhen Xinzhenghua**”) and Jiang Junguo (蔣俊國), respectively; (ii) Shenzhen Xinzhenghua is owned as to 95% and 5% by Shanghai Yuerui Industry Co., Ltd.\* (上海悅瑞實業有限公司) (“**Shanghai Yuerui**”) and Lu Jianwen (陸建文), respectively; (iii) Shanghai Yuerui is owned as to 90% and 10% by Shanghai Orient Huafa Enterprise Development Co., Ltd.\* (上海東方華發企業發展有限公司) (“**Shanghai Orient**”) and Shanghai Hongbang Enterprise Development Co., Ltd.\* 上海泓邦企業發展有限公司 (“**Shanghai Hongbang**”), respectively; (iv) Shanghai Orient is owned as to 96.6667% and 3.3333% by He Minhua (何敏華) and Zhou Jianhua (周建華), respectively; and (v) Shanghai Hongbang is owned as to 90% and 10% by Zhou Jianhua (周建華) and Hua Jiangang (花建剛), respectively. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, Yuchen Fengze and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

To the best knowledge and belief of the Directors, Beijing Guangze is principally engaged in property development and management and is wholly-owned by Hubei He Lin Industrial Co. (湖北和霖實業有限公司), which in turn is owned as to 90% by Wang Weize (王偉澤) and 10% by Xu Ling (徐凌). Wang Weize is the son of Wang Muqing, a former executive director of the Company who has resigned on 10 January 2022, and Xu Ling (徐凌) is the spouse of Wang Weize (王偉澤). Accordingly, to the best knowledge and belief of the Directors, Beijing Guangze and its ultimate beneficial owners were connected persons of the Company at the relevant times. As one or more of the applicable percentage ratios calculated with reference to Rule 14.07 of the Listing Rules in respect of the Undertaking and the Shortfall Agreements exceeds 25% but is less than 100% at the relevant times in 2016 and 2020, the entry into of the Undertaking and the Shortfall Agreements may have constituted undisclosed major and connected transactions of the Company under Chapter 14 and Chapter 14A of the Listing Rules at such times. The current independent non-executive Directors, Dr. Wong Tin Yau, Kelvin, Dr. Cao Tong and Ms. Wong Tan Tan (all of whom were on the Board in March 2020 but only Dr. Wong Tin Yau, Kelvin was on the Board in March 2016), have all confirmed that they do not recall the Undertaking or the Shortfall Agreements being presented to or approved by the Board at the relevant times.

## **Legal Proceedings**

As stated in the Announcements, the Company was notified on 17 December 2021 and 28 December 2021 that separate court judgements (the “**First Instance Judgement**”) had been granted by Ningbo Intermediate People’s Court and Yangzhou Intermediate People’s Court, respectively, in favour of Yuchen Fengze and against (among others) Beijing Guangze, Beijing Zunbaocheng, Beijing Baoze and Wuhan Zhengtong.

Pursuant to the First Instance Judgement, Beijing Guangze shall:

- pay to Yuchen Fengze a principal amount of RMB420 million together with interest, comprising, among others, the redemption price for the equity investment made by Yuchen Fengze in Beijing Baoze and Beijing Zunbaocheng. Wuhan Zhengtong was held jointly and severally liable for the same amount (the “**Equity Investment First Instance Judgement**”); and
- pay to Yuchen Fengze approximately RMB1.41 billion (comprising the Loan principal of RMB1.35 billion, accrued interest, default interest and compound interest) and late payment interest, the actual amount of which will increase with time and relevant costs. Wuhan Zhengtong was held jointly and severally liable for the same amount (the “**Loan First Instance Judgement**”).

