
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



CHINA AUTOMOBILE NEW RETAIL (HOLDINGS) LIMITED 中國汽車新零售(控股)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 526)

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE EXPORT AGENCY AGREEMENT AND THE IMPORT AGENCY AGREEMENT (1) EXCEEDING OF ANNUAL CAPS FOR THE YEAR ENDED 31 MARCH 2021 AND THE NINE MONTHS ENDING 31 DECEMBER 2021; (2) REVISION OF ANNUAL CAPS FOR THE NINE MONTHS ENDING 31 DECEMBER 2021 AND (3) NOTICE OF SPECIAL GENERAL MEETING

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



Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as defined under the section "Definitions" of this circular.

A letter from the Board containing its recommendation is set out on pages 5 to 18 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on pages 19 to 20 of this circular. A letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 41 of this circular. A notice convening the SGM to be held at 14/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong on 17 December 2021, Friday at 11:30 a.m. is set out on pages SGM-1 and SGM-2 of this circular.

Whether or not you are able to attend the SGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable and in any event not later than 48 hours before the time designated for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjourned meeting should you so wish and in such event the relevant form of proxy shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE SGM

Please see page ii of this circular for measures being taken to prevent and control the spread of the COVID-19 pandemic, including but not limited to:

- compulsory temperature check before entering the SGM Venue, and those with a body temperature of over 37.3 degrees Celsius or with the flu-like symptoms or is otherwise unwell will not be admitted to the SGM Venue;
- wearing of surgical face mask is compulsory at any time within the SGM Venue; and
- signing of health declaration form before admission to the SGM Venue.

Any person who declines any of the aforementioned precautionary measures will not be admitted to the SGM Venue. The Company reminds the Shareholders that they may appoint the chairman of the SGM as their proxy to vote on the relevant resolutions at the SGM as an alternative to attending the SGM in person.

CONTENTS

	<i>Page</i>
PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING	ii
DEFINITIONS	1
LETTER FROM THE BOARD	5
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	19
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	21
APPENDIX I – GENERAL INFORMATION	I-1
NOTICE OF SPECIAL GENERAL MEETING	SGM-1

PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

In view of the ongoing COVID-19 pandemic, the Company will implement necessary preventive measures at the SGM to protect attending Shareholders, proxy and other attendees from the risk of infection, including:

- (i) Compulsory body temperature checks for all attendees at the entrance of the SGM venue. Any person with a body temperature of 37.3 degrees Celsius or above will not be allowed to attend the SGM.
- (ii) Prohibition from attendance at the SGM if the attendee has a fever. Persons exhibiting flu-like symptoms may also be refused admittance to the venue of the SGM.
- (iii) All attendees will be required to wear surgical face masks before they are permitted to attend, and during their attendance of, the SGM.
- (iv) Appropriate proper distance between seats in line with the guidance from the Hong Kong Government will be maintained. Attendees are advised to maintain appropriate social distance with each other at all times when attending the SGM.
- (v) Any person who has travelled outside Hong Kong within 14 days immediately before the SGM (“**recent travel history**”), is subject to quarantine or self-quarantine in relation to COVID-19, or has close contact with any person under quarantine or with recent travel history shall not attend the SGM.
- (vi) No refreshments will be provided at the SGM.

To the extent permitted under the laws, regulations and Listing Rules, the Company reserves the rights to deny entry into the SGM venue or require any person, who does not comply with the precautionary measures, to leave the SGM venue in order to ensure the safety of the attendees at the SGM.

The proxy form is attached to the SGM Circular for Shareholders who opt to receive physical circulars. If you are not a registered Shareholder (if your Shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

DEFINITIONS

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

“2018 Announcement”	the announcement of the Company dated 22 November 2018, in relation to, among others, the continuing connected transactions of the Export Agency Agreement and the Import Agency Agreement
“2021 Export Transaction Amount”	the aggregate amount of gross transaction amount paid to Lisi Import & Export for Export Agency Services for the year ended 31 March 2021 in a sum of approximately RMB6.79 million
“2021 Import Transaction Amount”	the aggregate amount of gross transaction amount paid to Lisi Import & Export for Import Agency Services for the year ended 31 March 2021 in a sum of approximately RMB98.66 million
“Announcement”	the announcement of the Company dated 9 June 2021 in respect of, among others, the Export Agency Agreement and the Import Agency Agreement
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	means 9:00 a.m. to 5:00 p.m. on any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are open for normal banking business
“Company”	China Automobile New Retail (Holdings) Limited (stock code: 526), a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“EAA Ratification”	the ratification of the transactions under the Export Agency Agreement for the year ended 31 March 2021 and the period from 1 April 2021 to 31 December 2021 that exceed the respective original annual caps of the Export Agency Agreement
“Export Agency Agreement”	the export agency agreement dated 22 November 2018 entered into between Lisi Import & Export and Lisi Household
“Export Agency Services”	the export agency services provided by Lisi Import & Export to Lisi Household pursuant to the Export Agency Agreement as set out in the 2018 Announcement
“IAA Ratification”	the ratification of the transactions under the Import Agency Agreement for the year ended 31 March 2021 and the period from 1 April 2021 to 31 December 2021 that exceed the respective original annual caps of the Import Agency Agreement
“Import Agency Agreement”	the import agency agreement dated 22 November 2018 entered into between Lisi Import & Export and Lisi Household
“Import Agency Services”	the import agency services provided by Lisi Import & Export to Lisi Household pursuant to the Import Agency Agreement as set out in the 2018 Announcement
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors, namely Mr. He Chengying, Mr. Shin Yick Fabian and Mr. Kwong Kwan Tong, to advise the Independent Shareholders on the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap
“Independent Financial Adviser” or “Lego Corporate Finance”	Lego Corporate Finance Group, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap
“Independent Shareholders”	Shareholders other than Mr. Li, Big-Max Manufacturing Co., Limited and Shi Hui Holdings Limited, together with their respective associates (if any) who are required by the Listing Rules to abstain from voting on the resolutions approving the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap

DEFINITIONS

“Latest Practicable Date”	26 November 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Lisi Group”	利時集團股份有限公司 (Lisi Group Co., Ltd*)
“Lisi Household”	寧波利時日用品有限公司 (Ningbo Lisi Household Products Company Limited*), a wholly foreign owned enterprise established in the PRC and a wholly owned subsidiary of the Company
“Lisi Import & Export”	寧波利時進出口有限公司 (Lisi Import and Export Company Limited*)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Li”	Mr. Li Lixin, an executive Director and a controlling shareholder of the Company
“New JoySun”	寧波新江廈股份有限公司 (New JoySun Corp.*), a limited liability company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company
“percentage ratios”	has the meaning ascribed thereto under the Listing Rules
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Revised Export Annual Cap”	the revised maximum aggregate annual amount of service fees payable by Lisi Household to Lisi Import and Export for Export Agency Services under the Export Agency Agreement for the period from 1 April 2021 and ending 31 December 2021
“Revised Import Annual Cap”	the revised maximum aggregate annual amount of service fees payable by Lisi Household to Lisi Import & Export for Import Agency Services under the Import Agency Agreement for the period from 1 April 2021 and ending 31 December 2021
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	a special general meeting of the Company to be convened to consider, and if thought fit, to approve the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap
“SGM Venue”	14/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“USD”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures. Any discrepancy in any table between totals and sums of amounts listed in this circular is due to rounding.

For the purpose of this circular and for illustrative purposes only, unless the context otherwise requires, conversion of RMB to HK\$ is based on the exchange rate of HK\$1.08 to RMB1.00, and should not be construed as a representation that any amount has been, could have been or may be, exchanged at this or any other rate.

