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DONGFENG MOTOR GROUP COMPANY LIMITED*

東風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: 489)

CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE TARGET ASSETS

BACKGROUND

On 23 February 2024, VOYAH Automotive (a direct non-wholly owned subsidiary of the Company) and DFM entered into the Asset Transfer Agreement, pursuant to which VOYAH Automotive has agreed to acquire and DFM has agreed to sell the Target Assets at the Consideration of RMB52.3 million, subject to the terms and conditions therein.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, DFM is the controlling shareholder of the Company, which directly and indirectly holds 72.85% of the issued share capital of the Company, and is therefore a connected person of the Company under Rule 14A.07 of the Listing Rules. The Asset Transfer and the transactions contemplated thereunder therefore constitute connected transactions of the Company.

As the highest percentage ratio under Rule 14.07 of the Listing Rules applicable to the Asset Transfer is more than 0.1% but less than 5%, the Asset Transfer and the transactions contemplated thereunder are subject to the reporting and announcement requirements but exempted from the circular and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

ASSET TRANSFER

On 23 February 2024, VOYAH Automotive (a direct non-wholly owned subsidiary of the Company) and DFM entered into the Asset Transfer Agreement, pursuant to which VOYAH Automotive has agreed to acquire and DFM has agreed to sell the Target Assets at the Consideration of RMB52.3 million, subject to the terms and conditions therein.

The principal terms of the Asset Transfer Agreement are as follows:

Date

23 February 2024

Parties

DFM (as the transferor)

VOYAH Automotive (as the transferee)

Subject matter

DFM agreed to transfer, and VOYAH Automotive agreed to acquire, the Target Assets.

Transfer price

The transfer price for the Equity Transfer shall be RMB52.3 million, which is equal to the appraised value of the Target Assets as at 30 September 2023 as set out in the valuation report dated 5 January 2024 issued by Zhongrui Shilian Asset Appraisal Group Co., Ltd. * (中瑞世聯資產評估集團有限公司) (the “**Valuer**”), which is an independent asset appraisal firm.

The above transfer price shall be remitted by VOYAH Automotive to the designated bank account of DFM in one lump sum within 10 working days from the date of the Asset Transfer Agreement.

Conditions precedent

Completion of the Asset Transfer is subject to the satisfaction of all of the following conditions precedent:

1. Each party has the full legal rights which are necessary for entering into and performing all the obligations of the Asset Transfer Agreement and has obtained all internal and external approvals, authorizations and permissions, including but not limited to shareholders' meetings and board meeting, as stipulated by law and the articles of association of the parties.
2. The documents and information submitted by each party shall be true, comprehensive and effective.
3. DFM undertakes that:
 - a. it is in possession of the entire rights of the Target Assets, and has the rights to dispose and transfer the Target Assets.
 - b. prior to the date of the Asset Transfer Agreement, DFM had not transferred or pledged any rights to the Target Assets to any third party.
 - c. upon the date of the Asset Transfer Agreement, DFM will no longer use, license others to use, pledge or transfer any rights to the Target Assets to any third party, unless otherwise expressly agreed in the Asset Transfer Agreement.
4. VOYAH Automotive undertakes that it is qualified to acquire the Target Assets.

Completion date

The completion date of the Asset Transfer shall be the date on which the relevant trademark transfer filings are completed.

Liability for breach of contract

If any party fails to fully perform or suspends the performance of any of its material obligations under the Asset Transfer Agreement, it shall constitute a breach of the Asset Transfer Agreement. If the breaching party fails to rectify the breach within thirty (30) days upon receiving a written notice of such event of breach from the other party, the other party is entitled to terminate the Asset Transfer Agreement. If the non-breaching party suffers any costs, liabilities or losses due to the breach, the breaching party shall be responsible to compensate the non-breaching party.

A. BASIS OF USING THE INCOME APPROACH

Pursuant to the valuation report, the Valuer has considered the applicability of three basic asset valuation approaches, namely, market approach, cost approach and income approach.

Market approach

The market approach is based on a comparison with the actual price paid for the transfer of rights to a similar intellectual property asset under comparable circumstances.

There are, as the Valuer identified, few or no similar assets that have recently been sold, hence it would be difficult to obtain appropriate market data. Therefore the market approach was not used for valuation.

