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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Zhongsheng Group Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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The securities referred to herein have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any state of the United States or other jurisdiction and the securities may not be offered, sold or delivered into or within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws.

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# 中升集團控股有限公司 Zhongsheng Group Holdings Limited

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 881)**

## CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ZUNG FU CHINA INVOLVING ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE AND NOTICE OF THE EGM

Financial Adviser

**BofA SECURITIES** 

Independent Financial Adviser

 **SOMERLEY CAPITAL LIMITED**

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A letter from the Board is set out on pages 5 to 24 of this circular. A letter from Somerley Capital containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 27 to 61 of this circular and a letter from the Independent Board Committee is set out on pages 25 to 26 of this circular.

A notice convening the EGM of the Company to be held at Room 1803-09, 18/F Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong, on Wednesday, 8 September 2021 at 11:00 a.m. is set out on pages 67 to 70 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you intend to attend the EGM in person, you are encouraged to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible, but in any event not less than 48 hours (i.e., not later than 11:00 a.m. on Monday, 6 September 2021) before the time appointed for the holding of the EGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish and, in such event, the form of proxy shall be deemed to be revoked.

References to dates and time in this circular are to Hong Kong dates and time.

20 August 2021

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following terms and expression have the meaning set forth below:*

“2025 Convertible Bonds”	the HK\$4,560 million in aggregate principal amount of zero coupon convertible bonds due 2025 issued by the Company on 21 May 2020 entitling the holders to convert such convertible bonds into Shares at a conversion price of HK\$45.61 per Share
“Acquisition”	the proposed acquisition by the Company of the Sale Shares, representing the entire issued share capital of Zung Fu China, from the Seller in accordance with the terms of the Share Purchase Agreement
“Affiliates”	in relation to any person, any subsidiary or holding company of that person and any subsidiary of any such holding company
“AML”	the Anti-Monopoly Law of the PRC
“Base Consideration”	US\$1,300 million
“Board”	the board of Directors
“BofA Securities” or “Financial Adviser”	Merrill Lynch (Asia Pacific) Limited, a corporation licensed under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities and being a financial adviser to the Company in respect of the Transaction
“Business Day”	a day (other than a Saturday, a Sunday or a public holiday in Hong Kong or the PRC) on which banks are generally open for regular banking business in Hong Kong and the PRC
“Cash Portion”	the portion of the Consideration to be settled on Closing in cash
“Closing”	completion of the Acquisition in accordance with the terms of the Share Purchase Agreement
“Closing Adjustments”	the adjustments to be made to the Base Consideration to determine the Consideration, as described in the paragraph headed “The Share Purchase Agreement — Consideration and Payment Terms — The Consideration” in this circular
“Closing Consideration”	the consideration for the Acquisition payable by the Company to the Seller on the Closing Date, being the Base Consideration as adjusted by the estimated amount of the Closing Adjustments
“Closing Date”	the date on which Closing takes place

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## DEFINITIONS

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“Company”	Zhongsheng Group Holdings Limited, a limited liability company incorporated under the laws of Cayman Islands whose Shares are listed on the Main Board of the Stock Exchange
“Consideration”	the total consideration for the Acquisition payable by the Company to the Seller
“Consideration Shares”	the new Shares to be issued by the Company to settle part of the Consideration, further details of which are set out in the paragraph headed “The Share Purchase Agreement — Consideration and Payment Terms — Payment Terms” in this circular
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting to be held by the Company on Wednesday, 8 September 2021 to consider and, if thought fit, approve the Share Purchase Agreement and the transactions contemplated thereunder, including the Specific Mandate for the issue and allotment of the Consideration Shares
“Escrow Amount”	an escrow amount representing 10% of the Closing Consideration
“Group”	the Company together with its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of the Transaction
“Independent Financial Adviser” or “Somerley Capital”	Somerley Capital Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Transaction
“Independent Shareholder(s)”	Shareholders other than JSH and its associates
“Issue Price”	the issue price for the Consideration Shares, being HK\$63.3964 per Share

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## DEFINITIONS

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“Jardine Matheson”	Jardine Matheson Holdings Limited, a limited liability company incorporated under the laws of Bermuda which has a standard listing on the London Stock Exchange (JAR) and a secondary listing on each of the Bermuda Stock Exchange (JMHBDBH) and the Singapore Exchange (J36)
“Jardine Motors” or the “Guarantor”	Jardine Motors Holdings Limited, a limited liability company incorporated under the laws of British Virgin Islands and a wholly-owned subsidiary of Jardine Matheson
“JSH”	JSH Investment Holdings Limited, a limited liability company incorporated under the laws of British Virgin Islands, and a wholly-owned subsidiary of Jardine Matheson. JSH is a substantial shareholder of the Company
“Latest Practicable Date”	17 August 2021, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	the date falling 15 months after the date of the Share Purchase Agreement
“PRC” or “China”	the People’s Republic of China (excluding, for the purpose of this circular, Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	100,000,000 ordinary shares in, representing the entire issued share capital of, Zung Fu China
“SAMR”	the State Administration for Market Regulation of the PRC
“Seller”	Fu Tung Holdings Limited, a limited liability company incorporated under the laws of Hong Kong, wholly-owned by Jardine Motors
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Portion”	the portion of the Consideration to be settled on Closing by the issue of the Consideration Shares
“Share Purchase Agreement”	the share purchase agreement dated 1 July 2021 and entered into among the Company, the Seller and Jardine Motors

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## DEFINITIONS

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“Share(s)”	the ordinary share(s) with par value of HK\$0.0001 each in the share capital of the Company
“Shareholder(s)”	Holder(s) of the Shares
“Specific Mandate”	the specific mandate to be sought from the Independent Shareholders at the EGM for the allotment and issue of the Consideration Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of an aggregate of 47,253,000 new Shares issued by the Company to HHLR Fund, L.P. and YHG Investment, L.P. pursuant to the terms of the subscription agreement dated 4 July 2021 entered into among the Company, HHLR Fund, L.P. and YHG Investment, L.P., further details of which are set out in the Subscription Announcements
“Subscription Announcements”	the announcements of the Company dated 4 July 2021 and 12 July 2021 in respect of the Subscription
“Transaction”	the sale and purchase of the Sale Shares and the related transactions under the Share Purchase Agreement, including the allotment and issue of Consideration Shares
“US\$”	United States dollars, the lawful currency of the United States of America
“Zung Fu China”	Zung Fu (China) Limited, a limited liability company incorporated under the laws of Hong Kong
“Zung Fu China Group”	Zung Fu China and its subsidiaries
“%”	per cent.

*In this circular, unless the context otherwise requires, the terms “associate”, “connected person”, “connected transaction”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, as modified by the Stock Exchange from time to time.*

*Unless otherwise specified, this circular contains certain translations at the exchange rate of US\$1.00 to HK\$7.7621 and RMB1.00 to HK\$1.20. These translations and exchange rate are provided for reference and convenience only, and no representation is made, and no representation should be construed as being made, that any amounts in US\$, RMB or HK\$ can be or could have been converted at the above rates or any other rates or at all.*

*Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*



中升集團控股有限公司  
**Zhongsheng Group Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 881)**

*Executive Directors:*

Mr. Huang Yi (*Chairman*)  
Mr. Li Guoqiang  
*(President and Chief Executive Officer)*  
Mr. Du Qingshan  
Mr. Zhang Zhicheng  
Mr. Li Guohui  
Mr. Tang Xianfeng

*Non-executive Director:*

Mr. David Alexander Newbigging  
Mr. Hsu David

*Independent non-executive Directors:*

Mr. Shen Jinjun  
Mr. Ying Wei  
Mr. Chin Siu Wa Alfred  
Mr. Li Yanwei

*Registered Office:*

Second Floor  
Century Yard  
Cricket Square  
P.O. Box 902  
Grand Cayman  
KY1-1103  
Cayman Islands

*Principal Place of Business in  
Hong Kong:*

Room 1803-09  
18/F, Sun Hung Kai Centre  
30 Harbour Road  
Wanchai  
Hong Kong

20 August 2021

*To the Shareholders*

Dear Sir/Madam,

**CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF ZUNG FU CHINA  
INVOLVING ISSUE OF CONSIDERATION SHARES  
UNDER SPECIFIC MANDATE  
AND  
NOTICE OF THE EGM**

**INTRODUCTION**

We refer to the announcement of the Company (the “**Announcement**”) dated 1 July 2021 in relation to the Share Purchase Agreement entered into among the Company as the purchaser, Fu Tung Holdings Limited as the Seller and Jardine Motors Holdings Limited as

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## LETTER FROM THE BOARD

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the Guarantor, pursuant to which the Seller has conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Shares, representing the entire issued share capital of Zung Fu China. The purpose of this circular is to provide you with, among other things, (i) further details of the Share Purchase Agreement (including the grant of the Specific Mandate for the allotment and issue of the Consideration Shares); (ii) a letter from the Independent Board Committee; (iii) a letter from Somerley Capital as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM and the proxy form.

### THE SHARE PURCHASE AGREEMENT

#### I. The Share Purchase Agreement

##### *Date*

1 July 2021

##### *Parties to the Subscription Agreement*

- (1) The Company, as the purchaser;
- (2) Fu Tung Holdings Limited, as the Seller; and
- (3) Jardine Motors, as the Guarantor

Each of the Seller and Jardine Motors is a subsidiary of Jardine Matheson. JSH, a wholly-owned subsidiary of Jardine Matheson, is a substantial shareholder of the Company and as at the Latest Practicable Date, held 453,412,844 Shares, representing approximately 19.19% of the issued share capital the Company. Accordingly, JSH is a connected person of the Company and the Seller and Jardine Motors, each being an associate of JSH, are also connected persons of the Company.

##### *Acquisition*

Pursuant to the Share Purchase Agreement, the Seller has conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Shares, representing the entire issued share capital of Zung Fu China.

Zung Fu China is a company incorporated in Hong Kong with limited liability and is principally engaged in the motor sales and servicing business in the PRC. Zung Fu China began operations in the PRC in 1994, being one of the largest dealership networks of Mercedes-Benz in Southern and Western China. As a strategic partner with Mercedes-Benz, the business of Zung Fu China covers the sale and aftersales services of Mercedes-Benz, AMG, Mercedes-Maybach and Denza and other car related businesses.

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## LETTER FROM THE BOARD

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### *Consideration and Payment Terms*

#### *The Consideration*

The Consideration payable by the Company for the Acquisition is US\$1,300 million (the “**Base Consideration**”), and to be adjusted as follows:

- (a) by adding an amount equals to the cash balance of the Zung Fu China Group as at the Closing Date (the “**Cash Adjustment**”);
- (b) by deducting an amount equals to the amount of debt of the Zung Fu China Group outstanding as at the Closing Date; and
- (c) by adding or deducting (as the case may be) an amount equals to the difference between the amounts of the agreed level of working capital and the actual working capital of the Zung Fu China Group as at the Closing Date, (collectively, the “**Closing Adjustments**”).

For the purposes of the settlement of the Consideration on the Closing Date, the Company and the Seller will agree an estimated amount of the Closing Adjustments based on an amount provided by the Seller at least five business days prior to the Closing Date. As at the Latest Practicable Date, the Seller had not provided any estimated amount of the Closing Adjustments. On the Closing Date, the Company will settle the Base Consideration as adjusted by such estimated Closing Adjustments (such amount referred to as the “**Closing Consideration**”).

#### *Payment Terms*

On the Closing Date, the Company will satisfy the Closing Consideration as follows:

- (a) the Company will pay to the Seller in cash US\$900 million, being the Cash Portion. The Company will deduct from the Cash Portion (i) the Seller’s share of Hong Kong stamp duty payable in connection with the sale and purchase of the Sale Shares, and (ii) the Escrow Amount representing 10% of the Closing Consideration (such amount to be deposited by the Company with an escrow agent on the Closing Date until evidence of determination of the PRC tax payable by the Seller arising from the sale of the Sale Shares has been provided to the Company); and
- (b) the Company will allot and issue to the Seller (or to an Affiliate of the Seller as the Seller may direct) such number of Consideration Shares at the Issue Price representing the Share Portion, provided that the maximum number of Consideration Shares that may be allotted and issued will be such that the aggregate number of Consideration Shares and the Shares held by the Seller and persons acting in concert (as such term is defined in the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs (the “**Takeovers**”

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## LETTER FROM THE BOARD

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Code”)) with it, either directly or indirectly, as at the Closing Date will not be 30% or more of the total issued shares of the Company. The Share Portion shall be an amount equals to the difference between the Closing Consideration and the Cash Portion.

Following the Closing Date, the final amounts of the Closing Adjustments and the Consideration will be determined in accordance with the terms of the Share Purchase Agreement, and any difference between the Consideration and the Closing Consideration will be settled as follows:

- (a) if the Consideration is greater than the Closing Consideration by US\$500,000 or more, the Company shall pay the Seller an amount in cash equals to the difference;
- (b) if the Consideration is less than the Closing Consideration by US\$500,000 or more, the Seller shall pay the Company an amount in cash equals to the difference; and
- (c) if the difference between the Consideration and the Closing Consideration is less than US\$500,000, the final consideration for the Acquisition payable by the Company to the Seller shall be the Closing Consideration and no adjustment payment is payable by either the Company or the Seller to the other party.

### *Basis of the Consideration*

The Group intends to fund the Cash Portion of the Closing Consideration and any further cash payment required to be made by the Group following the determination of the Closing Adjustments by internal resources of the Group, bank financing and may apply part of the proceeds from the Subscription towards such payables.

In relation to the bank financing, the Company has obtained a syndicated unsecured loan facility of US\$800 million from certain authorised institutions (as defined under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) in Hong Kong for the primary purpose of financing the Acquisition. The interest rate of the loan facility is up to 0.8% per annum plus LIBOR. The loan facility is for a duration of 364 days from the drawdown date. As of the Latest Practicable Date, the Company had not made any drawdown under such loan facility.

The consideration and payment terms for the Acquisition were determined on an arm’s length basis and are on normal commercial terms following negotiation between the Company and the Seller after taking into account, among others, the historical results and performance of the Zung Fu China Group; and the synergies expected to be derived from the Acquisition, as further described in the paragraph headed “Reasons for and Benefits of the Transaction” in this circular. The Directors are of the view that the terms of the Transaction (including the issue of the Consideration Shares and the Issue Price) are fair and reasonable. There is no original acquisition cost of the Sale

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## LETTER FROM THE BOARD

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Shares as the business of the Zung Fu China Group was established and developed by the Seller. The audited book value of the net assets of Zung Fu China recorded in the financial statements of the Seller as at 31 December 2020 was approximately HK\$5,339.2 million.

The Issue Price of the Consideration Shares of HK\$63.3964 per Share represents:

- (a) the volume weighted average price per Share for the 30 consecutive trading days preceding and including 29 June 2021;
- (b) a discount of approximately 1.86% to the closing price of HK\$64.60 per Share as quoted on the Stock Exchange on 30 June 2021, being the last trading day immediately preceding the date of the Share Purchase Agreement;
- (c) a premium of approximately 1.11% over HK\$62.70 per Share, being the average closing price in the five trading days immediately preceding the date of the Share Purchase Agreement;
- (d) a discount of approximately 8.05% to the closing price of HK\$68.95 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (e) a premium of approximately 303.28% over RMB13.10 (equivalent to approximately HK\$15.72), being the net asset value per Share attributable to the owners of the parent of the Company as at 30 June 2021, which is calculated based on the net asset value divided by the number of the issued Shares as at 30 June 2021.

The Issue Price was arrived at after arm's length negotiations between the Company and the Seller with reference to the trading prices of the Shares and the results and operating prospects of the Company.

The Consideration Shares will be allotted and issued under the Specific Mandate to be sought at the EGM. The Consideration Shares, when allotted and issued, will be credited as fully paid and free from all encumbrances; and will rank *pari passu* in all respects among themselves and with all the Shares then in issue.

The actual number of Consideration Shares to be issued to the Seller (or to an Affiliate of the Seller as the Seller may direct) will depend on the final amount of the Share Portion as described in the paragraph headed "Consideration and Payment Terms — Payment Terms" in this circular.

Solely for illustration purpose only, assuming a Share Portion in the amount of US\$400 million (equivalent to approximately HK\$3,105 million), a total of 48,975,021 Consideration Shares will be issued at the Issue Price. Such new Shares represent:

- (a) approximately 2.07% of the issued share capital of the Company as at the Latest Practicable Date; and

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## LETTER FROM THE BOARD

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- (b) approximately 2.03% of the issued share capital of the Company as enlarged by the issue and allotment of such number of Consideration Shares (assuming there will be no change in the total number of Shares in issue between the Latest Practicable Date and the issue and allotment of the Consideration Shares).

The final amount of the Share Portion and the actual number of Consideration Shares to be issued by the Company shall be determined based on the Closing Consideration which is not available yet as at the Latest Practicable Date (as further explained in the paragraph headed “Consideration and Payment Terms — The Consideration” in this circular). Based on the financial and operational information of Zung Fu China made available by the Seller to the Company as further disclosed in the paragraph headed “Financial and Operational Information of Zung Fu China” in this circular, it is expected that the Cash Adjustment will be the key variable determining the amount of the Closing Adjustments and accordingly the final amount of the Share Portion and the actual number of Consideration Shares. To the best of the Company’s knowledge, Zung Fu China has distributed approximately US\$300 million (approximately HK\$2,329 million) of its cash and bank balances as dividends following the signing of the Share Purchase Agreement, and has intentions to distribute further of its cash and bank balances as dividends based on information provided by the Seller as of the Latest Practicable Date. Accordingly, based on the financial and operational information of Zung Fu China made available by the Seller to the Company and to the best of the Company’s estimation for the Shareholders’ reference only, the amount of the Base Consideration may be subject to an upward adjustment of up to 10% of the Base Consideration which provides for a Closing Consideration of US\$1,430 million (approximately HK\$11,100 million) and a Share Portion of US\$530 million (approximately HK\$4,114 million). On such basis, up to 64,891,902 new Shares are expected to be issued by the Company to the Seller (or to an affiliate of the Seller as the Seller may direct), which represent:

- (a) approximately 2.75% of the issued share capital of the Company as at the Latest Practicable Date; and
- (b) approximately 2.67% of the issued share capital of the Company as enlarged by the issue and allotment of such number of Consideration Shares (assuming there will be no change in the total number of Shares in issue between the Latest Practicable Date and the issue and allotment of the Consideration Shares).