LETTER FROM THE BOARD



CHINA AUTOMOBILE NEW RETAIL (HOLDINGS) LIMITED 中國汽車新零售（控股）有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 526)

Executive Directors:

Mr. Li Lixin
Mr. Cheng Jianhe
Ms. Jin Yaxue

Non-Executive Director:

Ms. Cheng Weihong

Independent Non-Executive Directors:

Mr. He Chengying
Mr. Shin Yick Fabian
Mr. Kwong Kwan Tong

Registered Office:

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:

Workshop 06 & 07, 36th Floor,
King Palace Plaza
No.52A Sha Tsui Road
Tsuen Wan, New Territories
Hong Kong

30 November 2021

To the Shareholders

Dear Sir/Madam

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE EXPORT AGENCY AGREEMENT AND
THE IMPORT AGENCY AGREEMENT
(1) EXCEEDING OF ANNUAL CAP FOR THE YEAR ENDED 31 MARCH 2021
AND THE NINE MONTHS ENDING 31 DECEMBER 2021;
(2) REVISION OF ANNUAL CAP FOR THE NINE MONTHS ENDING 31 DECEMBER 2021
AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the 2018 Announcement and the Announcement.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with (i) further details of the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders; (iv) other information as required to be disclosed under the Listing Rules; and (v) a notice of the SGM and a form of proxy.

THE EXPORT AGENCY AGREEMENT

Terms of the Export Agency Agreements are set out below:

Date

22 November 2018

Parties

- (i) 寧波利時進出口有限公司 (Lisi Import and Export Company Limited*); and
- (ii) 寧波利時日用品有限公司 (Ningbo Lisi Household Products Company Limited*).

Lisi Import & Export is a connected person of the Company.

Subject Matter

Lisi Import & Export provides export agency services to Lisi Household pursuant to the Export Agency Agreement. These services include assisting Lisi Household on handling government applications, settlement services and other liaison services between local government departments and the customers. The Government applications are mainly customs declarations. The major category of products involved are plastic and metal household products. Lisi Import & Export provides all such services for every transaction assigned by the Group.

Term

The Export Agency Agreement is for a term of three years commenced from 1 January 2019 and ending on 31 December 2021.

LETTER FROM THE BOARD

Consideration

For the provision of the export agency services, Lisi Import & Export charges an amount equivalent to approximately 1.11% (subject to the change of the value added tax rebate on exports) of the gross transactions amounts handled by Lisi Import & Export on behalf of Lisi Household. The rate of value added tax was 16% and the tax rebate was 13%. Change in the tax rebate from 0% to 16% will result in change in the rate of the export service fee from approximately 0.98% to 1.16% respectively. The actual export service fee in RMB is subject to exchange rate fluctuations. The service fee is payable after completion of each transaction with the usual credit term of 30-60 days which is no less favourable than those offered by other independent third party agents. The rate of service fees was determined after arm's length negotiations by the parties with reference to the market rates of comparable companies engaging in similar services.

Exceeding the Annual Cap for the year ended 31 March 2021

In the course of finalising the annual results of Group for the year ended 31 March 2021, it has come to the attention of the Company that 2021 Export Service Fees for Export Agency Services for the year ended 31 March 2021 was approximately RMB6.79 million and therefore exceeds the original annual cap for Export Agency Services of RMB6.25 million.

The exceeding of the annual cap for Export Agency Services for the year ended 31 March 2021 was mainly due to the increase in export volume. The global supply chain was suspended due to the novel coronavirus pandemic in 2020. Since the second quarter of 2020, alongside the effective control of the pandemic in China, Chinese production has recovered with growth of export volume. During the period from 1 April 2020 to 31 March 2021, the export volume of plastic and metal hardware products of the Group increased. The 2021 Export Service Fees therefore increased and exceeded the origin annual cap for Export Agency Services for the year ended 31 March 2021.

Exceeding the original annual cap for the nine months ending 31 December 2021 under the Export Agency Agreement and the Revised Export Annual Cap

As stated in the 2018 Announcement, the annual cap of service fees payable to Lisi Import & Export for Export Agency Services for the period from 1 April 2021 to 31 December 2021 was RMB5.25 million. The annual cap for Export Agency Services was determined by the Directors with reference to, among others, (i) the amount of past transactions between Lisi Import & Export and Lisi Household and the actual service fees paid up to 31 March 2018; (ii) the estimated annual sales of Lisi Household of approximately USD68 million for the calendar year of 2019; (iii) the expected growth of the business of Lisi Household at the rate of 10% per annum and the corresponding increase in the service fees payable for the calendar years of 2020 and 2021; and (iv) buffer for the annual growth and the impact of exchange rate fluctuation on export activities (assuming further depreciation of the RMB exchange rate for up to 5% per year).

LETTER FROM THE BOARD

The estimated growth rate of the business of Lisi Household of 10% per annum was based on, among others, the following assumptions: (i) the modest sales growth of Lisi Household supported by continuous exchange rate depreciation of RMB in coming years widely expected in the market; (ii) the strength of Lisi Household in maintaining and enlarging its customer base; and (iii) the continuous effort of the Group in cost control measures and business strategy of focusing on higher margin products and customers and development of new products and customers.

The orders from overseas surged during the first quarter of 2021. For the period between April 2021 and September 2021, the export orders received by Lisi Household have increased substantially and the actual export volume of the Group increased about 35% when it is compared with the corresponding period in 2020. The Company was of the view that the increase was due to the close of factories and suspension of manufacturing process in other Asian countries under their lockdown policies which render overseas buyers sourcing products from manufacturers in the PRC. The Group therefore received large amount of orders.

The actual transaction amounts involved under the Export Agency Agreement for the period from 1 April 2021 to 15 November 2021 are set out below:

Month	Actual amount involved for the period from 2021 April to 15 November 2021 (unaudited) RMB	Accumulated amount involved for the period from 2021 April to 15 November 2021 (unaudited) RMB
April	601,000	601,000
May	679,000	1,280,000
June	692,000	1,972,000
July	792,000	2,764,000
August	763,000	3,527,000
September	668,000	4,195,000
October	854,000	5,049,000
1 November 2021 to 15 November 2021	402,000	5,451,000

The accumulated amount involved for the period from 1 April 2021 to the Latest Practicable Date therefore has exceeded the original annual cap of the Export Agency Agreement of RMB5.25 million for the period from 1 April 2021 to 31 December 2021.

As disclosed above, as the demand of the products increased and the Company was of the view that cessation of conducting the transactions under the Export Agency Agreement may disrupt the normal operation of business of the Group and hence it has no alternative but to continue to perform the obligations under the Export Agency Agreement and accept the orders in order to maintain the normal operation of the business of the Group. In the meantime, it took additional time for the Company to prepare the annual financial results for the financial year ended 31 March 2021 which in turn affects the preparation of this circular relating to the continuing connected transactions contemplated under the Export Agency Agreement, the Company therefore failed to obtain the Shareholders' approval in respect of the Revised Export Annual Cap before the original annual cap for the nine months ending 31 December 2021 under the Export Agency Agreement was exceeded.

LETTER FROM THE BOARD

The Company noted there is a non-compliance of Rule 14A.54(1) and is in the course of re-complying the Listing Rules requirements by seeking ratification from the Independent Shareholders.

The independent non-executive Directors noted that although the situation encountered by the Company was unusual, they agreed that the issues must be addressed and resolved so as to avoid the reoccurrence of the non-compliance. In view of the fact that more personnel having joined and will be joining the Group to support the corporate governance matter of the Group and together with the measures mentioned under the paragraph headed “non-compliance”, the independent non-executive Directors are of the view that the measures would be implemented strictly and effectively and the internal control procedures mentioned therein would be further strengthen to prevent the reoccurrence of the incidents again.

In view of the factors above, the Board is of the view that the trend will continue. As such, taking into account of the amount of service fees paid to Lisi Import & Export for Export Agency Services for the year ended 31 March 2021, the expectation of increase in demand of export agency services and the increase in the volume of sales, the Company proposes to set Revised Export Annual Cap of service fees payable to Lisi Import & Export for Export Agency Services pursuant to the Export Agency Agreement for the period from 1 April 2021 to 31 December 2021 as RMB7.125 million.

The terms and conditions, pricing basis and payment terms of the Export Agency Agreement, as detailed in the 2018 Announcement, remain unchanged.

The Directors (including the independent non-executive Directors whose opinions will further set out in the letter from the Independent Board Committee to be included in the circular) are of the view that the EAA Ratification and the Revised Export Annual Cap of the Export Agency Services for the period from 1 April 2021 to 31 December 2021, are fair and reasonable and on normal commercial terms or better and in the ordinary and usual course of business of the Group and are in the interest of the Company and the Shareholders as a whole. Mr. Li, who is an executive Director and the controlling shareholder of the Company, has abstained from voting on the Board resolutions approving the EAA Ratification and the Revised Export Annual Cap.

