

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 5.77% OF THE EQUITY INTEREST IN DONGFENG LOGISTICS



Financial adviser to the Company

THE DISPOSAL

On 18 December 2023 (after trading hours), the Seller (the indirect wholly owned subsidiary of the Company) entered into the Share Transfer Agreement with the Purchaser, pursuant to which the Seller has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Target Equity Interest, for a total consideration of RMB331,496,300 which is payable in cash. As at the date of this announcement, the Group holds 14.43% equity interest in Dongfeng Logistics in aggregate. Upon Completion, the Group will continue to hold 8.66% equity interest in Dongfeng Logistics which is recognized as a financial asset at fair value through profit or loss.

LISTING RULE IMPLICATIONS

As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Disposal exceeds 25% but less than 75%, the Disposal constitutes a major transaction of the Company and is therefore subject to reporting, announcement, circular, and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, ITG Holding is a substantial shareholder of the Company. The Purchaser is owned as to approximately 39.27% by ITG Holding. The Purchaser is therefore an associate of ITG Holding, the substantial shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, the Purchaser is a connected person of the Company, and as one or more of the applicable percentage ratios in respect of the Disposal exceeds 5% and the total consideration of the Disposal is more than HK\$10,000,000, the Disposal constitutes a connected transaction of the Company which is subject to reporting, announcement, circular, and Independent Shareholders' approval requirements.

A circular containing, amongst other things, (i) further information regarding the Disposal, (ii) certain financial information of the Group; (iii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders on the Share Transfer Agreement and the Disposal; (iv) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Share Transfer Agreement and the Disposal; and (v) a notice of the EGM will be despatched to the Shareholders on or before 11 January 2024, being within 15 business days after the publication of this announcement.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all of the Company's independent non-executive Directors has been established to advise the Independent Shareholders as to whether the terms and conditions of the Share Transfer Agreement are on normal commercial terms, are fair and reasonable, and whether the Disposal is in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole, and to make a recommendation to the Independent Shareholders on how to vote, taking into account the advice from the independent financial adviser. None of the members of the Independent Board Committee is directly or indirectly interested or involved in the Disposal.

Completion of the Disposal is subject to the fulfillment of the conditions precedent as set out under the section headed "Conditions Precedent" in this announcement. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors are reminded to exercise caution in dealing in the securities of the Company.

The Board is pleased to announce that on 18 December 2023 (after trading hours), the Seller entered into the Share Transfer Agreement with the Purchaser, pursuant to which the Seller has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire the Target Equity Interest at a cash consideration of RMB331,496,300.

The principal terms of the Share Transfer Agreement are as follows:

THE SHARE TRANSFER AGREEMENT

Date

18 December 2023 (after trading hours)

Parties

- (i) Shengze Jietong Supply Chain Co., Limited* (聖澤捷通供應鏈有限公司), as the Seller; and
- (ii) Xiamen Xindeco Company Limited* (廈門信達股份有限公司), as the Purchaser.

Assets to be disposed of

Pursuant to the Share Transfer Agreement, the Seller has conditionally agreed to sell to the Purchaser the Target Equity Interest, representing approximately 5.77% of the entire issued share of Dongfeng Logistics, together with all rights and benefits attaching thereto with effect from the date of Completion.

Consideration

The Consideration to be paid by the Purchaser to the Seller is RMB331,496,300, which shall be paid in cash by the Purchaser to the Seller after the fulfillment of all the Conditions Precedent. The Consideration was determined based on normal commercial terms and after arm's length negotiations between the Purchaser and the Seller, with reference to, among others, (i) the valuation of 5.77% of the equity interest in Dongfeng Logistics which amounted to RMB331,496,300 as at Valuation Benchmark Date, as prepared by the Independent Valuer, based on market approach; and (ii) the reasons for and benefits of the Disposal as stated under the section headed "REASONS FOR AND BENEFITS OF THE DISPOSAL" below.

