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If you are in doubt about this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China ZhengTong Auto Services Holdings Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司

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

(Stock Code: 1728)

**CONNECTED TRANSACTION INVOLVING
ISSUE OF NEW SHARES TO CONNECTED PERSONS
UNDER THE SHARE AWARD SCHEME
PURSUANT TO SPECIFIC MANDATE
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent
Board Committee and the Independent Shareholders**



SOMERLEY CAPITAL LIMITED

A notice convening the EGM of China ZhengTong Auto Services Holdings Limited is set out on pages 59 to 62 of this circular.

PRECAUTIONARY MEASURES FOR THE EGM

In order to facilitate the prevention and control of the spread of the Coronavirus and to safeguard the health and safety of the Shareholders and investors, the Shareholders, instead of attending the EGM in person or by their own proxy, may appoint the Chairman of the EGM as their proxy to vote on relevant resolutions.

Precautionary measures taken by the Company include the followings:

- **Compulsory body temperature checks and health declarations**
- **Compulsory wearing of surgical face masks throughout the whole EGM**
- **No distribution of refreshments**

Any person who does not comply with the precautionary measures may be denied entry into the EGM venue.

PRECAUTIONARY MEASURES FOR THE EGM

In view of the ongoing Novel Coronavirus (COVID-19) epidemic and recent requirements for prevention and control of its spread, the Company will implement necessary preventive measures at the EGM to protect attending Shareholders, investors, staffs and other stakeholders from the risk of infection, including the followings:

- (i) Compulsory body temperature checks will be conducted for every Shareholder, proxy and other attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.2 degrees Celsius may be denied entry into the EGM venue or be required to leave the EGM venue.
- (ii) All Shareholders, proxies and other attendees are required to complete and submit at the entrance of the EGM venue a declaration form confirming their names and contact details, and confirming that they have not travelled to, or to their best of knowledge had physical contact with any person who has recently travelled to, any affected countries or areas outside of Hong Kong (as per guidelines issued by the Hong Kong government at www.chp.gov.hk/en/features/102742.html) at any time in the preceding 14 days. Any person who does not comply with this requirement may be denied entry into the EGM venue or be required to leave the EGM venue.
- (iii) The attendees must wear surgical face masks inside the EGM venue at all times, and to maintain a safe distance between seats.
- (iv) There will not be any serving of refreshments.

To the extent permitted under law, when necessary, the Company reserves the right to deny entry into the EGM venue or require any Shareholders or person to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

The Shareholders, for the benefit of facilitating the prevention and control of the spread of the epidemic, instead of attending the EGM in person, may appoint the Chairman of the EGM as their proxy to vote on the relevant resolutions, by completing and returning the proxy form attached to this circular.

Whether or not you intend to attend the EGM in person, please complete the accompanying form of proxy in accordance with the instructions stated thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM (i.e. Tuesday, 15 September 2020 at 11:00 a.m.) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting and at any adjournment thereof if you so wish.

If any Shareholder has any questions about the relevant resolutions, or about the Company or any matters for communication with the Board, they are welcome to contact the Company via its investor relations department by sending an e-mail to ir@zhengtongauto.com.

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DEFINITIONS

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

| | |
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| “Announcement” | the announcement of the Company dated 12 June 2020 in relation to, among others, the adoption of the Scheme and the grant of Grant Shares including the Connected Grant Shares to the Connected Selected Participants under the Scheme |
| “associate(s)” | has the meaning ascribed to it in the Listing Rules |
| “Board” | the board of Directors |
| “Company” | China ZhengTong Auto Services Holdings Limited 中國正通汽車服務控股有限公司, an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange |
| “Connected Grant Shares” | 11,400,000 new Shares proposed to be allotted and issued to the Trustee on trust for the Connected Selected Participants |
| “connected person(s)” | has the meaning ascribed thereto under the Listing Rules |
| “Connected Selected Participants” | the Selected Participants who are connected with the Company or connected persons of the Company |
| “Director(s)” | the director(s) of the Company |
| “EGM” | the extraordinary general meeting of the Company to be convened and held on Thursday, 17 September 2020 at 11:00 a.m. at which the ordinary resolutions for the grant of the Specific Mandate and the allotment and issue of the Connected Grant Shares will be considered and, if thought fit, approved by the Independent Shareholders |
| “Grant Date” | in relation to any Grant Share, the date on which the Grant Share is, was or is to be granted |
| “Grant Shares” | Shares, fully paid or credited as fully paid, granted or to be granted to Selected Participant(s) under the Scheme |
| “Group” | the Company and its subsidiaries from time to time |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |

DEFINITIONS

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| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | an independent board committee of the Board comprising all the independent non-executive Directors established for the purpose of advising the Independent Shareholders on the grant of the Specific Mandate, the allotment and issue of the Connected Grant Shares to the Trustee on trust for the Connected Selected Participants and transactions contemplated thereunder |
| “Independent Financial Adviser” | Somerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the grant of the Specific Mandate and the allotment and issue of Connected Grant Shares described herein and the transactions contemplated thereunder |
| “Independent Shareholders” | Shareholders other than the Connected Selected Participants and their respective associates |
| “Independent Third Party(ies)” | an individual(s) or a company(ies) who or which is (are) independent of and not connected with (within the meaning of the Listing Rules) any Directors, chief executive or substantial shareholders, of the Company, its subsidiaries or any of their respective associate(s) |
| “Latest Practicable Date” | 25 August 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular |
| “Listing Committee” | has the meaning ascribed to it in the Listing Rules |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Non-connected Selected Participants” | the Selected Participants who are not connected with the Company or connected persons of the Company |

DEFINITIONS

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| “Participant(s)” | any employees or directors of the Company or any of its subsidiaries whom the Board considers, in its sole discretion, to have contributed or will contribute to the Group; however, no individual who is resident in a place where the grant, acceptance or vesting of a grant of Grant Shares pursuant to the Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board, compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, shall be entitled to participate in the Scheme and such individual shall therefore be excluded from the term Participant |
| “Remuneration Committee” | the remuneration committee of the Board |
| “PRC” | People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan |
| “Scheme” | China ZhengTong Auto Services Holdings Limited Restricted Share Award Scheme adopted on 12 June 2020 by the Company |
| “Scheme Rules” | the scheme rules related to the Scheme in its present or any amended form |
| “Selected Participant(s)” | any Participant nominated and selected by the Board and approved by the Remuneration Committee in accordance with the terms of the Scheme Rules for an entitlement to receive a grant of Grant Shares under the Scheme |
| “SFO” | Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) |
| “Share(s)” | share(s) with a par value of HK\$0.10 each (or such other nominal amount as shall result from a sub-division or a consolidation of such shares from time to time) in the capital of the Company |
| “Shareholder(s)” | registered holder(s) of Shares |
| “Specific Mandate” | the specific mandate to be sought from the Independent Shareholders at the EGM to grant the authority to the Board for the allotment and issue of the Connected Grant Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Trust Deed” | the trust deed constituting the trust in connection with the Scheme, as restated, supplemented and amended from time to time |

DEFINITIONS

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| “Trust Fund” | all the property (including Shares, cash and non-cash income) for the time being and from time to time held or deemed to be held upon the trust of the Trust Deed contributed by the Company |
| “Trustee” | BOCI-Prudential Trustee Limited, the trustee appointed by the Company for the purpose of the trust in connection with the Scheme which is an Independent Third Party, or such other person(s) who for the time being is duly appointed to be the trustee(s) of the trust in connection with the Scheme |
| “2020 AGM” | the annual general meeting of the Company held on 12 June 2020 |
| “2020 General Mandate” | the general mandate granted by the Shareholders to the Directors to allot, issue and otherwise deal with new Shares at the 2020 AGM |
| “%” | per cent |



China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司

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

(Stock Code: 1728)

Executive Directors:

Mr. WANG Muqing (王木清) (*Chairman*)
Mr. WANG Kunpeng (王昆鵬)
(Vice-Chairman and Chief Executive Officer)
Mr. LI Zhubo (李著波) (*Chief Financial Officer*)
Mr. WAN To (尹濤)

Registered Office:

Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Independent Non-executive Directors:

Dr. WONG Tin Yau, Kelvin (黃天祐)
Dr. CAO Tong (曹彤)
Ms. WONG Tan Tan (王丹丹)

Principal Place of Business

in Hong Kong:
Unit 5905, 59/F.
The Center
99 Queen's Road Central
Hong Kong

31 August 2020

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION INVOLVING
ISSUE OF NEW SHARES TO CONNECTED PERSONS
UNDER THE SHARE AWARD SCHEME
PURSUANT TO SPECIFIC MANDATE
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement of the Company dated 12 June 2020 and the clarification announcement of the Company dated 18 June 2020 in connection with, among other matters, the issue and grant of Shares under the Scheme to conditionally grant a total of 47,100,000 Grant Shares to 40 Selected Participants in accordance with the terms of the Scheme, among which 11,400,000 Connected Grant Shares were conditionally granted to

LETTER FROM THE BOARD

the Connected Selected Participants by way of issue and allotment of new Shares pursuant to the Specific Mandate, and that the Trustee will be issued and allotted with a total of 47,100,000 new Shares which shall be held by the Trustee on trust for those Selected Participants.

The purpose of this circular is to provide you with: (i) further details of the proposed grant of the Specific Mandate and the Connected Grant Shares; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) the notice of EGM; and (v) other information as required under the Listing Rules.

ISSUE AND GRANT OF SHARES UNDER THE SHARE AWARD SCHEME

Based on the recommendation of the Remuneration Committee, the Board (including all independent non-executive Directors) resolved to conditionally grant a total of 47,100,000 Grant Shares to 40 Selected Participants pursuant to the Scheme. The selection of the Selected Participants and the number of Grant Shares granted to each of the Selected Participants under the Scheme was determined in accordance with, among other factors, his/her contributions to the Group. Of the 47,100,000 Grant Shares, (i) 35,700,000 Grant Shares are granted to 37 Non-connected Selected Participants, all being independent employees of the Group who are not connected persons of the Company; and (ii) 11,400,000 Grant Shares are granted to 3 Connected Selected Participants, who are executive Directors of the Company, and they are therefore connected persons of the Company.

For the purpose of implementing and administering the Scheme, the Company has appointed BOCI-Prudential Trustee Limited as the Trustee by the Trust Deed. 47,100,000 Grant Shares will be issued to and held on trust by the Trustee which Shares will be used to satisfy the vesting of the 47,100,000 Grant Shares granted on 12 June 2020.

As the Connected Selected Participants are connected persons of the Company, the issue and allotment of the Connected Grant Shares in favour of the Connected Selected Participants will constitute a non-exempt connected transaction on the part of the Company under Chapter 14A of the Listing Rules.

Issue of the new Grant Shares

The 35,700,000 Grant Shares granted to the 37 Non-connected Selected Participants shall be satisfied by the allotment and issue of new Shares, fully paid or credited as fully paid to the Trustee pursuant to the 2020 General Mandate; and the 11,400,000 Grant Shares granted to the 3 Connected Selected Participants shall be satisfied by the allotment and issue of new Shares, fully paid or credited as fully paid to the Trustee pursuant to the Specific Mandate.

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Upon the allotment of the 47,100,000 new Shares, the Trustee will hold all those new Shares on trust for the 40 identified Selected Participants and such number of Shares shall be vested to each of them subject to the conditions as set out in the Scheme and the fulfillment of such conditions.

Vesting conditions and lapse

The Grant Shares shall vest in and be transferred by the Trustee to the Selected Participants after all relevant vesting conditions as set out in the Scheme Rules are fulfilled. The Grant Shares shall not vest under any of the following circumstances, in each case, pursuant to the terms of the Scheme Rules:

- (i) in the event of any failure of Selected Participants to remain as Participants prior to Vesting Date (as defined below);
- (ii) in the event that the Selected Participants fail to confirm the transfer of the Grant Shares prior to the Vesting Date;
- (iii) in the event that the Selected Participants fail to satisfy the annual performance review for the preceding financial year (“**Annual Performance Review**”) applicable to the relevant Selected Participants; and
- (iv) in the event of the death of Selected Participants.

Subject to the Scheme Rules, a Selected Participant shall automatically cease to be a Participant if the Selected Participant,

- (i) has been terminated by any member of the Group for cause involving for instance, dishonesty or serious misconduct; wilful disobedience; incompetence or negligence in the performance of his duties; or matters adversely affect his ability to perform his duties properly or bring the Group into disrepute;
- (ii) has been summarily dismissed by any member of the Group in so far as such Selected Participant is an employee of any member of the Group;
- (iii) become bankrupt or failed to pay his debts after they become due or has made any arrangement or composition with his creditors generally;
- (iv) has been convicted for any criminal offence involving his integrity or honesty;
- (v) has been charged, convicted or held liable for any offence under the relevant securities laws in Hong Kong or any other applicable laws or regulations in force from time to time;
- (vi) where he is an employee of any member of the Group, retirement, redundancy, severance or dismissal or because he has tendered his resignation;
- (vii) the subsidiary of the Company by which such Selected Participant is employed or contracted with (as the case may be) ceases to be a subsidiary of the Company;

LETTER FROM THE BOARD

(viii) an order for the winding up of the Company is made or a resolution is passed for the voluntary winding up of the Company.