THE IMPORT AGENCY AGREEMENT

Terms of the Import Agency Agreement are set out below:

Date

22 November 2018

Parties

- (i) 寧波利時進出口有限公司 (Lisi Import and Export Company Limited*); and
- (ii) 寧波利時日用品有限公司 (Ningbo Lisi Household Products Company Limited*).

Lisi Import & Export is a connected person of the Company.

LETTER FROM THE BOARD

Subject Matter

Lisi Import & Export provides import agency services to Lisi Household pursuant to the Import Agency Agreement. These services include the handling of government applications, settlement services and the provision of guarantees in respect of payment obligations under raw materials or goods purchase contracts entered into between Lisi Household with other third parties. The government applications includes customs declarations and tax refund. The major category of products involved are raw materials such as polypropylene and copolyester. Lisi Import & Export provides all such services for every transaction assigned by the Group. In providing the import agency services, due to customs declaration, it is necessary for Lisi Import & Export to purchase the products in its name and resell the products to the Group at costs.

Term

The Import Agency Agreement is for a term of three years commenced from 1 January 2019 and ending on 31 December 2021.

Consideration

Lisi Household purchases raw materials or goods from Lisi Import & Export at costs to Lisi Import & Export. In addition, for the provision of the import agency services, Lisi Import & Export charges an amount equivalent to 0.6% of the gross transaction amounts handled by Lisi Import & Export on behalf of Lisi Household, which is at a discount when compared to the fees charged by Lisi Import & Export against other customers. The purchase price and the service fees are payable after completion of each transaction with the usual credit term of 30-45 days which is no less favourable than those offered by other independent third party agents. The Board is of the view that the terms of the Import Agency Agreement are on normal commercial terms or better because they were determined after arm's length negotiations by the parties with reference to the market rates of comparable companies engaging in similar service.

According to the current business model of Lisi Household, Lisi Import and Export accepts orders from its customers, it will then arrange Lisi Household to manufacture the products and supply the raw material purchased from overseas for Lisi Household's consumption by selling the raw material at costs to Lisi Household. The finished products manufactured by Lisi Household will then be exported to overseas market through Lisi Import and Export. This business model helps to reduce the production costs and ensure the smooth operation of the business Lisi Household. As such, it is necessary to maintain the Import Agency Agreement. While the costs of raw material increased, the consideration involved in the transaction contemplated under the Import Agency Agreement increased and the Group therefore would like to propose to have the Revised Import Annual Cap details of which are set out below.

LETTER FROM THE BOARD

Exceeding the Annual Cap for the year ended 31 March 2021

In the course of finalising the annual results of the Group for the year ended 31 March 2021, it has come to the attention of the Company that 2021 Import Transaction Amount for Import Agency Services for the year ended 31 March 2021 was approximately RMB98.66 million and therefore exceeds the annual cap for Import Agency Services of RMB85.42 million.

The exceeding of the annual cap for Import Agency Services for the year ended 31 March 2021 was mainly due to the increase in import volume and the raw material and the inflation caused by the increase of the cost of the raw material. The global supply chain was suspended due to the novel coronavirus pandemic in 2020. Since the second quarter of 2020, alongside the effective control of the pandemic in China, Chinese production has recovered with growth of export volume. During the period from 1 April 2020 to 31 March 2021, the export volume of plastic and metal hardware products of the Group increased. In the meantime, starting from the second half of 2020, there has been an overall inflation of global commodities and the raw material. The 2021 Import Transaction Amount therefore increased and exceeded the original annual cap for Import Agency Services for the year ended 31 March 2021.

Exceeding the original annual cap for the nine months ending 31 December 2021 under the Import Agency Agreement and Revised Import Annual Cap

As stated in the 2018 Announcement, the annual cap of gross transaction amounts payable to Lisi Import & Export for Import Agency Services for the period from 1 April 2021 to 31 December 2021 was RMB68.75 million. The annual cap for Import Agency Services was determined by the Directors with reference to, among others, (i) the amount of past transactions between Lisi Import & Export and Lisi Household and the actual gross transaction amounts up to 31 March 2018, (ii) the estimated annual purchase of Lisi Household for calendar year of 2019, (iii) the expected growth of the business of Lisi Household at the rate of 10% per annum for the calendar years of 2020 and 2021, and (iv) buffer for the annual growth and the impact of exchange rate fluctuation on import activities (assuming further depreciation of the RMB exchange rate for 5% per year).

For the period between April 2021 and September 2021, the export orders received by Lisi Household have increased substantially and the actual export volume of the Group increased about 35% when it is compared with the corresponding period in 2020. Lisi Household therefore purchases more raw materials or goods from Lisi Import & Export. In the meantime, the costs of the raw material increased about 15%. For example, the costs of the plastic raw material has increased for about 30% for the period of April 2021 to September 2021.

The orders from overseas surged during the first quarter of 2021. The Company was of the view that the increase was due to the close of factories and suspension of manufacturing process in other Asian countries under their lockdown policies which render overseas buyers sourcing products from manufacturers in the PRC. The Group therefore received large amount of orders.

LETTER FROM THE BOARD

The actual transaction amounts involved for the period from 1 April 2021 to 31 October 2021 are set out below:

Month	Actual amount involved for the period from 2021 April to 31 October 2021 (unaudited) RMB	Accumulated amount involved for the period from 2021 April to 31 October 2021 (unaudited) RMB
April	3,697,000	3,697,000
May	9,699,000	13,396,000
June	11,801,000	25,197,000
July	11,860,000	37,057,000
August	12,215,000	49,272,000
September	8,349,000	57,621,000
October	11,900,000	69,521,000

The accumulated amount involved for the period from 1 April 2021 to the Latest Practicable Date therefore has exceeded the original annual cap of the Import Agency Agreement of RMB68.75 million for the period from 1 April 2021 to 31 December 2021.

As disclosed above, as the demand of the products increased and the Company was of the view that cessation of conducting the transactions under the Import Agency Agreement may disrupt the normal operation of business of the Group and hence it has no alternative but to continue to perform the obligations under the Import Agency Agreement and accept the orders in order to maintain the normal operation of the business of the Group. In the meantime, it took additional time for the Company to prepare the annual financial results for the financial year ended 31 March 2021 which in turn affects the preparation of this circular relating to the continuing connected transaction contemplated under the Import Agency Agreement, the Company therefore failed to obtain the Shareholders' approval in respect of the Revised Import Annual Cap before the original annual cap for the nine months ending 31 December 2021 under the Import Agency Agreement was exceeded.

The Company noted there is a non-compliance of Rule 14A.54(1) and is in the course of re-complying the Listing Rules requirements by seeking ratification from the Independent Shareholders.

The independent non-executive Directors noted that although the situation encountered by the Company was unusual, they agreed that the issues must be addressed and resolved so as to avoid the reoccurrence of the non-compliance. In view of the fact that more personnel having joined and will be joining the Group to support the corporate governance matter of the Group and together with the measures mentioned under the paragraph headed "non-compliance", the independent non-executive Directors are of the view that the measures would be implemented strictly and effectively and the internal control procedures mentioned therein would be further strengthened to prevent the reoccurrence of the incidents again.

LETTER FROM THE BOARD

In view of the factors above, the Board is of the view that the trend will continue. As such, taking into account of the 2021 Import Transaction Amount paid to Lisi Import & Export for Import Agency Services for the year ended 31 March 2021, the expectation of increase in demand of import agency services, and the increase of the costs of the raw material and the annual import volume, the Company proposes to set the Revised Import Annual Cap of gross transaction amount payable to Lisi Import & Export for Import Agency Services pursuant to the Import Agency Agreement for the period from 1 April 2021 to 31 December 2021 as RMB102.75 million.

The terms and conditions, pricing basis and payment terms of the Import Agency Agreement, as detailed in the 2018 Announcement, remain unchanged.

