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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in doubt** about any aspect of this circular, 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 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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正通

**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)**

**MAJOR TRANSACTION AND DEEMED DISPOSAL IN RELATION  
TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF  
SHANGHAI DONGZHENG AUTOMOTIVE FINANCE CO., LTD. ON  
THE MAIN BOARD OF THE STOCK EXCHANGE**

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



**SOMERLEY CAPITAL LIMITED**

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A letter from the Board is set out on pages 6 to 23 of this circular. A letter from the Independent Board Committee containing its advice and recommendation to the Shareholders is set out on page 24 to 25 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Shareholders is set out on pages 26 to 47 of this circular.

*\* For identification purposes only*

15 January 2019

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## DEFINITIONS

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

“4S”	means sale, spare parts, service and survey
“AFC”	means auto finance company licensed and regulated by the CBIRC
“Application Proof”	means the application proof of Dongzheng’s listing document submitted on 21 November 2018
“Assured Entitlement”	means the entitlement of the Qualifying Shareholders to apply for the Dongzheng H Shares on an assured basis pursuant to a preferential offering determined on the basis of their respective shareholdings in the Company on the Record Date
“Board”	means the board of Directors
“CBIRC”	means the China Banking and Insurance Regulatory Commission
“CIC”	means China Insights Consultancy Limited, the industry consultant of Dongzheng and an independent third party
“close associate”	has the meaning ascribed to it under the Listing Rules
“Company”	means 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
“Conflicting Director”	means any director of Dongzheng who concurrently holds a material position at the Remaining Group
“CSDCC”	means the China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司)
“CSRC”	means the China Securities Regulatory Commission
“Directors”	means the directors of the Company
“Dingze Financial Leasing”	means Shanghai Zhengtong Dingze Financial Leasing Co., Ltd., a limited liability company established in the PRC and a wholly-owned subsidiary of the Company as at the Latest Practicable Date

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## DEFINITIONS

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“Dongfeng”	means Dongfeng Motor Corporation* (東風汽車集團有限公司, formerly known as Dongfeng Motor Company* (東風汽車公司)), a wholly state owned enterprise incorporated on June 25, 1991 under the laws of the PRC which directly holds 5% equity interest in Dongzheng as at the Latest Practicable Date
“Dongzheng”	means Shanghai Dongzheng Automotive Finance Co., Ltd.* (上海東正汽車金融股份有限公司), formerly known as Shanghai Dongzheng Automotive Finance Co., Ltd.* (上海東正汽車金融有限責任公司), a limited liability company established by Dongfeng and the Company in the PRC on 11 March 2015 and registered as a joint stock company with limited liability on 15 August 2018
“Dongzheng H Share(s)”	means ordinary share(s) to be issued by Dongzheng, with denominated nominal value of RMB1.00 each, which are to be subscribed for and traded in HK dollars and for which an application has been made for listing and permission to trade on the Stock Exchange
“External Customer(s)”	means the customer(s) of auto dealer(s) other than auto dealer(s) of the Remaining Group with which Dongzheng cooperated
“Global Offering”	means the Hong Kong public offering and the international offering (including the preferential offering) of the Dongzheng H Shares
“Group”	means the Company and its subsidiaries
“Guernsey”	means The Bailiwick of Guernsey
“HK\$”	means Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	means the Hong Kong Special Administration Region of the PRC
“Independent Board Committee”	means an independent board committee of the Company comprising all independent non-executive Directors formed to advise the Shareholders in respect of the terms of the Proposed Spin-off

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## DEFINITIONS

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“Independent Financial Adviser” or “Somerley”	means Somerley Capital Limited, a licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off
“independent third party(ies)”	means individual(s) or company(ies) which is/are independent of and not connected with (within the meaning of the Listing Rules) any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates
“Joy Capital”	means Joy Capital Holdings Limited, a controlling shareholder of the Company as at the Latest Practicable Date
“Latest Practicable Date”	9 January 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
“Listing Committee”	means the listing committee of the Stock Exchange
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Non-competition Undertaking”	means the non-competition undertaking expected to be entered into the Company, Joy Capital and the Wang Family Trusts Founders
“Non-Qualifying Shareholder(s)”	means Shareholder(s) with registered addresses in, or who are otherwise known by the Company to be residents of, jurisdictions outside Hong Kong on the Record Date, in respect of whom the directors of the Company and Dongzheng, based on the enquiries made by them, consider it necessary or expedient to exclude from the preferential offering on account either of the legal restrictions under the laws of the relevant jurisdiction in which the relevant Shareholder is resident or the requirements of the relevant regulatory body or stock exchange in that jurisdiction
“PN15”	means Practice Note 15 of the Listing Rules
“PRC” or “China”	means the People’s Republic of China, for the purpose of this circular, excluding Hong Kong Special Administrative Region of the PRC, Macau Special Administrative Region of the PRC and Taiwan

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## DEFINITIONS

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“Pre-IPO Share Option Scheme”	means a pre-initial public offering share option scheme adopted by the Company based on a framework plan formulated on 9 August 2010
“Proposed Spin-off”	means the proposed spin-off and separate listing of the Dongzheng H Shares on the Main Board of the Stock Exchange, which is expected to be effected by way of the Global Offering (including the preferential offering)
“Qualifying Shareholder(s)”	means Shareholder(s) whose name(s) appeared on the register of members of the Company at 4:30 p.m. on the Record Date, excluding the Non-Qualifying Shareholders
“Record Date”	means a date on which the entitlement of the Qualifying Shareholders to apply for the Dongzheng H Shares is determined
“Remaining Group”	means the Company and its subsidiaries, excluding Dongzheng
“Reserved Share(s)”	means the shares available in the preferential offering being offered by Dongzheng to the Qualifying Shareholders which are to be allocated out of the shares of international offering in the Global Offering
“Retained Business”	means the 4S dealership business, supply chain business and financial services business retained by the Group after the Proposed Spin-off
“RMB”	means Renminbi yuan, the lawful currency of China
“SFC”	means the Securities and Futures Commission of Hong Kong
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shanghai-Hong Kong Stock Connect”	means a securities trading and clearing linked programme developed by the Stock Exchange, the Shanghai Stock Exchange and the CSDCC, which allows Hong Kong and overseas investors to trade eligible shares listed on the Shanghai Stock Exchange and allows eligible investors to trade eligible shares listed on the Stock Exchange
“Share(s)”	means the ordinary share(s) of nominal value of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	means the shareholders of the Company

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## DEFINITIONS

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“Shenzhen-Hong Kong Stock Connect”	means a securities trading and clearing linked programme developed by the Stock Exchange, the Shenzhen Stock Exchange and the CSDCC, which allows Hong Kong and overseas investors to trade eligible shares listed on the Shenzhen Stock Exchange and allows eligible investors to trade eligible shares listed on the Stock Exchange
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Wang Family Trusts”	means the Bright Brilliant Trust and the Ample Joy Trust
“Wang Family Trusts Founders”	means Mr. WANG Muqing and Mr. WANG Weize (the son of Mr. WANG Muqing), being the founders of the Bright Brilliant Trust and the Ample Joy Trust
“%”	means per cent

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LETTER FROM THE BOARD

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正通

**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*)  
Mr. KOH Tee Choong, Ivan (許智俊)  
*(Chief Executive Officer)*  
Mr. LI Zhubo (李著波) (*Chief Financial Officer*)  
Mr. WAN To (尹濤)  
Mr. SHAO Yong Jun (邵永駿)

*Independent Non-executive Directors:*

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

*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

15 January 2019

*To the Shareholders*

Dear Sir/Madam,

**MAJOR TRANSACTION AND DEEMED DISPOSAL IN RELATION  
TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF  
SHANGHAI DONGZHENG AUTOMOTIVE FINANCE CO., LTD. ON  
THE MAIN BOARD OF THE STOCK EXCHANGE**

**INTRODUCTION**

References are made to the announcements of the Company dated 13 November 2018 and 21 November 2018 in relation to the Proposed Spin-off.

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## LETTER FROM THE BOARD

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The purposes of this circular are to: (i) provide the Shareholders with information on the reasons for, and the benefits of, the Proposed Spin-off (together with such other information relating to the Proposed Spin-off as required by the Listing Rules for a major transaction of the Company); (ii) set out the recommendation of the Independent Board Committee to the Shareholders regarding the Proposed Spin-off; and (iii) set out the letter of advice from Somerley containing its recommendation to the Independent Board Committee and the Shareholders regarding the Proposed Spin-off.

### THE PROPOSED SPIN-OFF

The Board proposed to spin-off and separately list Dongzheng on the Main Board of the Stock Exchange by way of a global offering consisting of (i) the Hong Kong public offering; and (ii) the international offering (including the preferential offering). In this regard, the Company had submitted a spin-off proposal to the Stock Exchange pursuant to PN15 and the Stock Exchange had confirmed that the Company may proceed with the Proposed Spin-off.

On 21 November 2018, a listing application form (Form A1) was submitted to the Stock Exchange for an application for the listing of, and permission to deal in, the Dongzheng H Shares, which is the subject of the Proposed Spin-off, on the Main Board of the Stock Exchange. A redacted form of the Application Proof is available for viewing and downloading on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk). The Application Proof contains, among other things, certain business and financial information relating to Dongzheng.

Based on the current structure of the Proposed Spin-off which is subject to finalisation, immediately following completion of the Proposed Spin-off, the Company will have an interest of approximately 71.25% (assuming the over-allotment option is not exercised), or 68.67% (assuming the over-allotment option is exercised in full) in Dongzheng. Therefore, Dongzheng will continue to be a direct non-wholly owned subsidiary of the Company upon completion of the Proposed Spin-off and the operating results of Dongzheng will continue to be consolidated into the consolidated accounts of the Group.

Based on the current structure of the Proposed Spin-off which is subject to finalisation, immediately following completion of the Proposed Spin-off, Dongzheng will have a public float of not less than 25%, and will be able to comply with the minimum public float requirement under Rule 8.08 of the Listing Rules.

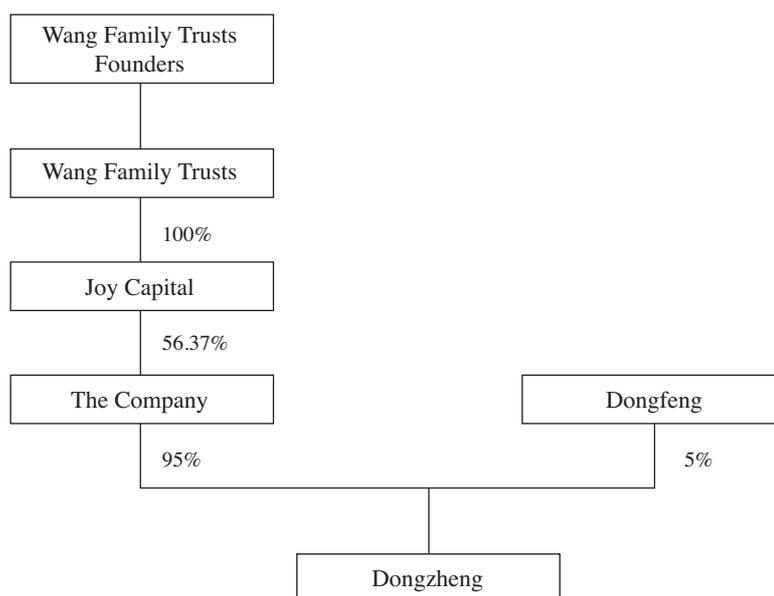
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## LETTER FROM THE BOARD

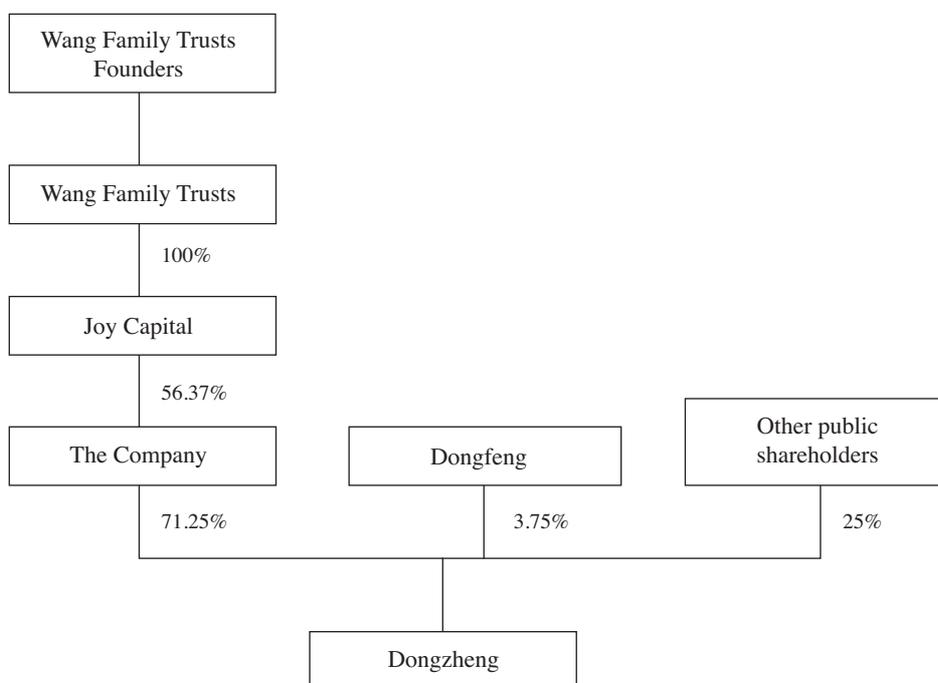
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### Shareholding Effects of the Proposed Spin-off

The shareholding structure of Dongzheng immediately prior to the Proposed Spin-off and the Global Offering is set out below:



The shareholding structure of Dongzheng immediately after the Proposed Spin-off and the Global Offering (assuming the over-allotment option is not exercised) is set out below:



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## LETTER FROM THE BOARD

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### INFORMATION ON DONGZHENG AND THE REMAINING GROUP

#### Business Overview of Dongzheng

Dongzheng is the only AFC with a dealership background in China, licensed and regulated by the CBIRC. It specializes in providing auto finance products and services for the purchase of luxury-brand cars. The business of Dongzheng primarily consists of: (i) retail loan business, whereby Dongzheng offers retail loan and other financing services to end customers for their purchase of cars; and (ii) dealer loan business, whereby Dongzheng provides loans to dealers to facilitate their purchase of cars to be sold to their end customers.

