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Prinix Chengshan Holdings Limited

浦林成山控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1809)

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS RENEWAL OF AGREEMENTS DUE TO EXPIRE IN 2023

RENEWAL OF CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

On December 19, 2023, Prinix (Shandong) Tire entered into the following agreements:

- (i) 2024 Property Lease Agreement;
- (ii) 2024 Property Services Agreement; and
- (iii) 2024 Energy Management Framework Agreement,

to renew the transactions contemplated under the corresponding existing agreements.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Chengshan Group is the controlling shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. Rongcheng Chengshan Properties and Rongcheng Chengshan Energy-Saving Services are wholly-owned subsidiaries of Chengshan Group, and each is therefore a connected person of the Company.

The transaction under the 2024 Property Lease Agreement is regarded as an acquisition of asset under Rule 14.04(1)(a) of the Listing Rules. The value of the right-of-use asset recognized under the 2024 Property Lease Agreement is approximately RMB24.9 million. As the highest percentage ratio is more than 0.1% but less than 5%, the transaction is classified as a one-off connected transaction and is subject to announcement and reporting requirements but exempt from independent shareholders' approval under Chapter 14A of the Listing Rules.

For the 2024 Property Services Agreement and the 2024 Energy Management Framework Agreement, as one or more of the applicable percentage ratios for the annual caps contemplated under each of the agreements exceed 0.1% but all of which are less than 5%, the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Rule 14A.76(2) of the Listing Rules.

On December 19, 2023, Prinx (Shandong) Tire, an indirectly wholly-owned subsidiary of the Company, entered into (i) the 2024 Property Lease Agreement; (ii) the 2024 Property Services Agreement; and (iii) the 2024 Energy Management Framework Agreement, to renew the transactions contemplated under the corresponding existing agreements.

Nature of transactions	Proposed annual caps		
	for the year ending December 31,		
	2024	2025	2026
	<i>(RMB'000)</i>		
2024 Property Services Agreement	6,800	6,800	6,800
2024 Energy Management Framework Agreement	11,000	11,000	11,000

1. 2024 Property Lease Agreement

(a) *Background*

Reference is made to the Company's announcements dated December 18, 2020 and December 30, 2020 (the "**Announcements**"), in relation to, among others, the one-off connected transaction under the Existing Property Lease Agreement. As the Existing Property Lease Agreement will expire on December 31, 2023, and the Group is expected to carry on the transactions contemplated thereunder upon its expiry, Prinx (Shandong) Tire entered into the 2024 Property Lease Agreement with Chengshan Group on December 19, 2023.

(b) *Principal terms*

Date:	December 19, 2023
Parties:	Prinx (Shandong) Tire (as tenant) and Chengshan Group (as landlord)
Term:	Three years from January 1, 2024 and ending on December 31, 2026
Subject matter:	Lease of (i) a portion of the office space with 6,988.92 square meters located at No. 98 Nanshan North Road, Rongcheng City, Shandong Province, the PRC for use as office space; (ii) Nos. 49–53 and 55 Guotai Community, Rongcheng City, Shandong Province, the PRC for use as dormitories with 11,597.92 square meters; and (iii) No. 56 Guotai Community, Rongcheng City, Shandong Province, the PRC for use as staff canteen with 3,124.65 square meters
Terms of payment:	Monthly rental is determined at RMB1.1 per square metre per day with reference to the total leased area (exclusive of utility charge and service cost) following arm's length negotiations between the parties based on the prevailing market rental value of properties with comparable size, use and attributes

The rental payments are expected to be financed by the internal resources of the Group.

(c) *Historical amounts*

For the two years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023, the rent paid by the Group under the Existing Property Lease Agreement amounted to RMB7.2 million, RMB7.4 million and RMB5.8 million, respectively.