Conditions Precedent

Completion of the Disposal will be subject to the fulfillment of all of the following conditions precedent which include but not limited to:

- (i) if applicable, all authorizations, approvals and consents by the relevant governmental authorities or third parties which are necessary in respect of the execution and performance of the Share Transfer Agreement and the transactions contemplated thereunder having been obtained;
- (ii) all necessary approvals by the board or the shareholders of the Purchaser, in respect of the Share Transfer Agreement and the transactions contemplated thereunder having been obtained; and
- (iii) all necessary approvals by the Shareholders in general meeting in respect of the transactions contemplated under the Share Transfer Agreement in a manner as required by the Stock Exchange and/or under the Listing Rules, the articles of association of the Company, and the applicable legislation have been obtained.

Completion

Upon the receipt of the Consideration, the Seller and Dongfeng Logistics shall complete all relevant procedures in respect of the transfer of the Target Equity Interest, including but not limited to the change of shareholders registration, the Seller will cease to hold any equity interest of Dongfeng Logistics and the Group will continue to hold 8.66% equity interest in Dongfeng Logistics which is recognized as a financial asset at fair value through profit or loss.

Arrangements during the Transitional Period

During the Transitional Period, any profit or loss of the Dongfeng Logistics shall be enjoyed or borne (as the case may be) by the Purchaser in proportion to its respective equity interests in Dongfeng Logistics as if Completion has taken place.

INFORMATION OF DONGFENG LOGISTICS

Dongfeng Logistics is an unlisted entity incorporated in the PRC on January 15, 2020 and is principally engaged in the provision of logistics services in the PRC. As at the date of this announcement, the Group is holding 14.43% equity interest in Dongfeng Logistics in aggregate through (i) the Seller which is holding 5.77% equity interest in Dongfeng Logistics, and (ii) Tongda Group, an indirect wholly-owned subsidiary of the Company, which is holding 8.66% equity interest in Dongfeng Logistics.

Financial information of Dongfeng Logistics

The audited financial information of Dongfeng Logistics for the two years ended 31 December 2022 and the six months ended 30 June 2023 prepared in accordance with the generally accepted accounting principles in the PRC is as follows:

	For the year ended		For the
	31 December	31 December	six months
	2021	2022	ended
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)	(audited)
Revenue	4,140.3	4,379.2	1,716.1
Net profit before tax	371.0	417.2	58.3
Net profit after tax	309.4	298.2	32.5

The unaudited carrying value of the Target Equity Interest as at 30 June 2023 was approximately RMB377.85 million.

INFORMATION OF THE PURCHASER

The Purchaser is a joint stock company established in the PRC with limited liability on 28 November 1996 and the A shares of which are listed on the Shenzhen Stock Exchange (stock code: 000701). The Purchaser is owned as to approximately 39.27% by ITG Holding (the substantial shareholder of the Company) as at the date of this announcement. The Purchaser is principally engaged in automobile distribution, supply chain, and information technology business.

INFORMATION OF THE SELLER

The Seller is a company established in the PRC with limited liability on 15 January 2016 which is indirectly wholly owned by the Company. The Seller is principally engaged in logistics and transportation services of vehicles and auto parts and vehicle storage services and it owns the Target Equity Interest as at the date of this announcement.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is principally engaged in the luxury and ultra-luxury auto sales business and after-sales business. As mentioned in the annual report of the Group for the year ended 31 December 2022 (the “**2022 Annual Report**”), the Group decided to focus on its core 4S dealership business based on the Group’s 2021–2025 development strategy plan and commenced its divestment plan on other non-core businesses, including the equity interest in Dongfeng Logistics. The Group has been actively identifying and negotiating with potential buyers with the objective of achieving a completed sale within 2023, subject to fulfilment of any relevant regulatory requirements.

On the other hand, based on the Company's 2021–2025 development strategy plan, and considering China's automobile sales industry has shown signs of gradual recovery with the pandemic receding, the Company will continue to focus on its principal business of automobile sales and services and aim to maintain high and continuous growth in such business, particularly in accelerating the development of its luxury brand dealership business, and the Company will prioritise the funding need required for its principal business.

The Disposal could realise part of its investment in Dongfeng Logistics with net proceeds of approximately RMB312.79 million which would be used to repay part of the Group's outstanding debt and improve the Group's financial position. Following the Disposal, the Group could also reallocate its financial resources on the luxury and ultra-luxury automobile sales in China. The Group would continue to look for potential buyers of the Group's remaining 8.66% equity interests in Dongfeng Logistics.