Since its establishment in March 2015, Dongzheng has been offering tailored financing products and services to its end customers by leveraging the know-how and industry insights of the Company, which has been in the dealership business for nearly 20 years. As of 30 June 2018, Dongzheng's dealer network consisted of 986 dealers, covering 159 cities in China, comprising Beijing, Shanghai, Shenzhen, Guangzhou as well as 36 second-tier cities and 119 third-tier and other lower-tier cities. Dongzheng has also established strategic cooperation with certain luxury-brand automakers to expand its customer base.

In 2017, Dongzheng disbursed 16,447 retail loans for the purchase of luxury-brand cars with an aggregate principal amount of RMB3,753.1 million, accounting for 88.2% of the number of retail loans it disbursed in total and 95.0% of the aggregate principal amount of retail loans it disbursed during the same period. Given Dongzheng's focus on luxury-brand cars, the average loan principal amount that its retail loan customers received in 2017 was RMB220,028, which ranked third among all the AFCs in China in 2017 and was substantially higher than the industry average of RMB98,411 in the same period, according to CIC.

#### Financial Information of Dongzheng

Set out below is certain selected financial information of Dongzheng based on its audited financial statements for the period from 11 March 2015 (date of establishment) to 31 December 2015, each of the two years ended 31 December 2016 and 31 December 2017 and the six months ended 30 June 2018:

	<b>Period from 11 March 2015 (date of establishment) to 31 December 2015 RMB'000</b>	<b>For the year ended 31 December 2016 2017 RMB'000</b>		<b>For the six months ended 30 June 2018 RMB'000</b>
Operating income	77,972	332,419	461,960	382,865
Profit before tax	33,122	232,745	348,523	298,763
Profit and total comprehensive income for the period/year	24,782	174,485	260,773	224,074

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## LETTER FROM THE BOARD

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As at 30 June 2018, based on the audited financial statements of Dongzheng, the net assets value of Dongzheng was RMB2,254.7 million.

### **Clear Business Delineation between the Business of the Remaining Group and Dongzheng**

The business of Dongzheng primarily consists of: (i) retail loan business, whereby Dongzheng offers retail loan and other financing services to end customers for their purchase of cars; and (ii) dealer loan business, whereby Dongzheng provides loans to dealers to facilitate their purchase of cars to be sold to their end customers.

The Remaining Group is committed to developing luxury and ultra-luxury auto sales and traditional after-sales services. It is the leading 4S dealership group in China focusing on dealership of luxury-brand cars such as Porsche, BMW, Mercedes-Benz, Audi, Jaguar and Land Rover, and Volvo. It also operates dealership stores of middle market brands, such as FAW-Volkswagen, Buick, Nissan, Toyota, Honda and Hyundai.

Within the Remaining Group, Dingze Financial Leasing, a subsidiary of the Company, provides financial leasing services. The key factors that delineate the business of Dingze Financial Leasing and Dongzheng are set out below.

#### ***Different business model***

Due to the differences in regulatory oversight, the scope of business of Dongzheng and Dingze Financial Leasing is different. Contrary to Dongzheng which extends loans to end customers to purchase cars for private consumption under its retail loan business, Dingze Financial Leasing can conduct financial leasing business but cannot grant any loans to its customers which is a licensed business under the laws of the PRC. Dingze Financial Leasing is predominantly conducting financial leasing for fixed-asset type of equipment deployed in the after-sales services of dealers in their ordinary business operations, which is not a CBIRC-licensed business. As a financial leasing company, Dingze Financial Leasing offers operating and finance leases.

#### ***Different target customers***

Dingze Financial Leasing's target customers are primarily external dealers outside the Remaining Group which have financial leasing needs for fixed-asset type of equipment used in their provision of after-sales services such as lifting machine. Dongzheng's major target customers are the retail end customers that have financing needs to purchase cars for private consumption.

#### ***Different financing channels***

As a licensed non-banking financial institution and according to the Administrative Measures on Governing the Automotive Financing Company (《汽車金融公司管理辦法》), Dongzheng is permitted to take time deposits of three months or more from the Company and wholly-owned members of the Remaining Group in the PRC, carry out inter-bank borrowing, accept deposits as guarantee from

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## LETTER FROM THE BOARD

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dealers for loans that are used for purchasing cars, and engage in auto finance lease business (excluding leaseback business). These financing channels allow Dongzheng to raise capital at a relatively lower capital cost than financial leasing companies such as Dingze Financial Leasing which do not have such financing channels.

Members of the Remaining Group do not, and it is expected that they will not, engage in any business activities that compete or will compete with those of Dongzheng. To address potential conflicts of interests between the Remaining Group and Dongzheng, the Company, Joy Capital and the Wang Family Trusts Founders will enter into the Non-competition Undertaking in favour of Dongzheng, the details of which are set out in the section headed “Non-competition Undertaking” below.

### Management Independence

#### 1. *Dongzheng*

##### (a) *Board structure*

Dongzheng’s business is managed and conducted by the board of directors of Dongzheng. The board of directors of Dongzheng comprises two executive directors, two non-executive directors and three independent non-executive directors.

The directors of Dongzheng are of the view that the board of directors and senior management of Dongzheng are capable of operating Dongzheng’s business and managing all actual or potential conflicts of interest independently of the Remaining Group for the following reasons:

- Except for Mr. KOH Tee Choong (who is a non-executive director of Dongzheng and also the chief executive officer and an executive Director of the Company as of the Latest Practicable Date), there will not be any overlap between the Remaining Group and Dongzheng in terms of directors and senior management upon the Proposed Spin-off. Mr. KOH Tee Choong is a non-executive director of Dongzheng and will not be involved in the day-to-day management and operations of businesses of Dongzheng. He will provide professional advice to and share his experience in the automobile industry with Dongzheng;
- The two executive directors and the members of senior management and management team of Dongzheng are responsible for the day-to-day management and operations of Dongzheng’s business and none of them will hold any directorships and/or other roles within the Remaining Group upon the Proposed Spin-off; and
- All of independent non-executive directors of Dongzheng are independent of Dongzheng and the Remaining Group and have extensive experience in their respective areas of expertise. The independent non-executive directors of Dongzheng are appointed in accordance with the requirements under the Listing Rules to ensure that the decisions of

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## LETTER FROM THE BOARD

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board of directors of Dongzheng are made only after due consideration of independent and impartial opinions. None of independent non-executive directors of Dongzheng are directors of the Remaining Group in any manner that may affect their independent judgement or independence as required under the Listing Rules.

(b) *Director's duties*

Each of directors of Dongzheng is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the best interest of Dongzheng and its shareholders as a whole and does not allow any conflict between his/her duties as a director and his/her personal interests.

(c) *Corporate governance measures*

The directors of Dongzheng recognize the importance of good corporate governance in protecting the interests of shareholders of Dongzheng. Dongzheng has adopted the following corporate governance measures to identify and manage potential conflicts of interests:

- Where the board of directors of Dongzheng is considering a resolution in which the Remaining Group is materially interested, any director of Dongzheng who concurrently holds a material position at the Remaining Group will be required to abstain from voting on such resolution;
- Dongzheng has established internal control mechanisms to identify connected transactions. Any connected transactions between Dongzheng and the Remaining Group will be and are identified in advance and the Conflicting Director must abstain from voting on the relevant resolutions and the requirements set out in Chapter 14A of the Listing Rules will be complied with;
- The independent non-executive directors of Dongzheng are independent from the Remaining Group and are appointed in accordance with the requirements under the Listing Rules to ensure that decisions of the board of directors are made only after due consideration of independent and impartial opinions;
- Dongzheng will disclose decisions on matters reviewed by its independent non-executive directors and basis of such decisions, either in its annual reports or by way of announcements as required by the Listing Rules;
- The Wang Family Trusts Founders, Joy Capital and the Company undertake to provide all information requested by Dongzheng which is necessary for the annual review by independent non-executive directors of Dongzheng and the enforcement of the Non-competition Undertaking;

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## LETTER FROM THE BOARD

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- The independent non-executive directors of Dongzheng will, based on the information available to them, review on annual basis all the decisions taken in relation to whether to pursue the new opportunity under the Non-competition Undertaking, and to disclose all decisions on the matters pertaining to the annual review either through the annual report, or by way of announcement to the public;
- The board of directors of Dongzheng has put in place adequate arrangements set forth above to manage conflicts of interest, to ensure independent decision-making, to safeguard the prospective measures under the Non-competition Undertaking, and ultimately, to protect the interests of shareholders of Dongzheng. The directors of Dongzheng believe that the presence of them from different backgrounds provides a balance of views and opinions;
- In order to allow non-conflicting members of the board of directors of Dongzheng to function properly with necessary professional advice, Dongzheng will engage a third-party professional advisor to advise its board when necessary; and
- Dongzheng has appointed Altus Capital Limited as its compliance advisor to provide advice and guidance to it in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance.

Based on the above, the directors of Dongzheng are satisfied that sufficient corporate governance measures have been put in place to manage conflicts that may arise between Dongzheng and the Remaining Group, and to protect the interests of the shareholders of Dongzheng after the Proposed Spin-off.

(d) *Separate management team*

Dongzheng has its own management team and separate functional departments including accounting, administration, human resources, legal and company secretarial departments. All essential administration and daily operations of Dongzheng are carried out by a team of staff employed by Dongzheng independently of and without any support from the Remaining Group. In addition, save as disclosed above, none of senior management of Dongzheng holds any office in or is employed by the Remaining Group.

On the basis of the aforesaid, the Directors and the directors of Dongzheng believe that Dongzheng operates independently of the Remaining Group and in the interests of shareholders of Dongzheng.

## 2. **the Group**

As of the Latest Practicable Date, Mr. SHAO Yongjun, one of the executive directors of Dongzheng, also serves as an executive Director of the Company but will cease to act as such upon the Proposed Spin-off.

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## LETTER FROM THE BOARD

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As of the Latest Practicable Date, Mr. KOH Tee Choong, one of the non-executive directors of Dongzheng, also serves as the chief executive officer and an executive Director of the Company.

Apart from Mr. KOH Tee Choong, who holds directorship and management position in the Remaining Group, none of the directors of Dongzheng holds any directorship or management position in the Group.

In light of the above, the Directors and the directors of Dongzheng are of the view that the directors, senior management and key management of Dongzheng are independent from the directors and senior management of the Group.

### **Operational Independence**

Dongzheng makes business decisions independently. Dongzheng holds all relevant licenses necessary to carry on its businesses and has sufficient capital, equipment and employees to operate its businesses independently.

On the basis of the following reasons, the Directors and the directors of Dongzheng consider that Dongzheng will continue to operate independently of the Remaining Group after the completion of the Proposed Spin-off:

- Dongzheng's material management and operational decision-making have been made by its core management team which consists of the two executive directors and its president, Mr. LI Yi. The day-to-day management and operation of Dongzheng have been carried out by an experienced full-time senior management and management members with the authorization from the board of directors of Dongzheng. Neither the executive directors of Dongzheng nor any member of the senior management or management of Dongzheng will hold any position with the Remaining Group upon the completion of the Proposed Spin-off;
- Dongzheng has established its own operational structure made up of separate departments, each with a specific area of responsibility. Dongzheng has also established a set of internal control procedures to facilitate the effective operation of its business;
- The entire flow of Dongzheng's retail loan business is market-driven and the end customers make the ultimate decisions as to which loan and from which financing providers to apply for the loan. In terms of the financing providers that are currently cooperating with the Remaining Group, the Company's 4S dealership stores typically display an array of offerings for retail loans from various commercial banks, auto manufacturing financing companies and auto financing companies. The end customers would not receive any discount on the selling price of the cars from the Company's dealers for taking out a retail loan from or through Dongzheng (save for the case of a joint promotion arrangement), nor any rebates from the Remaining Group/Dongzheng. The staff of the external business partners and that of the Remaining Group do not receive any commission or incentive from the financing providers including Dongzheng;

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## LETTER FROM THE BOARD

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- Dongzheng promotes its retail loan offerings to end customers primarily through a dealer network of 986 dealers as of 30 June 2018, while the Company operates its 4S dealership business through its network of 4S dealership outlets. In addition, as disclosed in the section headed “Proposed Use of Net Proceeds from the Global Offering” below, Dongzheng expects that among which, the proceeds from the Global Offering will be mainly used to support the development of its business with External Customers. Dongzheng expects to increase revenue from its External Customers after the Proposed Spin-off; and
- There is no competing business between the controlling shareholders of Dongzheng and Dongzheng, and the controlling shareholders of Dongzheng are expected to enter into the Non-competition Undertaking in favour of Dongzheng.