(d) *Right-of-use assets*

Pursuant to HKFRS 16, subject to certain exceptions, leases with a term of more than 12 months will be recognised as right-of-use assets, and the transactions contemplated thereunder will be recognised as an acquisition of right-of-use assets. The right-of-use asset represents the right to use the underlying leased asset over the lease term and the lease liability represents the obligation to make lease payments (i.e. the rent). The asset and the liability arising from the lease are initially measured on present value basis and calculated by discounting the non-cancellable lease payments under the relevant agreement, using the incremental borrowing rate as the discount rate. Under HKFRS 16 and in the consolidated statement of comprehensive income of the Group, the Group shall recognise (i) depreciation charge over the shorter of the useful life of the asset and the lease term, and (ii) interest expenses amortised from the lease liability over the lease term.

The value of the right-of-use asset recognized under the 2024 Property Lease Agreement is approximately RMB24.9 million.

(e) *Reasons for and benefits of entering into the 2024 Property Lease Agreement*

As the Group has historically leased from Chengshan Group certain properties as office space, dormitories and staff canteen, it is in the interests of the Group in terms of cost, time and stability to enter into the 2024 Property Lease Agreement.

The Directors consider it beneficial to renew the Existing Property Lease Agreement so long as the relevant rental fees and other terms are no less favourable to the Group than those of comparable properties available from Independent Third Parties, in order to avoid unnecessary relocation costs and disturbance to the Group's operations.

2. 2024 Property Services Agreement

(a) *Background*

Reference is made to the Announcements, in relation to, among others, the continuing connected transactions under the Existing Property Services Agreement. As the Existing Property Services Agreement will expire on December 31, 2023, and the Group is expected to carry on the transactions contemplated thereunder upon its expiry, Prinx (Shandong) Tire entered into the 2024 Property Services Agreement with Rongcheng Chengshan Properties on December 19, 2023.

(b) *Principal terms*

Date:	December 19, 2023
Parties:	Prinx (Shandong) Tire (as service recipient) and Rongcheng Chengshan Properties (as service provider)
Term:	Three years from January 1, 2024 and ending on December 31, 2026
Subject matter:	The provision of services including control of access to facilities, security, management of vehicles, cleaning, gardening, conference room management and repair and maintenance of common area and shared facilities
Terms of payment:	Monthly service fees of approximately RMB566,666 which was determined in accordance with the cost plus up to 8% approach following arm's length negotiations between the parties. The service fee is subject to annual review

The service fees are expected to be financed by the internal resources of the Group.

(c) *Historical amounts*

For the two years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023, the service fees paid by the Group under the Existing Property Services Agreement amounted to RMB6.0 million, RMB6.0 million and RMB4.5 million, respectively. The historical caps for the two years ended December 31, 2021 and 2022 and the year ending December 31, 2023 are RMB6.4 million, RMB6.4 million and RMB6.4 million with utilisation rates being 93.2%, 93.2% and 70.3%, respectively.

(d) *Annual cap and basis of determination*

It is proposed that the annual caps for the transactions contemplated under the 2024 Property Services Agreement for the years ending December 31, 2024, 2025 and 2026 are RMB6.8 million, RMB6.8 million and RMB6.8 million, respectively.

The above annual caps are arrived at based on (i) the historical amounts paid by the Group to Chengshan Group under the Existing Property Services Agreement; (ii) the anticipated increase in labor costs to be incurred for providing such services; and (iii) the prevailing market rates for similar services in the PRC.

(e) *Reasons for and benefits of entering into the 2024 Property Services Agreement*

The principal business of Chengshan Group includes property management. The Board considers that the provision of property management services by Chengshan Group helps to promote good property management service quality. The arrangement with Chengshan Group has been in place for a number of years, therefore so long as the relevant fees and other terms are no less favourable to the Group than those of comparable services available from Independent Third Parties, in order to avoid unnecessary disturbance to the Group's operations, the Directors consider it beneficial to renew the Existing Property Services Agreement.

3. 2024 Energy Management Framework Agreement

(a) *Background*

References are made to the Announcements, in relation to, among others, the continuing connected transactions under the Existing Energy Management Framework Agreement. As the Existing Energy Management Framework Agreement will expire on December 31, 2023, and the Group is expected to carry on the transactions contemplated thereunder upon its expiry, Prinx (Shandong) Tire entered into the 2024 Energy Management Framework Agreement with Rongcheng Chengshan Energy-Saving Services on December 19, 2023.

