GUANGZHOU AUTOMOBILE GROUP CO., LTD.
廣州汽車集團股份有限公司
(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 2238)

CONNECTED TRANSACTION

DISPOSAL OF 5% EQUITY INTEREST IN CHENQI TECHNOLOGY LIMITED

THE AGREEMENT

On 19 January 2024, China Lounge Investments, a wholly-owned subsidiary of the Company, entered into the Agreement with GAIG in relation to the disposal of the Sale Shares at a consideration of RMB267,875,531.70.

As at the date of this announcement, the Group indirectly holds approximately 19.89% equity interest in Chenqi Technology Limited (the "**Target Company**"). Upon Completion, GAIG's direct equity interest in the Target Company will increase from approximately 15.31% to approximately 20.31%, and the Company's indirect equity interest in the Target Company will decrease from approximately 19.89% to approximately 14.89% accordingly (assuming that all series B subscription warrants of the Target Company have been fully exercised).

LISTING RULES IMPLICATIONS

As at the date of this announcement, GAIG is the controlling shareholder of the Company and therefore a connected person of the Company. Accordingly, the Disposal contemplated under the Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios (as defined in the Listing Rules) are more than 0.1% but all of them are less than 5%, according to Rule 14A.76(2)(a) of the Listing Rules, the Disposal is subject to the reporting and announcement requirements, but is exempted from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

On 19 January 2024, China Lounge Investments, a wholly-owned subsidiary of the Company, entered into the Agreement with GAIG in relation to the disposal of the Sale Shares at a consideration of RMB267,875,531.70, subject to the terms and conditions of the Agreement. The principal terms of the Agreement are summarised as follows:

THE AGREEMENT

Date

19 January 2024

Parties

(1) China Lounge Investments, as the seller; and

(2) GAIG, as the purchaser.

Subject matter

Pursuant to the terms and conditions of the Agreement, China Lounge Investments has agreed to sell, and GAIG has agreed to purchase the Sale Shares, i.e. 8,797,226 Ordinary Shares of the Target Company owned and held by China Lounge Investments, which constitutes 5.00% of the total issued share capital of the Target Company (calculated on an as-converted and fully-diluted basis, and assuming that all series B subscription warrants of the Target Company have been fully exercised) as at the date of this announcement.

Consideration

The consideration for the Disposal is RMB267,875,531.70, which shall be paid by GAIG by wire transfer of immediately available funds in RMB to the bank account of China Lounge Investments at Completion.

Basis of determination of the consideration

The consideration for the Disposal was determined after arm's length negotiations between China Lounge Investments and GAIG, taking into account the appraised value of the Target Company of RMB5,357.1847 million (i.e. the corresponding appraised value of the Sale Shares, being 5.00% of the total issued share capital of the Target Company, is approximately RMB267.875 million) according to the Valuation Report, details of which are set out in the section titled "**THE VALUATION REPORT**" of this announcement.

Based on the consideration for the Disposal, the Sale Shares are disposed of at RMB30.45 per Ordinary Share, which is slightly higher than that of RMB30.44 per share of the Target Company in its series B funding exercise completed in August 2023 (details of which are disclosed in the announcement of the Company dated 31 July 2023).

Conditions precedent

Completion is conditional upon, among other things, (1) the ODI Approvals in connection with the transactions contemplated under the Agreement being obtained; and (2) the execution and delivery of a deed of undertaking pursuant to which China Lounge Investments and GAIG agree to, jointly and severally, indemnify and hold harmless the Target Company from and against any and all indemnifiable losses suffered by the Target Company as a result of or arising from any breach or non-performance of any of the undertakings made by China Lounge Investments and GAIG under the Agreement and the deed of undertaking.

Completion shall take place no later than 5 Business Days after the satisfaction or waiver of each of the conditions precedent under the Agreement.

THE VALUATION REPORT

Valuation method

In arriving at the appraised value of the Target Company, the Valuer considered the market approach, the income approach and the asset-based approach, and adopted both the asset-based approach and the income approach in the Valuation Report for the following reasons:

(1) There were no comparable listed companies in the PRC engaging in similar types of business as those of the Target Company, or affected by the same economic factors, and there were no multiple transaction cases comparable with the Target Company in terms of the business structure, business model, enterprise scale, asset allocation and utilisation, operating stage, growth, operating risks, financial risks and other factors, or there were very few transaction cases but they were in lack of data and information on transactions, acquisitions and mergers with trading partners. At the same time, there was also a lack of comparable listed companies in the public stock market, so it was difficult to use the market approach to evaluate the Target Company.

