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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)**

## **US DENOMINATED SENIOR NOTES DUE 2022**

**(Stock Code: 40132)**

### **INSIDE INFORMATION ANNOUNCEMENT**

#### **ADMINISTRATIVE DECISION FROM SHANGHAI OFFICE OF CHINA BANKING AND INSURANCE REGULATORY COMMISSION AND RESUMPTION OF TRADING**

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 on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

#### **ADMINISTRATIVE DECISION FROM THE SHANGHAI OFFICE OF CHINA BANKING AND INSURANCE REGULATORY COMMISSION**

##### **CBIRC Decision**

On 20 October 2020, the Company received from the Shanghai Office of the China Banking and Insurance Regulatory Commission (the “**CBIRC**”) an administrative decision against the Company (the “**CBIRC Decision**”), alleging that (i) the Company obtained administrative licenses and permits for the establishment of Shanghai

Dongzheng Automotive Finance Co., Ltd\* (“**Dongzheng**”), a subsidiary of the Company, by improper means and the Company and its related parties engaged in non-compliant related-party transactions with Dongzheng; and (ii) Dongzheng’s dealer auto loan business was carried out in serious violation of the principle of prudent operation.

According to the CBIRC Decision, (i) the administrative approvals in respect of agreeing the capital contribution and capital increase by the Company under the Reply on the Commencement of Operation of Dongzheng by the Shanghai Office of the CBIRC (Hu Yin Jian Fu [2015] No. 132) (《上海銀監局關於上海東正汽車金融有限責任公司開業的批復》(滬銀監復[2015]132號)), the Reply on Change of Registered Capital of Dongzheng issued by the Shanghai Office of the CBIRC (Hu Yin Jian Fu [2017] No. 233) (《上海銀監局關於同意上海東正汽車金融有限責任公司變更註冊資本的批復》(滬銀監復[2017]233號)), the Approval of Change of Registered Capital of Dongzheng issued by the Shanghai Office of the CBIRC (Hu Yin Bao Jian Fu [2019] No. 500) (《上海銀保監局關於核准上海東正汽車金融股份有限公司變更註冊資本的批復》(滬銀保監復[2019]500號)) have been revoked; (ii) the Company is restricted from exercising its rights as a controlling shareholder of Dongzheng since the date of the CBIRC Decision, including the rights to request for a general meeting, the voting rights, the nomination rights, the proposal rights, the disposal rights and rights to dividend; (iii) the Company’s benefits obtained through the revoked administrative licenses and permits relating to Dongzheng would not be protected; and (iv) the Company’s interests in Dongzheng are ordered to be withdrawn within 3 months from the date of the CBIRC Decision. Dongzheng is not allowed to refund capital to the Company until the orders of CBIRC have been completely executed. In addition, the dealer auto loan business of Dongzheng was also ordered to be suspended.

The Company is entitled to file an application for administrative review with CBIRC within 60 days from the date receiving the CBIRC Decision, or an administrative lawsuit at the court with jurisdiction within six months from the date receiving the CBIRC Decision. During the period of review or litigation, the execution of the CBIRC Decision will not be suspended. The Company is currently seeking legal advice in relation to the CBIRC Decision. The Company may consider to file an application for administrative review with CBRIC or an administrative lawsuit after seeking proper advice and determine the course of action in the best interest of the Company and its shareholder.

### **Further details on establishment of Dongzheng**

The Company first became aware of CBIRC’s allegation on 18 September 2020 when Dongzheng forwarded advance notice from the Shanghai Office of CBIRC dated 17 September 2020 (中國銀行保監會上海監管局行政決定事先告知書(滬銀保監通[2020]34號)) (the “**Advance Notice**”) to the Company. On 23 September 2020, the Company requested for a formal hearing with CBIRC through its legal advisors in the People’s Republic of China (“**PRC**”). The Company authorized its PRC legal advisors to attend the hearing on 15 October 2020 on its behalf. The Company was not provided with any information relating to the allegation in the hearing, including the parties involved, the

alleged improper conduct or the evidence relied on by CBIRC. On 19 October 2020, CBIRC issued the CBIRC Decision which the Company received on 20 October 2020. The CBIRC Decision also did not provide any details on the alleged improper conduct or supporting evidence.