Nonetheless, the financial position of the Zung Fu China Group (including cash and bank balances) is still subject to changes before Closing, the Shareholders are reminded that the actual number of Consideration Shares which depends on the estimated amount of the Closing Adjustments to be agreed between the Company and the Seller, will be determined based on the financial position of the Zung Fu China Group prior to the Closing Date pursuant to the terms of the Share Purchase Agreement. Given the Company expects that Closing may not occur until the end of 2021 as further explained in the paragraph headed “Closing” in this circular and that

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## LETTER FROM THE BOARD

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the Company expects Zung Fu China to continue to perform strongly financially in 2021 as demonstrated by the trend in the historical financials of Zung Fu China illustrated in the paragraph headed “Financial and Operational Information of Zung Fu China” in this circular, the Company estimates that the cash and bank balances of Zung Fu China may still be subject to a reasonable positive increase in 2021. On the basis of such estimation by the Company for the Shareholders’ reference only, it is expected that the Share Portion will in any event not be larger than approximately 5.00% of the issued share capital of the Company as enlarged by the issue and allotment of such number of Consideration Shares (assuming there will be no change in the total number of Shares in issue between the Latest Practicable Date and the issue and allotment of the Consideration Shares). On such basis, the Company expects that the Closing Consideration shall not exceed US\$1,916 million (equivalent to approximately HK\$14,872 million) and the final amount of the Share Portion shall not exceed US\$1,016 million (equivalent to approximately HK\$7,883 million). Accordingly, the actual number of Consideration Shares to be issued by the Company to the Seller (or to an affiliate of the Seller as the Seller may direct) shall not exceed 124,349,347. Such maximum number of new Shares expected to be issued by the Company represents:

- (a) approximately 5.26% of the issued share capital of the Company as at the Latest Practicable Date; and
- (b) approximately 5.00% of the issued share capital of the Company as enlarged by the issue and allotment of such number of Consideration Shares (assuming there will be no change in the total number of Shares in issue between the Latest Practicable Date and the issue and allotment of the Consideration Shares).

Once an estimated amount of the Closing Adjustments is agreed between the Company and the Seller prior to the Closing Date, the Company shall issue an announcement disclosing (i) the estimated amount of the Closing Adjustments as agreed between the Company and the Seller; (ii) the actual amount of the Closing Consideration; and (iii) the final amount of the Share Portion and the actual number of Consideration Shares to be issued by the Company on the Closing Date. In the event that the actual number of Consideration Shares that is required to be issued to the Seller (or to an Affiliate of the Seller as the Seller may direct) based on the Closing Consideration exceeds 124,349,347, the Company will convene another extraordinary general meeting and seek further approval from the Shareholders for the number of Consideration Shares that exceeds 124,349,347 in accordance with the relevant requirements under the Listing Rules.

An application for the listing of, and permission to deal in, the Consideration Shares will be made by the Company to the Stock Exchange.

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## LETTER FROM THE BOARD

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### *Lock-up undertaking by the Seller in respect of the Consideration Shares*

The Seller has undertaken that it will not, and will procure that none of its nominees and Affiliates will, without the prior written consent of the Company, (i) offer, sell, contract to sell, pledge, grant any option over or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) of) by the Seller or any its Affiliates, directly or indirectly, any of the Consideration Shares or any securities convertible into, or exercisable, or exchangeable for, any of the Consideration Shares, (ii) enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of the Consideration Shares, whether any such transaction described in (i) or (ii) above is to be settled by delivery of Consideration Shares or such other securities, in cash or otherwise, or (iii) publicly announce an intention to effect any such transaction, during a period of 18 months after the Closing Date (the “**Lock-up Period**”).

### *Lock-up undertaking by the Company in respect of Zung Fu China Group*

The Company has undertaken that it will not, and will procure that none of its nominees and Affiliates will, without the prior written consent of the Seller, offer, sell, contract to sell, pledge, grant any option over or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) of) by the Company or any its Affiliates, directly or indirectly, any members of the Zung Fu China Group during the Lock-up Period except for granting encumbrances for the purpose of financing.

### *Conditions Precedent*

Closing is conditional upon the satisfaction or, if applicable, waiver of the following conditions (together, the “**Conditions**”):

- (a) **Compliance with Listing Rules:** the Shareholders having passed the resolutions to approve the Transaction (including the issue of the Consideration Shares) in accordance with the relevant requirements of the Listing Rules and the articles of association of the Company;
- (b) **Listing approval from the Listing Committee:** the Listing Committee having granted approval for the listing of, and permission to deal in, the Consideration Shares;
- (c) **Merger control clearance:** a merger control notification having been submitted to, and accepted by, the SAMR under the AML and the Transaction having been cleared by the SAMR under the AML;

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## LETTER FROM THE BOARD

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- (d) **Hong Kong Property Carve-Out:** the Hong Kong Property Carve-Out, as further described in the paragraph headed “Information of the Zung Fu China Group — Pre-Closing Reorganisation” in this circular, having been completed;
- (e) **Change in ownership consent:** Mercedes-Benz (China) Limited having given its unconditional written consent to the change in indirect ownership of the members of the Zung Fu China Group operating as Mercedes-Benz dealers in the PRC;
- (f) **Assignment of intellectual properties:** the Seller or its relevant Affiliate(s) having assigned to a member of the Zung Fu China Group certain of its intellectual properties in respect of the operation of Mercedes-Benz dealers in the PRC;
- (g) **Termination of foreign exchange derivative transactions:** all foreign exchange derivative transactions entered into by any members of the Zung Fu China Group having been terminated;
- (h) **Escrow agreement:** an escrow agreement having been entered into among the Company, the Seller and an escrow agent, and that the escrow account in respect of the Escrow Amount having been set up;
- (i) **No material adverse change:** there having been no material adverse change to the Zung Fu China Group since the date of the Share Purchase Agreement;
- (j) **No prohibition of law:** there being no applicable law that would prohibit, prevent, make illegal, or restrict the Transaction; and
- (k) **No lawsuit to prohibit the Transaction:** there being no lawsuit commenced by any governmental authority that seeks to prohibit or otherwise enjoin, challenge or interfere with the consummation of the Transaction.

The conditions set out in paragraphs (a) to (c), (j) and (k) above cannot be waived. The Company may at any time waive any of the Conditions set out in paragraphs (d) to (i). If any of the Conditions are not satisfied or waived by the Long Stop Date, the Company or the Seller may, in its sole discretion, terminate the Share Purchase Agreement, provided that the right to terminate the Share Purchase Agreement shall not be available to any party whose action or failure to perform any obligation under the Share Purchase Agreement has been a principal cause of or resulted in the failure of any Condition to have been satisfied by the Long Stop Date.

As of the Latest Practicable Date, the conditions set out in paragraphs (e) and (g) above had been fulfilled.

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## LETTER FROM THE BOARD

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### *Guarantee*

Subject to the terms of the Share Purchase Agreement, the Guarantor agreed to guarantee the obligations of the Seller under the Share Purchase Agreement.

### *Closing*

Subject to the satisfaction or waiver (as the case may be) of all the Conditions, Closing is scheduled to take place on the tenth Business Day following notification of the satisfaction or waiver of the last of the Conditions to be satisfied or waived (other than Conditions which can only be satisfied on the date of Closing, but subject to the satisfaction or waiver of such Conditions) (or on such other date as may be agreed between the Company and the Seller). As at the Latest Practicable Date, no definitive Closing Date has been scheduled as the Conditions include the receipt of relevant regulatory approvals and the progress of such approvals is driven by the review process of the regulators. Based on the Company's assessment of the current progress, the Company expects that Closing may occur before the end of 2021.

Immediately after Closing, the Company will hold 100% of the issued share capital of Zung Fu China and Zung Fu China will become a subsidiary of the Company and its financial results will be consolidated with those of the Company.

## **II. Effect on the Shareholding Structure and Sufficiency of Public Float**

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the table below sets out a summary of the shareholding structure of the Company:

- (i) as at the Latest Practicable Date;
- (ii) immediately after the allotment and issue of the Consideration Shares (assuming, for illustrative purpose only, (a) the Share Portion to be US\$400 million (equivalent to approximately HK\$3,105 million) and on that basis, a total of 48,975,021 Consideration Shares will be issued to the Seller at the Issue Price; and (b) there is no other change in the shareholding structure of the Company before the allotment and issue of the Consideration Shares);
- (iii) immediately after the allotment and issue of the Consideration Shares (assuming, for illustrative purpose only, (a) the Share Portion to be US\$400 million (equivalent to approximately HK\$3,105 million) and on that basis, a total of 48,975,021 Consideration Shares will be issued to the Seller at the Issue Price; (b) there is no other change in the shareholding structure of the Company before the allotment and issue of the Consideration Shares; and (c) the full conversion of the 2025 Convertible Bonds into Shares at a conversion price of HK\$45.61 per Share);

## LETTER FROM THE BOARD

- (iv) immediately after the allotment and issue of the Consideration Shares (assuming, for illustrative purpose only, (a) the Share Portion to be the maximum of US\$1,016 million (equivalent to approximately HK\$7,883 million) and on that basis, a total of 124,349,347 Consideration Shares will be issued to the Seller at the Issue Price; and (b) there is no other change in the shareholding structure of the Company before the allotment and issue of the Consideration Shares); and
- (v) immediately after the allotment and issue of the Consideration Shares (assuming, for illustrative purpose only, (a) the Share Portion to be the maximum of US\$1,016 million (equivalent to approximately HK\$7,883 million) and on that basis, a total of 124,349,347 Consideration Shares will be issued to the Seller at the Issue Price; (b) there is no other change in the shareholding structure of the Company before the allotment and issue of the Consideration Shares; and (c) the full conversion of the 2025 Convertible Bonds into Shares at a conversion price of HK\$45.61 per Share):

Shareholders	(i) As at the Latest Practicable Date		(ii) Immediately after the allotment and issue of the Consideration Shares <sup>(7)</sup> assuming the Share Portion to be US\$400 million (equivalent to approximately HK\$3,105 million)		(iii) Immediately after allotment and issue of the Consideration Shares <sup>(7)</sup> assuming (i) the Share Portion to be US\$400 million (equivalent to approximately HK\$3,105 million); and (ii) the full conversion of the 2025 Convertible Bonds into Shares		(iv) Immediately after allotment and issue of the Consideration Shares <sup>(8)</sup> assuming the Share Portion to be the maximum of US\$1,016 million (equivalent to approximately HK\$7,883 million)		(v) Immediately after allotment and issue of the Consideration Shares <sup>(8)</sup> assuming (i) the Share Portion to be the maximum of US\$1,016 million (equivalent to approximately HK\$7,883 million); and (ii) the full conversion of the 2025 Convertible Bonds into Shares	
	Number of Shares	% of issued share capital of the Company	Number of Shares	% of issued share capital of the Company	Number of Shares	% of issued share capital of the Company	Number of Shares	% of issued share capital of the Company	Number of Shares	% of issued share capital of the Company
		(approximate)		(approximate)		(approximate)		(approximate)		(approximate)
Light Yield Ltd. <sup>(1)</sup>	152,678,504	6.46	152,678,504	6.33	152,678,504	6.08	152,678,504	6.14	152,678,504	5.90
Blue Natural Development Ltd. <sup>(2)</sup>	186,842,000	7.91	186,842,000	7.75	186,842,000	7.44	186,842,000	7.51	186,842,000	7.22
Mountain Bright Limited <sup>(3)</sup>	486,657,686	20.60	486,657,686	20.18	486,657,686	19.38	486,657,686	19.57	486,657,686	18.81
Vintage Star Limited <sup>(4)</sup>	486,657,686	20.60	486,657,686	20.18	486,657,686	19.38	486,657,686	19.57	486,657,686	18.81
Companies controlled by Mr. Huang Yi and/or Mr. Li Guoqiang	1,312,835,876	55.57	1,312,835,876	54.44	1,312,835,876	52.27	1,312,835,876	52.79	1,312,835,876	50.75
JSH <sup>(5)</sup>	453,412,844	19.19	453,412,844	18.80	453,412,844	18.05	453,412,844	18.23	453,412,844	17.53
Seller <sup>(5)(6)</sup>	—	—	48,975,021	2.03	48,975,021	1.95	124,349,347	5.00	124,349,347	4.81
Companies controlled by Jardine Matheson	453,412,844	19.19	502,387,865	20.83	502,387,865	20.00	577,762,191	23.23	577,762,191	22.33
Holders of the 2025 Convertible Bonds	—	—	—	—	99,978,074	3.98	—	—	99,978,074	3.86
Public Shareholders	596,388,871	25.24	596,388,871	24.73	596,388,871	23.75	596,388,871	23.98	596,388,871	23.05
<b>Total</b>	<b>2,362,637,591</b>	<b>100.00</b>	<b>2,411,612,612</b>	<b>100.00</b>	<b>2,511,590,686</b>	<b>100.00</b>	<b>2,486,986,938</b>	<b>100.00</b>	<b>2,586,965,012</b>	<b>100.00</b>

*Notes:*

- (1) Light Yield Ltd. is wholly-owned by Mr. Huang Yi, who is also the sole director of Light Yield Ltd.
- (2) Blue Natural Development Ltd. is owned by Light Yield Ltd. (62.3%) and Vest Sun Ltd. (37.7%). Mr. Huang Yi and Mr. Li Guoqiang (a Director and President of the Company) are directors of Blue Natural Development Ltd.

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## LETTER FROM THE BOARD

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- (3) Mountain Bright Limited is wholly-owned by UBS TC (Jersey) Ltd. as trustee of a trust settlement for Mr. Huang Yi (the settler of the trust) and his family.
- (4) Vintage Star Limited is wholly-owned by UBS TC (Jersey) Ltd. as trustee of a trust settlement for Mr. Li Guoqiang (the settler of the trust) and his family.
- (5) Each of JSH and the Seller is a subsidiary of Jardine Matheson Holdings Limited.
- (6) The Seller has the right to nominate another member of the Jardine Matheson Group to hold the Consideration Shares.
- (7) The actual number of Consideration Shares to be issued to the Seller (or to an Affiliate of the Seller as the Seller may direct) will depend on the final amount of the Share Portion. Solely for illustration purpose only, scenarios (ii) and (iii) as set out in the table assumes the Share Portion to be US\$400 million (equivalent to approximately HK\$3,105 million) and on that basis, a total of 48,975,021 Consideration Shares will be issued to the Seller at the Issue Price.
- (8) The actual number of Consideration Shares to be issued to the Seller (or to an Affiliate of the Seller as the Seller may direct) will depend on the final amount of the Share Portion. Given the maximum number of Consideration Shares that may be allotted and issued is expected to be no more than 124,349,347 (as further explained in the paragraph headed “Consideration and Payment Terms — Basis of the Consideration” in this circular), solely for illustration purpose only, scenarios (iv) and (v) as set out in the table assumes the Share Portion to be the maximum of US\$1,016 million (equivalent to approximately HK\$7,883 million) and on that basis, a total of 124,349,347 Consideration Shares will be issued to the Seller at the Issue Price.
- (9) The Company is subject to maintaining a minimum public float of 17.24% as agreed by the Stock Exchange pursuant to Rule 8.08(1)(a) of the Listing Rules. Please refer to the prospectus of the Company dated 16 March 2010 and the Company’s announcement dated 26 March 2010 for further details. It is expected that the Company will be able to maintain its public float following the allotment and issue of the Consideration Shares.

### III. Reasons for and Benefits of the Transaction

The Company currently holds a leading position in automobile distribution in the PRC, and is keen to capitalise on strategic opportunities to expand its business in the luxury passenger vehicle market. The Transaction is expected to significantly benefit the Company and the Shareholders for the following reasons:

***1. Uphold the Group’s “Brand + Region” strategy and reinforce the Group’s market position in the Mercedes-Benz brand in the PRC and achieve further economies of scale***

Zung Fu China began operations in the PRC in 1994 and has an established headquarters in Guangzhou. It is one of the largest Mercedes-Benz dealership networks in the PRC with a leading market share in terms of volume of new car sales in Southern and Western China. As a strategic partner of Mercedes-Benz, Zung Fu China covers the sale and aftersales services of Mercedes-Benz, AMG, Mercedes-Maybach, G- Class, EQ and Denza.

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## LETTER FROM THE BOARD

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The Acquisition demonstrates the Group’s “Brand + Region” strategy by expanding its core Mercedes-Benz brand sales network in higher-tier cities and their surrounding cities with future growth potential. Following the Acquisition, the Group will add to its portfolio new licensed brands and car dealerships, as well as 37 outlets in 18 cities across five provinces/municipals in the PRC, including Guangdong, Hunan, Sichuan, Chongqing and Guizhou, thereby reinforcing the Group’s market position in the PRC market for Mercedes-Benz dealerships.

The Acquisition will further reinforce the Group’s elite market position in the PRC by enhancing the Group’s presence in Southern and Western China, in 10 key cities/municipals including Guangzhou, Shenzhen, Dongguan, Foshan, Chongqing and Chengdu, and will also extend the Group’s Mercedes-Benz footprint to eight new cities/municipals. The enlarged market share will contribute to further economies of scale and increased profitability and return.