In the event that a Selected Participant ceases to be a Participant under any of the circumstances set out in items (i), (ii), (iii), (iv) or (v) above, the grant shall automatically lapse forthwith and (a) all the unvested or outstanding Grant Shares not yet vested shall be immediately forfeited and the Grant Shares that have lapsed shall become unvested shares; and (b) all benefits accrued to the Grant Shares vested to such person shall form part of the Trust Fund and will apply in accordance with the Scheme Rules.

In the event that a Selected Participant ceases to be a Participant under any of the circumstances set out in items (vi), (vii) or (viii) above, the grant shall automatically lapse forthwith and (a) all the unvested or outstanding Grant Shares not yet vested shall be immediately forfeited and the Grant Shares that have lapsed shall become unvested Shares; and (b) all Grant Shares that have been vested shall belong to the Selected Participant.

If there occurs an event of change in control of the Company, whether by way of takeover, merger, scheme of arrangement, share repurchase or otherwise prior to the Vesting Date, then the Board shall determine at its discretion whether the Grant Shares granted shall vest in the relevant Selected Participants and, if applicable, whether the Vesting Dates of any grants shall be accelerated.

Vesting schedule

Grant Shares held by the Trustee on behalf of the Selected Participants shall vest in them in accordance with the vesting schedule ranging from the first to the fourth anniversary of the Grant Date, as determined and applicable to relevant Selected Participants according to their respective tenure of office with and/or level of position in the Group.

Ranking of the Grant Shares

The new Shares shall be granted to the Selected Participants for nil consideration and, when issued and fully paid or credited as fully paid, will rank *pari passu* among themselves and with the other Shares in issue, with the right to receive all dividends and other distribution declared, made or paid on or after the allotment date. Pursuant to the Scheme, neither the Trustee nor the Selected Participants shall exercise the voting rights in respect of such Shares held under the trust. A Selected Participant shall have no right to any dividend or any of the Shares held under the trust, all of which shall be retained by the Trustee for the benefit of the Scheme.

Conditions precedent

The allotment and issue of the Grant Shares and the vesting thereof to the Selected Participants shall be subject to the satisfaction of the vesting conditions applicable to the relevant Selected Participants. Please refer to the paragraph above headed “Vesting conditions and lapse” for details of the vesting conditions. The allotment and issue of the Connected Grant Shares to the Trustee on trust for the Connected Selected Participants

LETTER FROM THE BOARD

shall also be subject to (i) the approval by the Independent Shareholders at the EGM in respect of the grant of the Specific Mandate and the allotment and issue of the Connected Grant Shares and the transactions contemplated therein; and (ii) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in the Connected Grant Shares.

Application for Listing

As at the Latest Practicable Date, application has been made by the Company to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the 11,400,000 new Connected Grant Shares.

Further information about the proposed Connected Grant Shares

The information in relation to the proposed issue and allotment of the Connected Grant Shares to the Trustee is set out below:

Securities to be issued: 11,400,000 new Shares, to be issued and allotted to the Trustee.

Nominal value: The nominal value of each Share is HK\$0.1 and the aggregate nominal value of the Connected Grant Shares is HK\$1,140,000.

Market price of the Shares: The closing price of the Shares as at the date of the Announcement as quoted on the Stock Exchange was HK\$1.26 per Share.

The average closing price of the Shares for the five consecutive trading days immediately preceding (and excluding) the date of the Announcement as quoted on the Stock Exchange was approximately HK\$1.178 per Share.

The closing price of the Shares as at the Latest Practicable Date as quoted on the Stock Exchange was HK\$1.05 per Share.

Issue price: The issue price of the Connected Grant Shares is based on the above said average five-day closing price of the Shares of approximately HK\$1.178 per Share and the market value of such 11,400,000 Connected Grant Shares is HK\$13,429,200.

Funds to be raised: No fund will be raised by the Company as a result of the issue and allotment of the Connected Grant Shares.

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Purpose of the Scheme: The purpose of the Scheme is to encourage and retain Participants to work with the Group, to provide additional incentive for Selected Participants to achieve performance goals, as well as to attract personnel to join the Group. The grant of the Grant Shares can align the interests of the Selected Participants directly to the Shareholders through ownership of Shares.

Identity of the allottee(s): The Trustee, which will hold the Connected Grant Shares on trust for the Connected Selected Participants being three of the executive Directors, namely, Mr. WANG Kunpeng, Mr. LI Zhubo and Mr. WAN To.

Vesting condition and vesting dates: The Grant Shares held by the Trustee on behalf of the Selected Participants shall vest in them in accordance with the vesting schedule as set out in the Scheme and as disclosed in the paragraph above headed “Vesting schedule” and in the Announcement. As the 3 Connected Selected Participants, being the executive Directors, had served the Group for 10 years or more and/or whose office or role are vice-president level or above, 100% of the Connected Grant Shares granted to each of them will vest in him on the first anniversary of the Grant Date, i.e. 12 June 2021 (“**Vesting Date**”), subject to the satisfaction of the Annual Performance Review applicable to each of them to be elaborated below and other vesting conditions as set out in the Scheme, brief details of which are disclosed in the paragraph above headed “Vesting conditions and lapse” and the conditions precedent set out in the paragraph headed “Conditions precedent” above.

Annual Performance Review: Vesting of Grant Shares to a particular Connected Selected Participant shall be subject to satisfaction of his Annual Performance Review by attaining the below performance rank immediately preceding the relevant Vesting Date:

| Ranking of the Connected Selected Participant in his Annual Performance Review ^(Note) | Proportion of Vesting of Connected Grant Shares |
|---|--|
| Level S/A/B | 100% |
| Level C/D | 0% |

Note: Level S (excellent), Level A (overachieving expectation), Level B (expectation fulfilled), Level C (improvement required), Level D (incompetent)

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The Annual Performance Review is based on several key performance indicators relating to the role and responsibility of each of the Connected Selected Participants.

In the event of a Connected Selected Participant is under-performed (i.e. scored at Level C or D at the Annual Performance Review immediately preceding the relevant Vesting Date), the Connected Grant Shares shall not vest in the Connected Selected Participants and shall deem to be lapsed immediately on the Vesting Date and shall become unvested Shares.

Set out below are details of the Connected Grant Shares proposed to be granted in favour of the Connected Selected Participants:

| Name of the Connected Selected Participants | Number of Connected Grant Shares | Approximate market value of the Connected Grant Shares as of the date of the Announcement <i>HK\$</i> <i>(Note 1)</i> | Approximate market value of the Connected Grant Shares as of the Latest Practicable Date <i>HK\$</i> <i>(Note 2)</i> | Approximate percentage of total number of Shares in issue as of the Latest Practicable Date % |
|---|----------------------------------|---|--|--|
| Mr. WANG Kunpeng | 4,400,000 | 5,183,200 | 4,620,000 | 0.16 |
| Mr. LI Zhubo | 4,000,000 | 4,712,000 | 4,200,000 | 0.15 |
| Mr. WAN To | 3,000,000 | 3,534,000 | 3,150,000 | 0.11 |
| Total | 11,400,000 | 13,429,200 | 11,970,000 | 0.42 |

Notes:

1. The market value of the Connected Grant Shares is calculated based on the average closing price of the Shares for the five consecutive trading days immediately preceding (and excluding) the date of the Announcement as quoted on the Stock Exchange of approximately HK\$1.178 per Share.
2. The market value of the Connected Grant Shares is calculated based on the closing market price per Share of HK\$1.05 as of 25 August 2020, being the Latest Practicable Date.

The aggregate of 11,400,000 new Connected Grant Shares to be allotted and issued by the Company to the Connected Selected Participants represent (i) approximately 0.42% of the total number of Shares in issue as of the Latest Practicable Date; and (ii) approximately 0.42% of the total number of Shares in issue as enlarged by the allotment and issue of the new 47,100,000 Grant Shares (assuming there is no change in the number of issued Shares of the Company from the Latest Practicable Date up to the allotment date of the new Shares, other than the allotment and issue of the new Grant Shares).

LETTER FROM THE BOARD

The grant of the Connected Grant Shares to the Connected Selected Participants has been approved by all members of the Remuneration Committee. The Board determined the Selected Participants (including the Connected Selected Participants) and the number of Grant Shares granted to each of them with reference to (i) the performance of the particular Selected Participant and his role and responsibilities and contribution to the Group; (ii) the general financial condition of the Group; and (iii) the Group's overall business objectives and future development plan.

The position, roles, responsibilities, years of services and the key performance indicators of the Annual Performance Review of the Connected Selected Participants are set out as follows:

| Name of the Connected Selected Participants | Position | Year of services | Responsibility | Key performance indicators of the Annual Performance Review |
|---|---|------------------|--|--|
| Mr. WANG Kunpeng | executive Director and vice chairman of the Board and chief executive officer | 13 | Responsible for the strategic planning of the Group | Operating performance of the Group, formulation and implementation of the Group's strategies, management of business partners, team management and optimisation of the Group's organisation. |
| Mr. LI Zhubo | executive Director and chief financial officer | 22 | Responsible for financial planning and financial management of the Group | Operating performance of the Group, financial and treasury management of the Group, team management and optimisation of the Group's organisation. |
| Mr. WAN To | executive Director and vice president | 8 | Responsible for the investment and development of the Group | Operating performance of the Group, development of the Group's businesses network, management of the Group's functional departments, team management and optimisation of the Group's organisation. |

LETTER FROM THE BOARD

In assessing the selection of the Connected Selected Participants and the number of Grant Shares granted to each of them, the Board took into account the following factors:

- (i) *Performance of the particular Connected Selected Participant and his role and responsibilities and contribution to the Group*

Mr. Wang Kunpeng has over 22 years of experience in the automobile industry. He joined the Group in 2006 and has held several senior management positions with the Group and its major subsidiaries, including the chief executive officer. Mr. Wang was re-designated as the vice chairman of the Board in January 2017 and has become an executive Director since July 2010. He is mainly responsible for the strategic planning of the Group, including the development of overall business and operation strategies and overall management of the Group's performance. For each of the two financial years ended 31 December 2019, Mr. Wang has attained a ranking of Level A in his Annual Performance Review.

Mr. Li Zhubo has engaged in financial management in automobile dealership industry with nearly 25 years of experience. He joined the Group in 1997 and has been an executive Director since July 2010. He is mainly responsible for financial planning and financial management of the Group, including the overall management and supervision of the financial management system with an aim to upgrade the financial reporting team's professionalism. For each of the two financial years ended 31 December 2019, Mr. Li has attained a ranking of Level A in his Annual Performance Review.

Mr. Wan To has nearly 19 years' experience in marketing and investment for Chinese and foreign-invested auto dealers. He first joined the Group in January 2008 and had been assistant to chief executive officer and general manager of the network development department of the Company. He then left the Group for personal reasons in 2009 and re-joined in 2012. He has been vice president of the Company since April 2013 and has become an executive Director since November 2015. Mr. Wan is mainly responsible for investment and development of the Group, including development of business investment strategies for possible business collaboration, mergers and acquisitions. For each of the two financial years ended 31 December 2019, Mr. Wan has attained a ranking of Level A in his Annual Performance Review.

Each of the three Connected Selected Participants has held senior position in the Group. They together constitute the core management team of the Group and have been taking the leadership role in the key aspects for the on-going operation and development of the Group covering the operation of subsisting businesses, financial planning, investment, future development and the overall management of the Group. As outlined in their respective brief biographies above, each of them has extensive experience in the automobile industry. The Board is of the view that the role and responsibility of the Connected Selected Participants are directly affecting and will continue to affect the performance of the Group. In particular, the Board considered that the operation and development of the Group had been and will continue to be, to a large extent, relying on the contribution of the Connected Selected Participants who,

LETTER FROM THE BOARD

individually and collectively, have led to the Group's success in recent years in terms of the expansion of the Group and the growing trend of its various business segments. Please refer to the paragraphs below for a discussion of the development and financial conditions of the Group.

(ii) General financial condition of the Group

The principal business of the Group comprises 4S dealership business, supply chain business and financial services business. The Group has concentrated on luxury and ultra-luxury branded automobile sales in China, and has made significant effort to its traditional after-sales services and post-market businesses in sectors of financing, insurance brokerage, pre-owned automobiles and beyond. Over the past few years, the Group's various business segments have been on their overall expanding and growing trend. The Group's revenue increased from approximately RMB29.4 billion for the year ended 31 December 2015 to approximately RMB37.5 billion for the year ended 31 December 2018, with a slight decrease to approximately RMB35.1 billion for the year ended 31 December 2019.

Benefitting from the growth of household disposable income and upgrade of consumption in the PRC, there has been a shift of domestic demands to the high-end market, leading to the growth in the revenue generated from sales of luxury and ultra-luxury branded automobiles for the years 2015 to 2018, which accounted for a majority of over 84% of the revenue generated from the sales of new automobile. Driven by the further intensifying competition in the luxury brand market, coupled with the Group's strategic realignment of some brand operations based on market conditions there was a slight decrease in revenue derived from the sales of new automobiles for the year ended 31 December 2019.