The Company's internal review of materials on the application for the establishment of Dongzheng (the "**Application**") did not reveal any irregularity or impropriety. The Company's PRC legal advisors have also been instructed to review all relevant materials in the Company's possession on the Application. The PRC legal advisors did not find any irregularity or impropriety related to the Application. As advised by the Company's PRC legal advisors, the Company confirmed that, based on the information available, the Application was in compliance with the relevant legal requirements, and all relevant administrative permissions were properly obtained. The Company is currently seeking PRC legal advice and will continue to liaise with CBIRC to protect its legitimate interests.

Mr. Wang Muqing (an existing executive director of the Company (the "**Director**"), who was a non-executive Director at the relevant time), Mr. Wang Kunpeng (an existing executive Director), Mr. Li Zhubo (an existing executive Director), Mr. Shao Yongjun (a resigned executive Director), Mr. Chen Tao (a resigned executive Director), Dr. Wong Tin Yau, Kelvin (an existing independent non-executive Director), Mr. Zhao Chunjun (a retired independent non-executive Director), and Mr. Chang Xiuze (a resigned independent non-executive Director) were the Directors at the time when the then Board approved the Application. The then Board approved the Application after obtaining PRC legal advice which confirmed the legality of the establishment of Dongzheng.

Based on the information available and the advice of the PRC legal advisors of the Company, all of the existing Directors have therefore confirmed that they are not aware of any irregularity or impropriety in relation to the Application or the involvement of the then Board in any improper conduct. As mentioned above, the existing Directors have not been provided with any information regarding the allegation. The Company's internal review of materials on the Application did not reveal any irregularity or impropriety. Under such circumstance, the Board has no reason to suggest that the existing Directors may not have properly discharged his/her fiduciary duties and duties of skill, care and diligence or that they do not have the character, experience and integrity as required under Rules 3.08 and 3.09 of the Listing Rules.

As the Company was ordered to withdraw its interests in Dongzheng within 3 months from the date of the CBIRC Decision, the Company is also seeking potential purchasers for its entire interests in Dongzheng and is considering engaging financial advisers to explore opportunities and related processes. Any withdrawal of interests in Dongzheng will be made in compliance with applicable laws and regulations and necessary approval of the CBIRC.

As at the date of this announcement, the Company is interested in 1,520,000,000 unlisted foreign shares of Dongzheng, representing the entire issued unlisted foreign shares and approximately 71.04% of the total issued ordinary shares of Dongzheng. Dongzheng is a non-wholly owned subsidiary of the Company and the financial results of which are consolidated into the Company's financial results. Based on the annual reports of the Company and Dongzheng for the financial year ended 31 December 2019, total assets of Dongzheng represents approximately 20.59% of that of the Group; operating income of Dongzheng represents approximately 2.28% of the revenue of the Group; and profit before taxation of Dongzheng represents approximately 44.69% of that of the Group. If the Company shall dispose of all its interests in Dongzheng, Dongzheng will cease to be a subsidiary of the Company and its financial results will cease to be consolidated into those of the Group. As the Company has not yet identified potential purchaser(s) for Dongzheng's shares and the consideration of the disposal (if any) has not yet been determined, there is no certainty as to whether and at what price the Company's interests in Dongzheng will be sold, and the Company is unable to further assess the complete financial impact of the disposal of its interests in Dongzheng.

#### **Further details on the related party transactions**

The Company entered into a revolving loan facility framework agreement with Dongzheng on 1 March 2019 (the "**Agreement**"), which became effective from the listing date of Dongzheng to 31 December 2021 (subject to early termination by mutual agreement of the parties). Pursuant to the Agreement, Dongzheng agreed to provide a revolving loan facility to the dealers of the Company to facilitate their purchase of cars. Details of the transactions contemplated under the Agreement were disclosed in the prospectus of Dongzheng dated 14 March 2019.

Article 33(1) of the Interim Measures for the Equity Management of Commercial Banks 《商業銀行股權管理暫行辦法》 (the "**Interim Measures**") provides that (i) any credit provided by a commercial bank to its substantial shareholder or controlling shareholder, ultimate owner, related parties, parties acting in concert, ultimate beneficial owner (collectively, "**UBO**") shall not exceed 10% of the net assets of the commercial bank, and (ii) the aggregate credits provided by a commercial bank to its UBO shall not exceed 15% of the net assets of the commercial bank (together, the "**UBO Credit Ratio**"). The aggregated outstanding balance of the credit transactions between Dongzheng and the Company (the "**Balance**") exceeded the UBO Credit Ratio from December 2018 onwards. The Q2 2020 report submitted by Dongzheng to CBIRC showed that the Balance as at 30 June 2020 was approximately RMB1.481 billion, representing approximately 35.10% of Dongzheng's net assets. This, according to CBIRC, was in violation of Article 33(1) of the Interim Measures.