***2. Create significant revenue synergies and cost saving with complementary value chain capabilities and strong strategic-fit***

The Acquisition is expected to generate significant revenue upside from regional clusters and deeper auto finance, insurance, aftersales and used car penetrations. In addition, the Group is expected to generate cost synergies from savings on overlapping supporting functions in the back office. The Company is confident that the combination of the Company’s elite position in the PRC automobile dealership market, coupled with Zung Fu China’s resources and capabilities in the same sector will create a solid and powerful platform and achieve positive synergies for further expansion in the PRC market, enabling the Group to outperform in the future.

***3. Benefit from the healthy cash flows of mature stores as well as the growth potential of the infant and pipeline stores of Zung Fu China***

Zung Fu China has a well-balanced portfolio of mature and infant/pipeline dealerships. The majority of the mature dealerships has been operating for over 10 years, and are highly profitable and generate strong and steady streams of cash flow. As one of the top performing Mercedes-Benz dealership networks, Zung Fu China has recorded an industry leading return on sales in recent years, and will therefore further enhance the Group’s cash flow profile.

The infant and pipeline stores will provide future growth potential in new car sales, aftersales, and other segments. Zung Fu China currently has a strong pipeline of around ten planned outlets, which is expected to bring future sales growth in the coming years.

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## LETTER FROM THE BOARD

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#### ***4. Benefit from the stable operation environment from the self-owned properties of Zung Fu China***

Being one of the leading Mercedes-Benz dealerships in the PRC, Zung Fu China has 20 self-owned properties (excluding the property in Hong Kong discussed in the paragraph headed “Information of the Zung Fu China Group — Pre-Closing Reorganisation” in this circular) with a market value of approximately RMB1.7 billion as at 21 June 2021, as further described in the paragraph headed “Financial and Operational Information of Zung Fu China — Segment Information” in this circular. Following the Acquisition, given Zung Fu China will become a wholly-owned subsidiary of the Company, the fact that Zung Fu China is able to operate in a stable environment partly through such self-owned properties which are conveniently located in key PRC cities including Guangzhou, Dongguan, Zhuhai, Chongqing and Chengdu is highly attractive to the Company.

#### ***5. Integrating the PRC dealership operations of the Company and Jardine Matheson, and strengthen Jardine Matheson’s long-term commitment to the Company as our strategic investor***

The Transaction combines the Company’s and Jardine Matheson’s PRC dealership operations into one diverse and extensive platform, and firmly aligns the business interest, vision and strategy of the Company and Jardine Matheson. Jardine Matheson initially invested in the Company in 2014, and currently has two Board seats and approximately 19.19% shareholding in the Company. Through the Transaction, Jardine Matheson will further increase its shareholding and strengthen its long-term commitment and support to the Company.

Both companies shall ensure a smooth and responsible transition to sustain the high quality operations and provision of premium services to customers of Zung Fu China.

In light of the above, the Directors (excluding the independent non-executive Directors, whose views are set out in the letter from the Independent Board Committee included in this circular) consider that the Transaction is made on normal commercial terms, and that the terms of the Share Purchase Agreement are fair and reasonable and that entering into of the Share Purchase Agreement is in the best interest of the Company and the Shareholders as a whole.

#### **IV. Information of Parties**

##### ***Information on the Company***

The Company is a leading national automobile distribution group in the PRC principally engaged in providing one-stop services including sales of new and second-hand automobiles, after-sales, refitting, parts and accessories, financial, insurance and leasing services. It currently operates automobile brands, consisting of luxury automobile brands including Mercedes-Benz, Lexus, BMW and Audi and mid-to-high end automobile brands including Toyota, Nissan and Honda.

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## LETTER FROM THE BOARD

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### *Information on the Seller and Jardine Motors*

The Seller is a company incorporated in Hong Kong with limited liability and is principally engaged in investment holding.

Jardine Motors is a company incorporated in the British Virgin Islands with limited liability and, through its subsidiaries, is principally engaged in automotive businesses across China and the United Kingdom. The ultimate beneficial owner of the Seller and Jardine Motors is Jardine Matheson.

### V. Information of the Zung Fu China Group

#### *The Zung Fu China Group*

Zung Fu China is a company incorporated in Hong Kong with limited liability and is principally engaged in the motor sales and servicing business in the PRC. Zung Fu China began operations in the PRC in 1994, and has the largest dealership network of Mercedes-Benz in Southern and Western China. It has 37 outlets across five provinces/municipals in the PRC including Guangdong, Hunan, Sichuan, Chongqing and Guizhou, and 18 cities, with a leading market share in terms of volume of new car sales in Southern and Western China. As a strategic partner with Mercedes-Benz, the business of Zung Fu China covers the sale and aftersales services of Mercedes-Benz, AMG, Mercedes-Maybach and Denza and other car related businesses.

Zung Fu China is an indirect wholly-owned subsidiary of Jardine Matheson. Jardine Matheson is a diversified Asian-based business group with unsurpassed experience in the region. Its interests include Jardine Pacific, Jardine Motors, Hongkong Land, Dairy Farm, Mandarin Oriental, Jardine Cycle & Carriage and Astra. These companies are active in the fields of motor vehicles and related operations, property investment and development, food retailing, health & beauty, home furnishings, engineering and construction, transport services, restaurants, luxury hotels, financial services, heavy equipment, mining and agribusiness.

#### *Pre-Closing Reorganisation*

The Acquisition does not include the Seller's Mercedes-Benz dealership in Hong Kong and Macau carried out under the brand "Zung Fu". Following Closing, the Seller will continue its Mercedes-Benz dealership in Hong Kong and Macau. Prior to Closing, Zung Fu China will transfer a real property located in Hong Kong, which is unrelated to its PRC operations, to a subsidiary of Jardine Matheson (the "**Hong Kong Property Carve-Out**"). Based on the management accounts of Zung Fu China, as at 31 March 2021, such property had a carrying amount of HK\$574.0 million. As at 31 March 2021, Zung Fu China had an amount of HK\$615.5 million due to a related party, being the acquisition cost of the Hong Kong property to be disposed of which remained unpaid as at 31 March 2021. Such amount will be settled prior to Closing.

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**LETTER FROM THE BOARD**

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**VI. Financial and Operational Information of Zung Fu China**

*Historical Financials*

Based on information provided by the Seller, the table below sets out certain financial information of Zung Fu China for the years ended 31 December 2019 and 2020, as extracted from the audited financial statements of Zung Fu China for the respective year, and for the three months ended 31 March 2021, as extracted from the management accounts of Zung Fu China for such period:

	<b>For the year ended/ As at 31 December</b>		<b>For the three months ended/ As at 31 March</b>
	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i> <i>(unaudited)</i>
Revenue	19,735.0	21,624.4	6,307.2
Operating profit	852.5	965.3	327.2
Profit before tax	863.6	980.0	334.6
Profit after tax	710.3	719.4	249.0
Cash and bank balances	1,101.7	1,866.6	2,664.9
External interest-bearing debt	—	—	—
Total assets	8,526.0	8,970.2	9,466.4
Net asset value	4,306.6	5,339.2	5,560.0

*Excluded Items*

As discussed in the paragraph headed “Information of the Zung Fu China Group — Pre-Closing Reorganisation”, Zung Fu China will dispose of its real property in Hong Kong to a subsidiary of Jardine Matheson prior to Closing. In addition, Zung Fu China has been paying certain management fees to certain subsidiaries of Jardine Matheson for management consultancy services, and such payment will cease following Closing. Zung Fu China has also been paid certain service fees by a related party of the Seller for the provision of finance, legal, and IT services, and such payment will also cease following Closing.

In the Announcement, it was disclosed that the aggregate net amount charged to the operating profit of Zung Fu China for the years ended 31 December 2019 and 2020 and the three months ended 31 March 2021 related to (i) the real property in Hong Kong to be disposed of, (ii) the cost of the management consultancy functions to certain subsidiaries of Jardine Matheson and (iii) the service fees payment from the related party of the Seller to Zung Fu China (collectively, the “**Excluded Items**”) was HK\$12.7 million, HK\$47.2 million and HK\$19.4 million, respectively. Based on updated information provided by the Seller since the Announcement, such aggregate

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## LETTER FROM THE BOARD

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net amount charged to the operating profit of Zung Fu China for the years ended 31 December 2019 and 2020 and the three months ended 31 March 2021 related to the Excluded Items was HK\$30.7 million, HK\$64.7 million and HK\$19.4 million, respectively. Following Closing, it is expected that the Excluded Items will not have recurring impact on the operation and financial results of Zung Fu China.

### *Segment Information*

Based on information provided by the Seller, the table below sets out a breakdown of the revenue of Zung Fu China by segment for the years ended 31 December 2019 and 2020, based on the audited financial statements of Zung Fu China for the respective year, and for the three months ended 31 March 2021, based on the management accounts of Zung Fu China for such period, and selected operational data by segment for the same periods:

	<b>For the year ended 31 December</b>		<b>For the three months ended 31 March 2021</b>
	<b>2019</b>	<b>2020</b>	<b>(unaudited)</b>
Dealership store count ( <i>units</i> )	23	24	26
New car sales volume ( <i>units</i> )	40,473	44,312	12,056
New car sales revenue ( <i>RMB million</i> )	14,724.5	16,367.1	4,505.1
New car sales gross profit ( <i>RMB million</i> )	620.5	626.9	223.5
After-sales volume ( <i>units</i> )	377,398	387,137	106,935
After-sales & accessories revenue ( <i>RMB million</i> )	1,887.7	1,981.2	513.2
After-sales & accessories gross profit ( <i>RMB million</i> )	953.8	934.8	254.4
Net income from auto financing and insurance ( <i>RMB million</i> )	241.0	251.8	52.8

*Note:* The new car sales and after-sales segments include Mercedes-Benz passenger vehicles, commercial vehicles, and Denza.

Of Zung Fu China's existing 26 dealership stores as at 31 March 2021, 26 are authorised for Mercedes-Benz; 10 are authorised for CV; 17 are authorised for EQ; eight are authorised for Denza; seven are authorised for Mercedes-Maybach; five are authorised for AMG; and eight are authorised for G-Class. Further, Zung Fu China has a strong pipeline of around ten planned outlets, which is expected to bring future sales growth in the coming years.

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## LETTER FROM THE BOARD

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A valuation of the 20 real properties owned by Zung Fu China (excluding the property in Hong Kong discussed in the paragraph headed “Information of the Zung Fu China Group — Pre-Closing Reorganisation” in this circular) has been conducted by Cushman and Wakefield, an independent valuer. According to the valuation certificates, as of 21 June 2021, the total market value of such 20 properties was approximately RMB1.7 billion.

### **VII. Listing Rules Implication**

As at the Latest Practicable Date, JSH held 453,412,844 Shares, representing approximately 19.19% of the issued share capital the Company, and therefore is a substantial shareholder and a connected person of the Company. JSH is a wholly-owned subsidiary of Jardine Matheson. Given the Seller and Jardine Motors are subsidiaries of Jardine Matheson, each of the Seller and Jardine Motors is therefore an associate of JSH and a connected person of the Company. Accordingly, the Transaction constitutes a connected transaction of the Company under the Listing Rules, and is subject to the reporting, announcement, circular and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

None of the Directors had any material interest in the Transaction and thus no Director was required to abstain from voting on the Board resolutions approving the Share Purchase Agreement and the transactions contemplated thereunder. Nevertheless, Mr. David Alexander Newbigging and Mr. Hsu David, each being an executive director of Jardine Matheson, have voluntarily abstained from attending the meeting of the Board at which the relevant Board resolutions in relation to the Share Purchase Agreement and the related transactions were considered and voted on.

### **VIII. Independent Board Committee and Independent Financial Adviser**

The Independent Board Committee, comprising all independent non-executive Directors, has been established in compliance with Rule 14A.41 of the Listing Rules for the purpose of making a recommendation to the Independent Shareholders in respect of the Transaction.

Somerley Capital has been appointed as the Independent Financial Adviser of the Company to advise the Independent Board Committee and the Independent Shareholders on the terms of the Transaction.

### **THE EGM AND PROXY ARRANGEMENT**

The notice of the EGM is set out on pages 67 to 70 of this circular. At the EGM, an ordinary resolution will be proposed to approve the Share Purchase Agreement and the transactions contemplated thereunder (including the allotment and issue of the Consideration Shares pursuant to the Specific Mandate).

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## LETTER FROM THE BOARD

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Pursuant to the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the proposed resolution will be put to vote by way of poll at the EGM. An announcement on the poll vote results will be made by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.zs-group.com.cn](http://www.zs-group.com.cn)) respectively. In order to be valid, whether or not you are able to attend the EGM, please complete and sign the form of proxy in accordance with the instructions printed thereon and return it, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority, to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM (i.e., not later than 11:00 a.m. on Monday, 6 September 2021) or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish and, in such event, the form of proxy shall be deemed to be revoked.

As at the Latest Practicable Date, JSH held 453,412,844 Shares (representing approximately 19.19% of the issued share capital of the Company). JSH and its associates will be required to abstain from voting on the resolution in respect of the Transaction at the EGM. Save for the above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, other than JSH and its associates, no Shareholder has a material interest in the Transaction and no Shareholder is required to abstain from voting on the resolution to be proposed at the EGM.

### RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 25 to 26 of this circular which contains its recommendation to the Independent Shareholders in relation to the Share Purchase Agreement and the transactions contemplated thereunder (including the allotment and issue of the Consideration Shares pursuant to the Specific Mandate). Your attention is also drawn to the letter of advice from Somerley Capital set out on pages 27 to 61 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Share Purchase Agreement and the transactions contemplated thereunder (including the allotment and issue of the Consideration Shares pursuant to the Specific Mandate) and the principal factors and reasons considered by it in formulating its advice.

The Directors (including the independent non-executive Directors, whose views are set out in the letter from the Independent Board Committee included in this circular) consider that although the Acquisition is not in the ordinary and usual course of business of the Group, the terms of the Share Purchase Agreement are fair and reasonable, and the Acquisition is made on normal commercial terms after arm's length negotiation between the parties and in the interests of the Company and its Shareholders as a whole. Therefore, the Directors recommend that the Independent Shareholders should vote in favour of the

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## LETTER FROM THE BOARD

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ordinary resolution to approve the Share Purchase Agreement and the transactions contemplated thereunder (including the allotment and issue of the Consideration Shares pursuant to the Specific Mandate) at the EGM.

### OTHER INFORMATION

Your attention is drawn to other sections of and appendix to this circular.

Yours faithfully  
By order of the Board  
**Zhongsheng Group Holdings Limited**  
**HUANG Yi**  
*Chairman*



中升集團控股有限公司  
**Zhongsheng Group Holdings Limited**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock code: 881)**

20 August 2021

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF ZUNG FU CHINA  
INVOLVING ISSUE OF CONSIDERATION SHARES  
UNDER SPECIFIC MANDATE**

We refer to the circular issued by the Company to the Shareholders dated 20 August 2021 (the “**Circular**”) which this letter forms a part of. Terms defined in the Circular shall have the same meanings as those used in this letter unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to consider the Share Purchase Agreement and the transactions contemplated thereunder (including the allotment and issue of the Consideration Shares pursuant to the Specific Mandate) and to advise the Independent Shareholders in respect of the Share Purchase Agreement and the transactions contemplated thereunder (including the allotment and issue of the Consideration Shares pursuant to the Specific Mandate). Somerley Capital has been appointed as the Independent Financial Adviser in this regard.

We wish to draw your attention to the “Letter from the Board” and the “Letter from Somerley Capital” as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Somerley Capital as set out in their letter of advice, we consider that the Share Purchase Agreement, although is not conducted in the ordinary and usual course of business of the Company, is on normal commercial terms and the terms of which are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend that the Independent

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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Shareholders vote in favour of the relevant resolution approving the Share Purchase Agreement and the transactions contemplated thereunder (including the allotment and issue of the Consideration Shares pursuant to the Specific Mandate) at the EGM.

Yours faithfully

For and on behalf of the Independent Board Committee of  
**Zhongsheng Group Holdings Limited**

**Shen Jinjun**  
*Independent*  
*Non-Executive*

**Ying Wei**  
*Independent*  
*Non-Executive*

**Chin Siu Wa Alfred**  
*Independent*  
*Non-Executive*

**Li Yanwei**  
*Independent*  
*Non-Executive*

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## LETTER FROM SOMERLEY CAPITAL

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*The following is the text of a letter of advice from Somerley Capital Limited prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in connection with the Transaction.*



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

20 August 2021

*To: The independent board committee and the independent shareholders of Zhongsheng Group Holdings Limited*

Dear Sirs,

### **CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ZUNG FU CHINA INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Transaction. Details of the Transaction are set out in the letter from the Board contained in the circular of the Company (the “**Circular**”) to its Shareholders dated 20 August 2021, of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

On 1 July 2021, the Company entered into the Share Purchase Agreement with Fu Tung Holdings Limited as the Seller and Jardine Motors as the guarantor, pursuant to which the Seller has conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Shares, representing the entire issued share capital of Zung Fu China. The Consideration payable by the Company for the Acquisition is US\$1,300 million (the “**Base Consideration**”), subject to Closing Adjustments. On Closing, the Company will settle the Closing Consideration by paying the Seller US\$900 million, being the Cash Portion, in cash, with the balance of the Closing Consideration, being the Share Portion, to be settled by the issuance of the Consideration Shares at the Issue Price of HK\$63.3964 per Share.