(2) Information regarding the acquisition and construction of assets and liabilities of the Target Company was comprehensive, while its main assets were in continuous use, information regarding the market costs of constructing similar assets could be obtained in the market, thus fulfilling the requirements of adopting the asset-based approach. Nevertheless, as the asset-based approach indirectly reflected the enterprise value of the Target Company from the perspective of enterprise acquisition and construction costs, it was easy to ignore the comprehensive profitability of various assets, as well as the overall value contained in the enterprise's business scale, industry status and mature management model when evaluating the

enterprise value. When evaluating the Target Company on the premise of continuous operation, the asset-based approach should generally not be the only valuation method used. Therefore, the Valuation Report adopted the income approach and the asset-based approach, which took the Target Company as an organic whole and considered its overall asset profitability.

(3) Since the Target Company had already provided information regarding future income, in combination with the human resources, technical level, capital structure, business status, historical performance and development trend of the Target Company, and considering macroeconomic factors, the current situation and development prospects of the industry, the valuation assumptions were reasonably determined to form a future income forecast.

At the same time, the income period could be determined according to the nature of business, type of business, current status and development prospects of the industry, agreements and articles of association, operating conditions, asset characteristics, resources conditions and other factors of the Target Company. In addition, the risk corresponding to the expected income could be measured by taking into account the relevant information of the capital market such as the interest rate level and the market investment yield on the Benchmark Date, the industry of the Target Company, its specific risks and other relevant factors. Therefore, the income approach could be used for valuation.

The discounted cash flow (DCF) method under the income approach is adopted to indirectly acquire the value of total equity interests of shareholders through valuating the overall value of the Target Company. The calculation model is as follows:

$$E = P - D + C - M$$

Where:

E: value of total equity interests of shareholders
P: value of operating assets
D: value of the interest-bearing debts
C: value of surplus assets, non-operating assets and liabilities
M: value of minority shareholders' equity interests

Among which, the discount rate (weighted average capital costs, or WACC) is calculated as follows:

$$r = r_d \text{ x } w_d + r_e \text{ x } w_e$$

Where:

r_d: cost of the debt capital
w_d: debt ratio

$$w_d = \frac{D}{(E+D)}$$

r_e: cost of equity capital
w_e: equity ratio

$$w_e = \frac{E}{(E+D)}$$

Valuation assumptions

The Valuer had the following valuation assumptions in arriving at the appraised value of the Target Company, including but not limited to:

General Assumptions

(1) *Transaction Assumption:* if the subject of valuation (i.e. those 5% equity interest in the Target Company) is in the course of transaction processes, it is assumed that the Valuer will conduct valuation according to simulated marketplace situation, including transaction conditions of the subject of valuation. The result of the valuation is an estimate of the price at which the subject of valuation is most likely to be transacted;

(2) *Open Market Assumption:* if the subject of valuation and its assets involved are traded in the open market where each of the purchaser and the seller is provided with equal opportunity and time to have access to adequate market information, it is assumed that the trading behaviours of both the purchaser and the seller are conducted under voluntary, rational, non-mandatory conditions; and

(3) It is assumed that upon realisation of the target economic activities that were evaluated for the valuation, the assets involved in the valuation subject will continue to be used on the other sites for the same purposes and in the same manner in which they were used as at the Benchmark Date.