(b) *Principal terms*

Date:	December 19, 2023
Parties:	Prinx (Shandong) Tire (as service recipient) and Rongcheng Chengshan Energy-Saving Services (as service provider)
Term:	Three years from January 1, 2024 and ending on December 31, 2026
Subject matter:	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 2024 Energy Management Framework Agreement
Terms of payment:	Monthly service fees following arm's length negotiations between the parties based on monthly gas supply and 80% of the energy-saving benefits The service fees are expected to be financed by the internal resources of the Group.

(c) *Historical amounts*

For the two years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023, the service fees paid by the Group under the Existing Energy Management Framework Agreement amounted to RMB2.6 million, RMB4.8 million and RMB3.6 million, respectively. The historical caps for the two years ended December 31, 2021 and 2022 and the year ending December 31, 2023 are RMB5.0 million, RMB5.0 million and RMB5.0 million with utilisation rates being 52.0%, 96.8% and 72.0%, respectively.

(d) *Annual cap and basis of determination*

It is proposed that the annual caps for the transactions contemplated under the 2024 Energy Management Framework Agreement for the years ending December 31, 2024, 2025 and 2026 are RMB11.0 million, RMB11.0 million and RMB11.0 million, respectively.

The above annual caps are arrived at based on (i) the historical amounts paid by the Group to Chengshan Group under the Existing Energy Management Framework Agreement; (ii) the expected energy-saving efficiency measures under the 2024 Energy Management Framework Agreement; (iii) the expected energy-saving renovation projects of Prinx (Shandong) Tire including the proposed benefit-sharing of the addition of energy-saving retrofit projects such as water pumping systems in 2024, motor retrofit projects, central air-conditioning retrofit projects for integrated pumping stations, and servo motor retrofit projects in 2025, and the permanent magnet motors and other retrofit projects in 2026; and (iv) the previous price as agreed between the parties following arm's length negotiations between Rongcheng Chengshan Energy-Saving Services and Prinx (Shandong) Tire and on the principle of fairness.

(e) *Reasons for and benefits of entering into the 2024 Energy Management Framework Agreement*

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 to Prinx (Shandong) Tire. The arrangement with Chengshan Group has been in place for a number of years and will achieve the goal of reducing Prinx (Shandong) Tire's electricity consumption cost, while ensuring the smooth-running of the energy-saving renovation project.

Through the energy-saving retrofit projects such as water pumps as disclosed in section (d) hereinabove, it is expected to achieve reduction in energy consumption of 17.3 million kWh of electricity (equivalent to 2,126 tons of standard coal) in 2024; 18.06 million kWh of electricity (equivalent to 2,219 tons of standard coal) in 2025; and 17.08 million kWh of electricity (equivalent to 2,099 tons of standard coal) in 2026, which will help the Group's energy conservation and consumption reduction.

As such, the Directors consider it beneficial to renew the Existing Energy Management Framework Agreement so long as the relevant service fee and other terms are no less favourable to the Group than those of comparable services available from Independent Third Parties.

PRICING POLICY AND INTERNAL CONTROL POLICIES FOR CONTINUING CONNECTED TRANSACTIONS

As a general principle, the fees to be paid by the Group under the respective agreement of the continuing connected transactions of the Group shall be determined on an arm's length basis in accordance with the prevailing market prices of similar services or products and historical price based on the following principles:

- (i) by reference to the prevailing market price of the same or substantially similar services or products taking into account of the price of the same or substantially similar services or products with comparable scope or quantities and quality offered by other Independent Third Parties during their ordinary course of business on normal commercial terms; and
- (ii) if there are not sufficient comparable transactions above, by reference to the prices historically determined after arm's length negotiations between the parties.