As at the Latest Practicable Date, JSH held 453,412,844 Shares, representing approximately 19.19% of the issued share capital the Company, and therefore is a substantial shareholder and a connected person of the Company. JSH is a wholly-owned subsidiary of Jardine Matheson. Given that the Seller and Jardine Motors are subsidiaries of Jardine Matheson, each of the Seller and Jardine Motors is an associate of JSH and a connected person of the Company. Accordingly, the Transaction constitutes a connected

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## LETTER FROM SOMERLEY CAPITAL

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transaction of the Company under the Listing Rules, and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Shen Jinjun, Mr. Ying Wei, Mr. Chin Siu Wa Alfred and Mr. Li Yanwei, has been established in compliance with Rule 14A.41 of the Listing Rules for the purpose of making a recommendation to the Independent Shareholders in relation to the Transaction. We, Somerley Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not associated or connected with the Company, the Zung Fu China Group, JSH or their respective core connected persons or associates. In addition, save for our appointment as the Independent Financial Adviser as regards the Transaction, as at the Latest Practicable Date, we did not have any other relationship with the Company, the Zung Fu China Group, JSH or their respective core connected persons or associates that could reasonably be regarded as relevant to our independence nor has there been any other engagement between the Company and ourselves in the last two years. Accordingly, we are considered eligible to give independent advice on the Transaction. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Zung Fu China Group, JSH or their respective core connected persons or associates.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company (collectively, the "**Management**"), which we have assumed to be true, accurate and complete in all material respects. We have reviewed information on the Company and Zung Fu China, including but not limited to the annual reports of the Company for years ended 31 December 2019 ("**FY2019**") (the "**2019 Annual Report**") and 2020 ("**FY2020**") (the "**2020 Annual Report**"), the interim results of the Company for the six months ended 30 June 2021 ("**1H2021**") (the "**2021 Interim Results**") the Share Purchase Agreement, the audited financial statements of Zung Fu China for FY2019 and FY2020, the management accounts of Zung Fu China for the three months ended 31 March 2021, and the other information contained in the Circular. In addition, we have discussed such information with the Management and the financial adviser of the Company. We have researched eight comparable companies in our evaluation of the consideration payable and have reviewed the Comparable Share Issues (as defined below) during the period from 1 January 2021 up to and including the Latest Practicable Date in our assessment of the Issue Price. We have also reviewed market data in connection with the domestic retail sales of automobiles in the PRC to obtain an understanding of the recent trends of the industry.

We have relied on the information and facts supplied, and the opinions expressed, by the Group and have assumed, in relation to the information and facts, that they were true, accurate and complete in all material aspects and in relation to any opinions that they were honestly held at the time they were made and that this will remain the case in all material respects up to the date of the EGM. We have also sought and received confirmation from

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## LETTER FROM SOMERLEY CAPITAL

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the Company that all material relevant information related to the Transaction has been supplied to us and no material facts related to the Transaction have been omitted from the information supplied by them and that their opinions expressed to us are not misleading in any material respect. We have not encountered any “red flag” which would give us reason to believe that any material information has been omitted or withheld from us, or to doubt the truth, accuracy or completeness of the information provided.

We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and 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 to us. We have, however, not conducted any independent investigation into the business and affairs of the Group and Zung Fu China nor have we carried out any independent verification of the information supplied.

For the purpose of illustration only and unless otherwise stated, this letter contains certain translations at the exchange rate of US\$1.00 to HK\$7.7621 and RMB1.00 to HK\$1.20, which is the central parity rate of RMB to HK\$ as at the date of the Announcement according to the People’s Bank of China.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Transaction, we have considered the following principal factors and reasons:

#### 1. Information on the Group

##### *1.1 Principal business of the Group*

The Group is a leading national automobile distribution group in the PRC principally engaged in providing one-stop services including sales of new and second-hand automobiles and after-sales, refitting, parts and accessories, financial, insurance and leasing services. As at 30 June 2021, the Group operated 386 dealerships, of which 229 were luxury brand dealerships and 157 were mid-to-high-end brand dealerships, covering 24 provinces, municipalities and autonomous regions and over 90 cities in the PRC. The Group’s automobile portfolio covers luxury brands including Mercedes-Benz, Lexus, Audi, BMW, Volvo, Jaguar and Land Rover, as well as mid-to-high end brands including Toyota, Nissan and Honda. In terms of revenue from new automobile sales, Mercedes-Benz is the Group’s top selling brand, with revenue representing 29.7%, 29.3%, 29.4%, 30.8% and 31.7% of the Group’s total revenue from new automobile sales for the year ended 31 December 2018 (“FY2018”), FY2019, FY2020, six months ended 30 June 2020 (“1H2020”) and 1H2021 respectively.

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**LETTER FROM SOMERLEY CAPITAL**

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**1.2 Financial information of the Group**

Set out below is a summary of the Group's financial performance for FY2018, FY2019, FY2020, 1H2020 and 1H2021 (collectively, the "Period") as extracted from the 2019 Annual Report, the 2020 Annual Report and the 2021 Interim Results respectively:

	For the six months ended		For the year ended		
	30 June		31 December		
	2021	2020	2020	2019	2018
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>					
Sales of motor vehicles	76,058,985	49,787,697	128,102,934	106,199,132	93,221,612
After-sales services	<u>11,302,290</u>	<u>8,415,424</u>	<u>20,245,133</u>	<u>17,843,388</u>	<u>14,514,043</u>
	87,361,275	58,203,121	148,348,067	124,042,520	107,735,655
Gross Profit	8,462,874	5,409,644	13,481,708	11,487,646	9,923,130
Profit for the period/year attributable to owners of the parent	3,695,698	2,291,698	5,539,799	4,501,673	3,636,636
Basic earnings per share attributable to ordinary equity holders of the parent (RMB)	1.61	1.01	2.44	1.98	1.60

Revenue from sales of motor vehicles has been the main source of revenue of the Group, contributing over 80% of the Group's total revenue during the Period.

For FY2019, the Group reported revenue of approximately RMB124,042.5 million, representing an increase of approximately 15.1% from approximately RMB107,735.7 million for FY2018. The increase was mainly due to (i) the increase of new automobile sales volume; (ii) the increase in revenue from after-sales and accessories business; and (iii) the continued growth in the Group's value-added service segment, which includes car insurance, car finance and second-hand automobile sales. Despite the substantial impact of the COVID-19 pandemic at the beginning of 2020, the Group's businesses achieved rapid recovery and growth after the COVID-19 pandemic came under control in the PRC. Revenue of the Group further increased by around 19.6% to approximately RMB148,348.1 million for FY2020. As stated in the 2021 Interim Results, the Group achieved new automobile sales volume of 275,570 units in 1H2021, representing an increase of approximately 39.7% as compared to 1H2020. As a result, the Group reported revenue of approximately RMB87,361.3 million in 1H2021, representing an increase of approximately 50.1% from approximately RMB58,203.1 million for 1H2020.

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**LETTER FROM SOMERLEY CAPITAL**

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Gross profit of the Group increased from approximately RMB9,923.1 million for FY2018 to approximately RMB11,487.6 million for FY2019, and further increased to approximately RMB13,481.7 million for FY2020. For 1H2021, the Group reported gross profit of approximately RMB8,462.9 million, representing an increase of approximately 56.4% from approximately RMB5,409.6 million for 1H2020. The improvement in gross profit of the Group is in line with the increase in revenue of the Group. Gross profit margin of the Group remained relatively steady at approximately 9.2%, 9.3%, 9.1%, 9.3% and 9.7% for FY2018, FY2019, FY2020, 1H2020 and 1H2021 respectively.

Profit for the year attributable to owners of the parent increased from approximately RMB3,636.6 million for FY2018 to approximately RMB4,501.7 million for FY2019, then further increased to approximately RMB5,539.8 million for FY2020. For 1H2021, the Group reported profit for the period attributable to owners of the parent of approximately RMB3,695.7 million, representing an increase of approximately 61.3% from approximately RMB2,291.7 million for 1H2020. Such increase was primarily driven by the overall business growth in sale and service of motor vehicles. The profit margin was approximately 3.4%, 3.6%, 3.7%, 3.9% and 4.2% for FY2018, FY2019, FY2020, 1H2020 and 1H2021 respectively. The basic earnings per Share attributable to ordinary equity holders of the parent was approximately RMB1.60, RMB1.98, RMB2.44, RMB1.01 and RMB1.61 for FY2018, FY2019, FY2020, 1H2020 and 1H2021 respectively.

In our view, both revenue and profit of the Group has shown steady growth during a period of challenging operating conditions.

Set out below is a summary of the Group's financial position as at 31 December 2019, 31 December 2020 and 30 June 2021, as extracted from the 2020 Annual Report and the 2021 Interim Results respectively:

	<b>As at 30 June 2021</b>	<b>As at 31 December</b>	
	(unaudited)	<b>2020</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current Assets</b>			
Property, plant and equipment	15,212,030	14,373,357	12,361,556
Right-of-use assets	4,373,747	4,413,846	4,195,225
Land use rights	2,967,663	2,930,356	2,931,884
Intangible assets	6,613,632	6,620,175	6,217,559
Goodwill	5,427,559	4,972,459	4,640,137
Other non-current assets	<u>947,056</u>	<u>1,340,075</u>	<u>1,036,174</u>
	35,541,687	34,650,268	31,382,535

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**LETTER FROM SOMERLEY CAPITAL**

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	<b>As at 30 June 2021 (unaudited) RMB'000</b>	<b>As at 31 December 2020 (audited) RMB'000</b>	<b>2019 (audited) RMB'000</b>
<b>Current Assets</b>			
Inventories	8,677,881	9,090,091	9,828,486
Trade receivables	1,782,517	1,429,528	1,462,767
Prepayments, other receivables and other assets	12,221,819	13,363,026	11,645,669
Pledged bank deposits	712,803	1,425,880	1,341,025
Cash and cash equivalents	10,481,365	8,210,363	6,101,176
Other current assets	<u>498,693</u>	<u>331,863</u>	<u>1,262,624</u>
	34,375,078	33,850,751	31,641,747
<b>Current Liabilities</b>			
Bank loans and other borrowings	13,196,359	16,980,126	17,089,711
Trade and bills payable	3,491,681	4,980,288	4,875,067
Other payables and accruals	3,977,444	4,215,624	3,223,610
Other current liabilities	<u>3,571,985</u>	<u>2,298,044</u>	<u>1,958,441</u>
	24,237,469	28,474,082	27,146,829
<b>Net current assets</b>	10,137,609	5,376,669	4,494,918
<b>Non-current Liabilities</b>			
Convertible bonds	3,893,320	4,827,223	4,293,929
Lease liabilities	3,863,339	3,847,101	3,564,989
Bank loans and other borrowings	5,047,625	2,351,234	3,924,341
Deferred tax liabilities	<u>2,147,705</u>	<u>2,119,632</u>	<u>1,917,525</u>
	14,951,989	13,145,190	13,700,784
<b>Net Assets</b>	30,727,307	26,881,747	22,176,669
<b>Total Equity</b>			
Net asset value (“NAV”) attributable to owners of the parent	30,328,590	26,462,900	21,758,553
Non-controlling interests	<u>398,717</u>	<u>418,847</u>	<u>418,116</u>
	30,727,307	26,881,747	22,176,669
NAV per Share (RMB) <i>(note)</i>	13.10	11.60	9.58

*Notes:* NAV per Share of the Company is calculated based on NAV divided by the number of issued Share as at the respective year end.

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## LETTER FROM SOMERLEY CAPITAL

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Non-current assets of the Group as at 30 June 2021, 31 December 2020 and 2019 mainly comprised, among other things, property, plant and equipment, right-of-use assets, land use rights, intangible assets and goodwill. Total non-current assets increased from approximately RMB31,382.5 million as at 31 December 2019 to approximately RMB34,650.3 million as at 31 December 2020. The increment represented a growth of approximately 10.4% which was mainly due to the increase in property, plant and equipment by approximately RMB2,011.8 million as at 31 December 2020. As set out in 2020 Annual Report, such increase was mainly contributed by (i) additions to motor vehicles and (ii) acquisition of companies which are engaged in the motor vehicle sales and service business in PRC. As at 30 June 2021, the balance of non-current assets remained stable at approximately RMB35,541.7 million, representing a growth of approximately 2.57% as compared with the balance as at 31 December 2020.

Current assets of the Group as at 30 June 2021, 31 December 2020 and 31 December 2019 mainly comprised, among other things, inventories, trade receivables, prepayments, other receivables and other assets, pledged bank deposits, and cash and cash equivalents. Prepayments, other receivables and other assets increased from approximately RMB11,645.7 million as at 31 December 2019 to approximately RMB13,363.0 million as at 31 December 2020, and decreased to approximately RMB12,221.8 million as at 30 June 2021. It mainly comprised of prepayments and deposits to suppliers and rebate receivables. For rebate receivables, they are volume-based rebates offered by automakers which are decided with reference to the units of new automobiles purchased by the Group and adjusted based on the satisfaction of certain targets set by the relevant automakers. The balance of rebate receivables as at 31 December 2020 amounted to approximately RMB5,981.7 million, representing an increase of approximately 7.4% as compared with the balance as at 31 December 2019 of approximately RMB5,568.7 million. Cash and cash equivalent of the Group increased from approximately RMB6,101.2 million as at 31 December 2019 to approximately RMB8,210.4 million as at 31 December 2020, and further increased to approximately RMB10,481.4 million, mainly as a result of the substantial cash generated from operating activities.

The current portion of the bank loans and other borrowings, representing majority of the current liabilities, decreased from approximately RMB17,089.7 million as at 31 December 2019 to approximately RMB16,980.1 million as at 31 December 2020, and further decreased to approximately RMB13,196.4 million as at 30 June 2021. As set out in the 2020 Annual Report and the 2021 Interim Results, such decrease was primarily due to the repayment of the loan and other borrowings, benefiting from the substantial cash generated from operating activities.

Non-current liabilities of the Group as at 30 June 2021, 31 December 2020 and 31 December 2019 mainly comprised, among other things, convertible bonds, lease liabilities and bank loans and other borrowings. The balance of convertible bonds as at 31 December 2020 amounted to approximately RMB4,827.2 million,

representing an increase of approximately 12.4% as compared with the balance as at 31 December 2019 of approximately RMB4,293.9 million. This was mainly attributable to the combined effect of (i) the issuance of the zero coupon convertible bonds with a principal amount of HK\$4,560 million in FY2020 and (ii) the redemption of convertible bonds that were issued in 2018 with a principal amount of HK\$4,700 million. The balance of convertible bonds as at 30 June 2021 amounted to approximately RMB3,893.3 million, representing an decrease of approximately 19.3% as compared with the balance as at 31 December 2020, which was mainly due to the completion of the early redemption of all outstanding convertible bonds that had been issued in 2018. The non-current portion of the bank loans and other borrowings decreased from approximately RMB3,924.3 million as at 31 December 2019 to approximately RMB2,351.2 million as at 31 December 2020, and increased to RMB5,047.6 million as at 30 June 2021.

The net gearing ratio of the Group, which was measured by net debt (i.e. bank loans and other borrowings, lease liabilities, other liabilities, convertible bonds, amounts due to related parties, trade, bills and other payables and accruals, less cash and cash equivalents, cash in transit and pledged bank deposits) divided by the sum of total equity and net debt, decreased from approximately 57.3% as at 31 December 2019 to approximately 50.9% as at 31 December 2020, and further decreased to approximately 42.0% as at 30 June 2021, mainly attributable to (i) the increase in cash and cash equivalent; and (ii) the repayment of bank borrowings during FY2020 and 1H2021 which reduced the outstanding bank loans and borrowing as at 31 December 2020 and 30 June 2021.

NAV attributable to owners of the parent increased by around 21.6% to approximately RMB26,462.9 million as at 31 December 2020 from approximately RMB21,758.6 million as at 31 December 2019, and further increased by around 14.6% to approximately RMB30,328.6 million as at 30 June 2021. NAV per Share attributable to owners of the parent, based on the total Shares in issue as at the respective year end date, was approximately RMB13.10 (equivalent to approximately HK\$15.72) as at 30 June 2021, approximately RMB11.60 (equivalent to approximately HK\$13.92) as at 31 December 2020 and approximately RMB9.58 (equivalent to approximately HK\$11.50) as at 31 December 2019.

In our view, based on the above analysis, the Group has financed its growth prudently and retained a satisfactory financial position.

## **2. Information on the Zung Fu China Group and its Businesses**

### ***2.1 Principal business of Zung Fu China***

As disclosed in the letter from the Board contained in the Circular, Zung Fu China is a company incorporated in Hong Kong with limited liability principally engaged in the motor sales and servicing business in the PRC. Zung Fu China began operations in the PRC in 1994, and has the largest dealership network of Mercedes-Benz in Southern and Western China. It has 37 outlets across five

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## LETTER FROM SOMERLEY CAPITAL

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provinces/municipal in the PRC including Guangdong, Hunan, Sichuan, Chongqing and Guizhou, and 18 cities, with a leading market share in terms of volume of Mercedes-Benz new car sales in Southern and Western China. As a strategic partner with Mercedes-Benz, the business of Zung Fu China covers the sale and aftersales services of Mercedes-Benz, AMG, Mercedes-Maybach and Denza and other car related businesses.

For clarification, the Acquisition does not include the Seller's Mercedes-Benz dealership in Hong Kong and Macau carried out under the brand "Zung Fu". Following Closing, the Seller will continue its Mercedes-Benz dealership in Hong Kong and Macau.

### 2.2 *Financial information of the Zung Fu China Group*

#### *(a) Financial performance*

Set out below is the summary of the financial results of the Zung Fu China Group for FY2019 and FY2020, as extracted from the audited financial statements of the Zung Fu China Group for the respective years, and for the three months ended 31 March 2021 ("1Q2021"), as extracted from the management accounts of the Zung Fu China Group for such period, which were prepared in accordance with the HKFRS.

	<b>For the three months ended 31 March 2021</b> (unaudited) <i>HK\$ million</i>	<b>For the year ended 31 December 2020</b> (audited) <i>HK\$ million</i>	<b>2019</b> (audited) <i>HK\$ million</i>
Revenue	6,307.2	21,624.4	19,735.0
Operating profit	327.2	965.3	852.5
Profit before tax	334.6	980.0	863.6
Profit after tax	249.0	719.4	710.3

As set out in the Circular, income derived from the new car sales has been the main source of revenue of the Zung Fu China Group, accounting for over 70.0% of the revenue for FY2019, FY2020 and 1Q2021.