Assumptions relating to the Target Company

(1) Save for the extent known by the Valuer, it is assumed that the purchase, acquisition, improvement, construction and development of the assets involved in the valuation subject are in accordance with the relevant laws and regulations of the PRC;

(2) Save for the extent known by the Valuer, it is assumed that none of the assets involved in the valuation subject carry rights defects, liabilities and limitations that affect their value; it is assumed that the taxes and various payables related to such assets have been paid in full;

(3) The Valuer has conducted surveys on tangible assets such as equipment involved in the valuation subject from the external of their visible entity and have conducted due diligence to understand their internal existing problems, but due to technical constraints, no specific technical tests have been organized on the technical data, technical status, structure, attachments and other aspects of the assets concerned. In addition to the extent known to the Valuer, it is assumed that the equipment, vehicles and other equipment involved in the valuation subject have no material technical failures that affect their continuous use, and that their key components and materials have no potential quality defects;

(4) The Valuer has conducted due diligence on intangible assets involved in the valuation subject from their essence, technical advancement, economic applicability and market acceptance, and interviewed relevant professionals, but did not conduct special verifications on relevant assets. It is assumed that the relevant information regarding intangible assets of the Target Company is in line with its actual situation, and meets the general conditions such as acquisition, development, utilisation, operation and income of the Target Company;

(5) Unless otherwise indicated in the Valuation Report, it is assumed that the valuation subject will not be affected by factors such as pre-existing or future collateral, security matters and particular transaction method on its value;

(6) It is assumed that the valuation subject will not encounter other force majeure factors or unforeseen factors that have a significant adverse impact on its value; and

(7) It is assumed that each of the assets in this valuation is based on the actual stock as at the Benchmark Date, and that the current market price of the assets is based on the domestic effective price as at the Benchmark Date.

Assumptions relating to business operation and forecast

(1) It is assumed that there are no material changes in the international financial environment, global economic environment and national macroeconomic conditions, and that there are no material changes in the political, economic and social environment of the countries and regions where each party is located;

(2) It is assumed that the Target Company will, upon the realisation of the target economic activities that were evaluated for the valuation, continue in the original business direction, business mode, business scope and management level, and continue to operate in the current industry condition and market competition environment;

(3) It is assumed that there are no significant changes in the socio-economic environment and the prevailing interest rates, exchange rates, tax bases and tax rates, and charges under relevant implemented policies;

(4) It is assumed that the current policy environment, including the relevant laws, regulations and administrative policies, industrial policies, financial policies and tax policies, is relatively stable. Unless otherwise stated, it is assumed that the Target Company is operated in full compliance with relevant laws and regulations;

(5) It is assumed that the industry where the Robotaxi business of the Target Company is operated can maintain its current direction and development trend after the Benchmark Date, having duly considered the impacts of the emergence of new autonomous driving technologies and new autonomous driving business concepts on the industry trend;

(6) It is assumed that the Target Company will continue to operate in accordance with the then existing management standards as at the Benchmark Date, and the management of the Target Company is diligent, responsible and is relatively stable and capable of performing its duties (not taking into account any impacts on expected future revenues brought by substantial adjustments of the operators or substantial changes in the management level);

(7) It is assumed that the performance of the assets of the Target Company could be seen differently at each point of time during the period of continuing operation;

(8) It is assumed that the cash inflows and outflows of the Target Company after the Benchmark Date are average inflows and outflows;

(9) It is assumed that the accounting policies to be adopted by the Target Company in future and adopted at the time of preparation of the Valuation Report are substantially the same;

(10) It is assumed that the control agreement signed by Guangzhou Chenqi Mobility Technology Co., Ltd.* (廣州宸祺出行科技有限公司), a subsidiary of the Target Company, with Guangzhou Qichen Technology Co., Ltd.* (廣州祺宸科技有限公司) and its shareholders Sun Yanhong (孫艷紅), Nanjing Wangdian Technology Company Limited* (南京網典科技有限公司) and Guangdong Pearl River Investment Holdings Group Co., Ltd.* (廣東珠江投資控股集團有限公司) can be renewed after expiration, or can form the actual control of Guangzhou Qichen Technology Co., Ltd.;

(11) It is assumed that the business plan and business income path formulated by the management can be implemented smoothly, with the plan for obtaining local car-hailing operation qualifications in relevant cities to be realised in the next three years;

(12) It is assumed that the qualifications required for the operation of the Target Company can be successfully renewed after expiration, and the Robotaxi business of the Target Company can obtain relevant commercial operation licenses to carry out business in the future as scheduled in compliance with all relevant laws and regulations;

(13) It is assumed that the draft document regarding government subsidies to safety officers in the autonomous driving business of the Target Company can be successfully passed and become official documents, with the corresponding relevant subsidy policies formally implemented; and

(14) It is assumed that the Target Company fully complies with the relevant national and local laws and regulations which are applicable to carry out lawful operations.

