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## **Prinix Chengshan (Cayman) Holding Limited**

**浦林成山（開曼）控股有限公司**

*(Incorporated under the laws of the Cayman Islands with limited liability)*

**(Stock Code: 1809)**

### **(1) REVISED ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTION (2) CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING**

#### **(1) REVISED ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTION**

Reference is made to the section headed “Connected Transactions” in the Prospectus in relation to, among others, the Energy Management Framework Agreement entered into on March 28, 2018.

On March 28, 2018, Prinix (Shandong) Tire entered into the Energy Management Framework Agreement with Rongcheng Chengshan Energy-Saving Services, pursuant to which Rongcheng Chengshan Energy-Saving Services may from time to time provide Energy-saving Services to Prinix (Shandong) Tire.

On the basis of the reasons as set out in this announcement, the Directors believe that the existing annual caps will not cover the need of the Group’s existing business. On May 20, 2019, Prinix (Shandong) Tire and Rongcheng Chengshan Energy-Saving Services entered into the Supplemental Agreement to revise the annual caps of Energy-saving Services for the two years ending December 31, 2019 and December 31, 2020.

As the highest applicable percentage ratio within the definition of the Listing Rules in respect of the Energy Management Framework Agreement and the Supplemental Agreement on an annual basis is expected to be more than 0.1% but less than 5%, the transactions contemplated thereunder are subject to reporting, annual review and announcement requirements but exempt from circular and independent shareholders’ approval requirements pursuant to the Rule 14A.76(2) of the Listing Rules.

## **(2) CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING**

In view of the trade war between China and the US, the anti-dumping and countervailing measures of the US, the uncertainty of international trade friction and the trend of overall situation casting uncertainties on the Company's overseas sales, the Board has resolved to abort the second phase construction of its All Steel Radial Tires capacity expansion in Rongcheng, Shandong Province, after a detailed review, and change the proceeds usage of HK\$264.3 million which was originally earmarked for such plan to overseas investment purpose, i.e. the first phase construction of the investment project in Thailand.

## **(1) REVISED ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTION**

Reference is made to the section headed "Connected Transactions" in the prospectus of the Company dated September 24, 2018 (the "**Prospectus**") in relation to, among others, the Energy Management Framework Agreement entered into on March 28, 2018. Unless the context otherwise requires, capitalized terms used herein shall have the same meanings as those defined in the Prospectus.

### **Energy Management Framework Agreement**

On March 28, 2018, Prinx (Shandong) Tire, an indirectly wholly-owned subsidiary of the Company, entered into the Energy Management Framework Agreement with Rongcheng Chengshan Energy-Saving Services, pursuant to which Rongcheng Chengshan Energy-Saving Services may from time to time provide Energy-saving Services to Prinx (Shandong) Tire. Prinx (Shandong) Tire will be able to pay the investment cost of its energy conservation projects out of energy saving revenue, and therefore ease pressure on internal capital resources. The principal terms of the Energy Management Framework Agreement are set out below:

Date: March 28, 2018

Parties: (i) Prinx (Shandong) Tire  
(ii) Rongcheng Chengshan Energy-Saving Services

Subject: Prinx (Shandong) Tire will enter into separate energy management contracts in respect of the lighting system and the system for tire vulcanization or other energy-saving services in its production plant or other relevant services for energy-saving, which will set out the specific terms and conditions according to the provisions under the Energy Management Framework Agreement

Term: being effective for a period from March 28, 2018 until December 31, 2020

According to the Energy Management Framework Agreement, the annual cap amounts for each of the financial years ended/ending December 31, 2018, December 31, 2019 and December 31, 2020 are RMB4.0 million, RMB5.6 million and RMB3.0 million respectively. As of December 31, 2018, the actual transaction amount of Energy-saving Services provided under the Energy Management Framework Agreement was RMB1.5 million, which did not exceed the annual Energy-saving Service ceiling for that year. The Directors confirm that the annual cap of Energy-saving Services provided under the Energy Management Framework Agreement for the year ending December 31, 2019 has not been exceeded as of the date of this announcement.