The revenue of the Zung Fu China Group increased from approximately HK\$19,735.0 million for FY2019 to approximately HK\$21,624.4 million for FY2020, representing an increase of approximately 9.6%. Such increase was mainly attributable to the increase in new car sales from 40,473 units in FY2019 to 44,312 units in FY2020. Accordingly, the operating profit of the Zung Fu China Group also increased from approximately HK\$852.5 million for FY2019 to approximately HK\$965.3 million for FY2020, representing a growth of around 13.2%. The profit margin was approximately 3.6% and 3.3% for FY2019 and FY2020 respectively.

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**LETTER FROM SOMERLEY CAPITAL**

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For 1Q2021, the Zung Fu China Group recorded revenue of approximately HK\$6,307.2 million. As advised by the Management, the Zung Fu China Group's revenue for 1Q2021 represented a significant growth as compared to that in the same period in 2020. Such growth in revenue was mainly contributed by (i) the economic rebound in the PRC after the COVID-19 pandemic came under control; (ii) the increase in number of dealership stores in the PRC in 1Q2021, which led to new car sales reaching 12,056 units during 1Q2021; and (iii) the increase in the unit price of new cars.

As mentioned in the letter from the Board contained in the Circular, Zung Fu China will dispose of its property in Hong Kong, which is unrelated to its PRC operations, to a subsidiary of Jardine Matheson prior to Closing. In addition, Zung Fu China has been paying certain management fees to subsidiaries of Jardine Matheson for management consultancy services, such payments will cease following Closing. Zung Fu China has also been paid certain service fees by a related party of the Seller for the provision of finance, legal, and IT services, and such payment will also cease following Closing. Based on updated information provided by the Seller, the aggregate net amount charged to the operating profit of Zung Fu China for FY2019, FY2020 and 1Q2021 related to the (i) the property in Hong Kong to be disposed of, (ii) the cost of the management consultancy functions to certain subsidiaries of Jardine Matheson and (iii) the service fees payment from the related party of the Seller to Zung Fu China (collectively, the “**Excluded Items**”) was HK\$30.7 million, HK\$64.7 million and HK\$19.4 million, respectively. Following Closing, it is expected that the Excluded Items will no longer apply to the operation and financial results of Zung Fu China.

*(b) Financial position*

Set out below is the summary of financial positions of the Zung Fu China Group as at 31 December 2019 and 2020, as extracted from the audited financial statements of the Zung Fu China Group for the respective years, and as at 31 March 2021, as extracted from the management accounts of the Zung Fu China Group which were prepared in accordance with the HKFRS.

	<b>As at 31 March 2021</b>	<b>As at 31 December</b>	
	(unaudited)	<b>2020</b>	<b>2019</b>
	<i>HK\$ million</i>	(audited)	(audited)
		<i>HK\$ million</i>	<i>HK\$ million</i>
Cash and bank balances	2,664.9	1,866.6	1,101.7
Total assets	9,466.4	8,970.2	8,526.0
Net assets	5,560.0	5,339.2	4,306.6

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## LETTER FROM SOMERLEY CAPITAL

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Reflecting strong financial performances, the cash and bank balance of the Zung Fu China Group increased by around 69.4% from approximately HK\$1,101.7 million as at 31 December 2019 to approximately HK\$1,866.6 million as at 31 December 2020, and further increased by around 42.8% to approximately HK\$2,664.9 million as at 31 March 2021. As at the Latest Practicable Date, the Zung Fu China Group did not have any external interest-bearing debt.

The current assets of the Zung Fu China Group mainly comprised inventories, and cash and bank balance, while the non-current assets of the Zung Fu China Group mainly comprised right-of-use assets, tangible fixed assets (comprising buildings on leasehold land, leasehold improvements, plant and machinery, furniture, equipment and motor vehicles) and investment property. The balance of total assets of the Zung Fu China Group increased from approximately HK\$8,526.0 million as at 31 December 2019 to approximately HK\$8,970.2 million as at 31 December 2020, then further increased by around 5.5% to HK\$9,466.4 million as at 31 March 2021. The increases in the total assets were mainly due to the increase in cash and bank balances and the acquisition of right-of-use assets in relation to leasehold land and properties during the year/period.

Based on the management accounts of the Zung Fu China as at 31 March 2021, the property in Hong Kong to be transferred to a subsidiary of Jardine Matheson had a carrying value of HK\$574.0 million. As at 31 March 2021, the Zung Fu China Group had an amount of HK\$615.5 million due to a related party, being the acquisition cost of the Hong Kong property to be disposed of, which remained unpaid as at 31 March 2021. Such amount will be settled prior to Closing.

The net assets of the Zung Fu China Group increased by approximately HK\$1,032.6 million or 24.0% from approximately HK\$4,306.6 million as at 31 December 2019 to HK\$5,339.2 million as at 31 December 2020, then further increased to approximately HK\$5,560.0 million as at 31 March 2021. Such increase were mainly attributable to (i) the net profit during FY2020 and 1Q2021; and (ii) the appreciation of RMB against HKD during FY2020 and 1Q2021.

### **3. Reasons for and benefits of the Share Purchase Agreement**

As discussed under the paragraph “1.1 Principal business of the Group” above, Mercedes-Benz is the Group’s top selling brand, accounting for nearly 30% of the Group’s revenue from new automobile sales in the last three financial years. Zung Fu China is one of the largest Mercedes-Benz dealership networks in the PRC with a leading market share in terms of volume of Mercedes-Benz sales in Southern and Western China. As a strategic partner of Mercedes-Benz, Zung Fu China covers the sale and aftersales services of Mercedes-Benz, AMG, Mercedes-Maybach, G-Class, EQ and Denza. As discussed in the letter from the Board contained in the Circular, the

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Acquisition is in line with the Group's "Brand + Region" strategy by expanding its core Mercedes-Benz brand sales network in higher-tier cities and their surrounding cities with future growth potential. Following the Acquisition, the Group will add to its portfolio new licensed brands and car dealerships, as well as 37 outlets in 18 cities, reinforcing the Group's market position in the PRC market for Mercedes-Benz dealerships. The Acquisition will further reinforce the Group's elite market position in the PRC by enhancing the Group's presence in Southern and Western China, in 10 key cities/municipals including Guangzhou, Shenzhen, Dongguan, Foshan, Chongqing and Chengdu, and will also extend the Group's Mercedes-Benz footprint to eight new cities/municipals.

Through the Acquisition, the Company can integrate the wide sales network, client base and supporting infrastructure that has been established by the Zung Fu China Group in the PRC. The Company is of the view that by this means the Acquisition should generate significant revenue upside from regional clusters and deeper penetration into auto finance, insurance, aftersales services and used car. In addition, the Group is expected to generate cost savings on overlapping back office functions. Accordingly, the Company is confident that the combination of the Company's elite position in the PRC automobile dealership market, coupled with Zung Fu China's resources and capabilities in the same sector, will create a solid and powerful platform and achieve positive synergies for further expansion in the PRC market.

As set out in the Circular, Zung Fu China has a well-balanced portfolio of mature and infant/pipeline dealerships. The majority of the mature dealerships have been operating for over 10 years, and are highly profitable and generate strong and steady streams of cash flow. As mentioned in paragraph "2.2 Financial information of the Zung Fu China Group" above, the Zung Fu China Group achieved a revenue growth of around 9.6% for FY2020, and a significant improvement of revenue in 1Q2021 as compared to the same period in 2020. Despite the pandemic outbreak, the Zung Fu China Group maintained a stable level of profit after tax for FY2020. In addition to mature dealerships, a strong pipeline of around ten planned outlets of the Zung Fu China Group will provide future sales growth potential in the coming years.

In addition, Zung Fu China has 20 self-owned properties (excluding the property in Hong Kong) with an appraised market value of approximately RMB1.7 billion as at 21 June 2021 based on the valuation conducted by Cushman and Wakefield. Zung Fu China is able to operate in a stable environment partly through such self-owned properties which are conveniently located in key PRC cities including Guangzhou, Dongguan, Zhuhai, Chongqing and Chengdu. Through the issue of the Consideration Shares, Jardine Matheson will increase its shareholding and strengthen its commitment to the Company.

We have also reviewed market data in connection with the domestic retail sales of automobiles in the PRC to obtain an understanding of the recent trends of the industry. Based on the statistics released by the National Bureau of Statistics of the PRC, domestic retail sales of automobiles in the PRC have slightly increased from

approximately RMB3,938.9 billion in 2019 to approximately RMB3,941.4 billion 2020, held back by the adverse impact of COVID-19 pandemic as sales activities were limited in early 2020. Following the decreasing number of new infection cases in the PRC, market activities picked up pace gradually since the second quarter of 2020. For the six months ended 30 June 2021, domestic retails sales of automobile in the PRC reached approximately RMB2,190.7 billion, representing a substantial growth of approximately 33.7% compared to approximately RMB1,638.8 billion in the same period in 2020. Based on statistics released by the National Bureau of Statistics of the PRC, the nominal GDP in the PRC has shown improvement in 2020 and the first half of year 2021, with a growth rate of approximately 2.9% and 17.0% compared to 2019 and the first half of year 2020. Along with the post-pandemic economic recovery, proactive fiscal policy and the lower interest environment in the PRC are expected to continue in near term to encourage market consumption, which is expected to bring benefit to the motor sales and servicing business.

In light of the aforesaid, we concur with the Company that the Acquisition is aligned with the Group's strategic goal of "Brand + Region" and will assist in expanding its network coverage in the key regions of top-tier cities in the PRC.

#### **4. Principal terms of the Share Purchase Agreement**

##### ***4.1 100% of Zung Fu China to be acquired***

Pursuant to the Share Purchase Agreement, the Seller has conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Shares, representing the entire issued share capital of Zung Fu China.

##### ***4.2 Consideration***

Pursuant to the Share Purchase Agreement, the Base Consideration payable by the Company for the Acquisition is US\$1,300 million (equivalent to approximately HK\$10,090.7 million), to be adjusted by the closing adjustment as follows:

- (a) by adding an amount equal to the cash balance of the Zung Fu China Group as at the Closing Date (the "**Cash Adjustment**");
- (b) by deducting an amount equal to the amount of debt of the Zung Fu China Group outstanding as at the Closing Date; and
- (c) by adding or deducting (as the case may be) an amount equal to the difference between the amounts of the agreed level of working capital and the actual working capital of the Zung Fu China Group as at the Closing Date (the "**Working Capital Adjustment**"),

(collectively, the "**Closing Adjustments**").

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For the purposes of the settlement of the Consideration on the Closing Date, the Company and the Seller will agree an estimated amount of the Closing Adjustments based on an amount provided by the Seller at least five business days prior to the Closing Date. As at the Latest Practicable Date, the Seller had not provided any estimated amount of the Closing Adjustments. On the Closing Date, the Company will settle the Base Consideration as adjusted by such estimated Closing Adjustments (such amount being referred to as the “**Closing Consideration**”).

### **4.3 Payment terms**

On the Closing Date, the Company will satisfy the Closing Consideration as follows:

- (a) the Company will pay to the Seller in cash US\$900 million (equivalent to approximately HK\$6,985.9 million), being the Cash Portion. The Company will deduct from the Cash Portion (i) the Seller’s share of Hong Kong stamp duty payable in connection with the sale and purchase of the Sale Shares, and (ii) the Escrow Amount representing 10% of the Closing Consideration (such amount to be deposited by the Company with an escrow agent on the Closing Date until evidence of determination of the PRC tax payable by the Seller arising from the sale of the Sale Shares has been provided to the Company); and
- (b) the Company will allot and issue to the Seller (or to an Affiliate of the Seller as the Seller may direct) such number of Consideration Shares at the Issue Price of HK\$63.3964 per Share representing the Share Portion provided that the maximum number of Consideration Shares that may be allotted and issued will be such that the aggregate number of Consideration Shares and the Shares held by the Seller and persons acting in concert (as such term is defined in the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs (the “**Takeovers Code**”)) with it, either directly or indirectly, as at the Closing Date will not be 30% or more of the total issued shares of the Company. The Share Portion shall be an amount equal to the difference between the Closing Consideration and the Cash Portion.

Accordingly, as at the Latest Practicable Date, the amount of the Share Portion was yet to be determined and will depend on the final amount of the Closing Consideration.

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Following the Closing Date, the final amounts of the Closing Adjustments and the Consideration will be determined in accordance with the terms of the Share Purchase Agreement, and any difference between the Consideration and the Closing Consideration (the “**Final Cash Adjustment**”) will be settled as follows:

- (a) if the Consideration is greater than the Closing Consideration by US\$500,000 or more, the Company shall pay the Seller an amount in cash equal to the difference;
- (b) if the Consideration is less than the Closing Consideration by US\$500,000 or more, the Seller shall pay the Company an amount in cash equal to the difference; and
- (c) if the difference between the Consideration and the Closing Consideration is less than US\$500,000, the final consideration for the Transaction payable by the Company to the Seller shall be the Closing Consideration and no adjustment payment is payable by either the Company or the Seller to the other party.

The Group intends to fund the Cash Portion of the Closing Consideration and any further cash payment required to be made by the Group following the determination of the Closing Adjustments by internal resources of the Group, bank financing and may apply part of the proceeds from the Subscription towards such payables. We note that the Company has published the Subscription Announcement where the Company has issued an aggregate of 47,253,000 new Shares to two subscribers under the Company’s general mandate at the same issue price (i.e. HK\$63.3964 per Share) as the Consideration Shares agreed to be issued by the Company pursuant to the Share Purchase Agreement. The net proceeds are approximately HK\$2,995.48 million and the Company intends to utilise such net proceeds for general corporate purposes and may apply part of the proceeds towards the satisfaction of the consideration payable for the Acquisition.

As mentioned in the letter from the Board contained in the Circular, the Company has obtained a syndicated unsecured loan facility of US\$800 million from certain authorised institutions (as defined under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) in Hong Kong for the primary purpose of financing the Acquisition. The interest rate of the loan facility is up to 0.8% per annum plus LIBOR. The loan facility is for a duration of 364 days from the drawdown date. As of the Latest Practicable Date, the Company had not made any drawdown under such loan facility.

We note from the management accounts of the Zung Fu China Group that there is a certain cash and bank balances as at 31 March 2021, while the Zung Fu China Group did not have any debts and bank borrowings as at 31 March 2021. In accordance with the Share Purchase Agreement, for the purpose of the Working Capital Adjustment, the actual working capital of the Zung Fu China Group is based on the working capital assets (including debtors, prepayment, and inventories) less the working capital liabilities (including creditors and accruals),

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and the base working capital is agreed as US\$155 million (equivalent to approximately HK\$1,203.1 million). Based on the management accounts of the Zung Fu China Group, the Cash Adjustment is expected to be the key variable determining the amount of the Closing Adjustments. Nevertheless, as the financial position of the Zung Fu China Group (including cash and bank balances) is still subject to changes before Closing, the Shareholders are reminded that the final amount of the Closing Adjustments will be determined based on the financial position of the Zung Fu China Group as of the Closing Date pursuant to the terms of the Share Purchase Agreement.

#### *4.4 The Consideration Shares*

The actual number of Consideration Shares to be issued to the Seller (or to an Affiliate of the Seller as the Seller may direct) will depend on the final amount of the Share Portion as described in the paragraph “4.3 Payment terms” above.

For illustration purpose only, assuming a Share Portion in the amount of US\$400 million (equivalent to approximately HK\$3,105 million), a total of 48,975,021 Consideration Shares will be issued at the Issue Price of HK\$63.3964 per Share. Such 48,975,021 Consideration Shares represent:

- (a) approximately 2.07% of the issued share capital of the Company as at the Latest Practicable Date, and
- (b) approximately 2.03% the issued share capital of the Company as enlarged by the issue and allotment of such number of Consideration Shares (assuming there will be no change in the total number of Shares in issue between the Latest Practicable Date and the issue and allotment of the Consideration Shares).

The final amount of the Share Portion and the actual number of Consideration Shares to be issued by the Company shall be determined based on the Closing Consideration which is not available yet as at the Latest Practicable Date (as further explained in the paragraph headed “4.3 Payment Terms” above). As discussed in the paragraph headed “4.3 Payment Terms” above, it is expected that the Cash Adjustment will be the key variable determining the amount of the Closing Adjustments and accordingly the final amount of the Share Portion and the actual number of Consideration Shares. As disclosed in the letter from the Board contained in the Circular, Zung Fu China has distributed approximately US\$300 million (approximately HK\$2,329 million) of its cash and bank balances as dividends following the signing of the Share Purchase Agreement, and has intentions to distribute further of its cash and bank balances as dividends based on information provided by the Seller as of the Latest Practicable Date. Accordingly, based on the financial and operational information of Zung Fu China made available by the Seller to the Company and to the best of the Company’s estimation for the Shareholders’ reference only, the amount of the Base Consideration may be subject to an upward adjustment of up to 10% of the Base Consideration which provides for a Closing Consideration

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of US\$1,430 million (approximately HK\$11,100 million) and a Share Portion of US\$530 million (approximately HK\$4,114 million). On such basis, up to 64,891,902 new Shares are expected to be issued by the Company to the Seller (or to an affiliate of the Seller as the Seller may direct), which represent:

- (a) approximately 2.75% of the issued share capital of the Company as at the Latest Practicable Date; and
- (b) approximately 2.67% of the issued share capital of the Company as enlarged by the issue and allotment of such number of Consideration Shares (assuming there will be no change in the total number of Shares in issue between the Latest Practicable Date and the issue and allotment of the Consideration Shares).