### Financial Independence

Dongzheng has an independent financial system and makes financial decisions according to Dongzheng’s own business needs. Dongzheng has an independent internal control and accounting systems and also has an independent finance department responsible for discharging the treasury function. Dongzheng is capable of obtaining financing from third parties, if necessary, without reliance on the Remaining Group.

As a CBIRC-licensed AFC, Dongzheng is permitted under its business scope to take time deposits of three months from wholly-owned members of the Group onshore. The interest offered by Dongzheng to the Company for the Company’s time deposits (the “**Time Deposits**”) is the same as the benchmark interest rate published by the PBOC from time to time for time deposits of three months. Notwithstanding the Time Deposits, Dongzheng believes it is financially independent of the Company having regard to the following factors:

1. As of 30 September 2018, the outstanding balance of the time deposits placed by the Company in Dongzheng amounted to RMB421.0 million, and the unutilized banking facilities Dongzheng secured from other commercial banks or third party financial institutions free of any guarantee from the Company is higher than such amount;
2. From a regulatory perspective, the deposit-taking ability is part and parcel of Dongzheng’s permitted business activities as a whole under the regulations of CBIRC and should not be viewed unfavorably as an indication of financial dependence on the Company;
3. Dongzheng has a core tier-one capital adequacy ratio above the statutory requirement and does not rely on the Time Deposits to satisfy such capital adequacy requirement; and
4. The operating income of Dongzheng increased from RMB78.0 million in 2015 to RMB462.0 million in 2017, and its net profit for the year increased from RMB24.8 million in 2015 to RMB260.8 million in 2017. Dongzheng has therefore been in a strong business and financial position before the receipt of the Time Deposits.

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## LETTER FROM THE BOARD

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In addition, while currently certain of Dongzheng's placement from banks and other financial institutions are guaranteed by the Remaining Group, such guarantees will be released prior to the Proposed Spin-off.

Based on the above, the Directors and the directors and Dongzheng are of the view that Dongzheng is capable of carrying on its business independently of, and does not place undue reliance on the Remaining Group after the Proposed Spin-off.

### NON-COMPETITION UNDERTAKING

The Company, together with other controlling shareholders of Dongzheng (i.e. Joy Capital and the Wang Family Trusts Founders) is expected to, as part of the Proposed Spin-off, enter into the Non-competition Undertaking for the benefit of Dongzheng. Pursuant to the Non-competition Undertaking, the Company will make irrevocable covenants to Dongzheng that the Company will not and will procure that its close associates will not:

- (a) solely or jointly with a third party, engage in or participate in business or activity which constitutes or may constitute competition with Dongzheng's business in any manner directly or indirectly (including but not limited to investment, merger and acquisition, associates, joint ventures, cooperation, partnership, contracting or leasing operation, purchase of shares of listed companies or equity participation) domestically or abroad (in each case whether as a director or shareholder (other than being a director or shareholder of Dongzheng), partner, agent or otherwise and whether for profit, reward or interest otherwise); and
- (b) directly or indirectly, hold any interest or obtain any control (in each case whether as a director or shareholder (other than being a director or shareholder of Dongzheng), partner, agent or otherwise and whether for profit, reward or interest otherwise) in any business, operating entities, institutions or economic organizations, which is or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business engaged by Dongzheng domestically or abroad from time to time.

The Company will, as part of the Non-competition Undertaking, further undertake that if the Company or any of its close associates is offered or given or identified any business investment or commercial opportunity which may compete or lead to competition with the businesses of Dongzheng, the Company shall and shall procure its close associates to notify Dongzheng in writing and Dongzheng shall have a right of first refusal to take up such business investment or commercial opportunity. The Company will also undertake, subject to the applicable law, Dongzheng is entitled to acquire any equity interest, asset or other interest in the business currently carried out by it from the Company at any time, unless a third party exercises its right of first refusal pursuant to relevant laws or constitutional documents on the same conditions. The Company further undertakes that it will use its best efforts to procure its close associates to provide to Dongzheng such option for their respective businesses. In the event that the Company or any of its close associates has acquired any

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## LETTER FROM THE BOARD

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business investment or commercial opportunity in accordance with the foregoing and intend to sell such investment or opportunity, the Company shall and shall procure its close associates to notify Dongzheng in writing and Dongzheng shall have a pre-emptive right to acquire such investment or opportunity.

The Non-competition Undertaking shall terminate on the earlier of:

- (a) when the Company and its close associates, individually or taken as a whole, are interested in no more than 30% of the equity interests of Dongzheng; or
- (b) the Dongzheng H Shares cease to be listed on the Stock Exchange except for suspension of trading of such shares due to any reasons.

### FINANCIAL IMPACT OF THE PROPOSED SPIN-OFF

The following estimates the financial impact of the Proposed Spin-off on the Group on the basis of the current structure of the Proposed Spin-off which is subject to finalisation and is for illustration purposes only.

#### Net Asset Value

The unaudited consolidated net assets of the Group were approximately RMB12,027.11 million as at 30 June 2018. Based on (i) the number of Dongzheng H Shares, (ii) the current proposed structure of the Global Offering, and (iii) the audited net assets of Dongzheng as at 30 June 2018, the estimated minimum market capitalisation of Dongzheng (assuming that the over-allotment option is not exercised) will be approximately HK\$8,533.34 million. The Board expects that as a result of the Proposed Spin-off which involves the Global Offering of approximately 533,336,000 Dongzheng H Shares, the consolidated net assets of the Group will be increased by the amount of the net proceeds from the Global Offering, estimated to be approximately HK\$2,413.15 million, equivalent to approximately RMB2,123.57 million at an exchange rate of HK\$1 = RMB0.88 (assuming an offer price of HK\$4.75 per Dongzheng H Share, being the mid-point of the indicative price range, and that the over-allotment option is not exercised) (the “**Increase in Net Assets**”), and the consolidated cash balance of the Group will be increased by the net proceeds from the Global Offering.

In accordance with the Hong Kong Financial Reporting Standards, the Increase in Net Assets which constitutes changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control, is accounted for within equity. Therefore, there will be no gain or loss arising from the deemed disposal by the Company of its interest in Dongzheng under the Global Offering to be recognised in the consolidated income statement of the Company given that Dongzheng will remain as a direct non-wholly owned subsidiary of the Company immediately upon completion of the Proposed Spin-off and the Global Offering.

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## LETTER FROM THE BOARD

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### Earnings

Following completion of the Proposed Spin-off, Dongzheng will continue to be a non-wholly owned subsidiary of the Company. The operating results of Dongzheng will therefore be consolidated into the financial statements of the Company.

Based on the audited consolidated financial statements of the Group for each of the two years ended 31 December 2017, the consolidated net profits before taxation of the Group were approximately RMB790.80 million and RMB1,753.79 million, respectively. For each of the two years ended 31 December 2017, the audited consolidated net profits after taxation of the Group were approximately RMB508.36 million and RMB1,211.46 million, respectively. Based on the unaudited consolidated financial statements of the Group for the six months ended 30 June 2018, the unaudited profit before and after taxation of the Group was RMB1,079.88 million and RMB725.98 million, respectively.

Assuming that no new shares of Dongzheng will be issued before the Proposed Spin-off, following completion of the Proposed Spin-off, the proportion of the Group's earnings contributed from Dongzheng is expected to be reduced as the Company's interest in Dongzheng will be reduced from 95% to approximately 71.25% (assuming the over-allotment option is not exercised) and Dongzheng will be regarded as a direct non-wholly owned subsidiary of the Company. Consequently, financial results of Dongzheng will be consolidated into the accounts of the Group and the profit attributable to non-controlling interests will increase.

### REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF

The Board believes that the Proposed Spin-off is beneficial to the Company because of the following reasons, among others:

- (a) After the Proposed Spin-off, the Remaining Group can focus more of its resources on the Retained Business, thereby realizing the maximum growth potential of the Company;
- (b) As a result of the Proposed Spin-off, the Remaining Group and Dongzheng will have separate fundraising platforms in the equity and debt capital markets, which will increase financing flexibility and adaptability of both entities to support and accelerate their respective growth;
- (c) As a result of the differences in the business and operational focuses, each of the Retained Business and Dongzheng's business requires a different set of management expertise and technical skills and has distinctive cost structure, business model and regulatory requirements. The Proposed Spin-off will lead to a clear separation of the operations and management between the Remaining Group and Dongzheng, allowing for a more focused strategy and efficient resource allocation at both businesses; and

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## LETTER FROM THE BOARD

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- (d) Dongzheng, being a non-banking financial institution in the PRC providing financing services, has a different risk profile and comparative advantages as compared to that of the Remaining Group. The Proposed Spin-off will allow the potential investors to appreciate the risk profiles and comparative advantages of Dongzheng and the Remaining Group more distinctively and individually through more detailed disclosure of the business and management discussion and analysis of Dongzheng and the Remaining Group in their respective ongoing public announcements and financial reports.

### CONDITIONS OF THE PROPOSED SPIN-OFF

The Proposed Spin-off will be conditional upon, among other things, the followings:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Dongzheng H Shares in issue and to be issued in relation to the Proposed Spin-off on the Main Board of the Stock Exchange and the approval of CSRC regarding the Proposed Spin-off;
- (ii) the terms of the Global Offering being agreed among the Company, Dongzheng and the underwriters;
- (iii) the final decisions of the Board and the board of directors of Dongzheng; and
- (iv) market conditions and other considerations.

If any of these and other applicable conditions is not fulfilled or waived, if applicable, prior to the dates and times to be specified, the Proposed Spin-off will not proceed and an announcement will be published by the Company as soon as practicable thereafter.

### PROPOSED USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

Assuming the over-allotment option is not exercised, the expected net proceeds from the Global Offering will be approximately HK\$2,413.15 million, assuming an offer price of HK\$4.75 per Dongzheng H Share, being the mid-point of the indicative price range.

Dongzheng expects to use the net proceeds from the Global Offering to strengthen its capital base to support the ongoing growth of its business. Specifically, 70% of the net proceeds received from the Global Offering will be used to support the development of business of Dongzheng with External Customers.

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## LETTER FROM THE BOARD

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### RESTRICTIONS ON THE DISPOSAL OF THE SHARES

Pursuant to Rule 10.07 of the Listing Rules, each of the controlling shareholders of Dongzheng will not and shall procure that the relevant registered holder(s) controlled by it/him/her will not, without the prior written consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules:

- (a) in the period commencing on the date by reference to which disclosure of its/his/her shareholdings in Dongzheng is made in the listing document and ending on the date which is six months from the date on which dealings in the Dongzheng H Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of Dongzheng in respect of which it/he/she is shown by the listing document to be the beneficial owners; and
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he/she would then cease to be a controlling shareholder of Dongzheng for the purposes of the Listing Rules.

In addition, in accordance with Note 3 to Rule 10.07(2) of the Listing Rules, each of the controlling shareholders of Dongzheng will, within the period commencing on the date by reference to which disclosure of its/his/her shareholdings is made in the listing document and ending on the date which is 12 months from the Listing Date, when it/he/she pledges or charges any securities of Dongzheng or interests therein beneficially owned by it/him/her in favor of any authorized institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform Dongzheng of such pledge or charge together with the number of securities so pledged or charged and when it/he/she receives indications, either verbal or written, from the pledgee or chargee that any of the securities of Dongzheng pledged or charged will be disposed of, immediately inform Dongzheng of such indications.

### ASSURED ENTITLEMENT

Under PN15, the Company is required to give due regard to the interests of the Shareholders by providing them with an Assured Entitlement to the Dongzheng H Shares. In order to enable the Shareholders to participate in the Global Offering on a preferential basis as to allocation only, subject to the Stock Exchange granting approval for the listing of, and permission to deal in, the Dongzheng H Shares on the Main Board and such approval not having been withdrawn and the Global Offering becoming unconditional, Qualifying Shareholders are being invited to apply for an aggregate of 26,675,462 Reserved Shares in the Global Offering, representing approximately 5.00% of the

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## LETTER FROM THE BOARD

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Dongzheng H Shares initially available under the Global Offering (assuming that the over-allotment option is not exercised) as Assured Entitlement, in proportion to their respective shareholdings in the Company on the Record Date.

Pursuant to Article 23 of the Implementation Rules for Registration, Depository and Clearing Services under the Mainland China-Hong Kong Stock Markets Connect Program (《內地與香港股票市場交易互聯互通機制登記、存管、結算業務實施細則》), CSDCC does not provide services relating to the subscription of newly issued shares. Accordingly, Shareholders who hold Shares through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect cannot participate in the preferential offering and will not be able to take up their respective Assured Entitlement to the Reserved Shares under the preferential offering through the trading mechanism of Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect.

The terms of such Assured Entitlement have not been finalised and will be announced in due course.