INTERNAL CONTROL MEASURES RELATING TO PRICING POLICY

The Company has established various internal control measures in order to ensure that the transactions under the Export Agency Agreement and the Import Agency Agreement will be conducted in accordance with the pricing policies of the Group and the terms of the Export Agency Agreement and the Import Agency Agreement are on normal commercial terms or on terms no less favourable than those offered by independent third parties for similar products or services in its ordinary and usual course of business. Such internal control measures mainly include the following:

- The management obtains price quotation from at least two independent service providers (subject to practical availability and feasibility) at least once per year, taking into account factors including the relevant experience, capability and available resources of the service providers (“**Factors**”), to ensure the service providers’ quality standards.
- In the event that the pricing terms and the Factors offered by Lisi Group are not considered to be comparable with the pricing terms and the Factors offered by the other independent service providers, the Group will not approve and accept the price quotation from Lisi Group. The final acceptance of price quotation offered by Lisi Group shall be approved by the senior management of the Group in accordance with the pricing policies of the Group and will not be prejudicial to the interests of the Group and the shareholders of the Company as a whole.
- The operation team of the Company conducts regular checks (once per quarter) on whether the transaction under the Export Agency Agreement and the Import Agency Agreement are in accordance with the agreed service contract terms.
- The independent non-executive Directors and the auditor of the Company will conduct annual review with respect to the continuing connected transactions of the Company throughout the preceding financial year and confirm on the transactional amounts and terms of the continuing connected transactions in the annual report of the Company pursuant to the requirements under the Listing Rules, and to ensure that the transactions are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of the relevant agreements governing the continuing connected transactions.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors whose opinions will further set out in the letter from the Independent Board Committee to be included in the circular) are of the view that the IAA Ratification and the Revised Import Annual Cap of the Import Agency Services for the year from 1 April 2021 to 31 December 2021, are fair and reasonable and on normal commercial terms or better and in the ordinary and usual course of business of the Group and are in the interest of the Company and the Shareholders as a whole. Mr. Li, who is an executive Director and the controlling shareholder of the Company, has abstained from voting on the Board resolutions approving the IAA Ratification and the Revised Import Annual Cap.

GENERAL INFORMATION ON THE PARTIES

The Group

The Company is an investment holding company and the Group is principally engaged in the trading of imported cars. Together with subsidiaries, the Company operates business through six segments: (i) the car trading platform segment is engaged in providing imported cars platform services and property rental services (ii) the car-sale segment is engaged in the trading of imported cars; (iii) the manufacturing and trading segment is engaged in the manufacture and trading of plastic and metallic household products; (iv) the retail segment is engaged in the management of department stores and the operation of supermarket operation; (v) the wholesale segment is engaged in the wholesales of wine and beverages and electrical appliances and (vi) the investments holding segment is engaged in the debts management and the investment in equity securities.

Information about Lisi Import and Export

Lisi Import & Export is principally engaged in import and export of goods and materials in the PRC.

REASONS FOR AND BENEFITS OF THE EXPORT AGENCY AGREEMENT, REVISED EXPORT ANNUAL CAP AND EAA RATIFICATION, THE IMPORT AGENCY AGREEMENT AND REVISED IMPORT ANNUAL CAP AND IAA RATIFICATION

The Export Agency Agreement and Import Agency Agreement will ensure the export and import agency services provided by Lisi Import & Export which are necessary for the continued smooth operation of Lisi Household's business.

Having taken into account the above factors under the paragraph headed "Exceeding the original annual cap for the nine months ending 31 December 2021 under the Export Agency Agreement and the Revised Export Annual Cap" under the section headed "The Export Agency Agreement" the paragraph headed "Exceeding the original annual cap for the nine months ending 31 December 2021 under the Import Agency Agreement and the Revised Import Annual Cap" under the section headed "The Import Agency Agreement", the Directors (including the independent non-executive Directors whose opinions will set out in the letter from the Independent Board Committee to be included in the circular) are of the view that EAA Ratification, Revised Export Annual Cap, IAA Ratification and the Revised Import Annual Cap are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Mr. Li, who is an executive director and the controlling shareholder of the Company, has abstained from voting on the Board resolutions approving EAA Ratification, Revised Export Annual Cap, IAA Ratification and the Revised Import Annual Cap.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

Lisi Import & Export is owned as to 80% by Lisi Group and approximately 18.18% by a company wholly owned by Mr. Li, an executive Director and controlling shareholder of the Company, and his son. Lisi Group is beneficially owned as to 98.18% by Mr. Li and his son. Therefore, Lisi Import & Export and Lisi Group are connected persons of the Company. As a result, the Export Agency Agreement and the Import Agency Agreement constitute continuing connected transactions for the Company.

The relevant percentage ratios in respect of the proposed Revised Export Annual Cap was more than 0.1% but less than 5%. However as the transactions contemplated under the Export Agency Agreement and Import Agency Agreement are of similar nature which form part of the import and export business of the Group, the Revised Export Annual Cap and Revised Import Annual Cap are aggregated and as the relevant percentage ratios in respect of the Export Agency Agreement and the Import Agency Agreement with respect to the aggregate values of the proposed Revised Export Annual Cap and the Revised Import Annual Cap are more than 5%, the Export Agency Agreement of the Import Agency Agreement constitute continuing connected transactions which are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.54(1) of the Listing Rules, as the 2021 Export Transaction Amount exceeds the original annual cap for the Export Agency Services for the year ended 31 March 2021; the actual transaction amount for the period from 1 April 2021 to the Latest Practicable Date has exceeded the original annual cap for the Export Agency Services for the nine months period ending 31 December 2021; the 2021 Import Transaction Amount exceeds the original annual cap for the Import Agency Services for the year ended 31 March 2021; and the actual transaction amount for the period from 1 April 2021 to the Latest Practicable Date has exceeded the original annual cap for the Import Agency Service for the nine months period ending 31 December 2021, the Company is in the process of re-complying with the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

At the SGM, any Shareholder with a material interest in the relevant resolution(s) to be passed at the SGM is required to abstain from voting on the resolutions to be put forward to the independent Shareholders for approving the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap. Mr. Li, Big-Max Manufacturing Co., Limited and Shi Hui Holdings Limited, which directly owns 17,822,000 Shares, 1,382,141,014 Shares & 1,355,174,666 Shares representing approximately 0.22%, 17.18% and 16.85% of the issued share capital of the Company as at the Latest Practicable Date respectively will abstain from voting on such resolutions at the SGM.

LETTER FROM THE BOARD

The Independent Board Committee has been established to advise the Independent Shareholders as to whether the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap thereunder are fair and reasonable, on normal commercial terms or better and in the interest of the Company and the Independent Shareholders as a whole and on how to vote. Your attention is drawn to the letter from the Independent Board Committee is set out on pages 19 to 20 of this circular.

Lego Corporate Finance has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Your attention is drawn to the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders as set out from pages 21 to 41 of this circular.

Non-compliance

The orders from overseas surged during the first quarter of 2021. The Company was of the view that the increase was due to the close of factories and suspension of manufacturing process in other Asian countries under their lockdown policies which render overseas buyers sourcing products from manufacturers in the PRC. The Group therefore received large amount of orders. In the meantime, the operation team of the Group usually reviews the transaction amount under the Export Agency Agreement and the Import Agency Agreement and other agreements about two weeks after the end of a quarter. Due to the lack of experience on handling such large amount of orders and shortage of manpower, the operation team paid all their attention and focus on processing the orders and failed to alert the corporate governance team of the Group during the course of operation of the business. Due to the sudden increase of the workloads, the review conducted by the operation team was also postponed a bit. By the end of April 2021 and immediately before the long holidays of labour days in China, when the operation team reviewed the transaction amount of under the Export Agency Agreement and the Import Agency Agreement, they realised it exceeded the cap under the Export Agency Agreement and the Import Agency Agreement. They therefore informed the corporate governance team of the Group. After the labour day holidays, the corporate governance team requested the officers to review and double confirmed the calculations again. After confirmation, the Group engaged lawyers to assist it to prepare the announcement relating to the breach of cap and informed the Stock Exchange.

As the operation team did not report to the corporate governance team the actual amount increased on time, the corporate governance team was not aware of the exceeding of the thresholds and failed to timely report to the all Directors.

The operation team which was assigned by the Group to be responsible for the business operation was supposed to report to the corporate governance team within two weeks after the end of each quarter the actual amount involved in the transactions contemplated under the Export Agency Agreement and the Import Agency Agreement. Usually, the actual amounts are within the relevant cap set by the Board as the Board sets the caps on reasonable basis in accordance with their experience and understanding of the business of the Group. Upon receiving the information, the corporate governance team would check whether it is still within the limit of the original annual cap for the Export Agency Agreement and the Import Agency Agreement. However, no such report was made to the corporate governance team at the time when the caps were exceeded (as the situation of year 2021 was unusual and the team did not encounter in the past and the relevant staff was not sensitive enough to spot the issue) and the regular review was slightly postponed due to the busy manufacturing/operation schedule, the corporate governance team therefore accordingly failed to track the utilization of the annual caps.