Cost approach

The cost method establishes the value of an intellectual property asset by calculating the cost of a similar (or exact) intellectual property asset. The “VOYAH” series trademarks are self-created trademarks of DFM, and all related costs have been expensed but not capitalized to form trademark assets. In addition, it is difficult to accurately quantify and distinguish the effective and ineffective parts of related costs in the brand expenses that have already occurred. Meanwhile, the Valuer believes that the correlation between the profitability of a trademark and its cost is relatively weak. If the cost approach is adopted, it will be difficult to accurately reflect the profitability of intangible assets. Therefore the cost approach was not used for valuation.

Income approach

The income approach values the intellectual property asset on the basis of the amount of economic income that it is expected to generate, adjusted to its present day value.

The Valuer is of the view that the income generated by the Target Assets in the future can be reasonably estimated, the conditions for using the income method are met. Therefore, the income method was used to evaluate the Target Assets this time.

INPUTS OF THE VALUATION

The valuation formula is as follows:

$$V = \sum_{i=1}^n \frac{(A_i \times K)}{(1+R)^t}$$

Where, $i = 1, 2, 3 \dots N$, i is an integral number

V: Valuation value

A_i : Anticipated revenue in future period I

K: Sharing rate of the Target Assets

R: Discount rate

1. Basis of determining the income forecast period

According to relevant domestic laws and regulations, the registration protection period of a trademark is generally ten years. Once expires, the trademark owner can apply for extension and there is no limit on the number of extensions. As VOYAH Automotive officially released its brand strategy and first concept car iLand in July 2020, the Target Assets have been in use for relatively short period of time.

Once the Target Assets are transferred, the renewal and promotion of the Target Assets shall be carried out by VOYAH Automotive as the transferee and DFM as the original registrant of the Target Assets shall cease to be responsible, hence the profit period is limited.

The income forecast period of the Target Assets commenced in October 2023 following the benchmark date of the valuation as at 30 September 2023. There are two trademarks among the Target Assets that will expire on 20 June 2030, and such date also marks the end of the income forecast period.

2. Basis of determining the sharing rate of the Target Assets

The sharing rate of the Target Assets is determined based on 1. determination of industry profit rate; 2. ratio of technical contribution to revenue generated; 3. ratio of trademark revenue to technical revenue; and income commission rate from trademark assets is 0.10%.

3. Discount rate

The discount rate refers to the ratio that converts the expected future income into the present value, which is for restoring the expected income. In order to determine the discount rate, the Valuer adopted the safe interest rate (risk-free rate of return) plus the risk-reward rate.

The risk-free rate of return is a form of compensation for the time value of funds. This compensation is divided into two parts. The first part refers to the average profit rate under no inflation and risk-free conditions, which is the reward for transferring the right to use funds. The second part refers to the inflation surcharge, which is a form of compensation for the decrease in purchasing power caused by inflation. Since in practice it is impossible to separate these two compensations, together they constitute the risk-free rate. This Valuer adopted a 5-10-year treasury bond maturity yield of 3.01% as the risk-free return rate. The risk-return rate is derived from product risk, operating risk, market risk and financial risk. The discount rate was assessed at 17.71%.

B. ASSUMPTIONS IN RELATION TO THE VALUATION REPORT

The details of the principal assumptions upon which the valuation was based are as follows:

1. Basic assumptions

- (1) Transaction assumption: It is assumed that all assets to be appraised are in the transaction process, and the valuation is carried out based on simulated markets such as the trading conditions of the asset to be valued.
- (2) Open market assumption: It is assumed that the assets to be appraised are traded in the open market. In such market, the transferor and the transferee have equal status, and each has the opportunity and time to obtain sufficient market information, and the both parties enter into the transaction in voluntary, rational and non-coercive manner.
- (3) It is assumed that there will be no major changes in the current relevant laws, regulations and policies, and the macroeconomic conditions of the PRC after the valuation base date, and there will be no major changes in the political, economic and social environment of the region where the parties to this transaction are located.

- (4) It is assumed that the management of the owner of the Target Assets after the valuation base date is responsible, stable, and capable of fulfilling its duties.
- (5) It is assumed that the owner of the Target Assets fully complies with all relevant laws and regulations.
- (6) It is assumed that there is no force majeure or unforeseeable circumstances after the valuation base date which would cause significant adverse impact on the owner of the Target Assets.