REASONS FOR AND BENEFITS OF THE DISPOSAL

On the premise that the consideration for the Disposal is equivalent to the appraised value of the Sale Shares, the Company will reap certain gain as a result of the valuation increase of the Sale Shares.

The Directors (including the independent non-executive Directors) are of the view that the Agreement was entered into after arms' length negotiations on normal commercial terms or better and in the ordinary and usual course of business of the Group, and that the terms thereof are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company incorporated in the Cayman Islands with limited liability in April 2019. The Target Company is a travel technology and service company in the PRC. The principal businesses of the Target Company include: (i) travel services, primarily online car-hailing and Robotaxi; (ii) technical services, primarily artificial intelligence data and model solutions and high-definition maps; and (iii) fleet management and services to provide full support to drivers and capacity franchisees.

According to the Valuation Report, the book value of the Target Company as at the Benchmark Date was approximately RMB2,042.1734 million, and accordingly, the book value of the Sale Shares was approximately RMB102.1087 million. Set out below is the financial information of the Target Company for the two financial years ended 31 December 2022, as extracted from the consolidated financial information of the Target Company prepared in accordance with the generally accepted accounting principles in the PRC:

	For the year ended 31 December	
	2022	**2021**
	(audited)	**(audited)**
	RMB'000	*RMB'000*
Net loss before taxation	626,783	684,627
Net loss after taxation	626,783	684,627

IMPACT OF THE DISPOSAL ON THE SHAREHOLDING STRUCTURE OF THE TARGET COMPANY

The following table sets out the shareholding structure of the Target Company before and after Completion:

	As at the date of this announcement and immediately prior to Completion		**Immediately after Completion**	
Shareholders	*Number of shares*	*Percentage of shareholding (on a fully-diluted and as-converted basis, and assuming that all series B subscription warrants of the Target Company have been fully exercised)*	*Number of shares*	*Percentage of shareholding (on a fully-diluted and as-converted basis, and assuming that all series B subscription warrants of the Target Company have been fully exercised)*
China Lounge Investments	35,000,000	19.89%	26,202,774	14.89%
GAIG	26,943,565	15.31%	35,740,791	20.31%
Tencent Mobility Limited	32,396,668	18.41%	32,396,668	18.41%
Others	81,604,271	46.39%	81,604,271	46.39%
Total:	175,944,504	100%	175,944,504	100%

Upon Completion, GAIG's direct equity interest in the Target Company will increase from approximately 15.31% to approximately 20.31%, and the Company's indirect equity interest in the Target Company will decrease from approximately 19.89% to approximately 14.89% accordingly (assuming that all series B subscription warrants of the Target Company have been fully exercised).

FINANCIAL EFFECTS OF THE DISPOSAL AND THE USE OF PROCEEDS

The Board expects that the Group will record a one-off gain of approximately RMB223 million as a result of the Disposal. The estimated gain is calculated with reference to the consideration for the Disposal and the fair value of the Sale Shares as recorded in the Group's audited consolidated financial statements, taking into account payment of relevant tax expenses and other transaction costs incidental to the Disposal and shall be subject to audit by the Company's auditors.

The proceeds of the Disposal will mainly be used as general working capital of the Group.

LISTING RULES IMPLICATIONS

As at the date of this announcement, GAIG is the controlling shareholder of the Company and therefore a connected person of the Company. Accordingly, the Disposal contemplated under the Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios (as defined in the Listing Rules) are more than 0.1% but all of them are less than 5%, according to Rule 14A.76(2)(a) of the Listing Rules, the Disposal is subject to the reporting and announcement requirements, but is exempted from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since Mr. Zeng Qinghong (an executive Director), Mr. Feng Xingya (an executive Director), Mr. Chen Xiaomu (a non-executive Director) and Ms. Deng Lei (a non-executive Director) are also directors of GAIG, they had abstained from voting on the resolutions of the Disposal at the relevant meeting of the Board. Save as disclosed above, none of the Directors had material interests in the Disposal and was required to abstain from voting on the resolutions of the Disposal at the relevant meeting of the Board.

