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

(Incorporated under the laws of the Cayman Islands with limited liability)
(Stock Code: 1728)

SUPPLEMENTAL ANNOUNCEMENT: DEEMED DISPOSAL OF INTEREST AT SUBSIDIARY LEVEL AND CONNECTED TRANSACTION

Reference is made to the Company's announcement dated 1 July 2019 (the "**Announcement**") in connection with the deemed disposal of interest at subsidiary level and the related connected transaction.

Unless otherwise stated, capitalised terms in this announcement shall have the same meanings as those defined in the Announcement.

The Board would like to provide supplemental information in connection with the Subscriptions as follows.

Subscription Price and its determination

It was disclosed in the Announcement that under the Subscription Agreement, the total Subscription Price is equal to the US dollars equivalent of RMB200 million, which is determined based on an agreed price-earnings multiple of 12.98 times (the "**Agreed Multiple**") multiplied by an indicative 2018 Pro Forma Profit of the Target Group, being the pro forma net profit after tax of the Target Group for the year ended 31 December 2018, assuming that the Target Group Restructuring was completed on 1 January 2017.

The 2018 Pro Forma Profit is subject to an independent review by a "Big Four" audit firm which is engaged by Subscriber B and is not the auditors of the Company. Such review would not constitute an audit and will be a limited scope review of the proforma financial statements of the Target Group prepared by the Company on the basis that the Target Group Restructuring has been completed as at the beginning of the period for which the review is to be performed. The final valuation of the Target Group is subject to further possible adjustments arising from the Target Group Restructuring, as described in the Announcement and further explained in this announcement.

The Board would like to supplement that in coming to an agreement on the Agreed Multiple as the valuation multiple for the Subscriptions, the parties had considered the closing market 2018 historical earnings multiple of one Hong Kong and one China listed automotive logistics companies (the "**Comparables**") as at 28 June 2019, being the latest practicable date prior to the date of the Subscription Agreement (which was 30 June 2019). Both Comparables are engaged in the provision of logistics services in China for built motor vehicles as well as parts and components for the manufacture of motor vehicles. The Company starts with a portfolio of 34 publicly traded companies locally and globally, then applies a matrix of criteria to narrow down to two most relevant comparables for valuation purpose. These criteria include, but are not limited to, locations of operations, places of listing, targeted customer type, nature of the service provided, market capitalization, industrial competitive landscape and future growth opportunities.

The Agreed Multiple represents the arithmetic average of the earnings multiple of the two Comparables, plus a premium of 0.5 time. The Agreed Multiple is higher than that of the Hong Kong listed Comparable, but lower than that of the mainland listed Comparable (it being noted that the mainland market multiples are typically higher than for comparable companies listed in Hong Kong). In terms of historical profit, the 2018 Pro Forma Profit of the Target Group was higher than the 2018 audited net profit of the Hong Kong listed Comparable, but significantly lower than the 2018 audited net profit of the mainland listed Comparable. After a consideration of these factors, a premium of 0.5 time was added to the arithmetic average of the earnings multiples of the two Comparables to arrive at the Agreed Multiple of 12.98 times. In other words, the valuation of the Target Group, based on 2018 historical earnings multiple, is not only higher than that of the Hong Kong listed Comparable, but 0.5 times higher than the arithmetic mean of the 2018 earnings multiple of the Hong Kong and mainland Comparables. For the purposes of comparison, the Agreed Multiple is slightly more than 50% higher than that of the Hong Kong listed Comparable's historical earnings multiple as at 28 June 2019, and is also higher than the closing market historical earnings multiple of the Company on the same date, which was about 5.7 times.

The Agreed Multiple and hence the Subscription Price were determined after arm's length negotiation between the parties, and reflect Target Group's growth potential after restructuring and investment value. Accordingly, the Directors (including the independent non-executive Directors) consider that the basis of determining the Agreed Multiple and the Subscription Price is fair and reasonable, is based on normal commercial terms, and is in the long-term interests of the Company and Shareholders as a whole.

It was also disclosed in the Announcement that under the Subscription Agreement, the final valuation of the Target Group (for purpose of determining the number of New Targetco Shares to be issued) will be subject to adjustments (on a dollar-to-dollar basis) as a result of the Target Group Restructuring.

The purpose of the Target Group Restructuring is to consolidate the Group's automotive logistics business into the Target Group (mainly through Wuhan United (Demerger II) and regroup the remaining assets or businesses into Wuhan United (Demerger I).