Having considered the above factors, the Directors (other than the independent non-executive Directors whose opinion will be given after receiving advice from the independent financial adviser) are of the view that it is an opportune time to proceed with the Disposal, and that the terms of the Share Transfer Agreement and the Disposal (including the consideration) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE DISPOSAL AND USE OF PROCEEDS

It is expected that the net proceeds from the Disposal in the amount of approximately RMB312.79 million (after deducting all relevant fees and expenses) will be used for the repayment of debt of the Group.

As mentioned in the 2022 Annual Report, following the change in circumstances about how significant influence can be exercised over Dongfeng Logistics and that the Group lost significant influence over Dongfeng Logistics in December 2022, the Group has ceased the use of the equity method of accounting in respect of its investment in Dongfeng Logistics and has recognized its interests in Dongfeng Logistics as a financial asset at fair value through profit or loss in the consolidated balance sheet as at 31 December 2022 (the "**Reclassification**"). As a result of the Reclassification, a remeasurement gain of RMB424,271,000 was recognized for the year ended 31 December 2022 in respect of the Group's 14.43% equity interests in Dongfeng Logistics, of which RMB169,649,596 was attributable to the Target Equity Interest.

Based on the Consideration and the carrying value of the Group's investment in the Target Equity Interest as at 30 June 2023 of approximately RMB377.85 million recognized as financial assets with a fair value through profit or loss, it is estimated that the Group will record a loss of approximately RMB6.72 million after taking into account the release of deferred tax income from the Disposal and a cash inflow of approximately RMB312.79 million. Shareholders should note that the actual amount of the loss on the Disposal to be recognized in the consolidated financial statements of the Company

depends on the carrying value of the Group's investment in the Target Equity Interest as at the Completion Date and therefore may be different from the amount mentioned above.

The expected loss from the Disposal was primarily attributable to an economic recovery that failed to meet the expectation, leading to a significant impact on the overall industry valuation. The carrying value of the Target Equity Interest amounted to approximately RMB207.72 million as at 31 December 2022. Based on (i) the fair value as set out in the previous valuation report (with 31 December 2022 as its valuation benchmark date), the carrying value of the Target Equity Interest was adjusted to approximately RMB377.85 million (the “**2022 Fair Value**”), resulted in an accounting gain of approximately RMB169.65 million; and (ii) the fair value was adjusted to approximately RMB331.50 million (the “**2023 Fair Value**”) in the Valuation Report prepared by the Independent Valuer (with 30 June 2023 as Valuation Benchmark Date), taking into account comparable market valuation factors, which represents a decrease of approximately RMB46.35 million compared to the 2022 Fair Value. However, the 2023 Fair Value would be higher than the historical cost of the Target Equity Interest of approximately RMB207.72 million before the loss of significant influence by the year end of 2022 by approximately RMB123.78 million.

LISTING RULES IMPLICATIONS OF THE DISPOSAL

As certain applicable percentage ratio set forth under Rule 14.07 of the Listing Rules in respect of the Disposal is more than 25% but less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, ITG Holding is a substantial shareholder of the Company and the Purchaser is owned as to approximately 39.27% by ITG Holding. The Purchaser is therefore an associate of ITG Holding, the substantial shareholder of the Company. Accordingly, the Disposal also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. In view of ITG Holding's interest in the Disposal, ITG Holding, its associates and parties acting in concert with any of them and all other Shareholders who are involved or interested in the Disposal will abstain from voting on the proposed resolution in respect of the Disposal at the EGM. As the executive Directors Mr. WANG Mingcheng, Mr. LI Zhihuang and Mr. HUANG Junfeng hold positions within the ITG Group, they have abstained from voting on the relevant Board resolutions so as to avoid the perception of a conflict of interest.

The Company will despatch to the Shareholders a circular containing, amongst other things, (i) further information regarding the Disposal, (ii) certain financial information of the Group, (iii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders on the Share Transfer Agreement and the Disposal, (iv) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Share Transfer Agreement and the Disposal, and (v) a notice of the EGM on or before 11 January 2024, being within 15 business days after the publication of this announcement.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all of the Company's independent non-executive Directors has been established to advise the Independent Shareholders as to whether the terms and conditions of the Share Transfer Agreement are on normal commercial terms, are fair and reasonable, and whether the Disposal is in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole, and to make a recommendation to the Independent Shareholders on how to vote, taking into account the advice from the independent financial adviser. None of the members of the Independent Board Committee is directly or indirectly interested or involved in the Disposal.