The Group's supply chain business has been complementary to its automobile dealership and after-sale services business. This segment saw a steady growth in terms of revenue from approximately RMB615 million for the year ended 31 December 2015 to approximately RMB893 million for the year ended 31 December 2019.

The Group has been exerting efforts in the development of its automobile financial services, financial leasing, insurance brokerage and other financial business. Revenue generated from finance services has significantly increased from approximately RMB68 million for the year ended 31 December 2015 to approximately RMB910 million for the year ended 31 December 2019. In April 2019, Shanghai Dongzheng Automotive Finance Co., Ltd., a subsidiary of the Company, completed the spin-off and separate listing on the Stock Exchange. It is principally engaged in retail loan, dealer loan businesses and other financing services.

The Board believed that the rapid growth and expansion of the Group as outlined above has been largely attributable to the contribution of the Connected Selected Participants.

LETTER FROM THE BOARD

(iii) The Group's overall business objectives and future development plan

In the coming years, the Group will be committed to customer services for luxury and ultra-luxury automobile brands in the domestic market by continuing to improve brand structure and strategic network, invest in the development of management and operation information systems, and focusing on employee training and development.

As far as it 4S dealership business segment is concerned, the Group is committed to continue developing luxury and ultra-luxury auto brand sales and after-sales services, strengthening the upgrade of its existing dealership stores and performance capacity, and expanding the prestigious brand portfolios and the dealership networks of affluent areas.

In terms of its development in its supply chain and financial services segments, the Group will fully utilize its advantages in financing and supply chains to strengthen its core competitiveness and will continue to optimize its business scope covering the entire life cycle of vehicles from sales of new cars to maintenance and repair, finance and insurance, and automobile replacement and leasing so as to manifest synergies among different business segments.

Facing the various uncertainties and risks from the domestic market and external environment, which are expected to be intensified by the 2019 Coronavirus and economic impact resulting from the China-United States trade war, the Group is committed to achieve steady and flexible operation in response to those uncertainties and risks. For this purpose, the Board is of the view that the continual services of its core management including the Connected Selected Participants is of utmost importance in leading and directing the Group for its on-going operation and future development particularly during period of challenges.

Out of the 47,100,000 Grant Shares, 11,400,000 Shares are granted to 3 Connected Selected Participants, among which 4,400,000 Shares are granted to Mr. Wang Kunpeng, 4,000,000 Shares are granted to Mr. Li Zhubo and 3,000,000 Shares are granted to Mr. Wan To.

In determining the number of Connected Grant Shares granted to each of the Connected Selected Participants under the Scheme, reference was made to their respective role and responsibilities with the Group, the current level of remuneration of the Selected Participants (including the remuneration (covering other benefits and allowances) level of the Connected Selected Participants vis-à-vis those of other Selected Participants on an individual basis), the attainment of past performance review of each of the Connected Selected Participants, and the market practice in relation to grant of shares under share

LETTER FROM THE BOARD

option scheme adopted by five companies listed on the Main Board of the Stock Exchange to their executive directors, which companies are principally engaged in the sales/distribution of automobiles and/or automotive related services in the PRC (“Comparable Grants”). Brief details of the Comparable Grants are set out below:

| Company name (stock code) | Date of announcement(s)/date of grant of option to subscribe for shares under the share option scheme | Grantees | Number of options/shares granted | Percentage of total issued share capital as at 31 December 2019 |
|--|--|--|--|--|
| Grand Baoxin Auto Group Limited (1293) | 28 March 2018 | Certain grantees including four executive directors | 4,000,000 | 0.141% |
| | | | 4,000,000 | 0.141% |
| | | | 2,000,000 | 0.070% |
| | | | 2,000,000 | 0.070% |
| Zhongsheng Group Holdings Limited (881) | 26 April 2018 | Two executive directors | 5,500,000 5,500,000 | 0.242% 0.242% |
| China Harmony Auto Holding Limited (3836) | 9 May 2017 | Certain grantees including four executive directors | 8,000,000 | 0.508% |
| | | | 5,000,000 | 0.318% |
| | | | 5,000,000 | 0.318% |
| | | | 3,000,000 | 0.191% |
| China Yongda Automobiles Services Holdings Limited (3669) | 26 July 2016 | Certain grantees including two executive directors | 3,000,000 1,300,000 | 0.163% 0.071% |
| China MeiDong Auto Holdings Limited (1268) | 20 January 2014/ 4 January 2018/ 18 July 2019 | Certain grantees including three executive directors | 4,300,000 | 0.371% |
| | | | 4,000,000 | 0.345% |
| | | | 230,000 | 0.020% |
| Median | | | | 0.19% |

Based on available public information, in comparison with the Comparable Grants, the Board noted that the grant of the Connected Grant Shares to each of the Connected Selected Participants is within the range of the grant and is generally in line with market average in terms of percentage of equity interest in which the grantees are interested as derived from the grants.

LETTER FROM THE BOARD

Taking into consideration the position and responsibilities of Mr. Wang Kunpeng, who is the vice-chairman and the chief executive officer, the number of Connected Grant Shares granted to Mr. Wang Kunpeng being 4,400,000 Shares, is the highest among all other Selected Participants (including the other two Connected Selected Participants); whereas, in consideration of the duration of tenure of Mr. Li Zhubo of over 20 years with the Group, the number of Connected Grant Shares granted to him being 4,000,000 Shares is more than that granted to Mr. Wan To.

Having considered (i) the professional knowledge and expertise of the Connected Selected Participants who constitute the core senior management team of the Group, their extensive experience in the automobile industry, their role and responsibilities in the Group and their past contribution to the Group's success in recent years; (ii) the positive development of the Group in the preceding few years; and (iii) the expected growing trend of the financial performance of the Group in the coming years in the midst of risks in the industry and increasingly competition, the Board considered it is crucial to retain its employees, especially the key management including those Connected Selected Participants, to continue its business operation and development, in particular, to implement necessary modification to the operation and development strategies to cater for the uncertainties and changes in the business and economic environment. Accordingly, the Board believed that the grant of the Connected Grant Shares to the Connected Selected Participants will help retaining the Connected Selected Participants, and that the Connected Selected Participants will continue to contribute to the Group's future development.

LETTER FROM THE BOARD

The shareholding structure of the Company as of the Latest Practicable Date and immediately after the allotment, issue and full vesting of solely the Connected Grant Shares and all the Grant Shares (assuming there is no change in the number of issued Shares of the Company other than the allotment, issue and full vesting of the Grant Shares) is as follows:

| Name of Shareholder | As of the Latest Practicable Date | | Immediately after the issuance, allotment and full vesting of the Connected Grant Shares (assuming no issuance and allotment of Grant Shares to Non-connected Selected Participants and no other change in the number of issued Shares of the Company) | | Immediately after the issuance, allotment and full vesting of the Grant Shares (including the Connected Grant Shares and assuming no other change in the number of issued Shares of the Company) | |
|---|-------------------------------------|---------------|--|---------------|--|---------------|
| | <i>Long positions in the Shares</i> | % | <i>Long positions in the Shares</i> | % | <i>Long positions in the Shares</i> | % |
| Joy Capital Holdings Limited ("Joy Capital") ^(Note 1) | 1,383,516,820 | 51.29 | 1,383,516,820 | 51.07 | 1,383,516,820 | 50.41 |
| Citigroup Inc. | 112,372,431 | 4.17 | 112,372,431 | 4.15 | 112,372,431 | 4.09 |
| Connected Selected Participants | | | | | | |
| Mr. WANG Kunpeng ^(Note 2) | 1,230,000 | 0.05 | 5,630,000 | 0.21 | 5,630,000 | 0.21 |
| Mr. LI Zubo ^(Note 2) | 1,550,000 | 0.06 | 5,550,000 | 0.20 | 5,550,000 | 0.20 |
| Mr. WAN To ^(Note 2) | — | — | 3,000,000 | 0.11 | 3,000,000 | 0.11 |
| <i>Public Shareholders</i> | | | | | | |
| 37 Non-connected Selected Participants | 428,160 | 0.02 | 428,160 | 0.02 | 36,128,160 | 1.32 |
| Other public Shareholders | 1,198,345,009 | 44.43 | 1,198,345,009 | 44.24 | 1,198,345,009 | 43.66 |
| Total | 2,697,442,420 | 100.00 | 2,708,842,420 | 100.00 | 2,744,542,420 | 100.00 |

Notes:

- These Shares are directly held by Joy Capital, which in turn is wholly-owned by Bright Brilliant Holdings Limited. Mr. Wang Boheng and Mr Wang Muqing are the founders of the family discretionary trust that owns all the issued shares of Bright Brilliant Holdings Limited, and Credit Suisse Trust Limited in Guernsey is the trustee of the family discretionary trust. Mr Wang Boheng, a director of Joy Capital, is a grandson of Mr Wang Muqing, the Chairman of the Board and an executive Director.
- The number of Shares in which each of Mr. WANG Kunpeng, Mr. LI Zubo and Mr. WAN To was interested as of the Latest Practicable Date excluded and did not take into consideration each of their interest in the Connected Grant Shares.

LETTER FROM THE BOARD

Equity fund raising activities of the Company in the past 12 months

The following is the equity fund raising activity conducted by the Company in the past 12 months immediately preceding the Latest Practicable Date:

| Date of initial announcement | Fund raising activity | Net proceeds | Intended use of proceeds | Actual use of net proceeds |
|------------------------------|--|----------------------------------|--------------------------|--|
| 15 July 2020 | Placing of existing Shares and top-up subscription of new Shares | Approximately HK\$263.35 million | General working capital | The net proceeds had not been utilised as at the Latest Practicable Date |

Reasons for the grant of the Connected Grant Shares

The Board considers that the grant of the Connected Grant Shares to the Connected Selected Participants, in providing them with an opportunity to acquire a proprietary interest in the Company, can encourage and retain them to work with the Group, to provide additional incentive for them to achieve performance goals with a view to achieving the objectives of increasing the value of the Company and aligning the interests of the Connected Selected Participants directly to the Shareholders through ownership of Shares. Furthermore, there will not be any actual cash outflow by the Group under the grant and award of the Connected Grant Shares to provide incentives to the Connected Selected Participants. In this regard, the Directors consider that the terms and conditions of the allotment and issue of new Connected Grant Shares are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Upon allotment and issue of the new Connected Grant Shares, the Trustee will hold the new Shares on trust for the Connected Selected Participants and such new Grant Shares shall be transferred to the Selected Participants at no consideration on the vesting dates. As such, no fund will be raised by the Company as a result of the allotment and issue of the Connected Grant Shares.

LISTING RULES IMPLICATIONS

As the Connected Selected Participants are Directors of the Company, the Connected Selected Participants are connected persons of the Company. Therefore, the allotment and issue of the Connected Grant Shares to the Trustee on trust for the Connected Selected Participants under the Scheme shall constitute a connected transaction for the Company under Chapter 14A of the Listing Rules and shall be subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best of the knowledge, information and belief of the Directors, save for Mr. WANG Kunpeng and Mr. LI Zhubo being two of the Connected Selected Participants, no other Shareholder is required to abstain from voting on the resolutions to approve the allotment and issue of Connected Grant Shares to the Connected Selected Participants and the transactions contemplated thereunder at the EGM.

LETTER FROM THE BOARD

Each of Mr. WANG Kunpeng, Mr. LI Zhubo and Mr. WAN To has abstained from approving the relevant Board resolution on the allotment and issue of the Connected Grant Shares to the Trustee on trust for him under the Scheme.

Pursuant to the Listing Rules, the resolution to be proposed at the EGM will be taken by way of poll and an announcement will be made after the EGM on the results of the EGM.

INFORMATION OF THE GROUP

The Group is a leading auto sales and services group of luxury conglomerates in China. Its principal businesses include the operation of automobile 4S stores, auto finance businesses and supply chain business.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Dr. WONG Tin Yau, Kelvin, Dr. CAO Tong and Ms. WONG Tan Tan, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to (i) whether the allotment and issue of the Connected Grant Shares to the Trustee on trust for the Connected Selected Participants is on normal commercial terms and conducted in the Company's ordinary and usual course of business, whether its terms are fair and reasonable so far as the Independent Shareholders are concerned; and whether it is in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the resolutions to approve the grant of the Specific Mandate, the allotment and issue of the Connected Grant Shares to the Trustee on trust for the Connected Selected Participants and the transactions contemplated thereunder at the EGM.

INDEPENDENT FINANCIAL ADVISER

Somerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the grant of the Specific Mandate and the allotment and issue of Connected Grant Shares described herein.

RECOMMENDATION

In view of the reasons for and benefits of the grant of the Connected Grant Shares as set out in the paragraphs headed "Reasons for the grant of the Connected Grant Shares" above, the Directors consider that the grant of the Connected Grant Shares to the Connected Selected Participants is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the grant of the Specific Mandate, the allotment and issue of the Connected Grant Shares and the transactions contemplated thereunder.

LETTER FROM THE BOARD

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 23 to 24 of this circular, which contains its recommendation to the Independent Shareholders as to the grant of the Connected Grant Shares to the Connected Selected Participants; and (ii) the letter from the Independent Financial Adviser set out on pages 25 to 51 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the grant of the Connected Grant Shares to the Connected Selected Participants and the reasons considered by it in arriving at its opinion.