### **Reasons for and Benefits of Revising the Annual Cap of Energy-saving Services**

In the specific implementation process of Energy-saving Services, the parties, through on-site measurement and technical exchanges, agreed that if Rongcheng Chengshan Energy-Saving Services carried out energy-saving renovation on the energy system of Prinx (Shandong) Tire, huge energy-saving benefits would be generated, but Prinx (Shandong) Tire would have to pay 80% of the energy-saving benefits to Rongcheng Chengshan Energy-Saving Services for the energy-saving renovation each month, which would exceed the annual caps provided under the Energy Management Framework Agreement. Therefore, the annual caps of Energy-saving Services require revision in order to achieve the goal of reducing Prinx (Shandong) Tire's electricity consumption cost, while ensuring the smooth-running of the energy-saving renovation project.

In addition, the parties plan to add another energy-saving renovation project and provide special energy-saving services, mainly including energy-saving renovation of air compressor system, water pump system and motor system in the existing energy system, all of which will be replaced by new energy-saving equipment. Prinx (Shandong) Tire shall pay 80% of the energy-saving benefits to Rongcheng Chengshan Energy-Saving Services in 2019 and 2020, which are RMB1.9 million and RMB7.6 million respectively.

### **Revised Annual Caps**

On May 20, 2019, Prinx (Shandong) Tire entered into a supplemental agreement to the Energy Management Framework Agreement (the "**Supplemental Agreement**") with Rongcheng Chengshan Energy-Saving Services, pursuant to which the parties agree that the annual caps of the Energy-saving Services provided for the two years ending December 31, 2019 and December 31, 2020 shall be revised to RMB7.5 million and RMB10.6 million respectively.

According to the Supplemental Agreement, the revised annual caps of the Energy-saving Services provided for the two years ending December 31, 2019 and December 31, 2020 shall be determined on the following basis:

- (i) the historical transaction records with Rongcheng Chengshan Energy-Saving Services; and
- (ii) the expected energy-saving efficiency measures under the Energy Management Framework Agreement (as amended by the Supplemental Agreement).

In light of the increase in the connected transaction amount under the energy-saving renovation project of energy system, Prinx (Shandong) Tire and Rongcheng Chengshan Energy-Saving Services agree to revise the annual caps of the Energy-saving Services for the two years ending December 31, 2019 and December 31, 2020 in accordance with the Supplemental Agreement.

Apart from the aforementioned revisions, all the terms under the Energy Management Framework Agreement remain unchanged.

The Directors, including the independent non-executive Directors, are of the view that the transactions contemplated under the existing Energy Management Framework Agreement, the energy-saving renovation agreement and the Supplemental Agreement which are part of the business cooperation between the Group and Rongcheng Chengshan Energy-Saving Services were entered into on normal commercial terms in the ordinary and usual course of business of the Group, and the terms and proposed annual caps of the Energy-saving Services were fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

### **Pricing Principles**

According to the Energy Management Framework Agreement, Prinx (Shandong) Tire and Rongcheng Chengshan Energy-Saving Services agreed to share the energy saving revenue based upon annual gas supply and increment in energy saving revenue during the benefit sharing period, as the consideration receivable by Rongcheng Chengshan Energy-Saving Services for its provision of Energy-saving Services.

Pricing for each service under the Energy Management Framework Agreement was determined by reference to market price and agreed price respectively. Market price was determined based on normal commercial terms and the price of the same or similar services provided by an Independent Third Party during their ordinary course of business on normal commercial terms, while agreed price was determined after arm's length negotiations between the parties with reference to previous prices.

## **Information of the Group**

The Company is an investment holding company, and its subsidiaries are principally engaged in design, manufacture and distribution of All Steel Radial Tires, Semi-Steel Radial Tires and Bias Tires.

## **Information of Prinx (Shandong) Tire**

The principal business of Prinx (Shandong) Tire (formerly known as Cooper Chengshan (Shandong) Tire Company Limited\* (庫珀成山(山東)輪胎有限公司) and Cooper Chengshan (Shandong) Tire Company Limited\* (固鉑成山(山東)輪胎有限公司)) is design, development, manufacture, and sales of heavy load radial tires, ordinary structured tires, semi-steel radial passenger vehicle tires and semi-steel radial light truck tires and related products, and to provide technical support and services for such products.