Completion of the Disposal is subject to the fulfillment of the conditions precedent as set out under the section headed “Conditions Precedent” in this announcement. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors are reminded to exercise caution in dealing in the securities of the Company.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“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, an exempted company incorporated in the Cayman Islands with limited liability, the securities of which are listed on the Stock Exchange
“Completion”	completion of the Disposal pursuant to the terms and conditions under the Share Transfer Agreement
“Connected Person”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	the aggregate consideration of RMB331,496,300 for the Disposal
“Director(s)”	the director(s) of the Company

“Disposal”	the disposal of 5.77% of the equity interest in Dongfeng Logistics by the Seller to the Purchaser pursuant to the Share Transfer Agreement
“Dongfeng Logistics”	Dongfeng Logistics Group Co., Limited* (東風物流集團股份有限公司), a joint stock company established under the laws of the PRC with limited liability
“EGM”	the extraordinary general meeting of the Company to be held for the Shareholders to consider, and if thought fit, approve the Disposal
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all independent non-executive Directors, formed to advise the Independent Shareholders in relation to the Share Transfer Agreement and the Disposal
“Independent Shareholders”	Shareholder(s) other than (i) ITG Holding and its associates and parties acting in concert with any of them and (ii) any other persons who are involved or interested in the Disposal
“Independent Valuer”	Lianhe Zhonghe Land and Real Estate Assets Appraisal Co., Limited* (聯合中和土地房地產資產評估有限公司), an independent qualified valuer established under the laws of the PRC with limited liability
“ITG Group”	ITG Holding and its subsidiaries (not including our Group)
“ITG Holding”	Xiamen ITG Holding Group Co., Ltd.* (廈門國貿控股集團有限公司), a state-owned enterprise directly controlled by State-owned Assets Supervision and Administration Commission of Xiamen Municipal People’s Government (廈門市人民政府國有資產監督管理委員會) and a substantial shareholder of the Company as at the date of this announcement
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administration Region of the People’s Republic of China and Taiwan

“PRC GAAP”	generally accepted accounting principles of the PRC in effect as modified from time to time
“Purchaser”	Xiamen Xindeco Company Limited* (廈門信達股份有限公司), a joint stock company established under the laws of the PRC with limited liability, and the A shares of which are listed on the Shenzhen Stock Exchange (stock code: 000701)
“RMB”	Renminbi, the lawful currency of the PRC
“Seller”	Shengze Jietong Supply Chain Co., Limited* (聖澤捷通供應鏈有限公司), a company established under the laws of the PRC with limited liability, an indirect wholly-owned subsidiary of the Company
“Share Transfer Agreement”	the share transfer agreement dated 18 December 2023 in relation to the Disposal entered into between the Seller and the Purchaser
“Shareholder(s)”	holders of the ordinary share(s) of HK\$0.1 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Equity Interest”	The 5.77% equity interest in Dongfeng Logistics held by the Seller as at the date of this announcement
“Tongda Group”	Tongda Group (China) Co., Limited, a private company established under the laws of Hong Kong with limited liability, an indirect wholly-owned subsidiary of the Company
“Transitional Period”	the period from the Valuation Benchmark Date (excluding the date thereof) to the date of Completion (including the date thereof)
“Valuation Benchmark Date”	30 June 2023, being the valuation benchmark date of the carrying value of the Group’s investment in the Target Equity Interests

“Valuation Report” The valuation report dated 10 November 2023 prepared by the Independent Valuer

“%” per cent

English translations of company names in Chinese which are marked with “” are for identification purposes only.*

By order of the Board of
China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司
WANG Mingcheng
Chairman

Hong Kong, 18 December 2023

As at the date of this announcement, the Board comprises Mr. WANG Mingcheng (Chairman), Mr. LI Zhihuang and Mr. HUANG Junfeng as executive Directors; and Dr. WONG Tin Yau, Kelvin, Dr. CAO Tong and Ms. WONG Tan Tan as independent non-executive Directors.