EGM

The EGM will be convened and held at Niccolo Room 1–2, 25F., The Murray, Hong Kong, a Niccolo Hotel, 22 Cotton Tree Drive, Central, Hong Kong on 17 September 2020 at 11:00 a.m. for the purpose of considering and, if thought fit, approving the grant of the Specific Mandate, the grant of the Connected Grant Shares to the Connected Selected Participants and the transactions contemplated thereunder.

The ordinary resolutions proposed to be approved at the EGM will be taken by poll.

Two of the Connected Selected Participants, namely, Mr. WANG Kunpeng and Mr. LI Zhubo who are executive Directors of the Company, holding 1,230,000 Shares and 1,550,000 Shares, respectively (representing approximately 0.05% and 0.06% of the issued Shares as at the Latest Practicable Date), are required to abstain from voting in respect of the proposed resolution approving the grant of the Connected Grant Shares to each of themselves. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, no other Shareholders has a material interest in the grant of the Connected Grant Shares to the Connected Selected Participants and the matters contemplated thereunder as at the Latest Practicable Date and accordingly, other than Mr. WANG Kunpeng and Mr. LI Zhubo, no other Shareholder is required to abstain from voting at the EGM to approve the grant of the Connected Grant Shares and the matters contemplated thereunder to the Connected Selected Participants.

For the purpose of determining the entitlement of the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from 14 September 2020 (Monday) to 17 September 2020 (Thursday) (both days inclusive), during which period no share transfers can be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 11 September 2020 (Friday).

A notice convening the EGM is set out on pages 59 to 62 of this circular. A form of proxy is enclosed with this circular. Whether or not you are able to attend the EGM in person, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less

LETTER FROM THE BOARD

than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof, should you so wish.

ARRANGEMENTS AT THE VENUE OF EGM UNDER ADVERSE WEATHER CONDITIONS/OCCURRENCE OF COVID-19 OUTBREAK OR OTHER SERIOUS INFECTIOUS DISEASE

Shareholders should note that the EGM will be held as scheduled when amber or red rainstorm warning signal is in force. In the event that typhoon signal no. 8 (or above) or “black” rainstorm warning is hoisted or occurrence of COVID-19 outbreak or other serious infectious disease at the venue of EGM on the day and before the time of the EGM, Shareholders may send an e-mail to ir@zhengtongauto.com for arrangement of the EGM under such adverse weather/severe conditions.

In the event that the EGM were to proceed, Shareholders should make their own decision as to whether they would attend the EGM under such bad weather/severe conditions, and, if they should choose to do so, they are advised to exercise care and caution.

GENERAL INFORMATION

Your attention is drawn to the additional information contained in the appendix to this circular.

Yours faithfully,
For and on behalf of the Board
China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司
WANG Muqing
Chairman



China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司

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

(Stock Code: 1728)

31 August 2020

To the Independent Shareholders:

Dear Sir or Madam,

**CONNECTED TRANSACTION INVOLVING
ISSUE OF NEW SHARES TO CONNECTED PERSONS
UNDER THE SHARE AWARD SCHEME
PURSUANT TO SPECIFIC MANDATE**

We refer to the circular of the Company dated 31 August 2020 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise the Independent Shareholders in relation to the grant of Specific Mandate and the allotment and issue of Connected Grant Shares to the Trustee on trust for the Connected Selected Participants.

Somerley Capital Limited has been appointed to advise us and the Independent Shareholders as to (i) whether the allotment and issue of the Connected Grant Shares is on normal commercial terms and conducted in the Group’s ordinary and usual course of business, whether its terms are fair and reasonable so far as the Independent Shareholders are concerned, and whether such terms are in the interests of the Company and the Shareholders as a whole and (ii) how to vote on the resolution regarding the grant of the Specific Mandate and the allotment and issue of the Connected Grant Shares. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 25 to 51 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendix of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the allotment and issue of the Connected Grant Shares and the advice of Somerley Capital Limited, we are of the opinion that the allotment and issue of the Connected Grant Shares to the Trustee on trust for the Connected Selected Participants is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned, and the allotment and issue of the Connected Grant Shares to the Trustee on trust for the Connected Selected Participants, while not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the grant of the Specific Mandate, the allotment and issue of the Connected Grant Shares and the transactions contemplated thereunder.

Yours faithfully

For and on behalf of the

Independent Board Committee

Dr. WONG Tin Yau, Kelvin

Dr. CAO Tong

Ms. WONG Tan Tan

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from Somerley Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

31 August 2020

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONNECTED TRANSACTION INVOLVING ISSUE OF NEW SHARES TO CONNECTED PERSONS UNDER THE SHARE AWARD SCHEME PURSUANT TO SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the grant of Connected Grant Shares to the Connected Selected Participants (the “**Proposed Grant**”). Details of the Proposed Grant are set out in the “Letter from the Board” contained in the circular of the Company to the Shareholders 31 August 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

The Company has adopted the Scheme, being a restricted share award scheme, on 12 June 2020. On the same day, based on the recommendation of the Remuneration Committee, the Board resolved to conditionally grant a total of 47,100,000 Grant Shares to 40 Selected Participants pursuant to the Scheme, among which, 11,400,000 Grant Shares are granted to three Connected Selected Participants who are all executive Directors. As such, the Connected Selected Participants are connected persons of the Company. The allotment and issue of the Connected Grant Shares to the Trustee on trust for the Connected Selected Participants under the Scheme shall constitute a connected transaction for the Company under Chapter 14A of the Listing Rules and shall be subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Wong Tin Yau, Kelvin, Dr. Cao Tong and Ms. Wong Tan Tan, has been formed to advise the Independent Shareholders in respect of the Proposed Grant. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, Somerley Capital Limited does not have any relationships or interests with the Company or the Connected Selected Participants that could reasonably be regarded as a hindrance to the independence of Somerley Capital Limited as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Grant. In the past two years, except for the independent financial adviser engagement in relation to the spin-off and separate listing of Shanghai Dongzheng Automotive Finance Co., Ltd. on the main board of the Stock Exchange, details of which were set out in the Company's circular dated 15 January 2019, there has been no other engagement between the Group and Somerley Capital Limited. We do not consider the past engagement as independent financial adviser to give rise to any conflict for Somerley Capital Limited to act as the independent financial adviser in respect of the Proposed Grant. Apart from normal professional fees paid in respect of the past engagement or payable to us in connection with this appointment as the independent financial adviser in respect of the Proposed Grant, no arrangement exists whereby we will receive any fees or benefits from the Company.

In formulating our advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors (excluding the independent non-executive Directors) and the management of the Group (the "**Management**"), and have assumed that they are true, accurate and complete in all material aspects at the time they were made and will remain so up to the time of the EGM. We have also sought and received confirmation from the Directors (excluding the independent non-executive Directors) that all material relevant information has been supplied to us and that no material facts have been omitted or withheld from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our opinion and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with respect to the Proposed Grant, we have taken into account the principal factors and reasons set out below.

1. Information on the Group

(a) Business

As set out in the Company's 2019 annual report, the Group is principally engaged in the following businesses:

(i) 4S dealership business:

It mainly includes sales of motor vehicles and after-sales services through the Group's network of 4S dealerships in the PRC. The 4S dealership business focuses on dealership of luxury and ultra-luxury branded automobiles. The Group also operates dealership stores of middle market brands, and provides after-sales services (including repair and maintenance services and automobile augmented products and services). As at 31 December 2019, the Group operated 135 dealership stores in 41 cities across 17 provinces and municipalities in China.

(ii) Supply chain business:

It mainly involves provision of motor-related logistics services and trading of lubricant oil.

(iii) Financial services business:

It mainly involves provision of financial services to auto customers and dealers, and a key part is carried out by Shanghai Dongzheng Automotive Finance Co., Ltd. ("**Dongzheng AFC**") which is regulated by the China Banking and Insurance Regulatory Commission and is principally engaged in retail loan and dealer loan businesses.

(iv) Comprehensive properties business:

It mainly involves development and sales of properties in the PRC, including construction of comprehensive property projects for the Group's existing 4S dealership stores.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) Financial information

Set out below is a summary of financial information of the Group for the five years ended 31 December 2015, 2016, 2017, 2018 and 2019 as extracted from the Company's annual reports for the year ended 31 December 2016, 2017, 2018 and 2019 respectively:

| | For the year ended 31 December | | | | |
|--|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | (audited) | (audited) | (audited) | (audited) | (audited) |
| Revenue (note) | 35,137,794 | 37,455,510 | 35,474,325 | 31,519,255 | 29,361,499 |
| <i>Comprised of:</i> | | | | | |
| <i>4S dealership business</i> | 33,335,154 | 35,859,745 | 34,187,840 | 30,464,185 | 28,677,638 |
| <i>Supply chain business</i> | 892,519 | 751,944 | 764,222 | 657,226 | 615,429 |
| <i>Financial services business</i> | 910,121 | 843,821 | 522,263 | 397,844 | 68,432 |
| <i>Comprehensive properties business</i> | — | — | — | — | — |
| Gross profit | 3,818,383 | 4,486,827 | 3,768,346 | 2,736,334 | 2,586,773 |
| Profit before tax | 1,136,064 | 1,889,488 | 1,753,791 | 790,798 | 921,779 |
| Profit for the year | 766,705 | 1,254,782 | 1,211,462 | 508,359 | 628,662 |

Note: only external sales are included

As set out in the table above, the 4S dealership business has contributed to majority of the Group's revenue in each of the years ended 31 December 2015, 2016, 2017, 2018 and 2019, accounting for around 95% or more of the Group's total revenue during each of these years. In general, the Group's revenue increased from the year ended 31 December 2015 to the year ended 31 December 2018, with a slight decrease in the year ended 31 December 2019. Such increase was in line with the movement in the revenue generated from the 4S dealership business. In terms of profit, the Group's net profit also surged from approximately RMB628.7 million for the year ended 31 December 2015 to approximately RMB1,254.8 million for the year ended 31 December 2018, representing a compound annual growth rate of approximately 25.9%. We note from the Company's annual reports and understand from the Management that the growth in the Group's profits was mainly due to the increase in gross profits generating from the 4S dealership business, which has benefited from the growth of household disposable income and upgrade of consumption in the PRC, resulting in a shift of customers to the high-end market. At the same time, the Group has actively expanded its distribution network for prestigious brands and utilised its advantages in financing and supply chains to strengthen its core competitiveness. It has also optimised its business scope covering the entire life cycle of vehicles including sales of new cars,

provision of aftersales services, replacement and trading of pre-owned cars so as to promote synergies among different business segments. In addition, the Group has adopted a new management model and such streamlined management effectively improved the operating results of the Group. At the same time, the Group's development of the financial services business also contributed to the growth of its revenue and profits during the period. The Group has developed a completely closed-loop auto finance technology platform, aiming to provide customers with one-stop auto finance and related services and offer automobile-related financial products covering new automobiles, pre-owned automobiles and automobile mortgage. Dongzheng AFC has optimised its financial asset structure in the 2018 following an increase in its share capital, and its market share in retail loan business further increased, which helped to boost the Group's financial services business.

As set out in the table above, the Group's revenue decreased by approximately 6.2% from approximately RMB37.5 billion for the year ended 31 December 2018 to approximately RMB35.1 billion for the year ended 31 December 2019. The Group's profit for the year also decreased by approximately 38.9% from 2018 to 2019. We note from the Company's 2019 annual report and understand from the Management that the decrease in revenue was mainly driven by the intensifying competition in the luxury brand automobile market, underperformance of certain luxury brands in China and the Group's strategic realignment of some brand operations based on market conditions, which also led to a temporary decrease in gross profit and net profit for the year.

(c) Prospects

As set out in the Company's 2019 annual report and advised by the Management, the Management expected that China's macroscopic economy will maintain its moderate growth with a steady increase in both household disposable income and consumer spending. As regards the automobile industry, in line with new records of registered car ownership, it is expected that a mature domestic automobile market will become increasingly noticeable, with market players seeking business growth in quality rather than quantity, as well as the market demand manifesting geographic and structural changes. The luxury vehicle demand will continue to grow in the midst of increasingly fierce competition. The COVID-19 outbreak since early 2020 has brought additional uncertainties in the domestic macroeconomic situation, which may also results in adverse impact on the Group's operation.

The Group will closely monitor the situation and has plans to continue its development of different businesses. The Group will maintain its commitment to customer services for luxury and ultra-luxury automobile brands in the domestic market by continuing to improve brand structure and strategic network, invest in the development of management and operation information systems, and focusing on employee training and development. For the financial services business, the Group will proactively enrich service and product contents, expand service channels, and enhance service quality, with a view to providing better consumer experiences. The Group also plans to improve the pre-owned vehicle services and quality standards, and explore the

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contents and models of marketing, sales, and services for new energy vehicles. The Management considers that these initiatives will assist the Group to rationalise its business structure in parallel with customer demands, and to create a higher value for its Shareholders, staff and the community.