### LISTING RULES IMPLICATIONS

As of the Latest Practicable Date, Dongzheng is a 95%-owned subsidiary of the Company. Following completion of the Proposed Spin-off, it is expected that Dongzheng will remain as a subsidiary of the Company. The Proposed Spin-off, if materialized, may constitute a deemed disposal of the interest in a subsidiary of the Company under Rule 14.29 of the Listing Rules. Based on the indicative terms of the Global offering, it is expected that one or more of the applicable percentage ratios in respect of the Proposed Spin-off may exceed 25% but all the applicable percentage ratios of will be less than 75%, the Proposed Spin-off, if proceeded, will constitute a major transaction for the Company under Chapter 14 of the Listing Rules. The Proposed Spin-off is therefore subject to, among other things, the approval of the Shareholders under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has a material interest in the Proposed Spin-off. As such, no Shareholder is required to abstain from voting if a general meeting were convened to approve the Proposed Spin-off. As at the Latest Practicable Date, the Company has obtained a written approval from Joy Capital and the Wang Family Trusts Founders, a closely allied group of Shareholders interested an aggregate of 1,383,516,820 Shares, representing approximately 56.37% of the Shares in issue giving the right to attend and vote at general meetings of the Company, for the Proposed Spin-off in accordance with Rule 14.44 of the Listing Rules and upon such written shareholders' approval being obtained, the Proposed Spin-off is taken to have been duly approved in lieu of holding a general meeting of the Company.

**Shareholders and potential investors of the Company should note that there is no assurance that the approval of the Listing Committee of the Stock Exchange for the listing of the Dongzheng H Shares will be granted.**

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## LETTER FROM THE BOARD

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**The final structure of the Proposed Spin-off and the listing of the Dongzheng H Shares are subject to, among other things, the approval of the Listing Committee of the Stock Exchange and the approval of CSRC, market conditions and other considerations. Accordingly, Shareholders and potential investors of the Company should be aware that there is no assurance that the Proposed Spin-off and the listing of the Dongzheng H Shares will take place and, if so, when they may take place. Shareholders and potential investors of the Company should exercise caution when dealing in or investing in the securities of the Company.**

### **INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee formed by all the independent non-executive Directors, namely Dr. WONG Tin Yau, Kelvin, Dr. CAO Tong and Ms. WONG Tan Tan, has been established to advise the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole, taking into account the recommendation of the Independent Financial Adviser.

Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

### **RECOMMENDATIONS**

The Directors (excluding the independent non-executive Directors) are of the view that the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Somerley considers that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and the terms thereof are fair and reasonable so far as the Company and the Shareholders are concerned. Accordingly, Somerley recommends the Independent Board Committee to advise the Shareholders to vote in favour of the relevant resolution(s) if there were a general meeting of the Company held to consider to approve the Proposed Spin-off. The letter from the Independent Financial Adviser containing its advice in relation to the Proposed Spin-off, together with the factors and reasons it has considered in arriving at its opinion, is set out on pages 26 to 47 of this circular.

The Independent Board Committee, having taken into account the advice of Somerley, considers that the terms of the Proposed Spin-off are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends that the Shareholders vote in favour of the relevant resolution(s) if there were a general meeting of the Company held to consider and, if thought fit, to approve the Proposed Spin-off.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

This circular is being distributed to the Shareholders. This circular does not constitute an offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation. Neither this circular nor anything contained herein shall form the basis of any contract or commitment whatsoever.

Your attention is drawn to the additional information set out in the appendices to this circular.

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*

*\* For identification purposes only*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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正通

**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)**

15 January 2019

*To the Shareholders*

Dear Sir/Madam,

**MAJOR TRANSACTION AND DEEMED DISPOSAL IN RELATION  
TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF  
SHANGHAI DONGZHENG AUTOMOTIVE FINANCE CO., LTD. ON  
THE MAIN BOARD OF THE STOCK EXCHANGE**

We refer to the circular dated 15 January 2019 of the Company (the “**Circular**”), of which this letter forms part. Capitalised terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the terms of the Proposed Spin-off and to advise the Shareholders as to whether, in our opinion, the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Somerley has been appointed as the Independent Financial Adviser to advise us and the Shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Somerley as set out in its letter of advice, we consider that the terms of the Proposed Spin-off are fair and reasonable and are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend that you vote in favour of the relevant resolution(s) if there were a general meeting of the Company held to consider and, if thought fit, to approve the Proposed Spin-off.

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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Yours faithfully,  
For and on behalf of the Independent Board Committee  
**China ZhengTong Auto Services Holdings Limited**  
**Dr. WONG Tin Yau, Kelvin**  
**Dr. CAO Tong**  
**Ms. WONG Tan Tan**  
*Independent Non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the letter of advice from Somerley Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the 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

15 January 2019

*To: the Independent Board Committee and the Shareholders*

Dear Sirs,

### **MAJOR TRANSACTION AND DEEMED DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF SHANGHAI DONGZHENG AUTOMOTIVE FINANCE CO., LTD. ON THE MAIN BOARD OF THE STOCK EXCHANGE**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Shareholders in relation to the Proposed Spin-off. Details of the Proposed Spin-off are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 15 January 2019 (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 submitted a spin-off proposal to the Stock Exchange pursuant to PN15 and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off. The Proposed Spin-off is expected to be effected by way of the Global Offering whereby a portion of the Dongzheng H Shares will be subject to preferential application by the existing Shareholders. It is intended that, upon completion of the Proposed Spin-off, the Company will have an interest of approximately 71.25% (assuming the over-allotment option is not exercised), or 68.67% (assuming the over-allotment option is exercised in full) in Dongzheng and therefore Dongzheng will remain a subsidiary of the Company. On 21 November 2018, a listing application (Form A1) was submitted to the Stock Exchange for an application for the listing of, and permission to deal in, the Dongzheng H Shares on the Main Board of the Stock Exchange. The Proposed Spin-off constitutes a deemed disposal of an interest in a subsidiary of the Company under Rule 14.29 of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Proposed Spin-off may exceed 25% but will be less than 75%, the Proposed Spin-off, if it proceeds, will constitute a major transaction for the Company and therefore will be subject to, among other things, the approval of the Shareholders under PN15 and Chapter 14 of the Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As set out in the “Letter from the Board” contained in the Circular, no Shareholder has a material interest in the Proposed Spin-off. As such, no Shareholder would be required to abstain from voting if a general meeting were convened to approve the Proposed Spin-off. As at the Latest Practicable Date, the Company has obtained a written approval from Joy Capital and the Wang Family Trusts Founders, a closely allied group of Shareholders interested in an aggregate of 1,383,516,820 Shares, representing approximately 56.37% of the Shares in issue with the right to attend and vote at general meetings of the Company. In accordance with Rule 14.44 of the Listing Rules, upon such written shareholders’ approval being obtained, the Proposed Spin-off is taken to have been duly approved in lieu of holding a general meeting of the Company.

Pursuant to PN15, as the Proposed Spin-off is subject to the Shareholders’ approval, the Company is required to establish an independent board committee and appoint an independent financial adviser to advise the Shareholders as to (i) whether the terms of the Proposed Spin-off are fair and reasonable; (ii) whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole; and (iii) to advise the Shareholders on how to vote if a vote had been necessary. The Independent Board Committee, comprising all three independent non-executive Directors, namely Dr. Wong Tin Yau, Kelvin, Dr. Cao Tong and Ms. Wong Tan Tan, has been formed to make a recommendation to the Shareholders in connection with the Proposed Spin-off. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Shareholders in this regard.

There have been no engagements between the Company and Somerley Capital Limited during the past two years, and no relationships or interests between Somerley Capital Limited and the Group as at the Latest Practicable Date that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off as detailed in the Circular.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and we have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us in this context. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group (including Dongzheng), nor have we carried out any independent verification of the information supplied.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

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

#### 1. Business of the Group and Dongzheng

##### (a) *Business of the Group*

As set out in the Company's 2018 interim report, the Company, together with its subsidiaries (including Dongzheng), operates three major business segments:

- (i) 4S dealership business: sales of motor vehicles, motor spare parts and provision of maintenance services through the Group's network of 4S dealerships in the PRC;
- (ii) Supply chain business: provision of motor-related logistics services and trading of lubricant oil; and
- (iii) Financial services business: provision of financial services to auto customers and dealers mainly through Dongzheng.

Immediately after the Proposed Spin-off, the Remaining Group will continue to operate the Retained Business, being the 4S dealership business, supply chain business and the financial services business not carried out by Dongzheng.

As advised by the management of the Company, the Retained Business will include the part of the financial services business (mainly including financial leasing services), which is considered to be operating under a different business model than Dongzheng. Further details are set out in the section headed "Clear business delineation between the business of the Remaining Group and Dongzheng" in the "Letter from the Board" contained in the Circular.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Set out below is a summary of financial information of the Group for the two years ended 31 December 2016 and 2017 (both as extracted from the 2017 annual report of the Company) and for the six months ended 30 June 2017 and 2018 (both as extracted from the 2018 interim report of the Company):

	For the year ended		For the six months	
	31 December		ended 30 June	
	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Revenue (note)</b>	<b>31,519,255</b>	<b>35,474,325</b>	<b>15,627,910</b>	<b>18,767,748</b>
<i>Comprised of:</i>				
4S dealership business	30,464,185	34,187,840	15,032,672	18,062,712
Supply chain business	657,226	764,222	351,944	339,693
Financial services business	397,844	522,263	243,294	365,343
<b>Gross profit</b>	<b>2,736,334</b>	<b>3,768,346</b>	<b>1,733,716</b>	<b>2,304,066</b>
<b>Profit before tax</b>	<b>790,798</b>	<b>1,753,791</b>	<b>763,465</b>	<b>1,079,878</b>
<b>Profit for the year/period</b>	<b>508,359</b>	<b>1,211,462</b>	<b>526,317</b>	<b>725,975</b>

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*Note: only external sales are included*

As shown in the above table, majority of the Group's revenue was contributed by 4S dealership business segment, being the largest segment of the Group, contributing over 96% of the Group's revenue during each of the respective years/periods. The revenue of the 4S dealership business segment demonstrated considerable growth during the period (for both 2017 and first half of 2018, compared to the respective past periods). Revenue from the supply chain business segment fluctuated with an increase in 2017 compared to 2016 but a decrease in the first half of 2018 compared to the same period in 2017. The financial services business segment experienced high growth during both 2017 and first half of 2018, with majority of its revenue contributed by Dongzheng, as further discussed in the sub-section headed "(b) Business of Dongzheng" below.

### *Year 2017 compared to year 2016*

As set out in the 2017 annual report of the Company, with the steady growth of household disposable income and upgrade of consumption in the PRC, more consumers shifted to the high-end market, leading to a higher sales volume of new automobiles in 2017. Revenue in the 4S dealership business experienced a year-on-year growth of approximately 12.2% from 2016 to 2017. Financial services business also showed strong growth during the same year, with a year-on-year growth of approximately 31.3% for revenue in 2017 as compared to 2016, which was supported by the growth

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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of the sales of new and pre-owned automobiles. The Group recorded a net profit of approximately RMB1,211.5 million in 2017 as compared to approximately RMB508.4 million in 2016. This represented an increase of approximately 138.3% over 2016, mainly due to an improvement in gross profit margin from sales of luxury and ultra-luxury branded automobiles, as a result of new product life cycles of certain brands and effective margin control.

### *First half of 2018 compared to first half of 2017*

The growth momentum of the Group continued in the first half of 2018. Total revenue in the first half of 2018 amounted to approximately RMB18,767.7 million, representing a growth of approximately 20.1% compared to the same period in 2017.

As set out in the 2018 interim report of the Company, driven by consumption upgrades and the increasing competitiveness of imported automobiles resulting from the reduction of import tariff for part of the luxury-branded automobiles, sales of luxury-branded automobiles continued to grow. Manufacturers of major luxury brands under the Group's dealership also launched new products or replaced automobile products of their major series in 2018. In addition, Dongzheng significantly optimised its financial asset structure in the first half of 2018 following an increase in its share capital, and its market share in retail loan business further increased. As a result of the above, revenue in 4S dealership business and financial services business in the first half of 2018 recorded growth of approximately 20.2% and 50.2% respectively compared to the same period in 2017. Net profit in the first half of 2018 grew by approximately 37.9% from approximately RMB526.3 million in first half of 2017 to approximately RMB726.0 million in first half of 2018.

As at 30 June 2018, total assets of the Group amounted to approximately RMB41,412.9 million. The net asset value of the Group attributable to owners of the Company was approximately RMB11,860.2 million.

### *(b) Business of Dongzheng*

Dongzheng is principally engaged in the provision of auto finance products and services for the purchase of luxury-brand cars in the PRC and forms the main part of the financial services business segment of the Group. As of the Latest Practicable Date, Dongzheng is 95% owned by the Company.