Nonetheless, the financial position of the Zung Fu China Group (including cash and bank balances) is still subject to changes before Closing, the Shareholders are reminded that the actual number of Consideration Shares which depends on the estimated amount of the Closing Adjustments to be agreed between the Company and the Seller, will be determined based on the financial position of the Zung Fu China Group prior to the Closing Date pursuant to the terms of the Share Purchase Agreement. Given the Company expects that Closing may not occur until the end of 2021 as further explained in the paragraph headed “4.9 Closing” below and that the Company expects Zung Fu China to continue to perform strongly financially in 2021 as demonstrated by the trend in the historical financials of Zung Fu China illustrated in the paragraph headed “2.2 Financial information of the Zung Fu China Group” above, the Company estimates that the cash and bank balances of Zung Fu China may still be subject to a reasonable positive increase in 2021. On the basis of such estimation by the Company for the Shareholders’ reference only, it is expected that the Share Portion will in any event not be larger than approximately 5.00% of the issued share capital of the Company as enlarged by the issue and allotment of such number of Consideration Shares (assuming there will be no change in the total number of Shares in issue between the Latest Practicable Date and the issue and allotment of the Consideration Shares). On such basis, the Company expects that the Closing Consideration shall not exceed US\$1,916 million (equivalent to approximately HK\$14,872 million) and the final amount of the Share Portion shall not exceed US\$1,016 million (equivalent to approximately HK\$7,883 million). Accordingly, the actual number of Consideration Shares to be issued by the Company to the Seller (or to an affiliate of the Seller as the Seller may direct) shall not exceed 124,349,347 Shares. Such maximum number of new Shares expected to be issued by the Company represents:

- (a) approximately 5.26% of the issued share capital of the Company as at the Latest Practicable Date; and

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- (b) approximately 5.00% of the issued share capital of the Company as enlarged by the issue and allotment of such number of Consideration Shares (assuming there will be no change in the total number of Shares in issue between the Latest Practicable Date and the issue and allotment of the Consideration Shares).

Once an estimated amount of the Closing Adjustments is agreed between the Company and the Seller prior to the Closing Date, the Company shall issue an announcement disclosing (i) the estimated amount of the Closing Adjustments as agreed between the Company and the Seller; (ii) the actual amount of the Closing Consideration; and (iii) the final amount of the Share Portion and the actual number of Consideration Shares to be issued by the Company on the Closing Date.

The Consideration Shares will be allotted and issued under the Specific Mandate to be sought at the EGM. The Consideration Shares, when allotted and issued, will be credited as fully paid and free from all encumbrances; and will rank *pari passu* in all respects among themselves and with all the Shares then in issue. In the event that the actual number of Consideration Shares that is required to be issued to the Seller (or to an Affiliate of the Seller as the Seller may direct) based on the Closing Consideration exceeds 124,349,347 Shares, the Company will convene another extraordinary general meeting and seek further approval from the Shareholders for the number of Consideration Shares that exceeds 124,349,347 Shares in accordance with the relevant requirements under the Listing Rules.

#### ***4.5 Lock-up undertaking by the Seller in respect of the Consideration Shares***

Pursuant to the Share Purchase Agreement, the Seller has undertaken that it will not, and will procure that none of its nominees and Affiliates will, without the prior written consent of the Company, (i) offer, sell, contract to sell, pledge, grant any option over or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) of) by the Seller or any its Affiliates, directly or indirectly, any of the Consideration Shares or any securities convertible into, or exercisable, or exchangeable for, any of the Consideration Shares, (ii) enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of the Consideration Shares, whether any such transaction described in (i) or (ii) above is to be settled by delivery of Consideration Shares or such other securities, in cash or otherwise, or (iii) publicly announce an intention to effect any such transaction, during a period of 18 months after the Closing Date (the “**Lock-up Period**”).

#### ***4.6 Lock-up undertaking by the Company in respect of Zung Fu China Group***

In accordance with the Share Purchase Agreement, the Company has undertaken that it will not, and will procure that none of its nominees and Affiliates will, without the prior written consent of the Seller, offer, sell, contract

to sell, pledge, grant any option over or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) of) by the Company or any its Affiliates, directly or indirectly, any members of the Zung Fu China Group during the Lock-up Period except for granting encumbrances for the purpose of financing.

**4.7 *Conditions precedent***

Closing is conditional upon the satisfaction or, if applicable, waiver of the following conditions:

- (a) Compliance with Listing Rules: the Shareholders having passed the resolutions to approve the Transaction (including the issue of the Consideration Shares) in accordance with the relevant requirements of the Listing Rules and the articles of association of the Company;
- (b) Listing approval from the Listing Committee: the Listing Committee having granted approval for the listing of, and permission to deal in, the Consideration Shares;
- (c) Merger control clearance: a merger control notification having been submitted to, and accepted by, the SAMR under the AML and the Transaction having been cleared by the SAMR under the AML;
- (d) Hong Kong Property Carve-Out: the Hong Kong Property Carve-Out, as further described in the paragraph “Information of the Zung Fu China Group — Pre-Closing Reorganisation” in the letter from the Board contained in the Circular, having been completed;
- (e) Change in ownership consent: Mercedes-Benz (China) Limited having given its unconditional written consent to the change in indirect ownership of the members of the Zung Fu China Group operating as Mercedes-Benz dealers in the PRC;
- (f) Assignment of intellectual properties: the Seller or its relevant Affiliate(s) having assigned to a member of the Zung Fu China Group certain of its intellectual properties in respect of the operation of Mercedes-Benz dealers in the PRC;
- (g) Termination of foreign exchange derivative transactions: all foreign exchange derivative transactions entered into by any members of the Zung Fu China Group having been terminated;
- (h) Escrow agreement: an escrow agreement having been entered into among the Company, the Seller and an escrow agent, and that the escrow account in respect of the Escrow Amount having been set up;

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- (i) No material adverse change: there having been no material adverse change to the Zung Fu China Group since the date of the Share Purchase Agreement;
- (j) No prohibition of law: there being no applicable law that would prohibit, prevent, make illegal, or restrict the Transaction; and
- (k) No lawsuit to prohibit the Transaction: there being no lawsuit commenced by any governmental authority that seeks to prohibit or otherwise enjoin, challenge or interfere with the consummation of the Transaction.

The conditions set out in paragraphs (a) to (c), (j) and (k) above cannot be waived. The Company may at any time waive any of the Conditions set out in paragraphs (d) to (i). If any of the Conditions are not satisfied or waived by the Long Stop Date, the Company or the Seller may, in its sole discretion, terminate the Share Purchase Agreement, provided that the right to terminate the Share Purchase Agreement shall not be available to any party whose action or failure to perform any obligation under the Share Purchase Agreement has been a principal cause of or resulted in the failure of any Condition to have been satisfied by the Long Stop Date.

As of the Latest Practicable Date, the conditions set out in paragraphs (e) and (g) above had been fulfilled.

#### **4.8 Guarantee**

Subject to the terms of the Share Purchase Agreement, the Guarantor agrees to guarantee the obligations of the Seller under the Share Purchase Agreement.

#### **4.9 Closing**

Subject to the satisfaction or waiver (as the case may be) of all the Conditions, Closing is scheduled to take place on the tenth Business Day following notification of the satisfaction or waiver of the last of the Conditions to be satisfied or waived (other than Conditions which can only be satisfied on the date of Closing, but subject to the satisfaction or waiver of such Conditions) (or on such other date as may be agreed between the Company and the Seller). As at the Latest Practicable Date, no definitive Closing Date has been scheduled as the Conditions include the receipt of relevant regulatory approvals and the progress of such approvals is driven by the review process of the regulators. Based on the Company's assessment of the current progress, the Company expects that Closing may occur before the end of 2021.

Immediately after Closing, the Company will hold 100% of the issued share capital of Zung Fu China and Zung Fu China will become a subsidiary of the Company and its financial results will be consolidated with those of the Company.

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**LETTER FROM SOMERLEY CAPITAL**

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**5. Evaluation of the Consideration**

As stated in the letter from the Board contained in the Circular, the consideration of the Acquisition was determined on an arm's length basis and on normal commercial terms, following negotiations between the Company and the Seller and after taking into account, among others, the historical results and performance of the Zung Fu China Group and the synergies expected to be derived from the Acquisition.

In order to assess the fairness and reasonableness of the Consideration, we have conducted an exercise to identify entities whose shares are listed on the Stock Exchange which are primarily engaged in motor sales and servicing business in the PRC. Based on these criteria, we have identified eight comparable entities (the “**Comparable Companies**”). These Comparable Companies, based on the above selection criteria, so far as we are aware, are exhaustive, and are considered to be fair and representative samples. In conducting our analysis, we compared the price to earnings ratio (“**PER**”) and price to book ratio (“**PBR**”) of the Zung Fu China Group and those of Comparable Companies using the latest publicly available financial information.

	<b>Stock Code</b>	<b>PER</b> <i>(times)</i> <i>(Note 1)</i>	<b>PBR</b> <i>(times)</i> <i>(Note 1)</i>
The Company	881.hk	24.5	5.1
Centenary United Holdings Ltd.	1959.hk	15.9	1.3
China Harmony Auto Holding Ltd.	3836.hk	13.2	0.7
China Meidong Auto Holdings Ltd.	1268.hk	59.2	13.8
China Yongda Automobiles Services Holdings Ltd.	3669.hk	13.7	1.9
China Zhengtong Auto Services Holdings Ltd.	1728.hk	n/a <i>(Note 2)</i>	0.6
Grand Baoxin Auto Group Ltd.	1293.hk	11.3	0.3
Sunfonda Group Holdings Ltd.	1771.hk	10.3	0.7
	<b>Average</b>	<b>21.2</b>	<b>3.1</b>
	<b>Maximum</b>	<b>59.2</b>	<b>13.8</b>
	<b>Minimum</b>	<b>10.3</b>	<b>0.3</b>
	<b>Consideration</b> <i>(HK\$' million)</i>	<b>PER</b> <i>(times)</i>	<b>PBR</b> <i>(times)</i>
Zung Fu China Group <i>(Note 3)</i>	10,090.7	14.0	1.9

*Source: website of the Stock Exchange*

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*Notes:*

1. The PERs of the Comparable Companies are calculated based on their respective market capitalisation as at the Latest Practicable Date divided by their respective latest audited consolidated profits attributable to owners for FY2020, while the PBRs of the Comparable Companies are calculated based on their respective market capitalisation as at the Latest Practicable Date divided by their respective net assets attributable to owners as of 31 December 2020.
2. PER ratio is not applicable as China Zhengtong Auto Services Holdings Ltd. recorded a loss attributable to equity holders for its latest full financial year.
3. The PER of the Zung Fu China Group is calculated based on the Base Consideration of US\$1,300 million (equivalent to approximately HK\$10,090.7 million) divided by the audited net profit after tax of Zung Fu China Group for FY2020, while the PBR of the Zung Fu China Group is calculated based on the Base Consideration divided by the audited net assets of Zung Fu China Group as of 31 December 2020.

As shown in table above, the PERs of the Comparable Companies range from around 10.3 times to 59.2 times with an average of around 21.2 times. The PER of the Zung Fu China Group of around 14.0 times is well below the PER of the Company itself and below the average PER of the Comparable Companies, which is considered a favourable factor to the Independent Shareholders.

The PBRs of the Comparable Companies range from around 0.3 times to around 13.8 times with an average of around 3.1 times. The PBR of the Zung Fu China Group of around 1.9 times is well below the PBR of the Company itself and below of the average PBR of the Comparable Companies, which is also considered favourable to the Independent Shareholders.

As mentioned in the paragraph headed “4.2 Consideration” above, the Base Consideration of US\$1,300 million is subject to three Closing Adjustments relating to additions or deductions for cash balances, debt and changes in working capital of the Zung Fu China Group. The Closing Consideration is not available as at the Latest Practicable Date, and to that extent is open-ended. To provide a framework for analysis, the Company has estimated that the final amount of the Share Portion shall not exceed 5.0% of the enlarged issued share capital of the Company (equivalent to approximately US\$1,016 million or HK\$7,883 million). On that basis, the Closing Consideration shall not exceed US\$1,916 million (equivalent to approximately HK\$14,872 million) (the “**Maximum Adjusted Consideration**”). Solely for illustrative purposes only, the PER and PBR of the Zung Fu China Group based on the Maximum Adjusted Consideration would be around 20.7 times and 2.8 times, respectively. This outcome which we consider unlikely, would still represent respective multiples of below the PER and PBR of the Company itself, and the respective average of the Comparable Companies.

As discussed under the paragraph “2.2 Financial information of the Zung Fu China Group” above, Zung Fu China will dispose of its real property in Hong Kong prior to Closing to a subsidiary of Jardine Matheson and settle an amount due to a related party, being the acquisition costs of the property prior to Closing and whilst Zung Fu China has been paying certain management fees to certain subsidiaries of Jardine Matheson for management consultancy services, such payment will cease following Closing. As at 31 March 2021, the carrying amount of the property was HK\$574.0 million and the amount due to the related party was HK\$615.5 million. As the differences of HK\$41.5 million between the carrying amount and the amount due to the related party is considered not significant to the Zung Fu China Group’s net assets of approximately HK\$5,560.0 million as of 31 March 2021, the combination of the disposal of the property and the settlement of the amount due to the related party would not give rise to a material effect on our PBR analysis of the Zung Fu China Group.

In addition, there are certain other factors which support the terms of the Acquisition. If the Excluded Items for FY2020 of HK\$64.7 million were added back, the net profit of the Zung Fu China Group would increase while the PER of the Zung Fu China Group would decrease. In a similar way, if the surplus on valuation of properties was added to the net assets of Zung Fu China, the PBR of the Zung Fu China Group would decrease. As these figures are not audited, and would reflect improvements to a position we already consider satisfactory, we have not included them into our evaluation of the Consideration.

## **6. Evaluation of the Consideration Shares**

### ***6.1 Evaluation of the Issue Price***

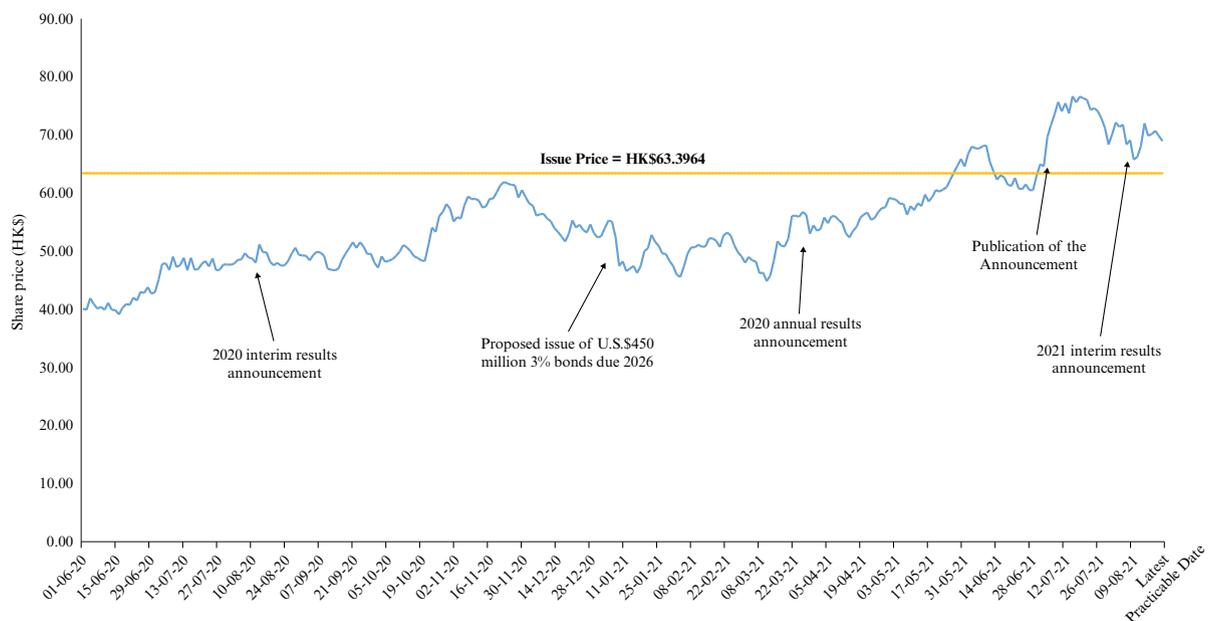
#### *(i) Historical Share Performance*

Set out below is a chart reflecting movements in the closing prices of the Shares from 1 June 2020, being roughly 13 months before the date of the Share Purchase Agreement, up to and including the Latest Practicable Date, which represented a sufficient period of time to provide a general overview on the recent market performance of the Shares (the “**Review Period**”).

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Source: Website of the Stock Exchange

Based on the chart above, the Share price closed in a range between HK\$39.10 and HK\$68.20 per Share during the period from 1 June 2020 to 30 June 2021 (both dates inclusive), being approximately 13 months immediately before the publication of the announcement on 1 July 2021 in relation to the Transaction (the “**Announcement**”) (the “**Pre-Announcement Period**”) with an average of approximately HK\$52.56. The average Share closing price for the entire Review Period was approximately HK\$54.68 per Share.

From 1 June 2020 to 19 November 2020, the Share price closed between HK\$39.10 and HK\$61.90. During such period, the closing price of the Shares showed a general uptrend. On 10 August 2020, the Company published the 2020 interim results and the price of the Shares gained approximately 7.0% to close at HK\$51.15 on 11 August 2020. Since then and until 19 November 2020, the Share price continued to show a general uptrend and closed at HK\$61.90 on 19 November 2020.