GENERAL INFORMATION

The principal businesses of the Group include the research and development and the manufacturing of vehicles and motorcycles, automobile parts and components, commercial services, financial services, and mobile transportation services, which form a complete closed-loop automobile industry chain. As at the date of this announcement, GAIG holds approximately 52.53% equity interest in the Company and is the controlling shareholder of the Company.

GAIG, through the Company, is mainly engaged in investment in the research and development, manufacturing and marketing of automobile, motorcycle and components, automobile service trade and other relevant industries; investment in automobile finance and other financial sectors; investment in self-owned land development projects and related real estate projects; and property management. The ultimate beneficial owner of GAIG is the State-owned Assets Supervision and Administration Commission of Guangzhou Municipal Government (廣州市人民政府國有資產監督管理委員會).

DEFINITIONS

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

"Agreement"	the share transfer agreement dated 19 January 2024 entered into between China Lounge Investments and GAIG in respect of the Disposal
"Benchmark Date"	the benchmark date of the Agreement and the Valuation Report, i.e. 31 October 2023

"Board"	the board of directors of the Company
"Business Day"	any day that is not a Saturday, Sunday, legal holiday or other day on which commercial banks are required or authorized by law to be closed in the PRC, the Cayman Islands, or Hong Kong
"China Lounge Investments"	China Lounge Investments Limited (中隆投資有限公司), a company incorporated in Hong Kong with limited liability in August 1992 and a wholly-owned subsidiary of the Company
"Company"	Guangzhou Automobile Group Co., Ltd. (廣州汽車集團股份有限公司), a joint stock company incorporated under the laws of the PRC with limited liability in June 2005, the issued H shares of which are listed on the Stock Exchange (Stock Code: 002238)
"Completion"	completion of the Disposal in accordance with the Agreement
"connected person"	has the meaning as ascribed to it under the Listing Rules
"controlling shareholder"	has the meaning as ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Disposal"	the disposal of the Sale Shares by China Lounge Investments to GAIG pursuant to the Agreement
"GAIG"	Guangzhou Automobile Industry Group Co., Ltd. (廣州汽車工業集團有限公司), a state-owned enterprise incorporated under the laws of the PRC in October 2000 and the controlling shareholder of the Company
"Group"	the Company, its subsidiaries and their respective jointly-controlled entities
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

"ODI Approvals"	means all necessary approvals, registrations or filings from or with the applicable governmental authorities in the PRC, including but not limited to, Ministry of Commerce, National Development and Reform Commission and State Administration of Foreign Exchange or their local counterparts or designated qualified PRC banks, and other competent organizations performing the duties of regulating, monitoring, supervising and overseeing overseas direct investment applicable to GAIG's purchase of the Sale Shares
"Ordinary Share(s)"	the ordinary share(s) of the Target Company, with a par value of US$0.0005 per share
"PRC"	the People's Republic of China, and for the purposes of this announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	8,797,226 Ordinary Shares of the Target Company which are owned and held by China Lounge Investments, representing 5.00% of the total issued share capital of the Target Company (calculated on an as-converted and fully-diluted basis, and assuming that all series B subscription warrants of the Target Company have been fully exercised) as at the date of this announcement
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning as ascribed to it under the Listing Rules
"Target Company"	Chenqi Technology Limited, a company incorporated in the Cayman Islands with limited liability in April 2019, which is indirectly held as to approximately 19.89% by the Company as at the date of this announcement and immediately prior to the signing of the Agreement
"US$"	United States dollar, the lawful currency of the United States of America
"Valuation Report"	the valuation report issued by the Valuer dated 31 October 2023 in respect of the valuation of the Target Company for the proposed disposal of equity interest thereof

"Valuer"	Allied Appraisal Co., Ltd. (中聯國際房地產土地資產評估諮詢(廣東)有限公司)
"%"	per cent

By order of the Board
Guangzhou Automobile Group Co., Ltd.
ZENG Qinghong
Chairman

Guangzhou, the PRC, 19 January 2024

As at the date of this announcement, the executive directors of the Company are ZENG Qinghong and FENG Xingya, the non-executive directors of the Company are CHEN Xiaomu, DING Hongxiang, GUAN Dayuan, DENG Lei and WANG Yiwei, and the independent non-executive directors of the Company are ZHAO Fuquan, XIAO Shengfang, WONG Hakkun and SONG Tiebo.

* *For identification purposes only*