Wuhan Zhengtong has filed appeals against the Equity Investment First Instance Judgement and Loan First Instance Judgement through Zhejiang Higher People’s Court and Jiangsu Higher People’s Court, respectively. As stated in the announcement of the Company dated 24 June 2022 (the “**24 June Announcement**”), the Company has, in respect of its appeal against the Equity Investment First Instance Judgement, received a second instance judgement (the “**Equity Investment Second Instance Judgement**”), pursuant to which Zhejiang Higher People’s Court overturned the first instance finding that Wuhan Zhengtong was jointly and severally liable for the amounts Beijing Guangze was ordered to pay under the Equity Investment First Instance Judgement. Pursuant to the Equity Investment Second Instance Judgement, the guarantee given by Wuhan Zhengtong in respect of the amounts owed by Beijing Guangze was held to be a general guarantee instead of a joint liability guarantee (i.e. Wuhan Zhengtong shall only be responsible for any shortfalls if Beijing Guangze fails to fulfill its repayment obligations), and after having assumed its general guarantee liability, Wuhan Zhengtong shall be entitled to claim repayment from Beijing Guangze to the extent of the guarantee obligation it has performed.

As stated in the 24 June Announcement, the Equity Investment Second Instance Judgement is final. As at the date of this announcement, the appeal in respect of the Loan First Instance Judgement has not reached conclusion.

## **PRELIMINARY FINDINGS OF THE IBC**

Following its establishment, the IBC (which comprises all the current executive Directors, being Directors who were not on the Board at the relevant times) has undertaken a series of investigative steps in an effort to clarify the facts and circumstances pertaining to the Relevant Matters. This included reviewing contemporaneous documents and raising enquiries with individuals who they believe may have knowledge of the Undertaking, the Shortfall Agreements and related transactions. The individuals who have responded to the IBC’s enquires did not have an explanation as to why the relevant requirements under Chapter 14 and Chapter 14A of the Listing Rules were not complied with at the relevant times. However, given new

management has undertaken the commencement of an overall review of the Group's internal processes in respect of the Undertaking and Shortfall Agreements and compliance with Listing Rules is now part and parcel of its internal contract review approval process, the Company believes that the risk of a similar event today is significantly reduced and the internal control processes set out in (a) below are not currently deficient.

Based solely on its latest findings and available information, the IBC considers, among other things, that:

- (a) historical internal controls for the approval by the Company for execution of guarantees by the Company's subsidiaries in China, including the compliance requirements of the Listing Rules in connection therewith, had fallen short in respect of the Undertaking and Shortfall Agreements. Notwithstanding, given the recent change in the Company's single largest shareholder (the "**Shareholder Change**") and the internal controls since implemented, the Company believes that such internal controls have been significantly improved in this respect; and
- (b) it would recommend that the Company's internal control procedures be documented and presented to the Board periodically for review, discussion and approval to reduce the risk of this non-compliance recurring.

The Board has reviewed and accepted the preliminary findings of the IBC and wishes to emphasise that while the internal control and corporate governance of the Company have been substantially improved since the Shareholder Change, it will continue to work with the management of the Company to further enhance the Company's internal control procedures as recommended by the IBC.

In addition, as stated in the Results Announcement, current management has been making improvements to historical record keeping of the Group. It has undertaken a review of the Board minutes/resolutions of the Company which it was able to locate from 2019 up to the Shareholder Change (the "**Locatable Board Minutes/Resolutions**") and noted that certain Board minutes/resolutions appear to be unsigned or missing signatures. Nevertheless, based on enquires with relevant Directors and absent evidence to the contrary, the Company believes that the Locatable Board Minutes/Resolutions had indeed been circulated and/or the relevant meetings had in fact taken place. Amongst the matters considered in the Locatable Board Minutes/Resolutions, the Company had not noted other instances of undisclosed transactions similar to the Undertaking and Shortfall Agreements as detailed above.

The financial impact of the Relevant Matters on the Company's financial statements for the year ended 31 December 2021 is set out on pages 33 to 34 of the Results Announcement.

By order of the Board  
**China ZhengTong Auto Services Holdings Limited**  
**WANG Ming Cheng**  
*Chairman*

Hong Kong, 20 July 2022

*As at the date of this announcement, the Board comprises Mr. WANG Ming Cheng (Chairman), Mr. LI Zhi Huang and Mr. ZENG Ting Yi as executive Directors; and Dr. WONG Tin Yau, Kelvin, Dr. CAO Tong and Ms. WONG Tan Tan as independent non-executive Directors.*

\* *For identification purposes only*