LETTER FROM THE BOARD

The Directors consider that the failure to re-comply with the requirements under Rule 14A.54(1) of the Listing Rules on a timely basis in respect of the transactions under the Export Agency Agreement and the Import Agency Agreement for the year ended 31 March 2021 and the nine months period ending 31 December 2021 was an inadvertent oversight and an isolated event. At the time when the Company noted incidents, the Company immediately carried out some remedial measures such as immediately examined the coordination and reporting path for conducting all continuing connected transactions, and promptly assigned the finance manager in Hong Kong office to oversee all transactions to make sure all continuing connected transactions of the Company will comply with the Listing Rules and all other laws and regulations.

In order to avoid the occurrence of similar events in the future, the Company adopts the following measures:

1. the Board has enhanced the training provided to the Directors, the senior management and responsible finance staff by engaging its legal advisers to give seminars on the compliance requirements and practical knowledge of notifiable transactions (including the continuing connected transactions) to its staff, so as to reinforce their understanding of and to emphasize the importance of compliance with the Listing Rules. The Board has resolved to request the Directors to attend the directors training twice every year starting from 2022;
2. the Company has strengthened the implementation of its internal control system on transactions by designating a newly recruited staff as legal officer (法律專員) to be responsible for internal control and in particular to monitor and oversee all the on-going transactions (including the continuing connected transactions), and to ensure the effective coordination and communication between various departments of the Company, including the finance department, the business department and the Board. The legal officer will report to the Directors regularly (every month); and
3. a working group comprising members from Hong Kong and the PRC has been set up to ensure the operational internal control procedures are fully implemented
4. the Board will engage an expert which will conduct annual internal control assessment.
5. the operation team and the corporate governance team of the Company are responsible for collecting data and statistics of the continuing connected transactions under the Export Agency Agreement and the Import Agency Agreement to ensure the respective Revised Export Annual Cap and the Revised Import Annual Cap approved are not exceeded.

SGM

The Company will convene the SGM at 14/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong on 17 December 2021, Friday at 11:30 a.m. for the Independent Shareholders to consider, and if thought fit, to approve, among other things, the EAA Ratification, the Revised Export Annual Report, the IAA Ratification and the Revised Import Annual Cap.

LETTER FROM THE BOARD

The notice of the SGM is set out on pages SGM-1 and SGM-2 of this circular. The voting on resolutions to be proposed at the SGM will be conducted by way of poll in accordance with Rule 13.39(4) of the Listing Rules.

The Company will publish an announcement on the results of the SGM with respect to whether or not the proposed resolutions have been passed by the Independent Shareholders.

A form of proxy is enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event no later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish and in such event the relevant form of proxy shall be deemed to be revoked.

RECOMMENDATION

Your attention is drawn to the letter of the Independent Board Committee set out on pages 19 to 20 of this circular, and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 21 to 41 of this circular in respect of the EAA Ratification, the Revised Export Annual Cap the IAA Ratification and the Revised Import Annual Cap.

The Board (including the members of the Independent Board Committee, having considered the views of the Independent Financial Advisers) considers that the terms of the EAA Ratification, the Revised Export Annual Cap the IAA Ratification and Revised Import Annual Cap are on normal commercial terms, fair and reasonable, and the EAA Ratification, the Revised Export Annual Cap the IAA Ratification and the Revised Import Annual Cap is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the members of the Independent Board Committee, having considered the views of the Independent Financial Advisers) recommends the Independent Shareholders to vote in favour of the resolutions approving the EAA Ratification, the Revised Export Annual Cap the IAA Ratification and Revised Import Annual Cap at the SGM.

FURTHER INFORMATION

Your attention is also drawn to the information set out in the Appendices to this circular.

Yours faithfully,

For and on behalf of the Board

CHINA AUTOMOBILE NEW RETAIL (HOLDINGS) LIMITED

Cheng Jianhe

Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CHINA AUTOMOBILE NEW RETAIL (HOLDINGS) LIMITED
中國汽車新零售（控股）有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 526)

30 November 2021

To the Independent Shareholders

Dear Sir or Madam

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE EXPORT AGENCY AGREEMENT
THE IMPORT AGENCY AGREEMENT
(1) EXCEEDING OF ANNUAL CAP FOR THE YEAR ENDED 31 MARCH 2021;
(2) REVISION OF ANNUAL CAP FOR THE NINE MONTHS ENDING 31 DECEMBER 2021
AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

We refer to the circular dated 30 November 2021 (the “**Circular**”) issued by the Company of which this letter forms part. Unless the context otherwise requires, terms and expressions defined in the Circular have the same meanings herein.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap are fair and reasonable, whether the Ratification and Revised Import Annual Cap are on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Independent Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser. Lego Corporate Finance has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to (i) the letter from the Board as set out on pages 5 to 18 of the Circular; (ii) the letter from the Independent Financial Adviser as set out on pages 21 to 41 of the Circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders in relation to the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap as well as the principal factors and reasons considered by the Independent Financial Adviser in arriving at its recommendation; and (iii) the additional information as set out in the Appendices to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

After taking into account the factors and reasons considered by the Independent Financial Adviser and its conclusion and advice, we concur with its views and consider that (i) the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap are fair and reasonable as far as the Independent Shareholders are concerned; (ii) the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap are on normal commercial terms and are in the ordinary and usual course of business of the Group; and (iii) are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favor of the resolutions to be proposed at the SGM to approve the EAA Ratification, Revised Export Annual Cap, IAA Ratification and the Revised Import Annual Cap.

Yours faithfully

For and on behalf of the

Independent Board Committee

Mr. Kwong Kwan Tong

Mr. He Chengying

Mr. Shin Yick Fabian

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap, which has been prepared for the purpose of inclusion in this circular.



30 November 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE EXPORT AGENCY AGREEMENT AND
THE IMPORT AGENCY AGREEMENT
(1) EXCEEDING OF ANNUAL CAP
FOR THE YEAR ENDED 31 MARCH 2021
AND THE NINE MONTHS ENDING 31 DECEMBER 2021;
AND
(2) REVISION OF ANNUAL CAP
FOR THE NINE MONTHS ENDING 31 DECEMBER 2021**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap, details of which are set out in the Letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 30 November 2021 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

References are made to the 2018 Announcement and the Announcement in respect of, among other things, the Export Agency Agreement and the Import Agency Agreement entered into between Lisi Household and Lisi Import & Export, pursuant to which Lisi Import & Export agreed to provide Export Agency Services and Import Agency Services to Lisi Household for a term of three years commencing from 1 January 2019 to 31 December 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Announcement, in the course of finalising the annual results of the Group for the year ended 31 March 2021, it has come to the attention of the Board that (i) the 2021 Export Transaction Amount has exceeded the original annual cap for the Export Agency Services (the “**Original Export Annual Cap(s)**”) for the year ended 31 March 2021 of RMB6.25 million; and (ii) the 2021 Import Transaction Amount has exceeded the original annual cap for the Import Agency Services (the “**Original Import Annual Cap(s)**”) for the year ended 31 March 2021 of RMB85.42 million. The Company proposes (i) to ratify the Original Export Annual Cap for the year ended 31 March 2021 by an amount equals to the 2021 Export Transaction Amount; and (ii) to ratify the Original Import Annual Cap for the year ended 31 March 2021 by an amount equals to the 2021 Import Transaction Amount. Also, in response to the 2021 Export Transaction Amount and the 2021 Import Transaction Amount, and the expected increase in demand for the Export Agency Services and the Import Agency Services to be provided to the Company, the Company proposes to revise (i) the annual cap for the Export Agency Services for the nine months ending 31 December 2021 from RMB5.25 million to RMB7.125 million; and (ii) the annual cap for the Import Agency Services for the nine months ending 31 December 2021 from RMB68.75 million to RMB102.75 million.

