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Canggang Railway Limited

滄港鐵路有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2169)

DISCLOSEABLE TRANSACTION — SALE AND LEASEBACK ARRANGEMENT

SALE AND LEASEBACK ARRANGEMENT

On 6 January 2022 (after trading hours), the Lessee, i.e. Cangzhou Canggang Railway Co., Ltd.* (滄州滄港鐵路有限公司), an indirect wholly-owned subsidiary of the Company, entered into the Sale and Leaseback Agreement with the Lessor, pursuant to which the Lessee agreed to sell the Facilities to the Lessor at Sale Price and to lease back the Facilities from the Lessor for a term of fifty-four (54) months in accordance with the terms and conditions therein.

IMPLICATION UNDER THE LISTING RULES

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Sale and Leaseback Arrangement exceeds 5% but is less than 25%, the Sale and Leaseback Arrangement constitutes a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

On 6 January 2022 (after trading hours), the Lessee, i.e. Cangzhou Canggang Railway Co., Ltd.* (滄州滄港鐵路有限公司), which is an indirect wholly-owned subsidiary of the Company, entered into the Sale and Leaseback Agreement with the Lessor in respect of the Sale and Leaseback Arrangement, the principal terms of which are set out below.

SALE AND LEASEBACK ARRANGEMENT

Date of the Sale and Leaseback Agreement

6 January 2022

Parties

Lessor: China Railway Financial Leasing Company Limited

Lessee: Cangzhou Canggang Railway Co., Ltd.* (滄州滄港鐵路有限公司), an indirect wholly-owned subsidiary of the Company

Subject matter

Pursuant to the Sale and Leaseback Agreement, the Lessee agreed to sell the Facilities to the Lessor at the Sale Price of RMB99.50 million (equivalent to approximately HK\$121.39 million), and the Lessee further agreed to lease back the Facilities from the Lessor for a period of fifty-four (54) months from the date on which the Sale Price is paid by the Lessor (the “**Lease Period**”), subject to early termination in accordance with the terms and conditions of the Sale and Leaseback Agreement.

The Lease Period shall commence no later than 24 June 2022. If any of the conditions for the payment of the Sale Price by the Lessor under the Sale and Leaseback Agreement are not satisfied, the Lessor has the right to terminate the Sale and Leaseback Agreement.

Sale Price

The Sale Price of approximately RMB99.50 million (equivalent to approximately HK\$121.39 million) was agreed after arm’s length negotiations between the Lessor and the Lessee with reference to, among others the net book value of the Facilities as at 30 November 2021 which amounted to approximately RMB141.85 million (equivalent to approximately HK\$173.06 million).

Lease Period

The Lease Period shall be a period of fifty-four (54) months commencing from the date on which the Sale Price is fully settled by the Lessor.

Lease payment and payment term

The total amount of lease payment in respect of the Facilities over the Lease Period is estimated to be approximately RMB108.62 million (equivalent to approximately HK\$132.52 million), which shall be paid by bank remittance by the Lessee to the Lessor in fifty-four (54) monthly instalments during the Lease Period. The total amount of lease payment represents the sum of lease principal amount (i.e. the amount of the Sale Price) of RMB99.50 million (equivalent to approximately HK\$121.39 million) and the lease interest of approximately RMB9.12 million (equivalent to approximately HK\$11.13 million). The lease interest was calculated based on the annual interest rate of 4% which was agreed after arm’s length negotiations between the parties with reference to the Sale Price payable by the Lessor for the purchase of the Facilities and the credit risks associated with the Sale and Leaseback Arrangement.

Option to repurchase the Facilities

Upon the Lessee having paid all the lease payments and other payables (if any) to the Lessor in accordance with the terms and conditions of the Sale and Leaseback Agreement, the Lessee shall have the option to repurchase the Facilities at a nominal consideration of RMB9,950 (equivalent to HK\$12,139).

Security money and handling charge

The Lessee agrees to pay approximately RMB9.95 million (equivalent to approximately HK\$12.14 million) as security money for the performance of its obligations under the Sale and Leaseback Agreement and RMB4.48 million (equivalent to HK\$5.46 million) as handling charge for the implementation of the Sale and Leaseback Arrangement. Such security money shall be returned to the Lessee within ten (10) business days upon expiration of the Lease Period after deducting any amount in relation to liquidated damages or other payables which the Lessee is liable for according to the terms and conditions of the Sale and Leaseback Agreement.

The parties acknowledge that, the Lessee shall not offset any amount payable during the Lease Period with the security money, nor shall the Lessee delay or refuse to pay any amount payable on the ground that the security money has been paid, during the Lease Period.

Before the expiration of the Lease Period, if the Lessee does not have any breach of contract which is ongoing or has not been corrected, and the amount of the security money is sufficient to offset the Lessee's outstanding lease payment and other payables, at the request of the Lessee, the Lessor shall have the right, at its sole discretion, to offset the security money against the above-mentioned lease payment or other payables in the following order: (i) the final repurchase price; (ii) the lease payment payable (in reverse order from the last instalment); and (iii) other payables. The Lessor has the right to change the above offsetting order at its own discretion.

Guarantee and securities

The following agreements were executed by the Lessee and/or the Guarantor to secure the performance obligations (including, among others, payment obligations) owed by the Lessee to the Lessor under the Sale and Leaseback Agreement.