2. Background to and reasons for the Proposed Grant

As set out in the “Letter from the Board” contained in the Circular, the Board considers that the Proposed Grant, which provides the Connected Selected Participants with an opportunity to acquire a proprietary interest in the Company, can encourage and retain the Connected Selected Participants to work with the Group, to provide additional incentive for them to achieve performance goals with a view to achieving the objectives of increasing the value of the Company and aligning the interests of the Connected Selected Participants directly to the Shareholders through ownership of Shares.

We have also discussed with the Board and the Management regarding the reasons and benefits of the Proposed Grant. As set out in the “Letter from the Board” contained in the Circular, the three Connected Selected Participants, namely Mr. Wang Kunpeng (“**Mr. Wang**”), Mr. Li Zhubo (“**Mr. Li**”) and Mr. Wan To (“**Mr. Wan**”), are executive Directors and each of them has served the Group consecutively for long time ranging from 8 years to 22 years. Mr. Wang Kunpeng is the chief executive officer of the Group and the vice chairman of the Board, Mr. Li Zhubo is the chief financial officer of the Group and Mr. Wan To is the vice president of the Company. Each of the Connected Selected Participants holds important position in the Group that Mr. Wang and Mr. Li has each been an executive Director since July 2010 and Mr. Wan has been an executive Director since November 2015. All three Connected Selected Participants have held senior position in the Group and are responsible for the overall management of the Group. Further details of the biographies of the Connected Selected Participants are set out in the section headed “4. Information on the Connected Selected Participants” of this letter below.

The Board (excluding the independent non-executive Directors) considers that the Connected Selected Participants have contributed to the Group’s success in recent years, including, among other things, (a) increase in revenue; (b) successful development of the financial services business; (c) increase in profits of the Group, especially during the period from the year ended 31 December 2015 to the year ended 31 December 2018 with a compound annual growth rate of approximately 25.9% on the Group’s net profit; and (d) successful separate listing of Dongzheng AFC on the Stock Exchange in April 2019. They are of the view that each of the Connected Selected Participants, being an executive Director and holding senior position in the Group, has played a critical role in achieving the Group’s success in past years. Details of the significant contributions from each of the Connected Selected Participants are set out in the section headed “4. Information on the Connected Selected Participants” of this letter below. The Board (excluding the independent non-executive Directors) considers the Proposed Grant as an opportunity to recognise the contributions of the Connected Selected Participants.

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As set out in the section headed “1. Information on the Group” of this letter above, the Group has seen an improvement in general in terms of revenue and profit level from the year ended 31 December 2015 to the year ended 31 December 2018. However, due to reasons including intensifying competition in the luxury brand automobile market, underperformance of certain luxury brands in China and the Group’s strategic realignment of some brand operations based on market conditions, there was a decrease in the Group’s revenue and net profits during the year ended 31 December 2019. Despite such decrease in current financial performance, the Board (excluding the independent non-executive Directors) is optimistic regarding the future growth in China’s economy, nevertheless, the fierce competition in the market and the COVID-19 epidemic have added uncertainties in the Group’s future operations. The Board (excluding the independent non-executive Directors) considers that it is crucial to retain its employees, especially the key management, to continue its business operation and development, in particular, to implement necessary modification to the operation and development strategies to cater for the uncertainties and changes in the business and economic environment. Having considered the past contributions made by the Connected Selected Participants, the Board (excluding the independent non-executive Directors) is of the view that the Proposed Grant will help to retain the Connected Selected Participants, being senior management of the Group with extensive experience in the Group’s business, and it believes that the Connected Selected Participants will continue to contribute to the Group’s future development.

We have also discussed with the Board (excluding the independent non-executive Directors) and understand that the Board (excluding the independent non-executive Directors) has considered other forms of remuneration such as additional cash compensation. However, considering that all three Connected Selected Participants are executive Directors with important roles in the Group, the Board (excluding the independent non-executive Directors) considers that granting of the Connected Grant Shares will provide an additional incentive for them to achieve performance goals to enhance the value of the Company and align the interests of the Connected Selected Participants directly to the Shareholders through ownership of Shares. It would be consistent with the principle of performance-based remuneration policy of the Group. In addition, the Proposed Grant involves issuing of new Connected Grant Shares without incurring a cash outflow for the Group, which the Board (excluding the independent non-executive Directors) considers to be more prudent given the uncertainties in the Group’s business environment and the current decrease in the Group’s revenue and net profits.

In view of the above, in particular, (i) the contribution from the Connected Selected Participants; (ii) the importance of retaining key staff and management for continuing operation and development of the Group, especially in view of the uncertainties in the Group’s business environment and the current decrease in the Group’s revenue and net profits; (iii) the expected benefits of enhancing the value of the Company through aligning the interests of the Connected Selected Participants and the Shareholders; and (iv) no cash outflow is expected through the granting of the Connected Grant Shares, the Board

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(excluding the independent non-executive Directors) considers, and we concur, that it is in the interests of the Company to grant the Connected Grant Shares to the Connected Selected Participants.

3. Principal terms of the Proposed Grant

On 12 June 2020, based on the recommendation of the Remuneration Committee, the Board (including all independent non-executive Directors) resolved to conditionally grant a total of 47,100,000 Grant Shares to 40 Selected Participants pursuant to the Scheme, including the Connected Grant Shares to be granted to three Connected Selected Participants. Details of the Proposed Grant are set out in the “Letter from the Board” contained in the Circular. Set out below is a summary of the key terms of the Proposed Grant.

Number of Connected Grant Shares: 11,400,000 new Shares, representing (i) approximately 0.42% of the total number of Shares in issue as of the Latest Practicable Date; and (ii) approximately 0.42% of the total number of Shares in issue as enlarged by the allotment and issue of the new 47,100,000 Grant Shares (assuming there is no change in the number of issued Shares of the Company from the Latest Practicable Date up to the allotment date of the new Shares, other than the allotment and issue of the new Grant Shares), and comprising:

- 4,400,000 Connected Grant Shares to Mr. Wang;
- 4,000,000 Connected Grant Shares to Mr. Li; and
- 3,000,000 Connected Grant Shares to Mr. Wan.

The Connected Grant Shares will be issued pursuant to the Specific Mandate.

Issue price: The issue price of the Connected Grant Shares is based on the average five-day closing price of the Shares for the five consecutive trading days immediately preceding (and excluding) the date of the Announcement of approximately HK\$1.178 per Share and the market value of such 11,400,000 Connected Grant Shares is approximately HK\$13.4 million.

The Connected Grant Shares will be issued at nil consideration and no funds will be raised by the Company as a result of the issue and allotment of the Connected Grant Shares.

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Vesting condition and vesting dates:

The vesting of the Connected Grant Shares is subject to the satisfaction of the vesting conditions as set out in the Scheme, details of which are set out in the Announcement and the “Letter from the Board” contained in the Circular. The Connected Grant Shares shall not vest under any of the following circumstances, in each case, pursuant to the terms of the Scheme Rules:

- (i) in the event of any failure of the Connected Selected Participants to remain as Participants prior to vesting date;
- (ii) in the event that the Connected Selected Participants fail to confirm the transfer of the Connected Grant Shares prior to the vesting date;
- (iii) in the event that the Connected Selected Participants fail to satisfy the annual performance review for the preceding financial year (the “**Annual Performance Review**”) applicable to the relevant Connected Selected Participants; and
- (iv) in the event of the death of the Connected Selected Participants.

As the three Connected Selected Participants have served the Group for 10 years or more and/or whose office or role are vice-president level or above, 100% of the Connected Grant Shares granted to each of them will vest in him on the first anniversary of the Grant Date, i.e. 12 June 2021.

Conditions precedent:

The allotment and issue of the Connected Grant Shares to the Trustee on trust for the Connected Selected Participants shall be subject to, among other things, (i) the approval by the Independent Shareholders at the EGM in respect of the grant of the Specific Mandate and the allotment and issue of the Connected Grant Shares and the transactions contemplated therein; and (ii) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in the Connected Grant Shares.

As set out in the “Letter from the Board” contained in the Circular, the Board determined the Selected Participants (including the Connected Selected Participants) and the number of Grant Shares granted to each of them with reference to (i) the performance of

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the particular Selected Participant and his/her role and responsibilities and contribution to the Group; (ii) the general financial condition of the Group; and (iii) the Group's overall business objectives and future development plan.

Further details of our assessment on the Proposed Grant are set out in the section headed "5. Assessment of the Proposed Grant" of this letter below.

4. Information on the Connected Selected Participants

The Connected Selected Participants are all executive Directors and further details of them are set out below.

Mr. Wang

Mr. Wang obtained a bachelor's degree in professional vehicle engineering from Jilin University of Technology, the PRC. He has been an executive Director since 20 July 2010 and served as a member of the Remuneration Committee from 20 July 2010 to 8 April 2016. He has held several senior management positions with the Group and its major subsidiaries after joining the Group in 2006, including the chief executive officer of the Group. He is currently responsible for the strategic planning of the Group. Before joining the Group, Mr. Wang worked for FAW-Volkswagen Sales Company Ltd., a company engaged in distribution-related activities with respect of Volkswagen automobiles, from 1997 to 2006, responsible for the management of the sale, after-sales services and logistics services relating to Audi and Volkswagen branded automobiles.

As set out in the "Letter from the Board" contained in the Circular and as discussed with the Management, Mr. Wang has served the Group for 13 years and he is currently mainly responsible for the strategic planning of the Group, including the development of overall business and operation strategies and overall management of the Group's performance.

Mr. Li

Mr. Li obtained an executive master of business administration degree from Wuhan University, the PRC. He has been an executive Director of the Company since 20 July 2010. He joined the Group in 1997 and is currently the chief financial officer of the Group. Before joining the Group, Mr. Li has engaged in financial management in automobile dealership industry with nearly 25 years of experience in financial management in automobile dealership industry.

As set out in the "Letter from the Board" contained in the Circular and as discussed with the Management, Mr. Li has served the Group for 22 years and he is currently mainly responsible for financial planning and financial management of the Group, including the overall management and supervision of the financial management system with an aim to upgrade the financial reporting team's professionalism.

Mr. Wan

Mr. Wan obtained a master's degree in business administration from the University of Leeds in the United Kingdom. He has been an executive Director of the Company since 16 November 2015. He had been assistant to chief executive officer and general manager of the network development department of the Company since joining the Group in January 2008. He then left the Group for personal reasons in 2009 and re-joined in 2012. Since April 2013, he has been vice president of the Company. Since December 2013, Mr. Wan has also been serving as executive director of Shenzhen SCAS Investment Group Co., Ltd, a wholly owned subsidiary of the Company. Prior to joining the Group, Mr. Wan worked with BMW Brilliance Automotive Ltd. from 2003 to 2006. Mr. Wan has nearly 19 years' experience in marketing and investment for Chinese and foreign-invested auto dealers.

As set out in the "Letter from the Board" contained in the Circular and as discussed with the Management, Mr. Wan has served the Group consecutively for 8 years and he is currently mainly responsible for investment and development of the Group, including development of business investment strategies for possible business collaboration, mergers and acquisitions.

As advised by the Company, each of the Connected Selected Participants has made significant contributions to the Group, details of which are set out below.

Mr. Wang

- Leading the Group for successful listing on the Stock Exchange in 2010;
- Achieving the acquisition of, among other things, SCAS Investment Group Co. Ltd., leading to the increase in ranking of auto-dealers in the PRC from 20 to 10;
- Leading the Group's expansion of 4S dealership stores from about 24 at the end of 2010 to 135 at the end of 2019;
- Establishing the strategy of focusing at luxury and ultra-luxury brands, achieving a high market share in terms of dealership store number for luxury brands;
- Establishing and expanding the relationship with key automobile brands; and
- Leading and building up of corporate image of the Group which received different awards in the industry

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Mr. Li

- Building a professional finance team with strong execution and continuous learning capabilities, which has helped the Group to maintain proper and efficient financial reporting systems for different strategic developments of the Group;
- Developing a comprehensive financial management system for the Group to comply with the ever-changing policies and accounting standards;
- Developing an effective internal control system for the Group, which helps to safeguard its assets, achieve its operating targets and ensuring the accuracy of financial information;
- Implementing innovative modifications to the financial reporting systems, including, among other things, building up share service center, using of new technology and data management tool, to achieve enhancement in efficiency and cost saving; and
- Managing the fund raising activities (including equity and debt financing) of the Group

Mr. Wan

- Leading the expansion of the Group's sales and distribution network, achieving significant increase in number of dealership stores of the Group;
- Assisting and participating in establishing the strategy of focusing at luxury and ultra-luxury brands, achieving a high market share in terms of dealership store number for luxury brands;
- Building up development strategies of the Group, and achieving significant growth in distribution network for high-profit brands and maintaining competitive network for key automobile brands; and
- Achieving long-term strategic collaboration relationship with certain key automobile brands

As set out above, each of the Connected Selected Participants plays an important role to the management, operation and development of the Group, and each of them has over 19 years of experience in the automobile industry. The role and responsibility of the Connected Selected Participants are directly affecting the performance of the Group. Each of them has made significant contributions to the Group in the past. In addition, as set out in the sections headed "1. Information on the Group" and "2. Background to and reasons for the Proposed Grant" of this letter above, the Group has seen positive developments in recent years and the Management is of the view that each of the Connected Selected Participants, being an executive Director and holding senior position in the Group, has played a critical role in achieving the Group's success

in past years. Besides, the Management is of the view that it is crucial to retain the Connected Selected Participants to cater for the uncertainties and changes in the business and economic environment. Having considering (i) the biographies of the Connected Selected Participants who have extensive experience in the automobile industry; (ii) the role and responsibilities of the Connected Selected Participants; (iii) the past contribution by the Connected Selected Participants; and (iv) the recent development of the Group's business and financial performance, the Management considers, and we concur, that the Proposed Grant to retain the Connected Selected Participants is suitable so that the Connected Selected Participants would continue to contribute to the Group's future development.