Pursuant to Rule 14A.54 of the Listing Rules, the Company is required to re-comply with the reporting, announcement and independent shareholders’ approval requirements for the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap.

As at the Latest Practicable Date, Lisi Import & Export is owned as to (i) 80% by Lisi Group which is beneficially owned as to 98.18% by Mr. Li, an executive Director and controlling shareholder of the Company, and his son; and (ii) approximately 18.18% by a company wholly owned by Mr. Li and his son. Therefore, Lisi Import & Export is a connected person of the Company. Accordingly, the transactions contemplated under the Export Agency Agreement and the Import Agency Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The relevant percentage ratios in respect of the proposed Revised Export Annual Cap is more than 0.1% but less than 5%. However, as the transactions contemplated under the Export Agency Agreement and the Import Agency Agreement are of similar nature which form part of the import and export business of the Group, the Revised Export Annual Cap and the Revised Import Annual Cap are aggregated and the relevant percentage ratios in respect of the Export Agency Agreement and the Import Agency Agreement with respect to the aggregate values of the proposed Revised Export Annual Cap and the Revised Import Annual Cap are more than 5%, the Export Agency Agreement (including the Revised Export Annual Cap) and the Import Agency Agreement (including the Revised Import Annual Cap) are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapters 14 and 14A of the Listing Rules.

The resolution(s) approving the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap will be voted on by the Independent Shareholders by poll at the SGM. Mr. Li, Big-Max Manufacturing Co., Limited and Shi Hui Holdings Limited and their respective associates will be required to abstain from voting on the resolution(s) approving the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap at the SGM. To the best knowledge of the Directors after having made all reasonable enquiries, save for disclosed above, no other Shareholder has a material interest in the Export Agency Agreement and the Import Agency Agreement and therefore no other Shareholder will be required to abstain from voting on the resolution(s) approving the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap at the SGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. He Chengying, Mr. Shin Yick Fabian and Mr. Kwong Kwan Tong, has been established to advise the Independent Shareholders as to whether the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole, and to advise the Independent Shareholders as to whether to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap. In our capacity as the Independent Financial Adviser, our role is to provide an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with the Company or any parties to the Export Agency Agreement and the Import Agency Agreement, or close associate or core connected person of the Company or any parties to the Export Agency Agreement and the Import Agency Agreement that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, there was no engagement between the Company and Lego Corporate Finance Limited. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us by the Directors and/or the management of the Group, for which they are solely and wholly responsible for, or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the SGM. We have also assumed that all such statements of belief, opinions and intentions of the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Group and/or the advisers of the Group. We have also sought and received confirmation from the management of the Group that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the SGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, Lisi Import & Export or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap, we have taken into account the following principal factors and reasons:

1. Background information of the Group and Lisi Import & Export

1.1 Information on the Group

The Company is an investment holding company principally engaged in the trading of imported cars. Together with subsidiaries, the Group operates business through six segments: (i) the car trading platform segment is engaged in providing imported cars platform services and property rental services; (ii) the car-sale segment is engaged in the trading of imported cars; (iii) the manufacturing and trading segment is engaged in the manufacture and trading of plastic and metallic household products; (iv) the retail segment is engaged in the management of department stores and the operation of supermarket operation; (v) the wholesale segment is engaged in the wholesales of wine and beverages and electrical appliances; and (vi) the investments holding segment is engaged in the debts management and the investment in equity securities.

Lisi Household is a wholly foreign owned enterprise established in the PRC and a wholly owned subsidiary of the Company. Lisi Household is principally engaged in manufacturing and trading of plastic and metallic household products.

1.2 Lisi Import & Export

Lisi Import & Export is a company established under the laws of the PRC and is principally engaged in import and export of goods and materials in the PRC. As at the Latest Practicable Date, Lisi Import & Export is owned as to (i) 80% by Lisi Group which is beneficially owned as to 98.18% by Mr. Li, an executive Director and controlling shareholder of the Company, and his son; and (ii) approximately 18.18% by a company wholly owned by Mr. Li and his son. Therefore, Lisi Import & Export is a connected person of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Background and principal terms of the Export Agency Agreement and the Import Agency Agreement

References are made to the 2018 Announcement and the Announcement in respect of, among other things, the Export Agency Agreement and the Import Agency Agreement entered into between Lisi Household and Lisi Import & Export, pursuant to which Lisi Import & Export agreed to provide Export Agency Services and Import Agency Services to Lisi Household for a term of three years commencing from 1 January 2019 to 31 December 2021. For details of the terms of the Export Agency Agreement and the Import Agency Agreement, please refer to the 2018 Announcement.

Save for the revision of the annual cap for the Export Agency Services and the Import Agency Services for the nine months ending 31 December 2021, the terms and conditions, pricing basis and payment terms of the Export Agency Agreement and the Import Agency Agreement, as detailed in the 2018 Announcement, remain unchanged.

As disclosed in the Letter from the Board, the Company has established various internal control measures in order to ensure that the transactions under the Export Agency Agreement and the Import Agency Agreement will be conducted in accordance with the pricing policies of the Group and the terms of the Export Agency Agreement and the Import Agency Agreement are on normal commercial terms or on terms no less favourable than those offered by independent third parties for similar products or services in its ordinary and usual course of business. Such internal control measures mainly include the following:

- The management obtains price quotation from at least two independent service providers (subject to practical availability and feasibility) at least once per year, taking into account factors including the relevant experience, capability and available resources of the service providers (“**Factors**”), to ensure the service providers’ quality standards;
- In the event that the pricing terms and the Factors offered by Lisi Group are not considered to be comparable with the pricing terms and the Factors offered by the other independent service providers, the Group will not approve and accept the price quotation from Lisi Group. The final acceptance of price quotation offered by Lisi Group shall be approved by the senior management of the Group in accordance with the pricing policies of the Group and will not be prejudicial to the interests of the Group and the shareholders of the Company as a whole;
- The operation team of the Company conducts regular checks (once per quarter) on whether the transactions under the Export Agency Agreement and the Import Agency Agreement are in accordance with the agreed service contract terms; and
- The independent non-executive Directors and the auditor of the Company will conduct annual review with respect to the continuing connected transactions of the Company throughout the preceding financial year and confirm on the transactional amounts and terms of the continuing connected transactions in the annual report of the Company pursuant to the requirements under the Listing Rules, and to ensure that the transactions are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of the relevant agreements governing the continuing connected transactions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Reasons and benefits for entering into the Export Agency Agreement and the Import Agency Agreement

As stated above, the Group operates its business through six segments including (i) the car trading platform segment is engaged in providing imported cars platform services and property rental services; (ii) the car-sale segment is engaged in the trading of imported cars; (iii) the manufacturing and trading segment is engaged in the manufacture and trading of plastic and metallic household products; (iv) the retail segment is engaged in the management of department stores and the operation of supermarket operation; (v) the wholesale segment is engaged in the wholesales of wine and beverages and electrical appliances; and (vi) the investments holding segment is engaged in the debts management and the investment in equity securities.

Lisi Household, being a wholly owned subsidiary of the Company, is principally engaged in manufacturing and trading of plastic and metallic household products.

Pursuant to the Export Agency Agreement and the Import Agency Agreement, Lisi Import & Export shall provide Export Agency Services and Import Agency Services to Lisi Household. As disclosed in the 2018 Announcement, these services include the handling of government applications, settlement services, the provision of guarantees in respect of payment obligations under raw materials or goods purchase contracts entered into between Lisi Household with other third parties and other liaison services between local government departments and the customers. The government applications would include customs declarations and tax refund. The major category of products involved will be plastic and metallic household products for Export Agency Services and raw materials such as polypropylene and copolyester for Import Agency Services. Lisi Import & Export would provide all such services for every transaction assigned by the Group. In providing the Import Agency Services, due to customs declaration, it is necessary for Lisi Import & Export to purchase the products in its name and resell the products to the Group at costs.

The Export Agency Agreement and the Import Agency Agreement will ensure the Export Agency Services and the Import Agency Services provided by Lisi Import & Export, which are necessary for the continued smooth operation of Lisi Household's business.

Based on the aforesaid, we concur with the management of the Group that the transactions contemplated under the Export Agency Agreement and the Import Agency Agreement are conducted in the ordinary and usual course of business of the Group.