In order to ascertain the prevailing market price, where applicable, the procurement department of the Group and its designated personnel will, from time to time, make reference to at least two Independent Third Parties for the provision of the same or similar services or products with comparable scope or quantities and quality under normal commercial terms in the ordinary course of business of such Independent Third Parties. The procurement department of the Group will then compare the market price with the fees under individual transactions pursuant to the respective agreement of continuing connected transactions, and conduct evaluation and assessment annually to ensure that the price payable by the Group will be on normal commercial terms or better and on terms no less favourable than those available from Independent Third Parties.

During the term of the respective agreement of the continuing connected transactions, the relevant personnel of the procurement department and finance department will monitor the transactions monthly to ensure that the transaction amount does not exceed the annual caps thereunder. The implementation of individual contracts shall be subject to the appropriate approval of the relevant personnel of the procurement department and finance department of the Group to ensure that the contracts are in line with the pricing policy and principal terms of the relevant agreement. The auditors of the Company shall also conduct annual reviews on pricing and annual caps of such continuing connected transactions to ensure that the transaction amounts are within the annual caps and that the transactions are conducted on the principal terms of the relevant agreement. The independent non-executive Directors shall review the management's review reports on the transactions contemplated under the relevant agreement to ensure that such transactions are conducted on normal commercial terms or better and are in the ordinary and usual course of business of the Group, and the terms and conditions thereof are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Chengshan Group is the controlling shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. Rongcheng Chengshan Properties and Rongcheng Chengshan Energy-Saving Services are wholly-owned subsidiaries of Chengshan Group, and each is therefore a connected person of the Company.

The transaction under the 2024 Property Lease Agreement is regarded as an acquisition of asset under Rule 14.04(1)(a) of the Listing Rules. The value of the right-of-use asset recognized under the 2024 Property Lease Agreement is approximately RMB24.9 million. As the highest percentage ratio is more than 0.1% but less than 5%, the transaction is classified as a one-off connected transaction and is subject to announcement and reporting requirements but exempt from independent shareholders' approval under Chapter 14A of the Listing Rules.

For the 2024 Property Services Agreement and the 2024 Energy Management Framework Agreement, as one or more of the applicable percentage ratios for the annual caps contemplated under each of the agreements exceed 0.1% but all of which are less than 5%, the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Rule 14A.76(2) of the Listing Rules.

GENERAL

The Board (including the independent non-executive Directors) considers that the entry of the 2024 Agreements is in the Group's ordinary course of business, and the terms and the annual caps thereunder are on normal commercial terms or better and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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, and Mr. Che Hongzhi serves as the executive director and chairman of Chengshan Group, all of them have therefore abstained from voting in the passing of the relevant resolutions in relation to the 2024 Agreements, and were not counted in the quorum in the relevant meeting of the Board in relation to the 2024 Agreements. Save as aforementioned, none of the other Directors have a material interest in the transactions contemplated under the 2024 Agreements and no other Director has abstained from voting.

INFORMATION ON THE PARTIES

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.

Prinx (Shandong) Tire

Prinx (Shandong) Tire is an indirect wholly-owned subsidiary of the Company. The principal businesses 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)) are 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.

Chengshan Group

As at the date of this announcement, Chengshan Group controls approximately 69.43% of the Company's issued share capital. Chengshan Group is ultimately held as to approximately 69.15% by Mr. Che Baozhen (the executive Director and chief executive officer) and his spouse, Ms. Bi Wenjing, Mr. Che Hongzhi (the chairman of the Board and non-executive Director) and his spouse, Ms. Li Xiuxiang. Mr. Wang Lei (non-executive Director) holds indirectly 3.72% effective interest in Chengshan Group through Rongcheng Chengda Equity Investment Centre (Limited Partnership) and directly 1.36% interest in Chengshan Group.

Mr. Shi Futao (executive Director) holds indirectly 1.24% effective interest in Chengshan Group through Rongcheng Fucheng Business Information Consulting Co., Ltd.. With respect to the remaining interest in Chengshan Group, it is held by 14 shareholders each holding less than 10% of the interest. Save as Rongcheng Chengda Equity Investment Centre (Limited Partnership), all the other 13 shareholders are Independent Third Parties. The principal businesses of Chengshan Group include (a) ocean food development, mariculture and hotel and tourism business operations; (b) real estate development; (c) property management; (d) property rental services; (e) external investment and provision of related consulting services; (f) provision of achievement transfer and information consulting services; (g) import and export business; and (h) provision of financial services.