5. Assessment of the Proposed Grant

(a) The Proposed Grant

As set out in the "Letter from the Board" contained in the Circular, the Board determined the Selected Participants (including the Connected Selected Participants) and the number of Grant Shares granted to each of them with reference to (i) the performance of the particular Selected Participant and his/her role and responsibilities and contribution to the Group; (ii) the general financial condition of the Group; and (iii) the Group's overall business objectives and future development plan. As set out in the section headed "3. Principal terms of the Proposed Grant" of this letter above, vesting of the Connected Grant Shares is subject to, among other things, satisfaction of the Annual Performance Review. The Annual Performance Review of the Connected Selected Participants as Directors will be reviewed by the Remuneration Committee. We note from the 2019 annual report of the Company that the Remuneration Committee is primarily responsible for, among other things, making recommendations to the Board on the remuneration policy and structure of the Company for all Directors, and reviewing and approving the remuneration proposals of the management with reference to the corporate goals and objectives of the Board. We have also discussed with the Management and understand that the Annual Performance Review will be based on several key performance indicators relating to the role and responsibility of each of the Connected Selected Participants. Further

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details of the Annual Performance Review are set out in the “Letter from the Board” contained in the Circular. Set out below is a summary of the Proposed Grant:

| Connected Selected Participants | Role | Key performance indicators of the Annual Performance Review | Number of Connected Grant Shares | Approximate market value of the Connected Grant Shares based on 5-day average closing price before the date of the Announcement | Approximate market value of the Connected Grant Shares as at the Latest Practicable Date | Approximate percentage of the Connected Grant Shares to the total number of Shares in issue as at the Latest Practicable Date |
|---------------------------------------|---|---|--|---|--|--|
| | | | | HK\$ (Note 1) | HK\$ (Note 2) | (Note 3) |
| Mr. Wang | Executive Director, chief executive officer of the Group and vice chairman of the Board | Operating performance of the Group, formulation and implementation of the Group's strategies, management of business partners, team management and optimisation of the Group's organisation | 4,400,000 | 5,183,200 | 4,620,000 | 0.16% |
| Mr. Li | Executive Director and chief financial officer of the Group | Operating performance of the Group, financial and treasury management of the Group, team management and optimisation of the Group's organisation | 4,000,000 | 4,712,000 | 4,200,000 | 0.15% |
| Mr. Wan | Executive Director and vice president of the Company | Operating performance of the Group, development of the Group's business network, management of the Group's functional departments, team management and optimisation of the Group's organisation | 3,000,000 | 3,534,000 | 3,150,000 | 0.11% |

Notes:

1. Calculated based on the 5-day average closing market price per Share of approximately HK\$1.178 before 12 June 2020, being the date of the Announcement.
2. Calculated based on the closing market price per Share of HK\$1.05 as at the Latest Practicable Date.
3. Calculated based on the total number of Shares in issue of 2,697,442,420 as at the Latest Practicable Date.

(b) Comparable grants by other companies

In order to assess the fairness and reasonableness on the terms of the Proposed Grant, we have identified grants (the “**Comparable Grants**”) of awarded shares and/or restricted share units (“**RSU(s)**”) to then existing executive director(s) as announced by companies listed on the Main Board of the Stock Exchange during the period from 1 March 2020 (approximately 3 months prior to the date of the Announcement) up to the date of the Announcement which we consider to be a reasonable period to identify sufficient recent Comparable Grants for the purpose of our analysis. We have excluded grants of share options under share option schemes as share option schemes may have different terms and rules as compared to share award schemes. The Comparable Grants set out below represent an exhaustive list of grants on a best efforts basis satisfying the above selection criteria. Shareholders should note that the business nature, financial performance and operation scale of the companies involved in the Comparable Grants may be different from that of the Company, and the background to the grants may be specific to the company and industry, the below analysis, in our view, demonstrates the recent market practice in relation to similar type of transactions. We consider the Comparable Grants an appropriate basis in assessing the fairness and reasonableness of the terms of the Proposed Grant.

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Details of the Comparable Grants to each individual grantee are set out below:

| Date of announcement | Company | Role of each individual grantee | Vesting period for the particular grantee | Approximate market value of the award share or restricted share units granted to each individual grantee based on 5-day average closing price before and up to the date of announcement <i>HKS</i> <i>(Note 1)</i> | Approximate percentage of award shares or restricted share units granted to each individual grantee to total issued shares <i>(%)</i> <i>(Note 1)</i> |
|----------------------|--|---|---|--|---|
| 1. 8 June 2020 | Freetech Road Recycling Technology (Holdings) Limited (Stock code: 6888) | Executive director | 40% in one year, 30% in two years and 30% in three years from the date of grant | 308,000 | 0.204 |
| | | Executive director | 40% in one year, 30% in two years and 30% in three years from the date of grant | 308,000 | 0.204 |
| 2. 5 June 2020 | Alibaba Pictures Group Limited (Stock code: 1060) | Executive director | Not disclosed | 1,514,100 | 0.005 |
| 3. 25 May 2020 | Semiconductor Manufacturing International Corporation (Stock code: 981) | Executive director | Not disclosed | 339,900 | 0.001 |
| | | Chairman and executive director | 86,603 RSU: 25% for each year commencing on 1 March 2019; and 173,205 RSU: 25% for each year commencing on 1 March 2020 | 4,682,779 | 0.005 |
| | | Co-chief executive officer and executive director | 25% for each year commencing on 1 March 2020 | 1,560,932 | 0.002 |
| | | Co-chief executive officer and executive director | 86,603 RSU: 25% for each year commencing on 1 March 2019; and 173,205 RSU: 25% for each year commencing on 1 March 2020 | 4,682,779 | 0.005 |
| | | Chief financial officer, joint company secretary and executive director | 74,016 RSU: 25% for each year commencing on 1 March 2019; and 157,284 RSU: 25% for each year commencing on 1 March 2020 | 4,168,951 | 0.004 |

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| Date of announcement | Company | Role of each individual grantee | Vesting period for the particular grantee | Approximate market value of the award share or restricted share units granted to each individual grantee based on 5-day average closing price before and up to the date of announcement | Approximate percentage of award shares or restricted share units granted to each individual grantee to total issued shares |
|----------------------|--|--|--|---|--|
| | | | | <i>HKS</i> <i>(Note 1)</i> | <i>(%)</i> <i>(Note 1)</i> |
| 4. 22 May 2020 | China Mengniu Dairy Company Limited (Stock code: 2319) | Chief executive officer and executive director | 50% each in first and second year from the date of grant | 7,184,459 | 0.006 |
| 5. 20 May 2020 | EEKA Fashion Holdings Limited (Stock code: 3709) | Executive director | Not disclosed | 11,742,030 | 0.206 |
| 6. 15 May 2020 | Tang Palace (China) Holdings Limited (Stock code: 1181) | Chief executive officer and executive director | 100% on the date of grant | 2,420,880 | 0.286 |
| 7. 4 May 2020 | Razer Inc (Stock code: 1337) | Executive director | 25% on 1 July 2020 (approximately 2 months from the date of grant), 1 April 2021 (approximately 11 months from the date of grant), 1 April 2022 (approximately 23 months from the date of grant) and 1 April 2023 (approximately 35 months from the date of grant) | 141,552 | 0.002 |
| | | Executive director | 25% on 1 July 2020 (approximately 2 months from the date of grant), 1 April 2021 (approximately 11 months from the date of grant), 1 April 2022 (approximately 23 months from the date of grant) and 1 April 2023 (approximately 35 months from the date of grant) | 141,423 | 0.002 |

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| Date of announcement | Company | Role of each individual grantee | Vesting period for the particular grantee | Approximate market value of the award share or restricted share units granted to each individual grantee based on 5-day average closing price before and up to the date of announcement | Approximate percentage of award shares or restricted share units granted to each individual grantee to total issued shares |
|----------------------|--|---|--|---|--|
| | | | | <i>HKS</i> <i>(Note 1)</i> | <i>(%)</i> <i>(Note 1)</i> |
| 8. 29 April 2020 | MMG Limited (Stock code: 1208) | Chief executive officer and executive director | 100% in or around June 2023 | 15,914,615 | 0.151 |
| 9. 28 April 2020 | BOC Aviation Limited (Stock code: 2588) | Executive director | 100% in December 2022 | 12,714,962 | 0.035 |
| 10. 23 April 2020 | Bosideng International Holdings Limited (Stock code: 3998) | Executive director, senior vice president and general manager | 30% in 15 months, 30% in 27 months and 40% in 39 months from the date of grant | 58,320,000 | 0.280 |
| | | Executive director | 30% in 15 months, 30% in 27 months and 40% in 39 months from the date of grant | 15,552,000 | 0.075 |
| 11. 20 April 2020 | Zhou Hei Ya international Holdings Company Limited (Stock code: 1458) | Chief executive officer and executive director | 25% in 1 year after the date of grant, 25% in 2 years after the date of grant, 25% in 3 years after the date of grant and 25% in 4 years after the date of grant | 6,550,390 | 0.058 |
| | | Executive director | 25% in 1 year after the date of grant, 25% in 2 years after the date of grant, 25% in 3 years after the date of grant and 25% in 4 years after the date of grant | 1,318,350 | 0.012 |

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| Date of announcement | Company | Role of each individual grantee | Vesting period for the particular grantee | Approximate market value of the award share or restricted share units granted to each individual grantee based on 5-day average closing price before and up to the date of announcement | Approximate percentage of award shares or restricted share units granted to each individual grantee to total issued shares |
|----------------------|---|---------------------------------|---|---|--|
| | | | | <i>HKS</i> <i>(Note 1)</i> | <i>(%)</i> <i>(Note 1)</i> |
| 12. 15 April 2020 | Innovent Biologics, Inc. (Stock code: 1801) | Chairman and executive director | 75% on 15 April 2023 (approximately 35 months from the date of grant) and 25% on 15 April 2024 (approximately 47 months from the date of grant) | 60,015,500 | 0.108 |
| | | Executive director | 75% on 15 April 2023 (approximately 35 months from the date of grant) and 25% on 15 April 2024 (approximately 47 months from the date of grant) | 13,244,800 | 0.024 |
| 13. 14 April 2020 | KWG Group Holdings Limited (Stock code: 1813) | Executive director | 1/3 each year from the first anniversary of the date of grant | 1,104,000 | 0.003 |
| 14. 2 April 2020 | Redsun Properties Group Limited (Stock code: 1996) | Executive director | Not disclosed | 2,837,250 | 0.034 |

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| Date of announcement | Company | Role of each individual grantee | Vesting period for the particular grantee | Approximate market value of the award share or restricted share units granted to each individual grantee based on 5-day average closing price before and up to the date of announcement | Approximate percentage of award shares or restricted share units granted to each individual grantee to total issued shares |
|----------------------|---------------------------------|---------------------------------|--|---|--|
| | | | | <i>HKS</i> <i>(Note 1)</i> | <i>(%)</i> <i>(Note 1)</i> |
| 15. 1 April 2020 | Razer Inc (Stock code: 1337) | Executive director | 25% each year over four years from the date of grant | 85,794,042 | 0.992 |
| | | Executive director | 25% on the date of grant; 25% on 1 January 2021 (approximately 9 months from the date of grant); 25% on 1 January 2022 (approximately 21 months from the date of grant) and 25% on 1 January 2023 (approximately 33 months from the date of grant) | 747,029 | 0.008 |
| | | Executive director | 25% on the date of grant; 25% on 1 January 2021 (approximately 9 months from the date of grant); 25% on 1 January 2022 (approximately 21 months from the date of grant) and 25% on 1 January 2023 (approximately 33 months from the date of grant) | 233,446 | 0.003 |