3.1 Export Agency Agreement

Pursuant to the Export Agency Agreement, for the provision of the Export Agency Services, Lisi Import & Export charges an amount equivalent to approximately 1.11% (subject to the change of the value added tax rebate on exports) of the gross transactions amounts handled by Lisi Import & Export on behalf of Lisi Household. The rate of value added tax was 16% and the tax rebate was 13%. Change in the tax rebate from 0% to 16% will result in change in the rate of the export service fee from approximately 0.98% to 1.16% respectively. The actual export service fee in RMB is subject to exchange rate fluctuations. The service fee is payable after completion of each transaction with the usual credit term of 30-60 days which is no less favourable than those offered by other independent third party agents. The rate of service fees was determined after arm's length negotiations by the parties with reference to the market rates of comparable companies engaging in similar services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have enquired with and are advised by the Company that Lisi Import & Export is the only agency providing export agency services to Lisi Household for the two years ended 31 March 2021 and the seven months ended 31 October 2021. As advised by the Company, in assessing whether the terms of the Export Agency Agreement are fair and reasonable prior to the entering into of the Export Agency Agreement and from time to time during the period, the Company has obtained quotations from independent third party agents and compared the terms offered by Lisi Import & Export and independent third party agents under the Export Agency Agreement. We have obtained and reviewed six samples of quotations and noted that the independent third party agents offered credit term of less than 60 days and charged service fee of approximately 1.5% of the gross transaction amounts. In light of the credit term and service fee of the Group being comparable to that of other independent third parties, we are of the view that the credit terms and charge rate for the provision of export agency services by Lisi Import & Export for the two years ended 31 March 2021 and the seven months ended 31 October 2021 were no less favourable than those offered by other independent third party agents and in the interests of the Company and its shareholders as a whole.

The Company has the right to select any other service providers for provision of export agency services as it, from time to time, thinks fit and appropriate for the benefit of the Company.

Given that (i) the Export Agency Agreement will ensure the Export Agency Services provided by Lisi Import & Export which are necessary for the continued smooth operation of Lisi Household's business; (ii) Lisi Import & Export has been providing the Export Agency Services to the Company from time to time and the Company is satisfied with its quality of services; (iii) the entering into of the Export Agency Agreement shall not limit the Company's choice of service providers for provision of export agency services and the Company is free to make its selection of service providers as it, from time to time, thinks fit and appropriate for the benefit of the Company; and (iv) the Export Agency Services offered by Lisi Import & Export shall be in terms no less favourable to the Company than those offered by other independent third party agents, we consider that the transactions contemplated under the Export Agency Agreement are conducted in the ordinary and usual course of business of the Group, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

3.2 Import Agency Agreement

Pursuant to the Import Agency Agreement, for the provision of the Import Agency Services, Lisi Import & Export will charge an amount equivalent to 0.6% of the gross transaction amounts handled by Lisi Import & Export on behalf of Lisi Household. As disclosed in the 2018 Announcement, the purchase price and the service fees are payable after completion of each transaction with the usual credit term of 30-45 days which is no less favourable than those offered by other independent third party agents. The rate of service fees was determined after arm's length negotiations by the parties with reference to the market rates of comparable companies engaging in similar services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have enquired with and are advised by the Company is the only agency providing import agency services to Lisi Household for the two years ended 31 March 2021 and the seven months ended 31 October 2021. As advised by the Company, in assessing whether the terms of the Import Agency Agreement are fair and reasonable prior to the entering into of the Import Agency Agreement and from time to time during the period, the Company has obtained quotations from independent third party agents and compared the terms offered by Lisi Import & Export and independent third party agents under the Import Agency Agreement. We have obtained and reviewed six samples of quotations and noted that the independent third party agents offered credit term of 10-45 days and charged service fee ranging from 0.6% to 1.2% of the gross transaction amounts. In light of the credit term and service fee of the Group being within the range that of other independent third parties, we are of the view that the credit terms and charge rate for the provision of import agency services by Lisi Import & Export for the two years ended 31 March 2021 and the seven months ended 31 October 2021 were no less favourable than those offered by other independent third party agents and in the interests of the Company and its shareholders as a whole.

The Company has the right to select any other service providers for provision of import agency services as it, from time to time, thinks fit and appropriate for the benefit of the Company.

Given that (i) the Import Agency Agreement will ensure the Import Agency Services provided by Lisi Import & Export which are necessary for reducing the production costs and the continued smooth operation of Lisi Household's business; (ii) Lisi Import & Export has been providing the Import Agency Services to the Company from time to time and the Company is satisfied with its quality of services; (iii) the entering into of the Import Agency Agreement shall not limit the Company's choice of service providers for provision of import agency services and the Company is free to make its selection of service providers as it, from time to time, thinks fit and appropriate for the benefit of the Company; and (iv) the Import Agency Services offered by Lisi Import & Export shall be in terms no less favourable to the Company than those offered by other independent third party agents, we consider that the transactions contemplated under the Import Agency Agreement are conducted in the ordinary and usual course of business of the Group, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

4. Exceeding of the original annual caps for the year ended 31 March 2021 and the ratifications

4.1 Exceeding of the Original Export Annual Cap for the year ended 31 March 2021 and the EAA Ratification

As set out in the Letter from the Board, it has come to the attention of the Company that the 2021 Export Transaction Amount, being the aggregate amount of gross transaction amount paid to Lisi Import & Export for the Export Agency Services for the year ended 31 March 2021, was approximately RMB6.79 million, which exceeded the Original Export Annual Cap for the year ended 31 March 2021 of RMB6.25 million.

The Company proposes to ratify the Original Export Annual Cap for the year ended 31 March 2021 by an amount equals to the 2021 Export Transaction Amount.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board, the exceeding of the Original Export Annual Cap for the year ended 31 March 2021 was mainly due to the increase in export volume of raw materials. The global supply chain was suspended due to the novel coronavirus pandemic in 2020. Since the second quarter of 2020, alongside the effective control of the pandemic in China, Chinese production has recovered with growth of export volume. During the period of 1 April 2020 to 31 March 2021, the export volume of plastic and metal hardware products of the Group increased. The 2021 Export Transaction Amount therefore increased and exceeded the Original Export Annual Cap for the year ended 31 March 2021.

We understand from the management of the Group that in order to prevent similar events in the future, the Company has carried out the remedial measures and intends to adopt additional internal control measures as detailed in the section headed “6. Remedial and enhanced internal control measures” below, to strengthen the reporting and documentation systems of the Company.

Having considered that (i) the transactions contemplated under the Export Agency Agreement were conducted in the ordinary and usual course of business of the Group; and (ii) the Company has carried out the remedial measures and intends to adopt additional internal control measures as detailed in the section headed “6. Remedial and enhanced internal control measures” below immediately after the discovery of the 2021 Export Transaction Amount exceeded the Original Export Annual Cap for the year ended 31 March 2021, we consider that the EAA Ratification, which is the only available remedial action that can be undertaken by the Board at this time, is fair and reasonable.

4.2 Exceeding of the Original Import Annual Cap for the year ended 31 March 2021 and the IAA Ratification

As set out in the Letter from the Board, it has come to the attention of the Company that 2021 Import Transaction Amount, being the aggregate amount of gross transaction amount paid to Lisi Import & Export for the Import Agency Services for the year ended 31 March 2021, was approximately RMB98.66 million, which exceeded the Original Import Annual Cap for the year ended 31 March 2021 of RMB85.42 million.

The Company proposes to ratify the Original Import Annual Cap for the year ended 31 March 2021 by an amount equals to the 2021 Import Transaction Amount.

As disclosed in the Letter from the Board, the exceeding of the Original Import Annual Cap for the year ended 31 March 2021 was mainly due to the increase in import volume and the raw material and the inflation caused by the increase of the cost of the raw material. The global supply chain was suspended due to the novel coronavirus pandemic in 2020. Since the second quarter of 2020, alongside the effective control of the pandemic in China, Chinese production has recovered with growth of export volume. During the period of 1 April 2020 to 31 March 2021, the export volume of plastic and metal hardware products of the Group increased. In the meantime, starting from the second half of 2020, there has been an overall inflation of global commodities and the raw material. The 2021 Import Transaction Amount therefore increased and exceeded the Original Import Annual Cap for the year ended 31 March 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We understand from the management of the Group that in order to prevent similar events in the future, the Company has carried out the remedial measures and intends to adopt additional internal control measures as detailed in the section headed “6. Remedial and enhanced internal control measures” below, to strengthen the reporting and documentation systems of the Company.