## **Information of Rongcheng Chengshan Energy-Saving Services**

Rongcheng Chengshan Energy-Saving Services is principally engaged in design and consultancy of energy-saving technologies, sales of energy-saving equipment, and energy-saving renovation services.

## **Implications under the Listing Rules**

Rongcheng Chengshan Energy-Saving Services is a wholly-owned subsidiary of Chengshan Group, the Controlling Shareholder. Under the Listing Rules, Rongcheng Chengshan Energy-Saving Services is a connected person of the Company. Prinx (Shandong) Tire is a wholly-owned subsidiary of the Company. The Energy Management Framework Agreement and the Supplemental Agreement together constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio under the Rule 14.07 of the Listing Rules in respect of the Energy Management Framework Agreement and the Supplemental Agreement on an annual basis is expected to be more than 0.1% but less than 5%, the transactions contemplated thereunder are subject to reporting, annual review and announcement requirements but exempt from circular and independent shareholders' approval requirements pursuant to Chapter 14A.76(2) of the Listing Rules.

As Mr. Che Baozhen and Mr. Shi Futao, being executive Directors, and Mr. Che Hongzhi and Mr. Wang Lei, being non-executive Directors, hold shares in Chengshan Group (the sole shareholder of Rongcheng Chengshan Energy-Saving Services), and Mr. Che Hongzhi serves as the executive director and chairman of Chengshan Group, all of them had therefore abstained from voting in the passing of the relevant resolutions in relation to the revision of the annual caps of the Energy-saving Services, and were not counted in the quorum in the relevant meeting of the Board in relation to the revision of the annual caps of the Energy-saving Services.

## (2) CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING

References are made to the Prospectus and the annual report of the Company for the year ended December 31, 2018 (the “**Annual Report of 2018**”), in which the utilization of the net proceeds from the Global Offering for the period from the Listing Date until December 31, 2018 has been disclosed. Unless the context otherwise requires, capitalized terms used herein shall have the same meanings as those defined in the Prospectus and the Annual Report of 2018.

The Board would like to announce that it has resolved to change the use of the net proceeds from the Global Offering.

### **Original Allocation**

Net proceeds from the Global Offering (after deducting the underwriting commissions and other expenses related thereto) (“**Net Proceeds**”) amounted to approximately HK\$738.4 million. As disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus, the net proceeds are intended for the following purposes:

- approximately 4.7% will be used for investment in the first phase of the Group’s All Steel Radial Tires capacity expansion in Rongcheng, Shandong;
- approximately 35.8% will be used for the second phase of the Group’s All Steel Radial Tires capacity expansion in Rongcheng, Shandong;
- approximately 19.8% will be used for the expansion of the Group’s Semi-Steel Radial Tires production capacity;
- approximately 30.0% will be used for overseas investment, including construction and/or acquisitions of overseas production base; and
- approximately 9.7% will be used for working capital purposes.

## Change of Use of Proceeds

The Net Proceeds amounted to approximately HK\$738.4 million. As at the date of this announcement, unutilised net proceeds of the Company amounted to approximately HK\$604.1 million. Given the reasons as set out in the section headed “Reasons for and Benefits of Change of Use of Proceeds” in this announcement, the Board proposes to reallocate approximately HK\$264.3 million, which was originally intended for investment in the second phase of the Group’s All Steel Radial Tires capacity expansion, to overseas investment (“**Proposed Reallocation**”).

	Original allocation (HK\$ million)	Utilised amount up to the date of this announcement (HK\$ million)	Unutilised amount as at the date of this announcement (HK\$ million)	Proposed Reallocation (HK\$ million)	Revised unutilised amount (HK\$ million)
Investment in the first phase of the Group’s All Steel Radial Tires capacity expansion	34.7	34.7	0.0	34.7	0.0
Investment in the second phase of the Group’s All Steel Radial Tires capacity expansion	264.3	0.0	264.3	0.0	0.0
Expansion of the Group’s Semi-Steel Radial Tires production capacity	146.2	48.8	97.4	146.2	97.4
Overseas investment	221.5	20.3	201.2	485.8	465.5
Working capital	71.7	30.5	41.2	71.7	41.2
<b>Total</b>	<u>738.4</u>	<u>134.3</u>	<u>604.1</u>	<u>738.4</u>	<u>604.1</u>