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| Date of announcement | Company | Role of each individual grantee | Vesting period for the particular grantee | Approximate market value of the award share or restricted share units granted to each individual grantee based on 5-day average closing price before and up to the date of announcement | Approximate percentage of award shares or restricted share units granted to each individual grantee to total issued shares |
|----------------------|--|---|---|---|--|
| | | | | <i>HKS</i> <i>(Note 1)</i> | <i>(%)</i> <i>(Note 1)</i> |
| 16. 30 March 2020 | Shandong ChenMing Paper Holdings Limited (Stock code: 1812) | Chairman and executive director | 40% in 2 years, 30% in 3 years and 30% in 4 years from the date of grant | 20,800,000 | 1.198 |
| | | Vice chairman and executive director | 40% in 2 years, 30% in 3 years and 30% in 4 years from the date of grant | 5,200,000 | 0.299 |
| | | Vice chairman and executive director | 40% in 2 years, 30% in 3 years and 30% in 4 years from the date of grant | 5,200,000 | 0.299 |
| 17. 30 March 2020 | CIFI Holdings (Group) Co. Ltd. (Stock code: 884) | Executive director | 100% on or after the day following the date of grant (i.e. 31 March 2020) | 22,359,000 | 0.055 |
| 18. 27 March 2020 | Wuxi Biologics (Cayman) Inc. (Stock code: 2269) | Executive director | Not disclosed | 38,963,137 | 0.030 |
| | | Executive director | Not disclosed | 11,688,882 | 0.009 |
| 19. 27 March 2020 | China Modern Dairy Holdings Ltd. (Stock code: 1117) | Executive director, vice chairman and chief executive officer | Not disclosed | 1,237,600 | 0.027 |
| | | Executive director and chief operating officer | Not disclosed | 669,760 | 0.014 |

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

| Date of announcement | Company | Role of each individual grantee | Vesting period for the particular grantee | Approximate market value of the award share or restricted share units granted to each individual grantee based on 5-day average closing price before and up to the date of announcement | Approximate percentage of award shares or restricted share units granted to each individual grantee to total issued shares |
|----------------------|---|---|--|---|--|
| | | | | <i>HKS</i> <i>(Note 1)</i> | <i>(%)</i> <i>(Note 1)</i> |
| 20. 20 March 2020 | SITC International Holdings Company Limited (Stock code: 1308) | Executive director | 100% on third anniversary of the date of grant | 1,364,908 | 0.007 |
| | | Executive director | 100% on third anniversary of the date of grant | 1,198,270 | 0.006 |
| | | Executive director | 100% on third anniversary of the date of grant | 1,114,549 | 0.006 |
| | | Executive director | 100% on third anniversary of the date of grant | 1,454,247 | 0.008 |
| | | Executive director | 100% on third anniversary of the date of grant | 1,317,161 | 0.007 |
| 21. 16 March 2020 | Chong Hing Bank Limited (Stock code: 1111) | Executive director, deputy chairman and chief executive officer | 25% each year over four years from the date of grant | 1,818,144 | 0.017 |
| | | Executive director and deputy chief executive officer | 25% each year over four years from the date of grant | 830,394 | 0.008 |

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

| Date of announcement | Company | Role of each individual grantee | Vesting period for the particular grantee | Approximate market value of the award share or restricted share units granted to each individual grantee based on 5-day average closing price before and up to the date of announcement | Approximate percentage of award shares or restricted share units granted to each individual grantee to total issued shares |
|----------------------|--|--|---|---|--|
| | | | | <i>HKS</i> <i>(Note 1)</i> | <i>(%)</i> <i>(Note 1)</i> |
| 22. 11 March 2020 | IMAX China Holding, Inc. (Stock code: 1970) | Chief executive officer | Grant of RSU: 33% in one year; 33% in two years; and 34% in three years from the date of grant | 5,802,503 <i>(Note 2)</i> | 0.116 |
| | | Executive director and chief marketing officer | Grant of performance-based RSU: Over a three-year performance period commencing on 1 January 2020 | | |
| | | | Grant of RSU: 33% in one year; 33% in two years; and 34% in three years from the date of grant | 1,934,177 <i>(Note 2)</i> | 0.039 |
| | | Executive director and vice chairman | Grant of performance-based RSU: Over a three-year performance period commencing on 1 January 2020 | | |
| | | | Grant of RSU: 33% in one year; 33% in two years; and 34% in three years from the date of grant | 2,707,834 <i>(Note 2)</i> | 0.054 |
| | | | Grant of performance-based RSU: Over a three-year performance period commencing on 1 January 2020 | | |

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

| Date of announcement | Company | Role of each individual grantee | Vesting period for the particular grantee | Approximate market value of the award share or restricted share units granted to each individual grantee based on 5-day average closing price before and up to the date of announcement | Approximate percentage of award shares or restricted share units granted to each individual grantee to total issued shares |
|----------------------|--|--|---|---|--|
| | | | | HK\$ (Note 1) | (%) (Note 1) |
| 23. 3 March 2020 | Budweiser Brewing Company APAC Limited (Stock code: 1876) | Executive director and joint company secretary | 100% in 5 years from the date of grant | 123,093 | 0.00004 |
| | | | Average | 9,762,796 | 0.11 |
| | | | Maximum | 85,794,042 | 1.20 |
| | | | Minimum | 123,093 | 0.00004 |

Source: Announcements of the relevant companies involved in the Comparable Grants on the website of the Stock Exchange

Notes:

1. As extracted from the relevant announcements for the Comparable Grants or as calculated based on the number of award shares/restricted share units granted, the average closing share price of the five days before and up to the date of the announcement and the number of total issued shares as at the date of the announcement.
2. The restricted share units granted, which are taken into account in the calculation of market value, include performance-based restricted share units.
3. We note that TOT Biopharm International Company Limited (stock code: 1875) published an announcement dated 29 May 2020 in relation to, among other things, grant of award shares to certain grantees including directors. As set out in the aforesaid announcement of TOT Biopharm International Company Limited, the grant of award shares was made to reverse the dilutive effect of capitalisation issue during initial public offering on the pre-IPO share options, which we consider not being made under a similar context of the Proposed Grant. We have not included the aforesaid grant by TOT Biopharm International Company Limited in our analysis.

Based on the information in the table above, we note that the Proposed Grant to each of the Connected Selected Participants is generally in line with the market practice, in particular (1) the market value of Connected Grant Shares to each of the Connected Selected Participants (based on the 5-day average closing market price per Share of approximately HK\$1.178 before the date of the Announcement) is lower than the average of the Comparable Grants, which represents a percentage over total issued shares slightly above the average of the Comparable Grants; and (2) although none of the vesting schedule of the Comparable Grants is identical to the one of the Proposed Grant, the vesting schedule for the Proposed Grant lines between the range of the

Comparable Grants. Accordingly, we consider the amount of Connected Grant Shares to be allotted and the vesting schedule for the Proposed Grant to be fair and reasonable so far as the Independent Shareholders are concerned.

6. Effects of the Proposed Grant on the Group

(a) Financial effects

We have discussed with the Management and understand that the Proposed Grant will be accounted for as share-based payment transactions in the financial statements of the Company. We understand from the Management that such share-based compensation expense relating to awards granted to employees will be recognised on a graded acceleration vesting amortisation method over the applicable service period, such that the value of the Connected Grant Shares will be recognised based on their fair value on the date of grant and charged as expenses of the Group for the relevant financial year during the vesting period. No funds will be raised by the Company as a result of the Proposed Grant. It is expected that the Proposed Grant will not have any material impact on the net assets value of the Company. Assuming full vesting of all the Connected Grant Shares and there is no change in the number of issued Shares of the Company other than the allotment, issue and full vesting of the Connected Grant Shares, the number of total issued shares of the Company will increase from 2,697,442,420 to 2,708,842,420. Based on the consolidated net assets value attributable to equity shareholders of the Company and the number of total issued Shares as at 31 December 2019, the consolidated net assets value attributable to equity shareholders of the Company was approximately RMB5.064 per share. It is expected that the Proposed Grant will not have material impact on the consolidated net assets value per share attributable to equity shareholders of the Company.

(b) Dilution of interests of the existing Shareholders

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Proposed Grant (for illustration purpose, assuming the allotment and issue of Grant Shares to other Selected Participants do not happen), assuming full vesting of all the Connected Grant Shares and there is no change in the number of issued Shares of the Company other than the allotment, issue and full vesting of the Connected Grant Shares; and (iii) immediately after the allotment, issue and full vesting of the Grant Shares (including the Connected Grant

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Shares), assuming full vesting of all the Grant Shares and there is no change in the number of issued Shares of the Company other than the allotment, issue and full vesting of the Grant Shares:

| | As at the Latest Practicable Date | | Immediately after the Proposed Grant (for illustration purpose, assuming the allotment and issue of Grant Shares to other Selected Participants do not happen) | | Immediately after the allotment, issue and full vesting of the Grant Shares (including the Connected Grant Shares) | |
|--|-----------------------------------|----------------------|--|----------------------|--|----------------------|
| | <i>Number of Shares</i> | <i>%</i> | <i>Number of Shares</i> | <i>%</i> | <i>Number of Shares</i> | <i>%</i> |
| Joy Capital Holdings Limited | 1,383,516,820 | 51.29 | 1,383,516,820 | 51.07 | 1,383,516,820 | 50.41 |
| Citigroup Inc. | 112,372,431 | 4.17 | 112,372,431 | 4.15 | 112,372,431 | 4.09 |
| <i>Connected Selected Participants</i> | | | | | | |
| — Mr. Wang | 1,230,000 | 0.05 | 5,630,000 | 0.21 | 5,630,000 | 0.21 |
| — Mr. Li | 1,550,000 | 0.06 | 5,550,000 | 0.20 | 5,550,000 | 0.20 |
| — Mr. Wan | — | — | 3,000,000 | 0.11 | 3,000,000 | 0.11 |
| <i>Public Shareholders</i> | | | | | | |
| — Non-connected Selected Participants | 428,160 | 0.02 | 428,160 | 0.02 | 36,128,160 | 1.32 |
| — Other public Shareholders | <u>1,198,345,009</u> | <u>44.43</u> | <u>1,198,345,009</u> | <u>44.24</u> | <u>1,198,345,009</u> | <u>43.66</u> |
| Total | <u>2,697,442,420</u> | <u>100.00</u> | <u>2,708,842,420</u> | <u>100.00</u> | <u>2,744,542,420</u> | <u>100.00</u> |

Note: Subject to rounding differences

As set out in the table above, there will be dilution effects on the interests of the existing public Shareholders upon granting of the Connected Grant Shares and all the Grant Shares. In our opinion, such dilution is immaterial and is acceptable to the Independent Shareholders taking into the reasons and benefits of the Proposed Grant as discussed in the section headed “2. Background to and reasons for the Proposed Grant” of this letter above.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OPINION AND RECOMMENDATION

Having taken into account the above principal factors as set out in the section headed “Principal factors and reasons considered” of this letter above, we consider that the terms of the Proposed Grant are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Proposed Grant, while not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the EGM in relation to the Proposed Grant.

Yours faithfully,
For and on behalf of
SOMERLEY CAPITAL LIMITED
Clifford Cheng
Director

Mr. Clifford Cheng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over ten years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in the shares, underlying shares or debentures of the Company

As at the Latest Practicable Date, the interests and short positions of each of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be and were entered in the register required to be kept by the Company referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") were as follows:

Long positions in the Shares or underlying Shares of the Directors and chief executive as at the Latest Practicable Date:

| Name of Director | Capacity/nature of interest | Number of Shares/ underlying Shares | Approximate percentage of shareholding |
|-------------------------------------|---|--|--|
| Mr. WANG Muqing | Founder of trusts | 1,383,516,820 <i>(Note 1)</i> | 51.29% |
| Mr. WANG Kunpeng <i>(Note 2)</i> | Beneficial Owner and beneficiary of a trust (other than a discretionary interest) | 5,630,000 | 0.21% |
| Mr. LI Zhubo <i>(Note 3)</i> | Beneficial Owner and beneficiary of a trust (other than a discretionary interest) | 5,550,000 | 0.20% |

| Name of Director | Capacity/nature of interest | Number of Shares/underlying Shares | Approximate percentage of shareholding |
|--------------------------------|--|------------------------------------|--|
| Mr. WAN To ^(Note 4) | Beneficiary of a trust (other than a discretionary interest) | 3,000,000 | 0.11% |

Notes:

1. These Shares are directly held by Joy Capital, which in turn is wholly-owned by Bright Brilliant Holdings Limited. Mr. Wang Boheng and Mr Wang Muqing are the founders of the family discretionary trust that owns all the issued shares of Bright Brilliant Holdings Limited, and Credit Suisse Trust Limited in Guernsey is the trustee of the family discretionary trust. Mr Wang Boheng, a director of Joy Capital, is a grandson of Mr Wang Muqing, the Chairman of the Board and an executive Director.
2. Among the 5,630,000 Shares, Mr. WANG Kunpeng was interested in 1,230,000 Shares in the capacity as the beneficial owner and 4,400,000 Shares in the capacity as a beneficiary of a trust (other than a discretionary interest), being the Connected Grant Shares conditionally granted to him pursuant to the Scheme.
3. Among the 5,550,000 Shares, Mr. LI Zhubo was interested in 1,550,000 Shares in the capacity as the beneficial owner and 4,000,000 Shares in the capacity as a beneficiary of a trust (other than a discretionary interest), being the Connected Grant Shares conditionally granted to him pursuant to the Scheme.
4. Mr. WAN To was interested in 3,000,000 Shares in the capacity as a beneficiary of a trust (other than a discretionary interest), being the Connected Grant Shares conditionally granted to him pursuant to the Scheme.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be and were entered in the register required to be kept by the Company referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

As at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Substantial Shareholders who have an interest and/or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as is known to the Directors and chief executive of the Company, as at the Latest Practicable Date, the following persons (other than Directors and chief executives of the Company) had, or were deemed or taken to have an interest or short position in the Shares and underlying Shares of the Company, which are required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

| Name of substantial Shareholders | Capacity/nature of interest | Number of Shares interested | | Approximate percentage of Shareholding |
|----------------------------------|--------------------------------------|-----------------------------|--------------------|--|
| | | Long Position (L) | Short Position (S) | |
| Joy Capital | Beneficial owner ^(Note 1) | 1,383,516,820 (L) | | 51.29% |
| Citigroup Inc. | Interest of controlled corporation | 112,372,431 (L) | 57,629,541 (S) | 4.17% |
| | Approved lending agent | | 54,742,007 (P) | 2.14% |
| | | | | 2.03% |

Note:

- These Shares are directly held by Joy Capital, which in turn is wholly-owned by Bright Brilliant Holdings Limited. Mr. Wang Boheng and Mr Wang Muqing are the founders of the family discretionary trust that owns all the issued shares of Bright Brilliant Holdings Limited, and Credit Suisse Trust Limited in Guernsey is the trustee of the family discretionary trust. Mr Wang Boheng, a director of Joy Capital, is a grandson of Mr Wang Muqing, the Chairman of the Board and an executive Director.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and chief executives of the Company) who had, or was deemed or taken to have, an interest or short position in the Shares and underlying Shares of the Company which are required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

3. DIRECTORS' INTERESTS

(a) Interests in contract or arrangement

Save as disclosed in the note to this item 3, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

(b) Interests in assets

None of the Directors had any direct or indirect interests in any assets which had been, since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

(c) Interests in competing business

Save as disclosed in the note to this item 3, as at the Latest Practicable Date, none of the Directors or their respective close associates (as defined in the Listing Rules) had an interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them was a controlling shareholder of the Company).

