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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)

INSIDE INFORMATION

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

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, received judgments in relation to two civil lawsuits (the “**First Instance Judgment**”) from the Wuhan Intermediate People’s Court. Wuhan Zhengtong was named as one of the defendants in each of the two lawsuits.

Both lawsuits were filed by Wuhan Economic and Technological Development Zone Sub-branch of Hubei Bank Corporation Limited (“**Hubei Bank**”). Certain defendants, including Wuhan Zhengtong, were alleged to have entered into different types of charges or guarantee contracts with Hubei Bank at various times to provide security or joint liability guarantees in respect of all the liabilities and debts under two fixed asset loan contracts entered into by Beijing Guangze Real Estate Development Co., Ltd.* (北京廣澤房地產開發有限公司) (“**Beijing Guangze**”) and Inner Mongolia Shengze Dingjie Automobile Trading Co., Ltd.* (內蒙古聖澤鼎杰汽車貿易有限公司) (“**Inner Mongolia Shengze**”). As at the date of this announcement, some of the properties pledged by the other defendants (the “**Collateral**”) was occupied by the Group’s stores.

In the lawsuit relating to Beijing Guangze (the “**Beijing Guangze Lawsuit**”), Hubei Bank alleged that, as of 13 February 2023, the aggregate indebtedness of Beijing Guangze under the relevant fixed asset loan contract was approximately RMB442 million. In the lawsuit relating to Inner Mongolia Shengze (the “**Inner Mongolia Shengze Lawsuit**”), Hubei Bank alleged that, as of 28 February 2023, the aggregate indebtedness of Inner Mongolia Shengze under the relevant fixed asset loan contract was approximately RMB120 million. As a result of repeated overdue repayments by Beijing Guangze and Inner Mongolia Shengze, Hubei Bank declared on 10 January 2023 that all loans under the above two fixed asset loan contracts were immediately due.

According to the First Instance Judgment, (i) Beijing Guangze owes Hubei Bank the principal amount of approximately RMB404 million and related interest (approximately RMB22,031,000 as of 13 February 2023); and (ii) Inner Mongolia Shengze shall pay to Hubei Bank the principal amount of RMB113.5 million and related interest (approximately RMB13,568,000 as of 30 November 2023) ((i) and (ii) together, the “**Relevant Liabilities**”); (iii) the remaining defendants shall bear their obligations under the pledge provided, or the joint liability guarantees provided, or under supplemental compensatory obligations in accordance with the law, including but not limited to disposing the Collateral with a priority to use the proceeds to repay Hubei Bank.

In respect of Wuhan Zhengtong:

- (1) In the Beijing Guangze Lawsuit, Hubei Bank alleged that Wuhan Zhengtong entered into a maximum guarantee contract with Hubei Bank on 5 May 2016, wherein the maximum limit of the guarantee liability was RMB700 million;
- (2) In the Inner Mongolia Shengze Lawsuit, Hubei Bank alleged that Wuhan Zhengtong entered into a maximum guarantee contract with Hubei Bank 5 on May 2016, wherein the maximum limit of the guarantee liability was RMB200 million;
- (3) In view of the fact that (i) Wuhan Zhengtong was not able to locate any records related to the above two maximum guarantee contracts in its records of the use of the company’s seal and records of resolutions passed after receiving the civil complaint and related documents of the Beijing Guangze Lawsuit and Inner Mongolia Shengze Lawsuit; and (ii) Hubei Bank had never issued any demand notice or provided the above two maximum guarantee contracts to Wuhan Zhengtong before filing the Beijing Guangze Lawsuit and the Inner Mongolia Shengze Lawsuit, there were doubts as to the authenticity of the evidence, and Wuhan Zhengtong submitted an application to the Wuhan Intermediate People’s Court to verify the authenticity of the seals affixed to the maximum guarantee contracts. According to the expert opinion (the “**Expert Opinion**”) issued by the judicial authentication agency commissioned by the Wuhan Intermediate People’s Court, the seals affixed to the two maximum guarantee contracts were consistent with the seals used in most of the document samples with the seal of Wuhan Zhengtong provided by the litigation parties to the judicial authentication institution.