From 20 November 2020 to 8 March 2021, the closing price of the Shares demonstrated a decreasing trend in general, with a high on 20 November 2020 of HK\$61.65 and a low on 8 March 2021 of HK\$44.85. Following the publication by the Company of the announcement regarding the proposed issue of U.S.\$450 million of bonds on 7 January 2021, the closing prices of the Shares strengthened in January 2021 but resumed a downward trend in February 2021 and early March 2021.

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## LETTER FROM SOMERLEY CAPITAL

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From 9 March 2021 to 30 June 2021, the Share price regained an upward momentum and closed in a range of HK\$45.80 per Share to HK\$68.20 per Share. On 1 July 2021, the Company published the Announcement and the closing price of the Shares gained approximately 7.8% on the following trading day and closed at HK\$69.65 on 2 July 2021. Since then, the Share price has fluctuated in a range between HK\$65.75 and HK\$76.65, and the closing price of the Shares as at the Latest Practicable Date was HK\$68.95.

As disclosed in the letter from the Board contained in the Circular, the Issue Price was arrived at after arm's length negotiations between the Company and the Seller with reference to the trading prices of the Shares and the results and operating prospects of the Company. The Issue Price of HK\$63.3964 per Consideration Share represents:

- (a) a discount of approximately 8.05% to the closing price per Share of HK\$68.95 as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) the volume weighted average price per Share for the 30 consecutive trading days preceding and including 29 June 2021;
- (c) a discount of approximately 1.86% to the closing price per Share of HK\$64.60 as quoted on the Stock Exchange on 30 June 2021 (the "**Last Trading Day**"), being the last trading day immediately preceding the date of the Share Purchase Agreement;
- (d) a premium of approximately 2.12% over the average closing price per Share of HK\$62.08 as quoted on the Stock Exchange for the last 5 consecutive trading days immediately preceding the Last Trading Day;
- (e) a premium of approximately 2.73% over the average closing price per Share of HK\$61.71 as quoted on the Stock Exchange for the last 10 consecutive trading days immediately preceding the Last Trading Day;
- (f) a discount of approximately 0.10% to the average closing price per Share of HK\$63.46 as quoted on the Stock Exchange for the last 30 consecutive trading days immediately preceding the Last Trading Day;
- (g) a premium of approximately 5.56% over the average closing price per Share of HK\$60.06 as quoted on the Stock Exchange for the last 60 consecutive trading days immediately preceding the Last Trading Day;

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## LETTER FROM SOMERLEY CAPITAL

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- (h) a premium of approximately 10.90% over the average closing price per Share of HK\$57.17 as quoted on the Stock Exchange for the last 90 consecutive trading days immediately preceding the Last Trading Day;
- (i) a premium of approximately 355.43% over the NAV per Share attributable to owners of the parent of the Company of approximately RMB11.60 (equivalent to approximately HK\$13.92) as at 31 December 2020; and
- (j) a premium of approximately 303.28% over the NAV per Share attributable to owners of the parent of the Company of approximately RMB13.10 (equivalent to approximately HK\$15.72) as at 30 June 2021.

*(ii) Comparison with recent issues of consideration shares*

To assess the fairness and reasonableness of the Issue Price, we have identified companies listed on the Main Board of the Stock Exchange (excluding companies under prolonged suspension or debt restructuring), which announced issues of consideration shares for acquisition purposes (excluding (a) issues of A shares or domestic shares; (b) issues involving share exchange privatisations or share buy-back offers; and (c) acquisition/issues that have been terminated) during the period from 1 January 2021 up to and including the Latest Practicable Date (“**Comparable Share Issues**”). We consider that this length of period allows a sufficient number of Comparable Share Issues to be identified for a valid analysis of the issue prices of consideration shares for acquisition purpose under recent market sentiment. The Comparable Share Issues set out below represent an exhaustive list of issues of consideration shares based on the aforementioned criteria.

The subject companies constituting the Comparable Share Issues may differ in principal activities, market capitalisation, profitability and financial position from the Company, and may have different reasons for their respective acquisitions and for issuing consideration shares. However, we consider, in light of our selection criteria, recent issues of consideration shares by listed companies for acquiring assets/companies can provide a general reference on the recent market trend for this type of transaction in the Hong Kong market. Based on the aforesaid, despite a relatively large range of discount/premium represented by the respective issue price under the Comparable Share Issues, we regard the Comparable Share Issues as valid and representative sample for assessing the fairness and reasonableness of the Issue Price.

**LETTER FROM SOMERLEY CAPITAL**

Announcement Date	Stock Code	Listed Company	Issue Price (HK\$)	Premium/(Discount) of the issue price over/to				
				the closing price prior to/on last trading day (%)	the average closing price over the last 5 consecutive trading days (%)	the average closing price over the last 10 consecutive trading days (%)	the average closing price over the last 30 consecutive trading days (%)	average closing price over the last 60 consecutive trading days (%)
13-Jan-21	2768	Jiayuan International Group Ltd	3.300	5.10	6.45	6.90	7.40	5.70
10-Feb-21	3309	C-MER Eye Care Holdings Limited	6.070	(0.98)	(5.92)	(5.63)	1.97	2.79
11-Feb-21	1561	Pan Asia Data Holdings Inc.	1.350	(53.45)	(50.84)	(50.73)	(38.98)	(25.83)
24-Feb-21	6908	Hongguang Lighting Holdings Company Limited	0.960	(11.11)	4.35	8.11	35.72	53.85
9-Mar-21	1386	Vestate Group Holdings Limited	00.51	0.00	0.39	1.80	0.00	(5.09)
22-Mar-21	1117	China Modern Dairy Holdings Ltd.	2.240	(3.03)	(2.95)	(0.36)	(10.45)	(7.71)
24-Mar-21	1810	Xiaomi Corporation	25.470	1.88	(2.86)	2.64	(2.68)	(11.29)
6-Apr-21	484	Forgame Holdings Limited	1.920	0.00	0.84	(1.29)	(8.22)	(11.01)
7-Apr-21	419	Huayi Tencent Entertainment Company Limited	0.529	(2.04)	0.00	4.44	3.79	47.64
7-Apr-21	493	GOME Retail Holdings Limited	2.110	39.74	48.38	42.18	23.06	41.52
26-Apr-21	1341	Hao Tian International Construction Investment Group Limited	0.330	(12.00)	(12.47)	(13.04)	(16.39)	(16.21)
28-Apr-21	1860	Mobvista Inc.	9.630	(2.83)	0.31	4.88	32.86	29.92
30-Apr-21	1082	Hong Kong Education (Int'l) Investments Limited	1.250	(13.19)	(9.02)	(9.81)	(10.67)	(8.78)
4-May-21	764	Eternity Investment Limited	0.250	2.04	0.81	3.95	4.34	13.86
27-May-21	318	Vongroup Limited	0.650	0.00	20.82	26.21	30.52	14.87
28-May-21	343	Culturecom Holdings Limited	2.400	(25.00)	2.17	3.77	11.25	22.50
31-May-21	6088	FIT Hon Teng Limited	2.400	11.11	13.31	11.11	3.57	(2.10)
6-Jun-21	1468	Kingkey Financial International (Holdings) Limited	0.240	(66.67)	(65.12)	(65.57)	(63.11)	(62.91)
7-Jun-2021	586	China Conch Venture Holdings Limited	36.657	10.41	6.04	3.84	0.60	0.81
28-Jun-2021	298	Chuang's China Investment Limited	0.550	17.02	18.53	19.31	19.97	21.55
5-Jul-2021	821	Value Convergence Holdings Limited	0.205	(18.00)	(16.46)	(17.27)	(19.53)	(24.13)

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**LETTER FROM SOMERLEY CAPITAL**

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Announcement Date	Stock Code	Listed Company	Issue Price (HK\$)	Premium/(Discount) of the issue price over/to				
				the closing price prior to/on last trading day (%)	the average closing price over the last 5 consecutive trading days (%)	the average closing price over the last 10 consecutive trading days (%)	the average closing price over the last 30 consecutive trading days (%)	average closing price over the last 60 consecutive trading days (%)
26-Jul-2021	1400	Moody Technology Holdings Limited	0.120	20.00	23.97	21.58	23.54	19.44
29-Jul-2021	476	Ev Dynamics (Holdings) Limited	0.180	44.00	36.16	32.74	25.38	22.14
16-Aug-2021	9600	Newlink Technology Inc.	2.558	(7.00)	(5.00)	(2.83)	14.16	19.13
			<b>Average</b>	(2.67)	0.50	1.12	2.84	5.86
			<b>Maximum</b>	44.00	48.38	42.18	35.72	53.85
			<b>Minimum</b>	(66.67)	(65.12)	(65.57)	(63.11)	(62.91)
<b>The Consideration Shares</b>			<b>63.3964</b>	<b>(1.86)</b>	<b>2.12</b>	<b>2.73</b>	<b>(0.10)</b>	<b>5.56</b>

The discounts/premiums of the above Comparable Share Issues represented by their respective issue price to/over their respective share closing price on the last trading day prior to the publication of the transaction announcement and 5-, 10-, 30- and 60-trading day average share price ranged from a discount of around 66.67% to a premium of around 44.00%, a discount of around 65.12% to a premium of around 48.38%, a discount of around 65.57% to a premium of around 42.18%, a discount of around 63.11% to a premium of around 35.72%, and a discount of around 62.91% to a premium of around 53.85%, with average of a discount of around 2.67%, a premium of around 0.50%, a premium of around 1.12%, a premium of around 2.84% and a premium of around 5.86%, respectively.

The discounts/premiums represented by the Issue Price over the closing price of the Shares on the Last Trading Day, and 5-, 10- and 60- trading day average Share price are a discount of around 1.86%, a premium of around 2.12%, a premium of around 2.73%, and a premium of around 5.56%, respectively, which is close to the market average.

Although the discount of Issue Price to 30-trading day average price represented 0.10% while the average premium of the issue prices of the Comparable Share Issues over 30-trading day average price represented 2.84%, the discount of Issue Price to 30-trading day average price is close to the average of the Comparable Share Issues and within the respective range derived from the Comparable Share Issues for the 30-trading day average price.

Having considered that (i) the Comparable Share Issue analysis suggests that the basis of the Issue Price is in line with the market; (ii) the Issue Price represents a premium of around 355.43% and 303.28% over the NAV per Share attributable to owners of the parent of approximately RMB11.60 (equivalent to approximately HK\$13.92) as at 31 December 2020 and approximately RMB13.10 (equivalent to approximately HK\$15.72) as at 30 June 2021 respectively; (iii) the benefits of the Acquisition to the Group as discussed under section “3. Reasons for and benefits of the Share Purchase Agreement” above; and (iv) the undertaking by the Seller, amongst others, not to dispose the Consideration Shares for the period of 18 months after the Closing Date as discussed under the paragraph “4.5 Lock-up undertaking by the Seller in respect of the Consideration Shares” above, we are of the view that the Issue Price is fair and reasonable.

## ***6.2 Effect on the shareholding structure of the Company***

As disclosed in the Circular, the shareholding structure of the Company:

- (i) as at the Latest Practicable Date;
- (ii) immediately after the allotment and issue of the Consideration Shares (assuming, for illustrative purpose only, the Share Portion to be US\$400 million (equivalent to approximately HK\$3,105 million) and on that basis, a total of 48,975,021 Consideration Shares will be issued to the Seller at the Issue Price; and (b) there is no other change in the shareholding structure of the Company before the allotment and issue of the Consideration Shares);
- (iii) immediately after the allotment and issue of the Consideration Shares (assuming, for illustrative purpose only, (a) the Share Portion to be US\$400 million (equivalent to approximately HK\$3,105 million) and on that basis, a total of 48,975,021 Consideration Shares will be issued to the Seller at the Issue Price; (b) there is no other change in the shareholding structure of the Company before the allotment and issue of the Consideration Shares; and (c) the full conversion of the 2025 Convertible Bonds into Shares at a conversion price of HK\$45.61 per Share);
- (iv) immediately after the allotment and issue of the Consideration Shares (assuming, for illustrative purpose only, (a) the Share Portion to be the maximum of US\$1,016 million (equivalent to approximately HK\$7,883 million) and on that basis, a total of 124,349,347 Consideration Shares will be issued to the Seller at the Issue Price; and (b) there is no other change in the shareholding structure of the Company before the allotment and issue of the Consideration Shares); and

## LETTER FROM SOMERLEY CAPITAL

- (v) immediately after the allotment and issue of the Consideration Shares (assuming, for illustrative purpose only, (a) the Share Portion to be the maximum of US\$1,016 million (equivalent to approximately HK\$7,883 million) and on that basis, a total of 124,349,347 Consideration Shares will be issued to the Seller at the Issue Price; (b) there is no other change in the shareholding structure of the Company before the allotment and issue of the Consideration Shares; and (c) the full conversion of the 2025 Convertible Bonds into Shares at a conversion price of HK\$45.61 per Share):

	(i) As at the Latest Practicable Date		(ii) Immediately after the allotment and issue of the Consideration Shares <sup>(7)</sup> assuming the Share Portion to be US\$400 million (equivalent to approximately HK\$3,105 million)				(iii) Immediately after allotment and issue of the Consideration Shares <sup>(7)</sup> assuming (i) the Share Portion to be US\$400 million (equivalent to approximately HK\$3,105 million); and (ii) the full conversion of the 2025 Convertible Bonds into Shares		(iv) Immediately after allotment and issue of the Consideration Shares <sup>(8)</sup> assuming the Share Portion to be the maximum of US\$1,016 million (equivalent to approximately HK\$7,883 million)		(v) Immediately after allotment and issue of the Consideration Shares <sup>(8)</sup> assuming (i) the Share Portion to be the maximum of US\$1,016 million (equivalent to approximately HK\$7,883 million); and (ii) the full conversion of the 2025 Convertible Bonds into Shares	
			Number of Shares	% of issued share capital of the Company (approximate)	Number of Shares	% of issued share capital of the Company (approximate)	Number of Shares	% of issued share capital of the Company (approximate)	Number of Shares	% of issued share capital of the Company (approximate)	Number of Shares	% of issued share capital of the Company (approximate)
	Shares	Company (approximate)	Shares	Company (approximate)	Shares	Company (approximate)	Shares	Company (approximate)	Shares	Company (approximate)	Shares	Company (approximate)
<b>Shareholders</b>												
Light Yield Ltd. <sup>(1)</sup>	152,678,504	6.46	152,678,504	6.33	152,678,504	6.08	152,678,504	6.14	152,678,504	5.90		
Blue Natural Development Ltd. <sup>(2)</sup>	186,842,000	7.91	186,842,000	7.75	186,842,000	7.44	186,842,000	7.51	186,842,000	7.22		
Mountain Bright Limited <sup>(3)</sup>	486,657,686	20.60	486,657,686	20.18	486,657,686	19.38	486,657,686	19.57	486,657,686	18.81		
Vintage Star Limited <sup>(4)</sup>	486,657,686	20.60	486,657,686	20.18	486,657,686	19.38	486,657,686	19.57	486,657,686	18.81		
<i>Companies controlled by Mr. Huang Yi and/or Mr. Li Guoqiang</i>												
Mr. Huang Yi and/or Mr. Li Guoqiang	1,312,835,876	55.57	1,312,835,876	54.44	1,312,835,876	52.27	1,312,835,876	52.79	1,312,835,876	50.75		
JSH <sup>(5)</sup>	453,412,844	19.19	453,412,844	18.80	453,412,844	18.05	453,412,844	18.23	453,412,844	17.53		
Seller <sup>(5)(6)</sup>	—	—	48,975,021	2.03	48,975,021	1.95	124,349,347	5.00	124,349,347	4.81		
<i>Companies controlled by Jardine Matheson</i>												
Matheson	453,412,844	19.19	502,387,865	20.83	502,387,865	20.00	577,762,191	23.23	577,762,191	22.33		
<b>Holders of the 2025 Convertible Bonds</b>												
Public Shareholders	596,388,871	25.24	596,388,871	24.73	596,388,871	23.75	596,388,871	23.98	596,388,871	23.05		
<b>Total</b>	<b>2,362,637,591</b>	<b>100.00</b>	<b>2,411,612,612</b>	<b>100.00</b>	<b>2,511,590,686</b>	<b>100.00</b>	<b>2,486,986,938</b>	<b>100.00</b>	<b>2,586,965,012</b>	<b>100.00</b>		

*Notes:*

\* The actual number of Consideration Shares to be issued to the Seller (or to an Affiliate of the Seller as the Seller may direct) will depend on the final amount of the Share Portion. Solely for illustration purpose only, this table assumes the Share Portion is US\$400 million (equivalent to approximately HK\$3,105 million) and on that basis, a total of 48,975,021 Consideration Shares will be issued to the Seller at the Issue Price.

- (1) Light Yield Ltd. is wholly-owned by Mr. Huang Yi, who is also the sole director of Light Yield Ltd.
- (2) Blue Natural Development Ltd. is owned by Light Yield Ltd. (62.3%) and Vest Sun Ltd. (37.7%). Mr. Huang Yi and Mr. Li Guoqiang (a Director and President of the Company) are directors of Blue Natural Development Ltd.