Note: Continuing Connected Transactions

(1) Lease Agreements and Property Management Agreements

(i) Lease Agreements

On 10 April 2019, the Group renewed the lease agreements (“**2019 Lease Agreements**”) with the respective connected persons as lessors (as defined below as the “**Connected Lessors**”) in relation to the lease of the office, 4S stores, garage as well as logistics and storage of the Group for a three years period from 1 January 2019 to 31 December 2021. Pursuant to the 2019 Lease Agreements, the Group shall pay the Connected Lessors an amount of approximately RMB28.10 million quarterly during the lease term.

The Connected Lessors, namely, 湖北熙可實業有限公司 (Hubei Xike Industry Co., Ltd.), 北京寶澤汽車科技發展有限公司 (Beijing Baoze Automobile Technology Development Co., Ltd.) (“**Beijing Development**”), 武漢聖澤捷運貿易有限公司 (Wuhan Shengze Jieyun Trading Co., Ltd.), 武漢聖澤捷眾物流有限公司 (Wuhan Shengze Jiezhong Logistics Co., Ltd.), 長沙聖澤瑞寶電子產品貿易有限公司 (Changsha Shengze Ruibao Electronics Trading Co., Ltd.), 內蒙古聖澤鼎傑汽車貿易有限公司 (Inner Mongolia Shengze Dingjie Automobile Trading Co., Ltd.),

武漢江融投資有限公司 (Wuhan Jiangrong Investment Co., Ltd.), are directly or indirectly wholly-owned by family members of Mr. Wang Muqing, an executive Director and the controlling shareholder of the Company.

For further details of the 2019 Lease Agreements and the term of all such agreements from 1 January 2019 to 31 December 2021, please refer to the annual report for the year 2019 (“**2019 Annual Report**”) of the Company despatched to the Shareholders on 13 May 2020 and the announcements of the Company dated 10 April 2019 and 18 April 2019 respectively.

(ii) Property Management Agreements

In order to ensure the continual use of the property management services of Beijing Development by the Group after the expiry of the property management agreement with Beijing Development on 31 December 2015 for a period of 3 years from 1 January 2016 to 31 December 2018, the Group entered into the property management agreements with Beijing Development on 10 April 2019 for a period of 3 years from 1 January 2019 to 31 December 2021 (the “**2019 Property Management Agreements**”). Pursuant to the 2019 Property Management Agreements, 北京寶澤行汽車銷售服務有限公司 (Beijing Baozhang Automobile Sales Services Co., Ltd) (“**Beijing Baozhang**”, being a subsidiary of the Company) shall pay property management monthly fee of RMB362,043 in total to Beijing Development from 1 January 2019. In addition, Beijing Development shall charge Beijing Baozhang the air-conditioning annual fee of RMB2,908,898 under the 2019 Property Management Agreements payable semiannually. The property management fee under the 2019 Property Management Agreements was determined with reference to the market rate determined by a valuer engaged by Beijing Baozhang.

For further details of the 2019 Property Management Agreements, please refer to the 2019 Annual Report and the announcements of the Company dated 10 April 2019 and 18 April 2019 respectively.

(2) Property Development Service Agreement

In order to reduce project development costs, on 4 July 2019, the Company entered into an agreement on contracted development and management (“**Agreement on Contracted Development and Management**”) with 北京廣澤房地產開發有限公司 (Beijing Guangze Real Estate Development Co., Ltd) (“**Beijing Guangze**”, a company controlled by Mr. Wang Muqing’s family members), pursuant to which the Company engages Beijing Guangze to undertake the overall management and coordination services for the development, construction, renovation and expansion of certain 4S stores and the relevant commercial complex projects owned by the Group. The Company shall pay Beijing Guangze 5% of the estimated total project cost under the Agreement on Contracted Development and Management as the contracted management service fee. As the total project cost under the Agreement on Contracted Development and Management is estimated to be approximately RMB848 million, the contracted management service fee payable by the Company to

Beijing Guangze is approximately RMB42.40 million. Taking into consideration the amount of the contracted management service fee of RMB42.40 million and the maximum amount of early completion bonus of RMB0.5 million, the annual cap for the Agreement on Contracted Development and Management shall not exceed RMB45 million. The amount was determined after arm's length negotiations between parties taking into account, among other factors, the project scale, investment amount for the Project, scope of design and technical standards and scope of services provided by Beijing Guangze. For the year ended 31 December 2019, the total amount of management services fee was RMB9.94 million.

Beijing Guangze possesses adequate commercial experience in the development and construction project of 4S stores, with corresponding real estate development and management capabilities. The Group engaged Beijing Guangze to undertake the development, establishment, re-establishment and expansion of 4S stores and relevant commercial projects in order to further reduce the cost and risk of the development and construction of such 4S stores and projects, as well as speed up the project construction to achieve the Group's network expansion goals.

For further details of the Agreement on Contracted Development and Management, please refer to the 2019 Annual Report and the announcement of the Company dated 4 July 2019.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which is not expiring or determinable by the Company or any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

6. EXPERT'S QUALIFICATION AND CONSENT

The following are the qualification of the expert who has provided its opinion or advice, which is contained in this circular.

| Name | Qualification |
|--------------------------|--|
| Somerley Capital Limited | A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its statements and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above expert was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which had been acquired or disposed of by or leased to, or was proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

The letter from the Independent Financial Adviser is given by Somerley Capital Limited as at the date of this circular for incorporation herein.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on a business day in Hong Kong at the principal place of business of the Company in Hong Kong at Unit 5905, 59/F., The Center, 99 Queen's Road Central, Hong Kong, from the date of this circular up to and including 17 September 2020, being the date of the EGM:

- (a) the Scheme;
- (b) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;
- (c) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this circular;
- (d) the written consent referred to in the paragraph headed "Expert's qualification and consent" in this appendix;
- (e) a memorandum containing particulars of the grant of the Connected Grant Shares to the Connected Selected Participants; and
- (f) this circular.



China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司

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

(Stock Code: 1728)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of China ZhengTong Auto Services Holdings Limited 中國正通汽車服務控股有限公司 (the “**Company**”) will be held at Niccolo Room 1–2, 25F., The Murray, Hong Kong, a Niccolo Hotel, 22 Cotton Tree Drive, Central, Hong Kong on 17 September 2020 at 11:00 a.m. for the following purpose of considering and, if thought fit, passing with or without amendments, the following resolution of the Company as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) conditional upon The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) granting the listing of and permission to deal in new shares of the Company (“**Shares**”) granted under the share award scheme (the “**Scheme**”) adopted by the Company on 12 June 2020 (a copy of which has been produced at the Meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification), the directors of the Company (“**Director(s)**”) be and are hereby granted a specific mandate (the “**Specific Mandate**”) to exercise all the powers of the Company for the allotment and issue of 4,400,000 Shares (“**Connected Grant Shares**”) to BOCI-Prudential Trustee Limited (“**Trustee**”) to hold on trust for Mr. WANG Kunpeng, a director of the Company (“**Director**”) and accordingly a connected person (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”)) of the Company, and that grant of such 4,400,000 Connected Grant Shares to Mr. WANG Kunpeng pursuant to the Scheme be and is hereby approved and confirmed; and

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

- (b) any one or more of the Director(s) be and is/are hereby authorized for and on behalf of the Company to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to such grant and the transactions contemplated thereunder, including but not limited to the issue and allotment of such new 4,400,000 Connected Grant Shares to Mr. WANG Kunpeng pursuant to the Scheme.”

2. **“THAT**

- (a) conditional upon the Stock Exchange granting the listing of and permission to deal in new Shares granted under the Scheme, the Directors be and are hereby granted the Specific Mandate to exercise all the powers of the Company for the allotment and issue of 4,000,000 Connected Grant Shares to the Trustee to hold on trust for Mr. LI Zhubo, a Director and accordingly a connected person of the Company, and that grant of such 4,000,000 Connected Grant Shares to Mr. LI Zhubo pursuant to the Scheme be and is hereby approved and confirmed; and
- (b) any one or more of the Director(s) be and is/are hereby authorized for and on behalf of the Company to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to such grant and the transactions contemplated thereunder, including but not limited to the issue and allotment of such new 4,000,000 Connected Grant Shares to Mr. LI Zhubo pursuant to the Scheme.”

3. **“THAT**

- (a) conditional upon the Stock Exchange granting the listing of and permission to deal in new Shares granted under the Scheme, the Directors be and are hereby granted the Specific Mandate to exercise all the powers of the Company for the allotment and issue of 3,000,000 Connected Grant Shares to the Trustee to hold on trust for Mr. WAN To, a Director and accordingly a connected person of the Company, and that grant of such 3,000,000 Connected Grant Shares to Mr. WAN To pursuant to the Scheme be and is hereby approved and confirmed; and

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

- (b) any one or more of the Director(s) be and is/are hereby authorized for and on behalf of the Company to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to such grant and the transactions contemplated thereunder, including but not limited to the issue and allotment of such new 3,000,000 Connected Grant Shares to Mr. WAN To pursuant to the Scheme.”

By Order of the Board
China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司
WANG Muqing
Chairman

31 August 2020

Registered Office:

Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

*Principal Place of Business
in Hong Kong:*

Unit 5905, 59/F.
The Center
99 Queen’s Road Central
Hong Kong

Notes:

1. All resolutions at the Meeting will be taken by poll pursuant to the Listing Rules and the results of the poll will be published on the websites of the Stock Exchange and the Company in accordance with the Listing Rules.
2. A member entitled to attend and vote at the Meeting is entitled to appoint one or more (if he holds more than one Share) proxies to attend and vote instead of him. A proxy need not be a member of the Company. If more than one proxy is appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.
3. In the case of joint holders of Shares, any one of such joint holders may vote, either in person or by proxy, in respect of such Shares as if it/he/she were solely entitled thereto, but if more than one of such joint holders are present at the above meeting, personally or by proxy, that one of the said persons so present whose name stands first in the register in respect of such Shares shall alone be entitled to vote in respect thereof.
4. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for the holding of the Meeting (i.e. Tuesday, 15 September 2020 at 11:00 a.m.) or any adjournment thereof. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the Meeting and, in such event, the said form of proxy shall be deemed to be revoked.

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

5. The transfer books and register of members of the Company will be closed from 14 September 2020 (Monday) to 17 September 2020 (Thursday), both days inclusive, to determine the entitlement of shareholders to attend and vote at the Meeting, during which period no share transfers can be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 11 September 2020 (Friday).
6. Shareholders of the Company should note that the meeting will be held as scheduled when amber or red rainstorm warning signal is in force. In the event that typhoon signal no. 8 (or above) or "black" rainstorm warning is hoisted or occurrence of COVID-19 outbreak and other serious infectious disease at the venue of Meeting on the day and before the time of the Meeting, shareholders of the Company may send an e-mail to ir@zhengtongauto.com for arrangement of holding the Meeting under such adverse weather/severe conditions.

Shareholders of the Company should make their own decision as to whether they would attend the meeting under bad weather/severe conditions bearing in mind their own situations and if they should choose to do so, they are advised to exercise care and caution.

As at the date of this notice, the Board comprises Mr. WANG Muqing (Chairman), Mr. WANG Kunpeng, Mr. LI Zhubo and Mr. WAN To as executive Directors; and Dr. WONG Tin Yau, Kelvin, Dr. CAO Tong and Ms. WONG Tan Tan as independent non-executive Directors.