As set out in the Application Proof, Dongzheng is licensed and regulated by the CBIRC and is the only AFC with a dealership background in the PRC. Dongzheng accounted for a market share of approximately 2.0% in terms of amount of loans disbursed for luxury automobiles for all AFCs in 2017, according to China Insights Consultancy Limited, an independent consulting company. Dongzheng's business primarily consists of (i) retail loan business, whereby it offers loans and other financing services to end customers for purchase of cars; and (ii) dealer loan business, whereby it provides loans to dealers to facilitate their purchase of cars to be sold to their end customers. Dongzheng has an established dealer network with a broad geographical coverage in the PRC with 986 dealers within its sales network as at 30 June 2018. In addition, it also forms strategic cooperation with certain luxury-brand automakers to expand its customers base.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Set out below is a summary of financial information of Dongzheng for the period from 11 March 2015 (date of establishment) to 31 December 2015, the two years ended 31 December 2016 and 2017 and the six months ended 30 June 2017 and 2018 (all as extracted from the Application Proof):

	<b>Period from</b>				
	<b>11 March 2015</b>				
	<b>(date of</b>				
	<b>establishment)</b>			<b>For the six months</b>	
	<b>to 31 December</b>			<b>ended 30 June</b>	
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2017</b>	<b>2018</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	52,462	280,340	424,600	192,032	356,432
Interest expenses	(17,510)	(121,148)	(169,768)	(77,557)	(142,181)
Net interest income	34,952	159,192	254,832	114,475	214,251
- <i>Retail loan business</i>	27,795	137,698	225,056	104,548	200,644
- <i>Dealer loan business</i>	4,891	15,941	24,365	7,498	11,295
- <i>Others</i>	2,266	5,553	5,411	2,429	2,312
Fee and commission income	23,817	170,226	205,323	94,366	130,757
Fee and commission expenses	(127)	(912)	(905)	(389)	(679)
Net fee and commission income	23,690	169,314	204,418	93,977	130,078
- <i>Retail loan business</i>	23,690	169,314	204,418	93,977	130,078
- <i>Dealer loan business</i>	—	—	—	—	—
Other net income	19,330	3,913	2,710	3,945	38,536
<b>Operating income</b>	<b>77,972</b>	<b>332,419</b>	<b>461,960</b>	<b>212,397</b>	<b>382,865</b>
<b>Profit before taxation</b>	<b>33,122</b>	<b>232,745</b>	<b>348,523</b>	<b>181,890</b>	<b>298,763</b>
<b>Net profit for the period/year</b>	<b>24,782</b>	<b>174,485</b>	<b>260,773</b>	<b>136,391</b>	<b>224,074</b>

As set out in the Application Proof, net interest income mainly represents the interest income from loans and advances to end customers and dealers, less interest expenses mainly from banks and other financial institutions. Net fee and commission income primarily comprises the fee and commission generated from the retail loan facilitation business and joint retail loan business, less the costs incurred in the auto finance business, including handling charges paid to commercial banks associated with loan remittances.

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Dongzheng was established in March 2015 and its operating income amounted to approximately RMB332.4 million in 2016. Business continued to grow in 2017 with an operating income of approximately RMB462.0 million, representing a year-on-year growth of approximately 39.0%, primarily due to Dongzheng's expansion in its retail and dealer loan portfolio and growth in its retail loan facilitation business. As set out in the 2017 annual report of the Company and as advised by management of the Company, demand for auto finance products and services has been increasing with the auto finance penetration rate for the PRC's luxury automobile purchases. With the increased asset size as a result of the capital injection from its shareholders in 2017, Dongzheng has further expanded its loan portfolio and the number of dealers in its sales network in the first half of 2018. As a result of the above, the operating income of Dongzheng in the first half of 2018 recorded a growth of approximately 80.3% comparing to the same period in 2017, from approximately RMB212.4 million in the first half of 2017 to approximately RMB382.9 million in the first half of 2018. The number of dealers within Dongzheng's sales network has further increased to 986 as at 30 June 2018.

The net profit of Dongzheng generally increased in line with its growth in operating income. It increased to approximately RMB174.5 million in 2016 and further to approximately RMB260.8 million in 2017, representing a year-on-year growth of approximately 49.5% from 2016 to 2017. The net profit recorded in the first half of 2018 amounted to approximately RMB224.1 million, which represents growth of approximately 64.3% from the corresponding period in 2017.

As at 30 June 2018, total assets of Dongzheng amounted to approximately RMB8,134.2 million. The net asset value of Dongzheng attributable to owners of the company was approximately RMB2,254.7 million.

The businesses of the Remaining Group and Dongzheng have different operational focuses, so that the Proposed Spin-off will increase their respective financing flexibility (as further discussed in the section headed "2. Background to and reasons for the Proposed Spin-off" of this letter below). The Company's management is of the view that the Proposed Spin-off will allow both the Remaining Group and Dongzheng to release business value and ultimately benefit the Shareholders.

### **2. Background to and reasons for the Proposed Spin-off**

#### *(a) Background of the Proposed Spin-off*

As discussed above, the Remaining Group will continue to operate the Retained Business after the Proposed Spin-off. It will continue to develop luxury and ultra-luxury auto sales and traditional after-sales services. On the other hand, the business of Dongzheng primarily consists of retail loan business and dealer loan business. The Company's management considers that there is clear delineation between the Retained Business and the business of Dongzheng, having different risk profiles and comparative advantages. Further details are set out in the section headed "Clear business delineation between the business of the Remaining Group and Dongzheng" in the "Letter from the Board" contained in the Circular.

Given the differences in the business and operational focus, the executive Directors are of the view that the Proposed Spin-off will provide a delineation of Dongzheng's business and the Group's Retained Business and promote an appropriate investor base for each of them.

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(b) *Reasons for and benefits of the Proposed Spin-off*

The separate listing of Dongzheng will enable the Remaining Group to focus more of its resources on the Retained Business, thereby realising the maximum growth potential of the Company. The Remaining Group and Dongzheng will have separate fundraising platforms in the equity and debt capital markets, which will increase financing flexibility and adaptability of both entities to support and accelerate their respective growth, which will also benefit the Shareholders with Dongzheng remaining as a subsidiary of the Company.

The executive Directors also believe that Dongzheng, being a non-banking financial institution in the PRC providing financing services, has a different risk profile and comparative advantages compared to the Remaining Group. The Proposed Spin-off will allow potential investors to assess the risk profiles and comparative advantages of Dongzheng and the Remaining Group more distinctly and individually through more detailed disclosure of the business and management discussion and analysis of Dongzheng and the Remaining Group in their respective ongoing public announcements and financial reports. It also enables investors to appraise the performance and potential of the Retained Business and the business of Dongzheng separately.

Further, as a result of the differences in the businesses and operational focuses, each of the Retained Business and Dongzheng's business requires a different set of management expertise and technical skills and has distinctive cost structure, business model and regulatory requirements. As such, the executive Directors are of the view that the Remaining Group and Dongzheng will be clearly delineated and will function independently after the Proposed Spin-off, which will allow the management teams of both the Remaining Group and Dongzheng to focus on their respective business operations and expertise as well as allocate resources more efficiently with regard to their respective needs. Further details of the independent functionality of the Remaining Group and Dongzheng are set out in the sub-section headed "(b) Corporate governance" under the section headed "6. Non-competition Undertaking and corporate governance" of this letter below and further details of the reasons and benefits of the Proposed Spin-off are set out in the section headed "Reasons for and benefits of the Proposed Spin-off" in the "Letter from the Board" contained in the Circular.

(c) *Intended use of proceeds*

As set out in the section headed "Proposed use of net proceeds from the Global Offering" in the "Letter from the Board" contained in the Circular, assuming the over-allotment option is not exercised, the expected net proceeds from the Global Offering will be approximately HK\$2,413.15 million, assuming an offer price of HK\$4.75 per Dongzheng H Share, being the mid-point of the indicative price range. Dongzheng currently intends to use the expected net proceeds from the Global Offering to strengthen its capital base to support the ongoing growth of its business. Specifically, 70% of the net proceeds received from the Global Offering will be used to support the development of business of Dongzheng with External Customers.

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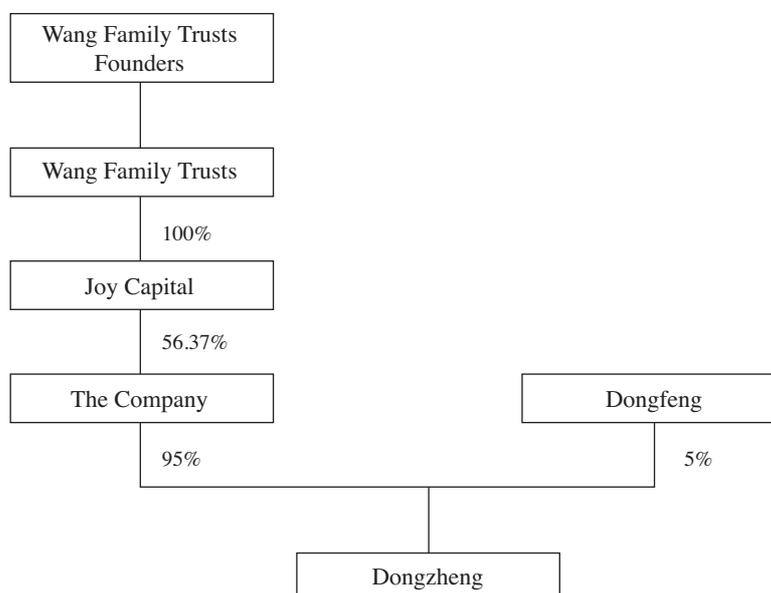
### 3. Structure of the Proposed Spin-off

As set out in the “Letter from the Board” contained in the Circular, the Proposed Spin-off will be effected by way of the Global Offering (comprised of the Hong Kong public offering and international public offering) whereby a portion of the H Shares to be issued by Dongzheng will be subject to preferential application by the existing Shareholders.

Based on the current structure of the Proposed Spin-off which is subject to finalisation, immediately following completion of the Proposed Spin-off, the Company will continue to hold approximately 71.25% (assuming the over-allotment option is not exercised), or 68.67% (assuming the over-allotment option is exercised in full) of shares of Dongzheng in issue. Dongzheng will continue to be a non-wholly owned subsidiary of the Company upon completion of the Proposed Spin-off and the operating results of Dongzheng will continue to be consolidated into the accounts of the Group.

According to the section headed “Shareholding effects of the Proposed Spin-off” in the “Letter from the Board” contained in the Circular, set out below is the shareholding structure of Dongzheng (i) immediately prior to the Proposed Spin-off and the Global Offering; and (ii) immediately after the Proposed Spin-off and the Global Offering (assuming the over-allotment option is not exercised):

(i) *immediately prior to the Proposed Spin-off and the Global Offering*

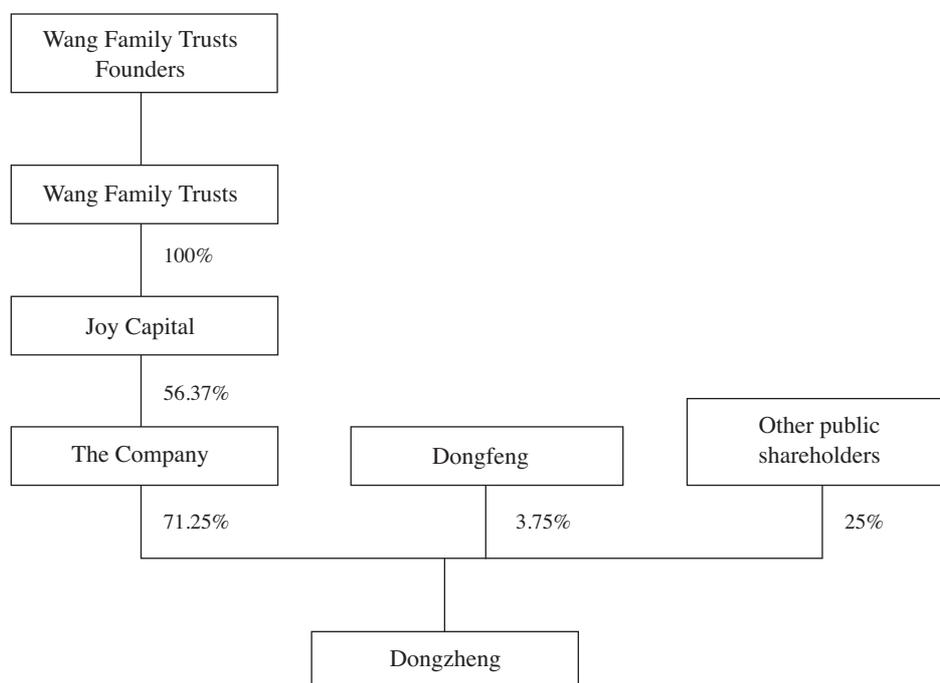


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- (ii) *immediately after the Proposed Spin-off and the Global Offering (assuming the over-allotment option is not exercised)*



It is expected that upon completion of the Proposed Spin-off, the shareholding percentage of the Company in Dongzheng will be diluted from approximately 95% at present to approximately 71.25% (assuming the over-allotment option is not exercised). Further details are discussed in the sub-section headed “(e) Dilution of interest in Dongzheng” under the section headed “4. Effects of the Proposed Spin-off on the Group” of this letter below.

#### 4. Effects of the Proposed Spin-off on the Group

The analysis of the financial effects of the Proposed Spin-off as illustrated below is based on the current structure of the Proposed Spin-off under which Dongzheng will offer approximately 533,336,000 Dongzheng H Shares in the Global Offering (assuming that the over-allotment option is not exercised). Further details are set out in the section headed “Financial impact of the Proposed Spin-off” in the “Letter from the Board” contained in the Circular.