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## LETTER FROM SOMERLEY CAPITAL

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- (3) Mountain Bright Limited is wholly-owned by UBS TC (Jersey) Ltd. as trustee of a trust settlement for Mr. Huang Yi (the settler of the trust) and his family.
- (4) Vintage Star Limited is wholly-owned by UBS TC (Jersey) Ltd. as trustee of a trust settlement for Mr. Li Guoqiang (the settler of the trust) and his family.
- (5) Each of JSH and the Seller is a subsidiary of Jardine Matheson Holdings Limited.
- (6) The Seller has the right to nominate another member of the Jardine Matheson Group to hold the Consideration Shares.
- (7) The actual number of Consideration Shares to be issued to the Seller (or to an Affiliate of the Seller as the Seller may direct) will depend on the final amount of the Share Portion. Solely for illustration purpose only, scenarios (ii) and (iii) as set out in the table assumes the Share Portion to be US\$400 million (equivalent to approximately HK\$3,105 million) and on that basis, a total of 48,975,021 Consideration Shares will be issued to the Seller at the Issue Price.
- (8) The actual number of Consideration Shares to be issued to the Seller (or to an Affiliate of the Seller as the Seller may direct) will depend on the final amount of the Share Portion. Given the maximum number of Consideration Shares that may be allotted and issued is expected to be no more than 124,349,347 (as further explained in the paragraph headed “4.3 Payment Terms” above), solely for illustration purpose only, scenarios (iv) and (v) as set out in the table assumes the Share Portion to be the maximum of US\$1,016 million (equivalent to approximately HK\$7,883 million) and on that basis, a total of 124,349,347 Consideration Shares will be issued to the Seller at the Issue Price.
- (9) The Company is subject to maintaining a minimum public float of 17.24% as agreed by the Stock Exchange pursuant to Rule 8.08(1)(a) of the Listing Rules. Please refer to the prospectus of the Company dated 16 March 2010 and the Company’s announcement dated 26 March 2010 for further details. It is expected that the Company will be able to maintain its public float following the allotment and issue of the Consideration Shares.

As exhibited in scenarios (ii) which set out in the table above, assuming the completion of the Acquisition and the Share Portion to be US\$400 million (equivalent to approximately HK\$3,105 million), a total of 48,975,021 Consideration Shares will be issued to the Seller at the Issue Price. In such scenario, the shareholding in the Company held by the public Shareholders will be diluted, being reduced slightly by approximately 0.51% from approximately 25.24% to approximately 24.73%.

As exhibited in scenarios (iv) which set out in the table above, assuming the completion of the Acquisition and the Share Portion to be approximately US\$1,016 million (equivalent to approximately HK\$7,883 million, a total of 124,349,347 Consideration Shares will be issued to the Seller at the Issue Price). In such scenario, the shareholding in the Company held by the public Shareholders will be diluted, being reduced by approximately 1.26% from approximately 25.24% to approximately 23.98%.

Although the shareholding interest of the existing public Shareholders will be diluted immediately upon completion of the Acquisition and the allotment and issue of the Consideration Shares as illustrated in scenarios (ii) or scenarios (iv) above, considering (i) the benefits of the Acquisition to the Group as discussed under section under “3. Reasons for and benefits of the Share Purchase Agreement” above; (ii) the terms of the Share Purchase Agreement, including the Consideration and the Issue Price, being fair and reasonable as discussed under sections “5. Evaluation of the Consideration” and “6. Evaluation of the Consideration Shares” above; and (iii) the undertaking by the Seller, amongst others, not to dispose the Consideration Shares for the period of 18 months after the Closing Date as discussed under the paragraph “4.5 Lock-up undertaking by the Seller in respect of the Consideration Shares” above, we are of the view that the dilution to the shareholding of the existing public Shareholders in the Company is acceptable.

As mentioned under the paragraph headed “4.4 Consideration Shares” above, the actual number of Consideration Shares which depends on the estimated amount of the Closing Adjustments to be agreed between the Company and the Seller, will be determined based on the financial position of the Zung Fu China Group prior to the Closing Date pursuant to the terms of the Share Purchase Agreement.

## **7. Financial effects**

### *Earnings*

Upon Closing, Zung Fu China will become a wholly-owned subsidiary of the Company and the financial result of Zung Fu China will be consolidated into the consolidated financial statements of the Group. Given the profitability of Zung Fu China historically, it is expected that the Group’s earnings would be enhanced following the Acquisition.

Based on the discussion with the Management, as Zung Fu China has one of the largest Mercedes-Benz dealership networks in Southern and Western China, the Group’s turnover and sales volume from the sales of luxury automobile, in particular in the area of Southern and Western China, is expected to increase following the Acquisition. In 1Q2021, the Zung Fu China Group recorded a significant growth in revenue when compared to the same period in 2020. Given the encouraging performance of the Zung Fu China Group in 1Q2021, we concur with the Management’s expectation that the Group would benefit from a growth in earnings following Closing.

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## LETTER FROM SOMERLEY CAPITAL

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In view of the historical profitability of Zung Fu China, after the issue of the Consideration Shares (based on the Base Consideration) and allowing for interest on the Cash Portion, the Group's earnings per Share are also expected to increase after Closing. Nevertheless, it should be noted that the effect of the issue of Consideration Shares is subject to the determination of the Closing Consideration and the Share Portion upon Closing.

### *Asset and liabilities*

According to the 2021 Interim Results, total assets and total liabilities of the Group as at 30 June 2021 were approximately RMB69,916.8 million and RMB39,189.5 million, respectively, leading to net assets of approximately RMB30,727.3 million. The Base Consideration of US\$1,300 million (equivalent to approximately HK\$10,090.7 million) represents a premium to the net assets of the Zung Fu China Group as at 31 March 2021, which is approximately HK\$5,560.0 million. Based on our discussion with the Management, the goodwill to be potentially recognised based on any excess of the Consideration over the fair value of the Zung Fu China Group, will be partially offset by the amount of the Cash Portion. Overall, the Group's net assets are expected to increase due to the issuance of Consideration Shares which would enlarge the capital base of the Company.

### *Gearing*

The Cash Portion of US\$900 million (equivalent to approximately HK\$6,985.9 million) and the Final Cash Adjustment, after deducting the Seller's stamp duty and the Escrow Amount, is expected to be settled by internal resources of the Group and bank financing. The Group may apply part of the proceeds from the Subscription towards such payables. Whereas approximately US\$400 million (subject to the Closing Adjustments) is expected to be settled by the issue of the Consideration Shares. Zung Fu China itself has no external interest bearing borrowings. Based on our analysis, the net effect is likely to be an increase in the Group's gearing but not to a material extent. Given the existing healthy financial position of the Group and the Zung Fu China Group and the net proceeds from the Subscription, we are advised by the Management that there will not be any material adverse impact on the working capital position of the Group upon Closing.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position/results of the Group will be following Closing and the issue of the Consideration Shares pursuant to the Share Purchase Agreement.

**8. Discussion**

Having considered, in particular:

- (i) based on our discussion in section “1. Information on the Group” above, we consider that the Group has managed its recent expansion, including acquisitions, well and that this expansion has been prudently financed. The Company is, in our opinion, well placed to undertake the Transaction, which relates to the Company’s top-selling Mercedes-Benz brand in terms of revenue from new automobile sales during the Period. As set out in section “2. Information on the Zung Fu China Group”, Zung Fu China has the largest dealership network of Mercedes-Benz in Southern and Western China. Similar to the Group, the Zung Fu China Group has achieved encouraging recent growth in revenue and profit and has a strong balance sheet;
- (ii) as discussed in section “3. Reasons for and benefits of the Share Purchase Agreement” above, the Acquisition is aligned with the Group’s strategic goal of “Brand + Region” which should enable the Group to enhance its leading position in the industry, create economies of scale and underpin future expansion;
- (iii) as discussed in section “5. Evaluation of the Consideration”, the PER and PBR of the Zung Fu China Group based on the Base Consideration and the Maximum Adjusted Consideration are below the averages of the Comparable Companies, which we consider a favourable aspect of the Transaction from the point of view of the Independent Shareholders;
- (iv) we consider the Issue Price fair and reasonable and in line with the market when compared with the Comparable Share Issues as discussed in paragraph “6.1 Evaluation of the Issue Price” above;
- (v) the dilution of the public shareholdings in the Company, as detailed in the paragraph “6.2 Effect on the shareholding structure of the Company” above, is considered acceptable, in view of the benefits of the Acquisition, so far as the Company and the Independent Shareholders are concerned; and
- (vi) as discussed in detail in section “7. Financial effects” above, the earnings of the Group are likely to benefit following Closing and no material adverse effect on the financial position of the Group is expected immediately upon Closing,

we are of the view that the Transaction is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

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**LETTER FROM SOMERLEY CAPITAL**

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**RECOMMENDATION**

Based on the above principal factors and reasons, we consider that although the entering into of the Acquisition is not in the ordinary and usual course of business of the Group, the terms of the Share Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Transaction is in the interest of the Company and its Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

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

*Mr. M. N. Sabine is a licensed person registered with the SFC 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.*

*Mr. Felix Chau is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity. He has over ten years of experience in the corporate finance industry.*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### Director and chief executive's interests and short positions in Shares, underlying Shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) were as follows:

#### Interests and Short Positions in the Shares

Name of Director	Capacity/Nature of interest	Number of Ordinary Shares	Approximate percentage of shareholding in the total share capital of the Company (%)
Mr. Huang Yi	Interest of controlled corporation, founder of a discretionary trust and agreement to acquire interests	1,312,835,876 (Long position) <i>(Note 1)</i>	55.57
		159,033,900 (Short position)	6.73
Mr. Li Guoqiang	Interest of controlled corporation, founder of a discretionary trust and agreement to acquire interests	1,312,835,876 (Long position) <i>(Note 2)</i>	55.57
		45,433,900 (Short position)	1.92

Name of Director	Capacity/Nature of interest	Number of Ordinary Shares	Approximate percentage of shareholding in the total share capital of the Company (%)
Mr. Du Qingshan	Beneficial owner	5,500,000 (Long position) (Note 3)	0.23
Mr. Zhang Zhicheng	Beneficial owner	5,500,000 (Long position) (Note 3)	0.23

*Note:*

- (1) These include 186,842,000 Shares directly held by Blue Natural Development Ltd.. Such Shares were held through Mr. Huang Yi's wholly-owned investment company, Light Yield Ltd., which owns 62.30% equity interest in Blue Natural Development Ltd.. 152,678,504 Shares were directly held by Light Yield Ltd.. 486,657,686 Shares were directly held by Mountain Bright Limited, which is wholly-owned by UBS TC (Jersey) Ltd. as trustee of a trust settlement for Mr. Huang Yi (the settler of the trust) and his family. 973,315,372 Shares were held by agreement to acquire interests.
- (2) These include 186,842,000 Shares directly held by Blue Natural Development Ltd.. Such Shares were held through Mr. Li Guoqiang's wholly-owned investment company, Vest Sun Ltd., which owns 37.70% equity interest in Blue Natural Development Ltd.. 486,657,686 Shares were directly held by Vintage Star Limited, which is wholly-owned by UBS TC (Jersey) Ltd. as trustee of a trust settlement for Mr. Li Guoqiang (the settler of the trust) and his family. 639,336,190 Shares were held by agreement to acquire interests.
- (3) These interests represent options granted to the Director as beneficial owner under the Share Option Scheme (as defined in the Company's prospectus dated 16 March 2010) of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or pursuant to the Model Code.

### 3. DIRECTORSHIP AND EMPLOYMENT OF DIRECTORS AND CHIEF EXECUTIVE IN SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As of the Latest Practicable Date, save as disclosed below, none of the Directors was a director or employee of a company which has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of SFO.

Name	Positions in the Company	Other interests
Mr. David Alexander Newbigging	Non-executive Director	Director of Jardine Matheson, the ultimate holding company of JSH
Mr. Hsu David	Non-executive Director	Director of Jardine Matheson, the ultimate holding company of JSH

### 4. COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates were considered to have any direct or indirect interests in any businesses that constitutes or may constitute a competing business of the Company.

### 5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, no Director had or was proposed to have any service contract or letter of appointment with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

### 6. DIRECTORS' INTEREST IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, save as disclosed in this circular:

- a) none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or are proposed to be acquired, disposed of by, or leased to any member of the Group; and
- b) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

## 7. QUALIFICATION OF EXPERT AND CONSENT

The qualification of the expert who has given an opinion or advice in this circular are as follows:

<b>Name</b>	<b>Qualification</b>
Somerley Capital Limited	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO

As of the Latest Practicable Date, Somerley Capital: (i) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinion and the references to its names included herein in the form and context in which it is respectively included; (ii) has no direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group; and (iii) has no direct or indirect interests in any assets which have been, since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

## 8. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there had been no material adverse change in the financial or trading position of the Company since 31 December 2020, the date to which the latest published audited consolidated financial statements of the Company have been made up.

## 9. MISCELLANEOUS

- a) The registered office of the Company is situated at Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands.
- b) The joint company secretaries of the Company are Ms. Mak Sze Man and Ms. Yao Zhenchao.
- c) The principal place of business of the Company in Hong Kong is situated at Room 1803-09, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.
- d) In the event of inconsistency, the English text of this circular will prevail over the Chinese text.

**10. DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION**

A copy of each of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Room 1803-09, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong during normal business hours for a period of 14 days from the date of this circular:

- a) the memorandum of association and the bye-laws of the Company;
- b) the letter from the Independent Board Committee dated 20 August 2021, the text of which is set out on pages 25 to 26 of this circular;
- c) the letter of advice from Somerley Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 27 to 61 of this circular;
- d) the written consent from Somerley Capital referred to in the paragraph headed “Qualification of Expert and Consent” in this appendix;
- e) the Share Purchase Agreement; and
- f) this circular.



中升集團控股有限公司  
**Zhongsheng Group Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 881)**

**NOTICE OF THE EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of Zhongsheng Group Holdings Limited (the “**Company**”) will be held at 11:00 a.m. on Wednesday, 8 September 2021 at Room 1803–09, 18/F Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong to consider and, if thought fit, pass with or without amendments, the following resolution of the Company as an ordinary resolution. Words and expressions that are not expressly defined in this notice of EGM shall bear the same meaning as those defined in the circular of the Company dated 20 August 2021.

**ORDINARY RESOLUTION**

“**THAT:**

- (a) the execution, delivery and performance by the Company of a share purchase agreement dated 1 July 2021 (the “**Share Purchase Agreement**”) entered into among the Company, Fu Tung Holdings Limited (the “**Seller**”) and Jardine Motors Holdings Limited (a copy of the Share Purchase Agreement is tabled at the meeting and marked “**A**” and signed by the chairman of the meeting for identification purpose) pursuant to which the Seller has conditionally agreed to sell and the Company has conditionally agreed to purchase the 100,000,000 ordinary issued shares in, representing the entire issued share capital of, Zung Fu (China) Limited (“**Zung Fu China**”) (the “**Acquisition**”), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to the fulfilment or waiver of the conditions precedent set out in the Share Purchase Agreement, the directors of the Company (the “**Directors**”) be and are hereby granted a specific mandate (the “**Specific Mandate**”) which shall entitle the Directors to exercise all the powers of the Company to allot and issue a maximum of 124,349,347 new shares (“**Shares**”) of the Company (the “**Consideration Shares**”) at the issue price of HK\$63.3964 per Share to the Seller (or to an affiliate of the Seller as the Seller may direct) to settle part of the consideration for the Acquisition in accordance with the terms and conditions of the Share Purchase Agreement; and

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## NOTICE OF THE EGM

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- (c) the directors of the Company be and are hereby authorised to exercise all powers of the Company and take all steps as might in their opinion be desirable, necessary or expedient to give effect to or in connection with the Share Purchase Agreement including without limitation:
- (i) the execution, amendment, supplement, delivery, submission and/or implementation of any further documents or agreements in relation to the Share Purchase Agreement, and the issue and allotment of the Consideration Shares; and
  - (ii) the taking of all necessary actions to implement the transactions contemplated under the Share Purchase Agreement.”

By order of the Board  
**Zhongsheng Group Holdings Limited**  
**Huang Yi**  
*Chairman*

Hong Kong, 20 August 2021

**Notes:**

1. All resolutions at the meeting will be taken by poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
2. Any shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him/her. A proxy need not be a shareholder of the Company. A shareholder who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her/it to attend and vote on his/her/its behalf. If more than one proxy is so appointed, the appointment should specify the number and class of shares in respect of which each such proxy is so appointed.
3. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the meeting (i.e. not later than 11:00 a.m. on Monday, 6 September 2021 or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof if you so wish and, in such event, the form of proxy shall be deemed to be revoked.

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## NOTICE OF THE EGM

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4. For determining the entitlement to attend and vote at the meeting, the Register of Members of the Company will be closed from Friday, 3 September 2021 to Wednesday, 8 September 2021, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 2 September 2021.
5. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the EGM personally or by proxy, that the person so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
6. The Company will implement the following precautionary measures at the meeting for prevention of COVID-19:
  - mandatory use of surgical face masks by each attendee;
  - compulsory body temperature screening and health declaration; and
  - appropriate distancing and spacing in line with the guidance from the Hong Kong government will be maintained and as such, the Company may limit the number of attendees at the Extraordinary General Meeting as may be necessary to avoid over-crowding.
7. Any person who does not comply with the precautionary measures will be denied entry into the meeting venue. In light of the continuing risks posed by the COVID-19 pandemic, shareholders of the Company are strongly encouraged to exercise their voting rights at the meeting by appointing the chairman of the meeting as proxy to vote according to their indicated voting instructions as an alternative to attending the meeting in person.
8. Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate.
9. If any shareholder of the Company chooses not to attend the meeting in person but has any question about any resolution or about the Company, or has any matter for communication with the Board, he/she is welcome to send such question or matter in writing to our principal place of business in Hong Kong or to our email at [zhongsheng-hk@zs-group.com.cn](mailto:zhongsheng-hk@zs-group.com.cn).

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## NOTICE OF THE EGM

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10. The Company seeks the understanding and cooperation of all our shareholders to minimise the risk of community spread of COVID-19.
11. References to dates and time in this notice are to Hong Kong dates and time.

*As at the date of this notice, the executive Directors are Mr. Huang Yi, Mr. Li Guoqiang, Mr. Du Qingshan, Mr. Zhang Zhicheng, Mr. Li Guohui and Mr. Tang Xianfeng; the non-executive Directors are Mr. David Alexander Newbigging and Mr. Hsu David; and the independent non-executive Directors are Mr. Shen Jinjun, Mr. Ying Wei, Mr. Chin Siu Wa Alfred and Mr. Li Yanwei.*