The Company considered that prior to receiving the CBIRC Decision, Dongzheng had operated on the basis and good faith belief at all material times that the credit ratio for the related party transactions of its auto finance business was regulated by the Automotive Finance Company Management Measures 《汽車金融公司管理辦法》

promulgated in January 2008 (the “**AFC Measures**”) which applied to all auto finance companies. In respect of the transactions under the Agreement, Dongzheng has complied with the requirements provided in the AFC Measures in all material respects in all times. After receiving the CBRIC Decision, Dongzheng has formulated work plan to include the Interim Measures as part of its internal policy, and will regularly review the applicable laws and regulations and conduct training with its employees.

The transactions contemplated under the Agreement constituted non-exempt continuing connected transactions of Dongzheng under the Listing Rules and are subject to the reporting, annual review, announcement, circular and shareholders’ approval requirements under Chapter 14A of the Listing Rules. Dongzheng has applied for and the Stock Exchange has granted a waiver to Dongzheng under Rule 14A.105 of the Listing Rules from strict compliance with the announcement, circular and independent shareholders’ approval requirements under the Listing Rules in respect of the transactions under the Agreement provided that the total values of such transactions for each of the years ending 31 December 2019, 2020 and 2021 will not exceed relevant annual caps. The maximum outstanding balance of the loans and the maximum interest income that Dongzheng derived from the related party transactions for the financial year ended 31 December 2019 were within the respective annual caps. It is expected that the maximum outstanding balance of the loans and the maximum interest income that Dongzheng may derive from the related party transactions for the financial year ending 31 December 2020 will be within the annual caps. The related party transactions complied with the requirements on connected transactions under the Listing Rules.

The Company was in good faith of the view that the UBO Credit Ratio of the Interim Measures was not applicable to Dongzheng. As explained above, there was no reason for the Company to question such understanding until being notified by CBIRC in September 2020. The Company and Dongzheng have also established a control and risk management system to monitor the related party transactions under the Agreement which have been in compliance with all applicable Listing Rules requirements in relation to connected transactions. In light of the aforesaid, the Board has no reason to suggest that the existing Directors may not have properly discharged his/her fiduciary duties and duties of skill, care and diligence or that they do not have the character, experience and integrity as required under Rules 3.08 and 3.09 of the Listing Rules. Dongzheng has formulated work plan to include the requirements of the Interim Measures in the internal policy of Dongzheng, to review the requirements of the applicable laws and regulations regularly and provide training to its employees. Dongzheng will also improve its communications with the regulatory authorities to better understand their latest interpretation of applicable laws and regulations.

Based on the legal advice obtained by Dongzheng, the existing dealer auto loans already granted under the Agreement shall remain valid and effective and shall not be affected by the CBIRC Decision. As the dealer auto loan business of Dongzheng was ordered to be suspended, no further dealer auto loans will be granted pursuant to the Agreement. It is expected that the UBO Credit Ratio will be restored to the prescribed limit under the

Interim Measures after the gradual maturity of existing dealer auto loans in accordance with their respective terms. The Balance as at 30 June 2020 was approximately RMB1.481 billion, equivalent to approximately 3.59% of the Group's total assets as at such date. The Group paid approximately RMB62 million interest under the Agreement during the first 6 months of 2020, equivalent to approximately 0.67% of the Group's revenue and 11.9% of the Group's financing expenses of the same period. The financing obtained under the Agreement was mainly utilized by the 4S shops of the Group in their regular inventory purchases. It was on terms similar to the working capital facilities obtained by the Company from other banks. The Group had unutilized facilities from domestic banks and lenders amounting to RMB10,443 million as at 30 June 2020 and RMB15,504 million at 30 October 2020, respectively. Such facilities may be used to replace the dealer auto loan granted from Dongzheng, and the Company believed that the introduction of Xiamen Xindeco Ltd (廈門信達股份有限公司) (“**Xiamen Xindeco**”) as strategic investor of the Company has significantly enhanced the Company's credit profile. As Dongzheng's dealer auto loan could be replaced by other facilities of the Group, the Company considered that the termination of the financing under the Agreement will not have a material impact on the liquidity of the Group's daily operations.