- (a) *Effect on net asset value*

The unaudited consolidated net assets of the Group were approximately RMB12,027.1 million as at 30 June 2018. Based on (i) the number of Dongzheng H Shares; (ii) the current proposed structure of the Global Offering; and (iii) the audited net assets of Dongzheng as at 30 June 2018, the estimated minimum market capitalisation of Dongzheng (assuming that the over-allotment option is not exercised) will be approximately HK\$8,533.34 million. The Board expects that as a result of the

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Proposed Spin-off which involves the Global Offering of approximately 533,336,000 Dongzheng H Shares, the consolidated net assets of the Group will be increased by the amount of the net proceeds from the Global Offering, estimated to be approximately HK\$2,413.15 million, equivalent to approximately RMB2,123.57 million at an exchange rate of HK\$1 = RMB0.88 (assuming an offer price of HK\$4.75 per Dongzheng H Share, being the mid-point of the indicative price range, and that the over-allotment option is not exercised). In addition, in accordance with the Hong Kong Financial Reporting Standards, the aforesaid estimated increase in net assets which constitutes changes in a parent's ownership interest in a subsidiary that do not result in a loss of control is accounted for within equity. Therefore, there will be no gain or loss to be recognised in the consolidated income statement of the Company as a result of the deemed disposal by the Company of the interest in Dongzheng under the Proposed Spin-off given that Dongzheng will remain as a direct non-wholly owned subsidiary of the Company immediately upon completion of the Proposed Spin-off and the Global Offering.

The estimated change in the Group's net assets as mentioned above is based on, among others, the terms of the Proposed Spin-off (including the Global Offering). Accordingly, the actual change in the Group's net assets, which will be calculated based on the final structure of the Proposed Spin-off (including the Global Offering) and the financial position of Dongzheng immediately upon the completion of the Proposed Spin-off, may be different from the above estimation.

(b) *Effect on earnings*

Dongzheng will continue to be accounted for as a subsidiary of the Company upon completion of the Proposed Spin-off and the financial results of Dongzheng will continue to be consolidated into the accounts of the Group. The effect of the Proposed Spin-off on the future earnings of the Group will depend on, among others, the return generated from the proceeds raised from the Global Offering as well as the future business operations of Dongzheng. For details of the benefits to be brought about by the Proposed Spin-off, please refer to the section headed "2. Background to and reasons for the Proposed Spin-off" of this letter above.

Following completion of the Proposed Spin-off, the Group's profit attributable to owners of the Company is expected to be reduced as the Company's interest in Dongzheng will be reduced to approximately 71.25% (assuming the over-allotment option is not exercised). Consequently, profit attributable to the non-controlling interests of the Group are expected to increase.

(c) *Effect on working capital and gearing of the Group*

The estimated minimum market capitalisation of Dongzheng (assuming that the over-allotment option is not exercised) will be approximately HK\$8,533.34 million. In view of the significant cash proceeds to be received by Dongzheng which will remain a subsidiary of the Company, we are of the view that the working capital position of the Group would improve as a result of the Proposed Spin-off.

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As stated in the Company's 2018 interim report, consolidated total equity of the Group amounted to approximately RMB12,027.1 million. Net gearing ratio (calculated as loans and borrowings, obligations under finance leases and bonds payable less cash and bank deposits, divided by total equity) of the Group was approximately 119.2% as at 30 June 2018. On the above basis and taking into account the expected net proceeds of approximately HK\$2,413.15 million (equivalent to approximately RMB2,123.57 million at an exchange rate of HK\$1 = RMB0.88) as mentioned above, the Group's net gearing ratio is expected to decrease upon the completion of the Proposed Spin-off.

(d) *Remaining business of the Group*

As set out in the section headed "1. Business of the Group and Dongzheng" in this letter above, following the Proposed Spin-off, the Group will continue to engage in the Retained Business. As advised by management of the Company, the financial statements of Dongzheng as set out in the Application Proof and the aforesaid section were prepared according to the presentation format of financial statements of financial institutions, which is different from the presentation format of the Group's consolidated financial statements. For comparison purpose, we understand from the management of the Company that revenue of the Group for the year ended 31 December 2017 amounted to approximately RMB35,474.3 million. For the same year, revenue of Dongzheng prepared according to the presentation format of the Group's financial statements (including interest income and fee and commission income deducting related taxation) amounted to approximately RMB624.5 million (including intercompany revenue of approximately RMB126.8 million). For the six months ended 30 June 2018, revenue of the Group amounted to approximately RMB18,767.7 million. For the same period, revenue of Dongzheng prepared according to the presentation format of the Group's financial statements (including interest income and fee and commission income deducting related taxation) amounted to approximately RMB484.8 million (including intercompany revenue of approximately RMB137.0 million). On this basis, the revenue, excluding intercompany revenue mentioned above, of the Remaining Group (i.e. excluding Dongzheng) for the year ended 31 December 2017 and six months ended 30 June 2018 represented over 98% of the total revenue of the Group.

The Group and Dongzheng had net assets attributable to owners of the company of approximately RMB11,860.2 million and RMB2,254.7 million respectively as at 30 June 2018. On this basis, the Remaining Group's net assets attributable to owners of the company as at 30 June 2018 represent approximately 81% of that of the Group.

On the basis set out above, we consider that the Remaining Group will continue to have substantial business and assets after completion of the Proposed Spin-off.

(e) *Dilution of interest in Dongzheng*

Based on the current expected structure of the Proposed Spin-off, the Group's interest in Dongzheng will be diluted from approximately 95% to 71.25% immediately after the Proposed Spin-off and the Global Offering (assuming the over-allotment option is not exercised). In our opinion, such dilution, albeit not immaterial, is acceptable to the Shareholders taking into consideration the benefits to be derived from the Proposed Spin-off as discussed in this section and the section headed "2. Background to and reasons for the Proposed Spin-off" of this letter.

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In addition, the Qualifying Shareholders will be allowed to apply for the Dongzheng H Shares on an assured basis pursuant to a preferential offering determined on the basis of their respective shareholdings in the Company. Details of the Assured Entitlement are set out in the section headed “5. Assured Entitlement” of this letter below.

### 5. Assured Entitlement

As stated in the section headed “Assured Entitlement” in the “Letter from the Board” contained in the Circular, according to PN15, the Company is required to give due regard to the interests of the Shareholders by providing them with an assured entitlement to the Dongzheng H Shares. In order to enable the Shareholders to participate in the Global Offering on a preferential basis as to allocation, subject to the Stock Exchange granting approval for the listing of, and permission to deal in, the Dongzheng H Shares on the Main Board and such approval not having been withdrawn and the Global Offering becoming unconditional, Qualifying Shareholders are being invited to apply for an aggregate of 26,675,462 Reserved Shares in the Global Offering, representing approximately 5.00% of the Dongzheng H Shares initially available under the Global Offering (assuming that the over-allotment option is not exercised) as Assured Entitlement, in proportion to their respective shareholdings in the Company on the Record Date.

As a comparison, we have searched the website of the Stock Exchange on a best efforts basis to identify spin-off exercises (the “**Precedent Spin-off Exercises**”) (excluding companies that were spun-off and listed by way of introduction) on the Main Board of the Stock Exchange (1) with assured entitlement by way of preferential offering of shares of the spun-off companies; (2) completed by companies listed on the Main Board of the Stock Exchange; (3) with the prospectus of the spun-off companies published since 1 January 2016 up to the date immediately prior to the Latest Practicable Date; and (4) the spun-off companies were successfully listed. The Precedent Spin-off Exercises represent an exhaustive list of spin-off exercises meeting the criteria set out above. The table below illustrates the details of the Precedent Spin-off Exercises:

Prospectus date	Stock code	Company name	Size of the assured entitlement	Size of the global/public offering and the placing (excluding the exercise of any over-allotment option)	Assured entitlement as % of the global/public offering and the placing (excluding the exercise of any over-allotment option) <i>(approximate)</i>
30 November 2018	1992	Fosun Tourism Group	21,420,000	214,200,000	10.0%
26 November 2018	2168	Kaisa Property Holdings Limited	3,035,040	35,000,000	8.7%

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<b>Prospectus date</b>	<b>Stock code</b>	<b>Company name</b>	<b>Size of the assured entitlement</b>	<b>Size of the global/public offering and the placing (excluding the exercise of any over-allotment option)</b>	<b>Assured entitlement as % of the global/public offering and the placing (excluding the exercise of any over-allotment option) (approximate)</b>
29 January 2018	3319	A-Living Services Co., Ltd.	27,835,340	333,334,000	8.4%
26 October 2017	772	China Literature Limited	7,568,600	151,371,800	5.0%
5 September 2017	1696	Sisram Medical Ltd	5,500,000	110,000,000	5.0%
19 June 2017	1932	CPM Group Limited	25,000,000	250,000,000	10.0%
5 May 2017	3329	BOCOM International Holdings Company Limited	70,024,000	666,680,000	10.5%
21 April 2017	1257	China Everbright Greentech Limited	56,000,000	560,000,000	10.0%
26 January 2017	1627	Able Engineering Holdings Limited	50,400,000	500,000,000	10.1%
30 March 2016	1243	Wang On Properties Limited	34,200,000	380,000,000	9.0%
				<b>Mean</b>	8.7%
				<b>Maximum</b>	10.5%
				<b>Minimum</b>	5.0%
				<b>The Assured Entitlement</b>	5.0%

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*Source: relevant prospectus of the spun-off companies relating to the Precedent Spin-off Exercises*

As set out in the table above, the assured entitlements offered to shareholders under the Precedent Spin-off Exercises as a percentage of the respective number of shares offered under the global/public offering and the placing (excluding the exercise of any over-allotment option) range from approximately 5.0% to 10.5%, with a mean of approximately 8.7%. The assured entitlements under the Proposed Spin-off of approximately 5.0% is within the range of the Precedent

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Spin-off Exercises, although at the low end of the range. Taking into account (i) the reasons and benefits of the Proposed Spin-off as discussed in the section headed “2. Background to and reasons for the Proposed Spin-off” of this letter above; (ii) the positive effects on the Group as a result of the Proposed Spin-off as discussed in the section headed “4. Effects of the Proposed Spin-off on the Group” of this letter above; and (iii) the valuation of Dongzheng being considered to be attractive as discussed in the section headed “7. Valuation of Dongzheng” of this letter below, we consider the size of the Assured Entitlement to be acceptable.

### 6. Non-competition Undertaking and corporate governance

#### (a) *Non-competition Undertaking*

The Company, together with other controlling shareholders of Dongzheng (i.e. Joy Capital and the Wang Family Trusts Founders), is expected to enter into the Non-competition Undertaking in favour of Dongzheng, pursuant to which the Company will undertake to Dongzheng that it will not, and that it will procure that its close associates will not (i) solely or jointly with a third party, engage in or participate in business or activity which constitutes or may constitute competition with Dongzheng’s business in any manner directly or indirectly domestically or abroad; and (ii) directly or indirectly, hold any interest or obtain any control in any business, operating entities, institutions or economic organizations, which are or are about to be engaged in any business which competes or is likely to compete directly or indirectly with the business engaged in by Dongzheng domestically or abroad from time to time.

The Non-competition Undertaking shall terminate on the earlier of (i) when the Company and its close associates, individually or taken as a whole, are interested in no more than 30% of the equity interests of Dongzheng; or (ii) when the Dongzheng H Shares cease to be listed on the Stock Exchange except for suspension of trading of the Dongzheng H Shares due to any reasons.

Further details of the Non-competition Undertaking are set out in the section headed “Non-competition Undertaking” in the “Letter from the Board” contained in the Circular.

As set out in the section headed “Clear Business Delineation between the Business of the Remaining Group and Dongzheng” in the “Letter from the Board” contained in the Circular, and as we understand from the management of the Company, given the differences in business model, target customers and financing channels, it is considered that there is no competition between the businesses of Dongzheng and Dingze Financial Leasing which will continue to operate under the Remaining Group’s financial services business segment.

In general, we consider that the Non-competition Undertaking will help minimise the potential competition between the Remaining Group and Dongzheng and is reasonable in the context of a separate listing of Dongzheng.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(b) *Corporate governance*

It is proposed that the following corporate governance measures will be put in place to reinforce the delineation and independence of businesses between the Remaining Group and Dongzheng. Further details of such measures are set out in the sections headed “Management independence”, “Operational independence” and “Financial independence” in the “Letter from the Board” contained in the Circular.

(i) *Management independence*

The board of directors of Dongzheng comprises two executive directors, two non-executive directors and three independent non-executive directors. Except for Mr. KOH Tee Choong (who is a non-executive director of Dongzheng and also the chief executive officer and an executive director of the Company as of the Latest Practicable Date), there will not be any overlap between the Remaining Group and Dongzheng in terms of directors and senior management upon the Proposed Spin-off. The two executive directors and the members of senior management and management team of Dongzheng are responsible for the day-to-day management and operations of Dongzheng’s business and neither of them will hold any directorships and/or other roles within the Remaining Group upon the Proposed Spin-off. All independent non-executive directors of Dongzheng are independent of Dongzheng and the Remaining Group.

Dongzheng has also adopted corporate governance measures to manage potential conflicts of interests, including but not limited to the establishment of internal control mechanisms to identify connected transactions, annual review by independent non-executive directors of Dongzheng on various matters and the appointment of a compliance adviser. On top of that, Dongzheng has its own management team and separate functional departments including accounting, administration, human resources, legal and company secretarial departments. All essential administration and daily operations of Dongzheng are carried out by a team of staff employed by Dongzheng independently of and without any support from the Remaining Group. Save as disclosed above, none of senior management of Dongzheng holds any office in or is employed by the Remaining Group.