- 1) Pursuant to the agreement for the pledge of assets, the Lessee agreed to pledge the Facilities and equipments to secure certain amounts payables by the Lessee to the Lessor under the Sale and Leaseback Agreement.
- 2) Pursuant to the guarantee agreement, the Guarantor agreed to provide guarantee in favour of the Lessor to secure all amounts payables by the Lessee to the Lessor under the Sale and Leaseback Agreement.
- 3) Pursuant to the agreement for the pledge of shares, the Guarantor agreed to pledge its 47.91% equity interest in the Lessee to secure all amounts payables by the Lessee to the Lessor under the Sale and Leaseback Agreement.

REASONS FOR AND BENEFITS OF THE SALE AND LEASEBACK ARRANGEMENT

The proceeds from the sale are intended to be used to supplement the working capital of the Group. The Directors are of the view that the entering into of the Sale and Leaseback Agreement will enhance the working capital positions of the Group for its daily operations and allow the Group to optimise its asset and debt structures by increasing the percentage of long-term financing while at the same time maintaining appropriate rights over the Facilities, thereby bringing greater benefits to the Shareholders.

The Directors are of the view that the Sale and Leaseback Arrangement is on normal commercial terms after arm's length negotiation between the parties and the terms of the Sale and Leaseback Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE COMPANY AND THE PARTIES UNDER THE SALE AND LEASEBACK AGREEMENT

The Company and the Lessee

The Company is an exempted company incorporated in the Cayman Islands with limited liability on 19 October 2018. The Company and its subsidiaries are principally engaged in the provision of rail freight transportation and related ancillary services by operating freight railway and railway yards in the PRC. The Lessee is the Company's wholly-owned subsidiary, which is a local railway operator based in Hebei Province, principally engaged in providing eastbound and westbound rail freight services and other ancillary services, including loading and unloading, road freight transportation, operation, repair and maintenance of special service lines, railway roadbed and other railway facility construction and certain other businesses.

The Lessor

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Lessor is a Sino-foreign equity joint venture company incorporated in the PRC with limited liability. The company is headquartered in Lujiazui Financial and Trade Zone, Pudong, Shanghai. It is mainly engaged in the provision of a financial services specialising in the railway sector.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Lessor and its ultimate beneficial owners are Independent Third Parties, and the Lessor is principally engaged in the business of provision of financial services.

Guarantor

Cangzhou Railway Logistics Services Co., Ltd.* (滄州鐵運物流有限公司) is a company established under the laws of the PRC with limited liability on 14 February 2019 and is a wholly-owned subsidiary of the Company, which holds 97% equity interests in the Lessee, i.e. Cangzhou Canggang Railway Co., Ltd. It is an investment holding company of the Group.

IMPLICATION UNDER THE LISTING RULES

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Sale and Leaseback Arrangement exceeds 5% but is less than 25%, the Sale and Leaseback Arrangement constitutes a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

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

“Board”	means the board of Directors
“Company”	means Canggang Railway Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Director(s)”	means the director(s) of the Company
“Facilities”	means the facilities to be sold to the Lessor and to be leased back to the Lessee under the Sale and Leaseback Agreement, including railway locomotives, railway open wagon, container reach stacker and connecting line from Jinghai East Station to the Shuohuang Railway and connecting lines from Canggang to the Hanhuang Bohai West Station
“Group”	means the Company and its subsidiaries as at the date of this announcement
“Guarantor”	means Cangzhou Railway Logistics Services Co., Ltd.* (滄州鐵運物流有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company, which holds 97% equity interests in the Lessee, i.e. Cangzhou Canggang Railway Co., Ltd.
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong

“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	means third party(ies) independent of the Company and its connected persons (having the meaning ascribed to it under the Listing Rules)
“Lessee”	means Cangzhou Canggang Railway Co., Ltd.* (滄州滄港鐵路有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Lessor”	means China Railway Financial Leasing Company Limited* (中鐵融資租賃有限公司), a company established in the PRC with limited liability
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	means The People’s Republic of China
“Sale Price”	means the consideration of approximately RMB99.50 million (equivalent to approximately HK\$121.39 million) payable by the Lessor for the purchase of the Facilities from the Lessee
“RMB”	means Renminbi, the lawful currency of the PRC
“Sale and Leaseback Agreement”	means the sale and leaseback agreement dated 6 January 2022 entered into by and between the Lessee and the Lessor in relation to the Sale and Leaseback Arrangement
“Sale and Leaseback Arrangement”	means the purchase of the Facilities by Lessor the Lessee pursuant to the terms of the Sale and Leaseback Agreement
“Shareholder(s)”	means the shareholder(s) of the Company

“Stock Exchange” means The Stock Exchange of Hong Kong Limited

“%” means per cent.

In this announcement, for the purpose of illustration only, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$1.22. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

By Order of the Board
Canggang Railway Limited
Liu Yongliang
Chairman

Hong Kong, 6 January 2022

As at the date of this announcement, the executive Directors are Mr. Liu Yongliang and Mr. Yi Weiming; the non-executive Directors are Mr. Xu Zihua and Mr. Qin Shaobo; and the independent non-executive Directors are Mr. Liu Changchun, Mr. Zhao Changsong and Ms. Lyu Qinghua.

* *The English translation of company names in Chinese is for identification purposes only. If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail.*