#### **Further details on non-compliances of Dongzheng**

Dongzheng had the following non-compliances: (i) after disbursing certain dealer auto loans, Dongzheng failed to inspect and supervise the use of the working capital loans in accordance with the terms of loan agreements, and part of the loans being used for purposes other than those specified in the loan agreements; (ii) Dongzheng did not disburse certain the dealer auto loans in accordance to the withdrawal conditions under the loan agreements, and Dongzheng failed to verify whether the payment of the loans satisfied the stipulated purposes through account analysis, voucher check or on-site examinations after payment were made by the borrowers; and (iii) the investigation of usage of certain dealer auto loans were grossly imprudent with some vehicles having been used to obtain multiple loans. For further details of the non-compliances, please refer to the announcement of Dongzheng dated 7 December 2020.

As of 30 June 2020, the outstanding balance of gross dealer auto loan granted by Dongzheng was approximately RMB2,623,002,000 which accounted for approximately 6.35% of the Group's total assets. For the year ended 31 December 2019, interest income from the dealer auto loan business of Dongzheng was approximately RMB178,071,000 which accounted for approximately 22.26% and 0.51% of Dongzheng's operating income and the Group's revenue, respectively, and operating profit from the dealer auto loan business of Dongzheng was approximately RMB55,517,000 which accounted for 10.68% and 2.55% of Dongzheng's operating profit and the Group's profit from operations, respectively. Even though there will be a decline in the Group's income and profit from the suspension of the dealer auto loan business of Dongzheng, Dongzheng could continue to conduct its other businesses in accordance with its relevant financial licenses and business licenses (including retail auto loan business). In order to reduce the financial impact of the suspension of dealer auto loan business on Dongzheng and the Company, Dongzheng will allocate resources originally allocated for the development of the dealer auto loan business to promote its retail auto loan business.

After identifying the non-compliances, Dongzheng has reviewed the internal control of the retail auto loan business of Dongzheng. As the business model and the internal control system of the retail auto loan businesses are different from the dealer auto loan business, the Board considered that the non-compliances would not materially affect the retail auto loan business of Dongzheng. In addition, Dongzheng will implement certain rectification measures to prevent recurrence of similar non-compliance incidents, including strengthening pre-job training of its employees, conducting regular assessment on the employees in key risk positions and improving the risk control standard system of Dongzheng's dealer auto loan business. For details, please refer to the announcement of Dongzheng dated 7 December 2020. Subject to the completion of the rectification and after the CBIRC's examination on the rectification of internal control measures, Dongzheng will apply for resumption of the dealer auto loan business. Based on the information provided by Dongzheng, the Board and the audit committee of the Company considered that the non-compliances relate to an isolated event and the internal control measures of Dongzheng's retail auto loan business were adequate and there were no material internal control deficiencies of Dongzheng.

Save for the non-compliances mentioned above, based on the advice from the legal department of the Company, the Board and the audit committee of the Company are of the view that the business operations of the Company have complied with all applicable laws and regulations in all material respects. In addition, save as disclosed in this announcement, the Company is not in possession of any inside information. The Company will make further announcement(s) as and when appropriate if there is any update material development on the CBIRC Decision.

## **DISPOSAL OF SHARES BY JOY CAPITAL**

Reference is made to the announcement of the Company dated 20 October 2020, among other things, on the disposal of shares by the controlling shareholder of the Company. The Company was informed by Joy Capital Holdings Limited (“**Joy Capital**”), the controlling shareholder of the Company (as defined under the Listing Rules), which holds 1,383,516,820 shares of the Company (representing approximately 51.29% of the total issued Shares as of the date of this announcement), that the transactions contemplated under the sale and purchase agreement dated 19 October 2020 entered between Joy Capital (as seller) and Mr. Wang Muqing with Xiamen Xindeco (as purchaser) will not be affected by the CBIRC Decision.

## **RESUMPTION OF TRADING IN THE SHARES AND DEBT SECURITIES**

At the request of the Company, trading in the shares and debt securities of the Company on the Stock Exchange has been suspended with effect from 9:14 a.m. on 20 October 2020 pending the release of this announcement. Application has been made to the Stock Exchange for resumption of trading in the shares and debt securities of the Company with effect from 9:00 a.m. on 7 December 2020.

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

For and on behalf of the Board of Directors of  
**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, 7 December 2020

*As at the date of this announcement, the Board comprises Mr. WANG Muqing (Chairman), Mr. WANG Kunpeng, Mr. LI Zhubo and Mr. WAN To as executive Directors; and Dr. WONG Tin Yau, Kelvin, Dr. CAO Tong and Ms. WONG Tan Tan as independent non-executive Directors.*

*\* for identification purpose only*