The Target Group Restructuring involves the transfers of companies into and out of the Target Group, and actual fund movements will be necessary under the mainland Chinese laws as part of the transfer process or procedures. There may also be regulatory requirements on the exact purchase prices to be adopted and paid (examples: net asset value rather than market valuation; written down taxation value rather than accounting valuation). Taxation may also be payable or accrued, or can be reduced through the distribution of dividend.

Because the actual process of the Target Group Restructuring has not yet begun, it is not practicable to predict that definitive prices at which the requisite transfers of companies will be conducted at, or the taxation payable. Accordingly, it is not possible to predict at this stage the effect of the Target Group Restructuring on the cash, net asset or liabilities of the Target Group on a pro forma basis.

In coming to an Agreed Multiple and valuation of the Target Group, however, the Subscribers have assumed a certain level of cash and assets that will be held by the Target Group, as well as its liabilities on a pro forma basis. Until the amount of cash inflow or outflow from the Target Group as a result of, as well as the taxation effect on the Target Group Restructuring is determined, neither the Company nor the Subscribers could ascertain the exact cash, net assets or liabilities of the Target Group. Accordingly, once these financial parameters of the Target Group become known, which will only be after the Target Group Restructuring has been or is nearly completed, adjustments may be made to the valuation of the Target Group to take account, on a dollar for dollar basis, any changes in cash or net assets or liabilities as a result of the Target Group Restructuring.

As set out in the section headed "Subscription Price and Subscription of New Targetco Shares" in the Announcement, the Target Group Restructuring will comprise the transfer into the Target Group of minority interest of a company intended to be a wholly-owned subsidiary of the Target Group, the transfer out of the Target Group of a jointly controlled interest in an associate, as well as possible dividend payments to or by the Target Group. To the extent that any such steps will involve the payment of cash, the adjustment to the final valuation of the Target Group will be made on a dollar for dollar basis. Example: if a net amount of HK$10 million is paid by the Target Group to non members of the Target Group, the final valuation of the Target Group will be reduced by HK$10 million. Conversely, if a net amount of HK$20 million dividend is paid to the Target Group by the non-members of the Target Group, the valuation of the Target Group will increase by HK$20 million. Likewise if the liabilities of the Target Group are reduced as a result of the Target Group Restructuring.

The same basis of outward transfer out of the jointly controlled interest will be adopted for the inward transfer of minority interest. Thus, if the minority interest will be transferred inward on net asset value basis, the jointly controlled interest will also be transferred outward on a net asset value basis.

Taking into consideration of the above, the Directors (including the independent non-executive Directors) consider that:

(a) the terms of the arrangements for the determination of the transfer prices and the corresponding adjustments to the final valuation of the Target Group are fair and reasonable, on normal commercial terms and in the interests of the Company and Shareholders as a whole;

(b) the valuation of the Target Group on the basis of the Agreed Multiple and the 2018 Pro Forma Profit that is subject to review and the possible adjustments explained in the Announcement and further explained in this announcement, is fair and reasonable, on normal commercial terms and in the interests of the Company and Shareholders as a whole; and

(c) the terms of the Subscription Agreement, under which the Subscribers will make subscriptions for New Targetco Shares at the Subscription Price at a valuation equal to the Agreed Multiple times the 2018 Pro Forma Profit, subject to review and the adjustments arising from the Target Group Restructuring described in the Announcement and further explained in this announcement, is fair and reasonable, on normal commercial terms and in the interests of the Company and Shareholders as a whole.

Principal business activities of Subscriber A and the Target Group

Subscriber A is a controlling shareholder of the Company which held approximately 56.42% of the total number of issued shares of the Company as at the date of this announcement. To the best knowledge and belief of the Company after having made all reasonable enquiries, Subscriber A is an investment holding company and does not have any direct business operation and activities as at the date of this announcement.

As at the date of this announcement and immediately before the Completion of the Subscription Agreement, Targetco is a wholly-owned subsidiary of the Company. The Target Group is currently engaging in and is, immediately after Completion of the Subscription Agreement, expected to engage in the business of automotive logistics management (including automotive logistics planning consultation and transportation and warehousing services) in the PRC.

Save as disclosed above, the Board confirms that all information in the Announcement remains correct and unchanged.

By order of the Board
China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司
WANG Kunpeng
Executive Director

Hong Kong, 7 August 2019

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