2. Special assumptions

- (1) It is assumed that the owner of the Target Assets after the valuation base date will, according to the business plan, be able to continue smooth operation after the valuation date.
- (2) It is assumed that the accounting policies adopted by the owner of the Target Assets after the valuation base date are in all material aspects consistent with the accounting policies adopted at the time the report was prepared.
- (3) It is assumed that there is no material change to the interest rates, exchange rates, tax bases and tax rates, policy levy fees and other assessment bases related to owner of the Target Assets in the future.
- (4) It is assumed that the owner of the Target Assets receives net cash flow evenly during the year.

REASONS FOR AND BENEFITS OF THE ASSET TRANSFER

The Asset Transfer will prompt VOYAH investors to recognize the integrity of VOYAH Automobile's core assets, which will in turn encourage the potential investors to invest in VOYAH Automobile. The Asset Transfer will drive the Group towards achieving the capitalization goals of VOYAH Automobile, and will greatly promote and benefit VOYAH Automobile's production and operation.

The Directors (including the independent non-executive Directors) are of the view that the Asset Transfer Agreement was entered into on normal commercial terms in the ordinary and usual course of business of the Group, are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. None of the Directors has a material interest in the Asset Transfer, nor has any Director abstained from voting on the Board resolution approving the Asset Transfer.

GENERAL INFORMATION

Information on VOYAH Automobile and the Group

VOYAH Automobile is principally engaged in automotive technology development and service, production and sales of automobiles and auto parts, etc., the equity interest of which is held by the Company by approximately 78.88%. As at the date of this announcement, the ultimate beneficial owner of VOYAH Automobile is the SASAC. Save for the Company and the SASAC, there is no other individual or entity which holds more than one third of the equity interest of VOYAH Automobile as at the date of this announcement.

The Group is principally engaged in the manufacture of commercial vehicles (including trucks and buses), passenger vehicles (including basic passenger cars, MPVs and SUVs), engines and other auto parts. The Group is also engaged in other automotive related businesses including vehicle and vehicle manufacturing equipment import/export businesses and the manufacture of vehicle manufacturing equipment, finance businesses, insurance agency businesses and used car businesses.

Information on DFM

DFM is the controlling shareholder of the Company and it is principally engaged in the manufacture and supply of commercial vehicles, passenger vehicles, electric vehicles as well as ancillary services and products. As at the date of this announcement, the ultimate beneficial owner of DFM is the SASAC.

Information on the Target Assets

The Target Assets comprise 426 trademarks in the VOYAH series, including 368 registered trademarks and 58 trademarks that are under application. VOYAH is a high-end smart electric vehicle brand of the Group which produces smart electric vehicles which are high quality and good value for the money. As at 31 December 2023, the book value of the Target Assets was RMB0.

As the Target Assets were developed by DFM, there is no applicable original acquisition cost in respect of the Target Assets to DFM.

IMPLICATIONS UNDER THE LISTING RULES

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DEFINITIONS

“Asset Transfer”	the transfer of the Target Assets from DFM to VOYAH Automobile pursuant to the Asset Transfer Agreement
“Asset Transfer Agreement”	the asset transfer agreement dated 23 February 2024 entered into between DFM, as the transferor, and VOYAH Automobile, as the transferee
“Board”	the board of Directors
“Company”	Dongfeng Motor Group Company Limited* (東風汽車集團股份有限公司), a joint stock limited company incorporated in the PRC with limited liability and the H shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning as ascribed to it in the Listing Rules
“controlling shareholder(s)”	has the meaning as ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“DFM”	Dongfeng Motor Corporation (東風汽車集團有限公司), a state-owned enterprise established under the laws of the PRC and a controlling shareholder of the Company which directly and indirectly holds approximately 72.85% equity interest in the total issued share capital of the Company
“Group”	the Company and its subsidiaries

“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China (for the purpose of this announcement excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	The State-owned Assets Supervision and Administration Commission of the State Council
“Shareholder(s)”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” and “subsidiaries”	has the meaning ascribed thereto under the Listing Rules
“Target Assets”	certain trademarks in relation to the VOYAH brand of the Group
“VOYAH Automotive”	VOYAH Automobile Technology Co., Ltd. * (嵐圖汽車科技有限公司), a company incorporated in the PRC with limited liability
“%”	per cent.

By order of the board of directors
YANG QING
Chairman

Wuhan, the PRC, 23 February 2024

As at the date of this announcement, Mr. Yang Qing and Mr. You Zheng are the executive directors of the Company, Mr. Zong Qingsheng, Mr. Leung Wai Lap, Philip and Mr. Hu Yiguang are the independent non-executive directors of the Company.

* *For identification purposes only*