Rongcheng Chengshan Properties

Rongcheng Chengshan Properties is wholly owned by Chengshan Group, a connected person of the Company. It is principally engaged in property management, gardening, apartment lease, retail of daily necessities, laundry, waste materials recycling, planting and sales of grain, vegetables and fruits.

Rongcheng Chengshan Energy-Saving Services

Rongcheng Chengshan Energy-Saving Services is wholly owned by Chengshan Group, a connected person of the Company. It is principally engaged in design and consultancy of energy-saving technologies, sales of energy-saving equipment, and energy-saving renovation services.

DEFINITIONS

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

“2024 Agreements”	collectively (i) the 2024 Energy Management Framework Agreement, (ii) the 2024 Property Lease Agreement, and (iii) the 2024 Property Services Agreement
“2024 Energy Management Framework Agreement”	the energy management framework agreement entered into between Prinx (Shandong) Tire and Rongcheng Chengshan Energy-Saving Services dated December 19, 2023
“2024 Property Lease Agreement”	the property lease agreement entered into between Prinx (Shandong) Tire and Chengshan Group dated December 19, 2023

“2024 Property Services Agreement”	the property services agreement entered into between Prinx (Shandong) Tire and Rongcheng Chengshan Properties dated December 19, 2023
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Chengshan Group”	Chengshan Group Company Limited (成山集團有限公司), a limited liability company established in the PRC on January 8, 1976 and one of the controlling shareholders of the Company
“China” or “PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau and Taiwan
“Company”	Prinx Chengshan Holdings Limited (浦林成山控股有限公司) (formerly known as Prinx Chengshan (Cayman) Holding Limited (浦林成山(開曼)控股有限公司)), an exempted company incorporated in the Cayman Islands with limited liability on May 22, 2015
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Existing Energy Management Framework Agreement”	the energy management framework agreement entered into between Prinx (Shandong) Tire and Rongcheng Chengshan Energy-Saving Services dated December 18, 2020
“Existing Property Lease Agreement”	the property lease agreement entered into between Prinx (Shandong) Tire and Chengshan Group dated December 18, 2020
“Existing Property Services Agreement”	the property services agreement entered into between Prinx (Shandong) Tire and Rongcheng Chengshan Properties dated December 18, 2020
“Group”	the Company and its subsidiaries

“HKFRS”	Hong Kong Financial Reporting Standards
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	independent third party(ies) who is/are not connected person(s) (has the meaning ascribed to it under the Listing Rules) of the Company and is/are independent of and not connected with the Company and directors, chief executive, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Prinx (Shandong) Tire”	Prinx Chengshan (Shandong) Tire Company Limited* (浦林成山(山東)輪胎有限公司) (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)), a sino-foreign equity joint venture established in the PRC on December 29, 2005, which was converted into a wholly foreign-owned enterprise on September 9, 2015 and an indirect wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Rongcheng Chengshan Energy-Saving Services”	Rongcheng Chengshan Energy-Saving Services Co., Ltd* (榮成成山節能服務有限公司), a limited liability company established in the PRC on September 27, 2011 and is wholly owned by Chengshan Group, being a connected person of the Company
“Rongcheng Chengshan Properties”	Rongcheng Chengshan Properties Co., Ltd* (榮成成山物業有限公司), a limited liability company established in the PRC on May 22, 2006 and is wholly owned by Chengshan Group, being a connected person of the Company
“Shareholders”	holders of shares of the Company

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“%”

per cent.

By order of the Board
Prinx Chengshan Holdings Limited
Che Hongzhi
Chairman and Non-executive Director

Shandong, the PRC, December 19, 2023

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. Shao Quanfeng as non-executive Directors; Mr. Choi Tze Kit Sammy, Mr. Wang Chuansheng and Mr. Jin Qingjun as independent non-executive Directors.

* *For identification purpose only*