Based on the above, the Directors and the directors of Dongzheng are satisfied that board of directors of Dongzheng, together with its senior management team, is capable of operating Dongzheng’s business and managing all actual or potential conflicts of interest independently of the Remaining Group.

(ii) *Operational independence*

Dongzheng makes business decisions independently. Dongzheng holds all relevant licenses necessary to carry on its businesses and has sufficient capital, equipment and employees to operate its businesses independently.

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On the following basis, the Directors and the directors of Dongzheng consider that Dongzheng will continue to operate independently of the Remaining Group after the completion of the Proposed Spin-off:

- Dongzheng's material management and operational decision-making have been made by its core management team which consists of the two executive directors and its president, Mr. LI Yi. Neither the executive directors of Dongzheng nor any member of the senior management or management of Dongzheng will hold any position with the Remaining Group upon the completion of the Proposed Spin-off;
- Dongzheng has established its own operational structure made up of separate departments, each with a specific area of responsibility. Dongzheng has also established a set of internal control procedures to facilitate the effective operation of its business;
- the entire flow of Dongzheng's retail loan business is market-driven and the end customers make the ultimate decisions as to which loan they take from which financing providers;
- Dongzheng promotes its retail loan offerings to end customers primarily through a dealer network, while the Company operates its 4S dealership business through its own network of 4S dealership outlets; and
- there is no competing business between the controlling shareholders of Dongzheng and Dongzheng, and the controlling shareholders of Dongzheng are expected to enter into the Non-competition Undertaking in favour of Dongzheng.

As set out in the Application Proof, it is currently expected that the continuing connected transactions from 2018 to 2020 between Dongzheng and the Remaining Group upon completion of the Proposed Spin-off will not exceed 5% of the applicable percentage ratios calculated under Chapter 14A of the Listing Rules and would not be subject to independent shareholders' approval.

### (iii) *Financial independence*

Upon completion of the Proposed Spin-off, Dongzheng will continue to have an independent financial system and make financial decisions according to its own business needs. Dongzheng has independent internal controls and accounting systems and an independent finance department responsible for its treasury function. Dongzheng is capable of obtaining financing from third parties, if necessary, without reliance on the Remaining Group. While currently certain of Dongzheng's placement from banks and other financial institutions are guaranteed by the Remaining Group, such guarantees will be released prior to the Proposed Spin-off. The Directors and the directors of Dongzheng believe that Dongzheng is able to maintain financial independence from the Remaining Group upon the Proposed Spin-off.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We consider that the corporate governance measures will facilitate the Remaining Group and Dongzheng to achieve a delineation of business and maintain independence, which in turn allows their management teams to allocate resources with regard to their respective needs. The Directors and the directors of Dongzheng are of the view, and we concur, that Dongzheng is capable of carrying on its business independently without undue reliance on the Remaining Group after the Proposed Spin-off.

### 7. Valuation of Dongzheng

As mentioned in the section headed “1. Business of the Group and Dongzheng” above of this letter, Dongzheng is principally engaged in the provision of auto finance products and services for the purchase of luxury-brand cars in the PRC.

In order to assess the fairness and reasonableness of the valuation of Dongzheng, we have conducted a search on Bloomberg on a best efforts basis for comparable companies (i) listed on the Main Board of the Stock Exchange under the industry of “Specialty Finance — Consumer Finance” as classified by the Bloomberg Industry Classification System; and (ii) with revenue mainly generated from the provision of auto finance products and services based on information available on Bloomberg.

Based on the above criteria, we identified only one comparable company (the “**Comparable Company**”), Yixin Group Limited (stock code: 2858) (“**Yixin**”, together with its subsidiaries, the “**Yixin Group**”), principally engaging in the provision of automobile financial leasing services, based on the latest financial report available as at the date immediately prior to the Latest Practicable Date.

As there is no pro forma financial information available regarding the net asset value of Dongzheng assuming the Global Offering is completed, we were unable to calculate a meaningful price-to-book ratio for Dongzheng. We therefore performed an analysis based on the price-to-earnings (“**P/E**”) ratio. As set out in the latest published annual report and interim report of Yixin, the Yixin Group has incurred losses both during the year ended 31 December 2017 and the six months ended 30 June 2018, and no meaningful P/E ratio can be calculated. In view of the above and the fact that we have only identified one Comparable Company based on our selection criteria, we have also extended our scope of search on Bloomberg to companies (the “**Reference Companies**”) (i) listed on the Main Board of the Stock Exchange under the industry of “Specialty Finance — Consumer Finance” as classified by the Bloomberg Industry Classification System; and (ii) with revenue mainly generated from financial leasing or credit and/or loan financing-related businesses in the PRC based on information available from the latest published financial report of the companies as at the date immediately prior to the Latest Practicable Date. For the purpose of this analysis, we have excluded Yixin from the Reference Companies. Based on the above selection criteria, we have identified seven Reference Companies, and note that four of them recorded net loss attributable to the equity holders for the latest full financial year as extracted from the latest available annual reports/prospectuses. We consider that an analysis based on only P/E ratio for the Comparable Company and the Reference Companies is not appropriate and we have therefore, as an alternative, extended our analysis to cover also price-to-revenue ratio (also known as the price-to-sales ratio). The results of our analysis are set out below.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *The Comparable Company*

<b>Company name</b>	<b>Principal activities</b>	<b>P/E</b>	<b>Price-to-revenue (Note 1)</b>
Yixin Group Limited (stock code: 2858)	Automobile finance leasing	N/A	2.8
	<b>Dongzheng (Notes 2 and 3)</b>	<b>28.8</b>	<b>11.9</b>

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#### *Notes:*

1. The price-to-revenue ratio of Yixin is calculated based on its market capitalisation as at the Latest Practicable Date and the consolidated revenue of the Yixin Group for the year ended 31 December 2017.
2. Based on the estimated minimum market capitalisation of approximately HK\$8,533.34 million and the audited profit for the year ended 31 December 2017 of approximately RMB260.8 million (equivalent to approximately HK\$296.4 million at an exchange rate of RMB0.88 = HK\$1), the estimated P/E of Dongzheng is approximately 28.8 times.
3. Based on the estimated minimum market capitalisation of approximately HK\$8,533.34 million and the audited income of approximately RMB629.9 million, comprising interest income of approximately RMB424.6 million and fee and commission income of approximately RMB205.3 million, for the year ended 31 December 2017 (equivalent to approximately HK\$715.8 million at an exchange rate of RMB0.88 = HK\$1), the estimated price-to-revenue ratio of Dongzheng is approximately 11.9 times.

As shown in the table above, the price-to-revenue ratio of Dongzheng is higher than that of Yixin, which indicates that the pricing of Dongzheng is more attractive than Yixin in terms of price-to-revenue ratio.

### *The Reference Companies*

Due to the differences in businesses of Dongzheng and the Reference Companies, the table below is provided for illustrative purposes only and does not form a material basis in our assessment of the Proposed Spin-off.

<b>Reference Companies</b>	<b>Principal activities</b>	<b>P/E (Note 1)</b>	<b>Price-to-revenue (Note 1)</b>
51 Credit Card Inc. (stock code: 2051)	Credit facilitation service	N/A (Note 2)	2.0
China Huirong Financial Holdings Limited (stock code: 1290)	Loan financing	17.3	3.2

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Reference Companies	Principal activities	P/E <i>(Note 1)</i>	Price-to-revenue <i>(Note 1)</i>
Quanzhou Huixin Micro-credit Co., Ltd. (stock code: 1577)	Loan financing	9.9	6.4
Sino Prosper (Group) Holdings Ltd. (stock code: 766)	Money lending	N/A <i>(Note 2)</i>	3.8
Shougang Concord Grand Group (stock code: 730)	Finance leasing	N/A <i>(Note 2)</i>	5.5
VCredit Holdings Limited (stock code: 2003)	Consumer finance	N/A <i>(Note 2)</i>	0.9
Zuoli Kechuang Micro-finance Co. Ltd. (stock code: 6866)	Loan financing	2.6	1.2
	<b>Lowest</b>	<b>2.6</b>	<b>0.9</b>
	<b>Highest</b>	<b>17.3</b>	<b>6.4</b>
	<b>Average</b>	<b>9.9</b>	<b>3.4</b>
	<b>Dongzheng</b>	<b>28.8</b>	<b>11.9</b>

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*Notes:*

- P/E ratios and price-to-revenue ratios of the Reference Companies are calculated based on (a) their respective market capitalisation as at the Latest Practicable Date as extracted from Bloomberg; and (b) the consolidated net profits attributable to equity holders (for P/E) or the consolidated revenue (including revenue in the form of interest income and loan facilitation service fees) (for price-to-revenue ratio) of the Reference Companies for the latest full financial year as extracted from the latest available annual reports/prospectuses.
- P/E ratios are not calculated as these Reference Companies recorded net loss attributable to the equity holders for the latest full financial year as extracted from the latest available annual reports/prospectuses.

As set out in the table above, the estimated minimum P/E ratio and price-to-revenue ratio of Dongzheng of approximately 28.8 and 11.9 times respectively are higher than the range of the historical P/E and price-to-revenue ratios of the Reference Companies. The Reference Companies are identified based on our selection criteria set out above where the principal businesses of the Reference Companies may not be identical to the principal business of Dongzheng, and the circumstances affecting the market capitalisation and financial information (including revenue and profits) of the Reference Companies may be different from those of Dongzheng. The comparison with the Reference Companies is therefore included for illustration purposes only.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Given that the price-to-revenue ratio of Dongzheng is higher than that of Yixin as discussed above and, for reference only, both the P/E ratio and price-to-revenue ratio of Dongzheng are higher than those of the Reference Companies, it is considered that the valuation under the Proposed Spin-off represents an attractive pricing of Dongzheng.

### 8. Conditions of the Proposed Spin-off

As set out in the section headed “Conditions of the Proposed Spin-off” in the “Letter from the Board” contained in the Circular, the Proposed Spin-off will be conditional upon, among other things, (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Dongzheng H Shares on the Main Board of the Stock Exchange and the approval of CSRC regarding the Proposed Spin-off; (ii) the terms of the Global Offering being agreed among the Company, Dongzheng and the underwriter(s); (iii) the final decisions of the Board and the board of directors of Dongzheng; and (iv) market conditions and other considerations.

Shareholders and potential investors should be aware that there is no assurance that the Proposed Spin-off will take place, and, if so, when it will take place. Shareholders and potential investors should exercise caution when dealing in or investing in the securities of the Company.

### DISCUSSION

The Group operates in three major segments, namely the 4S dealership business, supply chain business and financial services business. Dongzheng, which is the subject of the Proposed Spin-off, is principally engaged in the provision of auto finance products and services for the purchase of luxury-brand cars in the PRC and is a major part of the financial services business segment of the Group. Dongzheng is licensed and regulated by the CBIRC and is the only AFC with a dealership background in the PRC. It is considered to be clearly delineated from the Retained Business of the Group. The business of Dongzheng has been growing rapidly in recent years and is likely to appeal to a different investor base from the Retained Business of the Group. It is considered that the Proposed Spin-off allows both the Remaining Group and Dongzheng to have separate fundraising platforms, with better focus of resources on their respective business operations, such that the Remaining Group and Dongzheng are able to maintain and achieve further growth. A Non-competition Undertaking will be entered into and the corporate governance measures to be put in place would facilitate a delineation of business and independence between the Remaining Group and Dongzheng.

Under the expected structure of the Proposed Spin-off, the expected net proceeds of the Global Offering will be approximately HK\$2,413.15 million, assuming the over-allotment option is not exercised and based on the mid-point of the indicative price range. Approximately 70% of the net proceeds is intended to be used to support the development of Dongzheng’s business with External Customers. After completion of the Proposed Spin-off, it is expected that the Company will retain approximately 71.25% of Dongzheng (assuming the over-allotment option is not exercised) and Dongzheng will continue to be accounted for as a subsidiary of the Group. It is expected that the net asset and working capital positions of the Group will be improved as a result of the Proposed Spin-off and the Global Offering.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As required by PN15, the Proposed Spin-off includes arrangements for the Assured Entitlement which Qualifying Shareholders are being invited to apply for an aggregate of 26,675,462 Reserved Shares in the Global Offering, representing approximately 5.00% of the Dongzheng H Shares initially available under the Global Offering (assuming that the over-allotment option is not exercised). Taking into account the reason and benefits of the Proposed Spin-off and the valuation of Dongzheng, the size of the Assured Entitlement is considered to be acceptable although it is at the low end of the range of the Precedent Spin-off Exercises we have reviewed.

Based on the estimated minimum market capitalisation of Dongzheng and its 2017 financial information, the estimated P/E ratio and price-to-revenue ratio of Dongzheng would be approximately 28.8 and 11.9 times respectively. Such price-to-revenue ratio is higher than that of Yixin (the only comparable company identified) and for illustrative purposes, such P/E ratio and price-to-revenue ratio are higher than those of the Reference Companies. We consider the valuation represents an attractive pricing of Dongzheng in the Proposed Spin-off.

Overall, we are of the view that the Proposed Spin-off will provide a separate listing for Dongzheng, which operates a different kind of business from the Remaining Group, on pricing expected to be favourable to the Group and on terms, including the Assured Entitlement, which we consider acceptable to the Shareholders.

### OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that the terms of the Proposed Spin-off are fair and reasonable so far as the Company and the Shareholders are concerned and that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

In this case, as set out above in this letter, upon written shareholders' approval being obtained from the relevant Shareholders, the Proposed Spin-off is taken to have been duly approved in lieu of holding a general meeting of the Company. However, if the Company were required to convene a general meeting to approve the Proposed Spin-off, we would advise the Independent Board Committee to recommend, and we ourselves would recommend, the Shareholders to vote in favour of the relevant resolution.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**M. N. Sabine**  
*Chairman*

*Mr. M. N. Sabine 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 thirty years of experience in the corporate finance industry.*

*For illustration purposes, RMB is converted into HK\$ at RMB0.88 = HK\$1 in this letter.*

**1. FINANCIAL INFORMATION OF THE GROUP FOR THE LAST THREE YEARS**

The audited consolidated financial statements for each of the years ended 31 December 2015, 2016 and 2017 and the unaudited consolidated financial statements for the six months ended 30 June 2018 of the Company together with relevant notes thereto have been disclosed in the following documents published on the Stock Exchange's website (<http://www.hkexnews.hk>) and the Company's website (<http://www.zhengtongauto.com>)

Interim report of the Company for the six months ended 30 June 2018 published on 21 September 2018 (page 23 to page 60):

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0921/LTN20180921663.pdf>;

Annual report of the Company for the year ended 31 December 2017 published on 17 April 2018 (page 68 to page 155):

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0417/LTN20180417697.pdf>;

Annual report of the Company for the year ended 31 December 2016 published on 12 April 2017 (page 55 to page 139):

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2017/0412/LTN20170412582.pdf>;

Annual report of the Company for the year ended 31 December 2015 published on 19 April 2016 (page 51 to page 125):

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2016/0419/LTN20160419507.pdf>.

**2. STATEMENT OF INDEBTEDNESS**

At the close of business on 30 November 2018, being the latest practicable date ascertaining information regarding this indebtedness statement prior to the printing of this circular, the Group had guarantee deposits of approximately RMB35.40 million (received from customers of dealer loans and finance lease businesses), bonds payable of approximately RMB902.96 million, and aggregate banking facilities of approximately RMB33,491.92 million, among which approximately RMB23,268.60 million had been utilised by the Group as at that date, comprising secured loans and borrowings of approximately RMB3,516.05 million, unsecured loans and borrowings of approximately RMB16,958.82 million and bills payable of approximately RMB2,793.73 million.

The secured loans and borrowings and bills payable of the Group were secured by certain assets in an aggregate amount of approximately RMB4,615.87 million in forms of inventories, pledged bank deposits, property plant and equipment, trade and other receivables, lease prepayments, and the share of certain subsidiaries.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business of the Group, as at the close of business on 30 November 2018, the Group did not have any other outstanding mortgages, charges, debentures, loan capital, bank loans or overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances (other than normal trade bills) or acceptance creditors, guarantees, or other material contingent liabilities.

The Directors confirm that, save as disclosed above, there was no material change in the indebtedness status of the Group since 30 November 2018 up to the Latest Practicable Date.

### **3. WORKING CAPITAL**

As at the Latest Practicable Date, having made appropriate inquiries and taking into account of the internal resources of the Group and currently available loan facilities, the Directors are of the opinion that the Group will have sufficient working capital for its requirements for at least the next 12 months from the date of this circular.

### **4. MATERIAL ADVERSE CHANGE**

The Directors confirm that, as at the Latest Practicable Date, there was no material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up.

The Directors confirm that there was no material change in the indebtedness status of the Group since 31 December 2017 up to the Latest Practicable Date.

### **5. FINANCIAL AND OPERATING PROSPECT**

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

Following the completion of the Proposed Spin-off, the Remaining Group will continue to engage in the Retained Business while Dongzheng will focus on (i) retail loan business, whereby Dongzheng offers retail loan and other financing services to end customers for their purchase of cars; and (ii) dealer loan business, whereby Dongzheng provides loans to dealers to facilitate their purchase of cars to be sold to their end customers.

#### **Business Review and Prospects**

##### *Sales of new automobiles business*

For the six months ended 30 June 2018, the sales of new automobiles reached 55,163 units, representing a year-on-year growth of approximately 19.8%, including 42,463 units of luxury-branded and ultra-luxury-branded automobiles with a year-on-year increase of 24.8%.

In order to maintain its market competitiveness and better control its gross profit from sales, the Group will continue to adjust its organizational structure, analyze market condition of different regions and implement unified pricing policies, including limited price and standardized services of sales, finance, insurance, automotive supplies, warranty extension and value-added business of new automobiles. The Group will also continue to place great emphasis on the operation performance, brand value and customer retention rate of dealership stores and valued them as the development strategies of the Group.

#### *After-sales services business*

In the first half of 2018, revenue and gross profit of after-sales services of the Group amounted to approximately RMB2,258 million and approximately RMB1,057 million, representing an increase of 24.3% and 21.9% as compared to the corresponding period last year, respectively. The gross profit margin was approximately 46.8%. The steady growth of after-sales services business in the first half of 2018 was mainly attributable to the rapid growth of car ownership. In the first half of 2018, the Group served 618,357 units of automobiles in aggregate, representing an increase of approximately 17.4% as compared to the corresponding period last year.

With an aim to improve customer experience on each brand of the Group, the Group will further enhance the sales performance and customer loyalty through various research methods, including assessing quality of aftersales services of stores with potential and popular outlet stores by mystery shopping, on-site inspection and self-evaluation on satisfaction in the future.

#### *Supply chain business*

In 2018, in view of the development of new energy automobiles industry, on top of the existing comprehensive logistic network and resources, the Group has formed logistics strategic plans with various new energy automobile manufacturers for the provision of supply-chain logistics services for parts before, during and after the manufacturing process and for automobiles. In order to capture the growing demand for imported cars, the Group has established high speed transportation channels at Tianjin port and Shanghai port, which enable direct access to all major cities in China. In 2019, for the vehicle logistics sector, the Group aims to expand into the logistics market for major automobile brands in China rapidly and further extend the logistics network for different brands by establishing joint ventures or through mergers and acquisition with other large logistics companies. For parts warehouse and logistics sector, in response to the development plan of Wuhan City to become the capital of automobiles, the Group will promote the parts logistics services for major original equipment manufacturers in Wuhan and the delivery services in Central China by taking advantage of the premium location of the logistics base.

#### *Network development*

As of 30 June 2018, the Group operated 138 dealership stores in 40 cities across 16 provinces and municipalities in China.

As a leading strategic partner of manufacturers of luxury brands and ultra-luxury brands in the PRC, the Group will continue its network expansion strategies with its focus on a balanced layout of dealership stores of core luxury brands and a refined brand structure in its pursuit of prudent development. Meanwhile, the Group will integrate industry resources by seeking appropriate merger opportunities and innovative strategic operation management cooperation scheme to rapidly enlarge its business scale and enhance its profitability.

### **Future Outlook and Strategies**

China's automobile market becomes increasingly mature. Due to the steady growth of household disposable income, sales of automobiles and consumption of relevant services, automobile consumption will escalate gradually. Meanwhile, there will be higher requirements for product and service quality. Due to the increasing consumption of luxury automobiles, customers will require more specialized services at various stages of consumption relating to automobiles, and will expect to enjoy one-stop integrated services which are of higher quality and convenience. The Group will take advantage of its diversified portfolio of luxury brands, mature nationwide networks as well as customized and high value-added services in respect of finance and insurance so as to create excellent customer experience. The Group will also fully exercise its advantage in integrated platform and independent business to cater for customers' changing consumption habits. Efforts will also be made to enrich its services and products and expand its service channels to fully capture opportunities. In addition, the Group will develop traditional sales networks on a more selective basis and continue to optimize internal management and operation efficiency to create greater value to its Shareholders, employees and the community.

## 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

### Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures

#### *Long positions in the shares and underlying shares of the Company:*

<b>Name</b>	<b>Position in the Company</b>	<b>Capacity/nature of interest</b>	<b>Number of Shares / underlying Shares</b>	<b>Approximate percentage of shareholding</b>
WANG Muqing	Executive Director	Founder of trusts	1,383,516,820 <i>(Note 1)</i>	56.37%
WANG Kunpeng	Executive Director	Beneficial Owner	1,230,000 <i>(Note 2)</i>	0.050%
LI Zhubo	Executive Director	Beneficial Owner	1,550,000 <i>(Note 3)</i>	0.063%

*Notes:*

- These Shares are directly held by Joy Capital. Mr. WANG Muqing and Mr. WANG Weize were the founders of the family trusts that own all the issued shares of Joy Capital, and Credit Suisse Trust Limited in Guernsey is the trustee of these family trusts. The family members of Mr. WANG Muqing are discretionary beneficiaries of these trusts.
- During 2017, Mr. WANG Kunpeng exercised the options under the Pre-IPO Share Option Scheme granted to him, these represent the number of Shares which were allotted and issued.
- Mr. LI Zhubo has a total of 1,550,000 Shares, among which 320,000 Shares were purchased in the market, and the remaining 1,230,000 Shares represented the number of Shares which during 2017, Mr. LI exercised the options under the Pre-IPO Share Option Scheme granted to him, were allotted and issued.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the Chief Executive of the Company or their respective associates had any interests or short positions in the shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) required to be recorded in the register kept by the

Company pursuant to Section 352 of the SFO; or (c) required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

### Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at the Latest Practicable Date, as far as the Directors are aware, the following persons (other than the Directors and the Chief Executive of the Company) had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise interested in 5% or more of any class of the then issued share capital of the Company, or was a substantial Shareholder of the Company:

Name of Shareholders	Capacity	Number of shares held	Percentage in total share capital
Joy Capital	Beneficial owner (Note 1)	1,383,516,820 (L)	56.37% (L)
WANG Weize	Founder of trusts (Note 1)	1,383,516,820 (L)	56.37% (L)
Citigroup Inc.	Person having a security interest in shares	21,630,000 (L)	0.88% (L)
	Interest of controlled corporation	70,195,000 (L)	2.86% (L)
		1,574,076 (S)	0.06% (S)
Pandanus Associates Inc.	Approved lending agent	146,109,951 (P)	5.95% (P)
	Interest of controlled corporation	157,865,000 (L)	6.43% (L)

(L) The letter "L" denotes a long position.

(S) The letter "S" denotes a short position.

(P) The letter "P" denotes a lending pool.

The information of the Shareholders is based on the disclosure of interests system of the Stock Exchange.

#### Notes:

- These Shares are directly held by Joy Capital. Mr. WANG Muqing and Mr. WANG Weize were the founders of the family trusts that own all the issued shares of Joy Capital, and Credit Suisse Trust Limited in Guernsey is the trustee of these family trusts. The Wang family members are discretionary beneficiaries of these trusts.

Save as disclosed above, as at the Latest Practicable Date, as far as the Directors are aware, no other person (other than the Directors and the Chief Executive of the Company, whose interests are set out in the section “Directors’ and Chief Executive’s Interests and Short Positions in the Shares, Underlying Shares and Debentures” above) had an interest or short position in the Company’s Shares or underlying Shares (as the case may be) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO, or was otherwise a substantial Shareholder (as defined in the Listing Rules) of the Company.

### **3. MATERIAL LITIGATION**

The Directors confirm that, as at the Latest Practicable Date, no member of the Group was involved in any material litigation or arbitration and no material litigation or claim is known to the Directors to be pending or threatened by or against any member of the Group.

### **4. EXPERT AND CONSENT**

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and reference to its name in the form and context in which it respectively appears in this circular.

The followings are the qualification of the expert who has provided his/her opinion or advice, which is contained in this circular:

<b>Name</b>	<b>Qualification</b>	<b>Date of conclusion or opinion</b>
Somerley	a licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO	15 January 2019

As at the Latest Practicable Date, Somerley 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 were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2017 (being the date to which the latest published audited financial statements of the Group were made up).

### **5. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into any service contract with the Company or any other member of the Group, which is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

**6. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS**

As at the Latest Practicable Date, none of the Directors or supervisors had any interest in any assets which have been since 31 December 2017 (being the date to which the latest published audited accounts of the Company 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. As at the Latest Practicable Date, none of the Directors or supervisors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

**7. DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors or their respective associates had interests in the businesses, other than being a Director, which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling Shareholder).

**8. MATERIAL CONTRACTS**

The Group did not enter into any material contracts (not being contracts entered into in the ordinary course of business of the Group) within two years immediately preceding the Latest Practicable Date.

**9. MISCELLANEOUS**

- (1) Ms. YEUNG Wing Yee is our Company Secretary. Ms. YEUNG is a practising solicitor in Hong Kong in the field of commercial and corporate finance. Ms. YEUNG graduated from the University of Hong Kong with a Bachelor Degree of Laws.
- (2) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands.
- (3) The Hong Kong Share registrar of the Company is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (4) The English text of the circular shall prevail over their respective Chinese text in the case of inconsistency.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Baker & McKenzie at 14th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 4 February 2019:

- (1) this circular;
- (2) the memorandum of association and bye-laws of the Company;
- (3) the annual reports of the Company for the three years ended 31 December 2015, 2016 and 2017;
- (4) the interim report of the Company for the six months ended 30 June 2018;
- (5) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 24 to 25 of this circular;
- (6) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Shareholders, the text of which is set out on pages 26 to 47 of this circular; and
- (7) the written consent as referred to under the section headed “4. Expert and Consent” in this Appendix.