- (4) Although Hubei Bank had not provided any documents relating to the resolutions of Wuhan Zhengtong in the course of the litigation, taking into account the opinion in the Expert Opinion, the Wuhan Intermediate People's Court held in the First Instance Judgement that:
- The above two maximum guarantee contracts were executed, but they are of no legal effect;
 - According to the rules under the People's Republic of China Civil Code and related judicial interpretations, if a guarantee contract is of no legal effect, the parties thereto shall bear responsibility based on their respective degree of fault. Accordingly, although the above two maximum guarantee contracts are of no legal effect, since Wuhan Zhengtong's seal was affixed without any resolutions, and Hubei Bank did not conduct examination on whether Wuhan Zhengtong had made any resolution, both parties were at fault for the lack of legal effect of the above two maximum guarantee contracts, hence Wuhan Zhengtong shall only bear half of the compensation liability for the failure of Beijing Guangze and Inner Mongolia Shengze to repay the Relevant Liabilities.

Based on the legal advice obtained by the Company from its PRC legal adviser, according to the law, the guarantor in a contract that is of no legal effect is liable to pay compensation only if the debtor is unable to settle the debt upon court enforcement. Therefore, in the case of the First Instance Judgement of the Wuhan Intermediate People's Court, where the two maximum guarantee contracts were held to be executed but of no legal effect, given the judgment confirmed that Wuhan Zhengtong ranks later in the order of priority in meeting payment commitments, and considering the currently satisfactory communication situation with Hubei Bank, and that there are several other defendants who are also guarantors and the value of the Collateral is relatively high, the PRC legal adviser believes that it is not probable that Wuhan Zhengtong will incur actual economic losses in this case. Considering some of the Collateral are properties occupied by the Group's stores situated in Wuhan, Changsha and Hohhot, the Group has been maintaining active communication with Hubei Bank in relation to the continued utilization of the Collateral after receiving the civil complaint in respect of the Beijing Guangze Lawsuit and the Inner Mongolia Shengze Lawsuit.

The Group has conducted an internal investigation in 2021 upon learning of the shortfall agreements and other documents referred to in the announcement of the Company dated 22 December 2021, and did not find any record of the use of the official seal of Wuhan Zhengtong and the signature seal of Mr. WANG Muqing (the legal representative of Wuhan Zhengtong and the Chairman of the Board and an executive Director of the Company at the time) in respect of the aforesaid maximum guarantee contracts.

The current board of directors of the Company comprises directors who were appointed following the acquisition of 29.90% of the shares in the Company by Xiamen ITG Holding Group Co., Ltd. (廈門國貿控股集團有限公司). The alleged entry into of the aforesaid two maximum guarantee contracts on 5 May 2016 may have constituted non-exempt financial assistance to one of the Company's then directors, Mr. WANG Muqing, and/or his associates at the relevant time; although Hubei Bank had not provided any documents relating to the resolutions of Wuhan Zhengtong in the course of the litigation, taking into account the opinion in the Expert Opinion, the Wuhan Intermediate People's Court held in the First Instance Judgement that the above two maximum guarantee contracts were executed, but they are of no legal effect. Therefore, the irregular entry of the above two maximum guarantee contracts (the "**Irregular Contracts**") may have constituted undisclosed connected transactions of the Company at the relevant time.

As the First Instance Judgements of Beijing Guangze Lawsuit and Inner Mongolia Shengze Lawsuit have not yet come into effect and parties are entitled to appeal, there exists considerable uncertainty. The Company will continue to work with litigation lawyers to follow up on the legal proceedings related to the litigation, assess the impact of the two lawsuits and the Irregular Contracts on the Group on an ongoing basis and make appropriate disclosure in accordance with the Listing Rules and other applicable laws and regulations.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By order of the Board
China ZhengTong Auto Services Holdings Limited
WANG Mingcheng
Chairman

Hong Kong, 22 March 2024

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, Ms. YU Jianrong and Mr. SONG Tao as independent non-executive Directors.

* *For identification purposes only*