The Company intends for the Proposed Reallocation of HK\$485.8 million which was originally earmarked for overseas investment purpose to be used for construction of a plant in Thailand. As disclosed in the announcement of the Company dated December 27, 2018 and the Annual Report of 2018, the Company has entered into a land purchase agreement to acquire a piece of land in Thailand for the construction of its production base, where a tire manufacturing plant will be built thereon. The first phase of the plant, with total planned investment of approximately US\$310 million, is expected to commence its operation in June 2020. Upon completion of its construction, the plant and its offices will occupy an area of approximately 280,000 square meters and is expected to accommodate over 1,100 employees, with an estimated capacity of approximately 4,000,000 sets for Semi-Steel Radial Tires and approximately 800,000 sets for All Steel Radial Tires per annum. After the completion of the first phase construction, the construction scale, production capacity, implementation time and investment amount for the second phase and the third phase will be determined based on the then prevailing circumstances.

As of the date of this announcement, the Company has begun to arrange the construction in Thailand and is at the commencement stage of the construction. An amount of HK\$20.3 million, out of the original allocation of HK\$221.5 million, has been used for acquisition of the aforementioned land and the pre-construction of the plant in Thailand. After the Proposed Reallocation, the expected unutilized amount of HK\$465.5 million will be used for the first phase construction of the plant in Thailand, while the financing amount originally required for the construction of the plant in Thailand will be reduced correspondingly.

### **Reasons for and Benefits of Change of Use of Proceeds**

On March 22, 2018, the President of the United States (the “US”), Donald Trump signed a Presidential Memorandum, which, pursuant to the alleged results of “Section 301 Investigation”, imposed an extensive and heavy levy of tariffs on imports from China and restricted investments, mergers and acquisitions in the US in relation to Chinese enterprises. On September 24, 2018, the US imposed a 10% tariff on US\$200 billion of Chinese imports. On May 10, 2019, the US raised tariffs to 25% on the same. On July 24, 2018, the European Union (the “EU”) announced the ruling of the anti-dumping investigation on all steel tires, including the anti-dumping duty rate of 31% and the tariff of 47.13 Euros per tire. It is expected that the EU market will be completely closed to Chinese tire enterprises. Various forms of trade barriers successively launched by other markets, including India, Pakistan, Brazil, Russia, Egypt and more than a dozen of other countries, have also caused great challenges to tire export.



In view of the trade war between China and the US, the anti-dumping and countervailing measures of the US, the uncertainty of international trade friction and the trend of overall situation casting uncertainties on the Company's overseas sales, the Board has resolved to abort the second phase construction plan of its All Steel Radial Tires capacity expansion in Rongcheng, Shandong Province, after a detailed review, and change the proceeds usage of HK\$264.3 million which was originally earmarked for such plan to overseas investment purpose, i.e. the first phase construction of the investment project in Thailand.

The Company believes that the construction and operation of the plant in Thailand will help the Group to avoid the trade barriers of various countries, expand its market share through entering Europe, America and other protectionist countries, and support the Group's expansion in international sales.

The Directors confirm that there is no material change in the nature of the Group's business as set out in the Prospectus. The Directors believe that the above changes of the use of Net Proceeds are fair and reasonable, and allow the Company to allocate its financial resources in a more efficient manner to enhance the profitability of the Group, and thus are in the interest of the Group and Shareholders as a whole.

By Order of the Board  
**Prinx Chengshan (Cayman) Holding Limited**  
**Che Hongzhi**  
*Chairman and non-executive Director*

Shandong Province, the PRC, May 20, 2019

*As at the date of this announcement, the Board comprises Mr. Che Baozhen, Mr. Shi Futao and Ms. Cao Xueyu as executive Directors; Mr. Che Hongzhi, Mr. Wang Lei and Mr. Chen Yansheng as non-executive Directors; Mr. Zhang Xuehuo, Mr. Choi Tze Kit Sammy and Mr. Wang Chuansheng as independent non-executive Directors.*

\* *for identification purpose only*