Having considered that (i) the transactions contemplated under the Import Agency Agreement were conducted in the ordinary and usual course of business of the Group; and (ii) the Company has carried out the remedial measures and intends to adopt additional internal control measures as detailed in the section headed “6. Remedial and enhanced internal control measures” below immediately after the discovery of the 2021 Import Transaction Amount exceeded the Original Import Annual Cap for the year ended 31 March 2021, we consider that the IAA Ratification, which is the only available remedial action that can be undertaken by the Board at this time, is fair and reasonable.

5. Exceeding the annual caps for the nine months ending 31 December 2021 and the revised annual caps

5.1 Exceeding the Original Export Annual Cap for the nine months ending 31 December 2021 and the Revised Export Annual Cap

As stated in the 2018 Announcement, the Original Export Annual Cap for the nine months ending 31 December 2021 was RMB5.25 million. The Original Export Annual Caps was determined by the Directors with reference to, among others, (i) the amount of past transactions between Lisi Household and Lisi Import & Export and the actual gross transaction amounts up to 31 March 2018; (ii) the estimated annual sales of Lisi Household of approximately USD68.0 million for calendar year of 2019; (iii) the expected growth of the business of Lisi Household at the rate of 10% per annum and the corresponding increase in the services fees payable for the calendar years of 2020 and 2021; and (iv) buffer for the annual growth and the impact of exchange rate fluctuation on export activities (assuming further depreciation of the RMB exchange rate for 5% per year).

As disclosed in the Letter from the Board, for the period between April 2021 and September 2021, the export orders received by Lisi Household have increased substantially and the actual export volume of the Group increased about 35% when it is compared with the corresponding period in 2020.

The orders from overseas surged during the first quarter of 2021. As advised by the Company, the management of the Group was of the view that the increase was due to the close of factories and suspension of manufacturing process in other Asian countries under their lockdown policies which render overseas buyers sourcing products from manufacturers in the PRC. The Group therefore received large amount of orders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the actual transaction amounts as set out in the Letter from the Board, the accumulated amount involved for the period from 1 April 2021 to the Latest Practicable Date has exceeded the original annual cap of the Export Agency Agreement for the period from 1 April 2021 to 31 December 2021. As disclosed in the Letter from the Board, due to the increase in demand of the products, the Company was of the view that cessation of conducting the transactions under the Export Agency Agreement may disrupt the normal operation of business of the Group and hence it has no alternative but to continue to perform the obligations under the Export Agency Agreement and accept the orders in order to maintain the normal operation of the business of the Group. As disclosed in the Letter from the Board, it took additional time for the Company to prepare the annual financial results for the financial year ended 31 March 2021 which in turn affects the preparation of the Circular, relating to the continuing connected transactions contemplated under the Export Agency Agreement, the Company therefore failed to obtain the Shareholders' approval in respect of the Revised Export Annual Cap before the original annual cap for the nine months ending 31 December 2021 under the Export Agency Agreement was exceeded.

In view of the factors above, the Board anticipates that the Original Export Annual Cap for the nine months ending 31 December 2021 of RMB5.25 million will not be sufficient and proposes to set the Revised Export Annual Cap as RMB7.125 million, taking into account (i) the 2021 Export Transaction Amount of approximately RMB6.79 million; (ii) the expected increase in the annual export volume of plastic and metal hardware products of the Group; and (iii) the expected increase in demand of the Export Agency Services.

To assess whether the Revised Export Annual Cap are fair and reasonable, we have discussed with the management of the Group on the historical transaction amounts paid to Lisi Import & Export for the Export Agency Services and the determination basis for the Revised Export Annual Cap.

5.1.1 Historical transaction amounts for the Export Agency Services

Set out below are the historical transaction amounts for the Export Agency Services contemplated under the Export Agency Agreement, the Original Export Annual Caps, and the Revised Export Annual Cap.

	For the year ended 31 March 2019 <i>(RMB'000)</i>	For the year ended 31 March 2020 <i>(RMB'000)</i>	For the year ended 31 March 2021 <i>(RMB'000)</i>	For the nine months ending 31 December 2021 <i>(RMB'000)</i>
Original Export Annual Caps	1,250	5,250	6,250	5,250
Historical transaction amounts	1,056	5,240	6,790	5,451 <i>(Note 1)</i>
Utilization rates	84.5%	99.8%	108.6%	N/A
Revised Export Annual Cap	N/A	N/A	6,790 <i>(Note 2)</i>	7,125

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. Being the aggregate amount of gross transaction amount paid to Lisi Import & Export for the Export Agency Services for the period from 1 April 2021 to 15 November 2021.
2. Being the Original Export Annual Cap for the year ended 31 March 2021 to be ratified by an amount equals to the 2021 Export Transaction Amount.

As shown in the table above, (i) the utilization rate of the Original Export Annual Cap for the year ended 31 March 2020 was approximately 99.8%; (ii) the 2021 Export Transaction Amount has exceeded the Original Export Annual Cap for the year ended 31 March 2021 by approximately RMB0.5 million or 8.6%; and (iii) the accumulated amount involved for the period from 1 April 2021 to 15 November 2021 has exceeded the Original Export Annual Cap for the nine months ending 31 December 2021 by approximately RMB0.2 million or 3.8%, and the Company proposes to ratify the Original Export Annual Cap for the year ended 31 March 2021 by an amount equals to the 2021 Export Transaction Amount and for the nine months ending 31 December 2021 to RMB7.125 million.

The aggregate amount of gross transaction amount paid to Lisi Import & Export for the Export Agency Services for the year ended 31 March 2021 was approximately RMB6.79 million, representing an increase of approximately 29.6% as compared to that of approximately RMB5.24 million for the year ended 31 March 2020.

The aggregate amount of gross transaction amount paid to Lisi Import & Export for the Export Agency Services for the seven months ended 31 October 2021 was approximately RMB5.05 million, representing an increase of approximately 36.1% as compared to that of approximately RMB3.71 million for the seven months ended 31 October 2020.

Having considered that (i) the higher-than-expected 2021 Export Transaction Amount; and (ii) the expected increasing demand and practical needs of the Export Agency Services to be provided by Lisi Import & Export to the Company as discussed in the sub-section headed “5.1.2 Assessment on the Revised Export Annual Cap” below, we consider that the revision of the Original Export Annual Cap for the nine months ending 31 December 2021 is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5.1.2 Assessment on the Revised Export Annual Cap

As stated in the Letter from the Board, the Revised Export Annual Cap of RMB7.125 million was determined by the Directors with reference to, (i) the 2021 Export Transaction Amount; (ii) the expected increase in the annual export volume of plastic and metal hardware products of the Group; and (iii) the expected increase in demand of the Export Agency Services.

The 2021 Export Transaction Amount of approximately RMB6.79 million

The 2021 Export Transaction Amount, being the aggregate amount of gross transaction amount paid to Lisi Import & Export for the Export Agency Services, was approximately RMB6.79 million for the year ended 31 March 2021, representing an increase of approximately 29.6% as compared to that of approximately RMB5.24 million for the year ended 31 March 2020.

The expected increase in the annual export volume of plastic and metal hardware products of the Group and the expected increase in demand of the Export Agency Services

As mentioned in the section headed “3. Reasons and benefits for entering into the Export Agency Agreement and the Import Agency Agreement” above, the major category of products involved in the Export Agency Agreement will be plastic and metal household products. The demand of the Export Agency Services is expected to increase with the annual export volume of the plastic and metal household products.

We have obtained and reviewed the breakdowns of the total sales amount of Lisi Household by end-customers for the seven months ended 31 October 2020 and 31 October 2021 in order to study the trend in demand for plastic and metallic household products of Lisi Household. We noted that the total sales amount of Lisi Household for the seven months ended 31 October 2021 was approximately RMB509.7 million, representing an increase of approximately 36.0% as compared to that of approximately RMB374.7 million for the seven months ended 31 October 2020. We also noted that the sales amounts to each of the top five customers of Lisi Household for the seven months ended 31 October 2021 increased by more than approximately 42.3% as compared to their respective sales amounts for the seven months ended 31 October 2020.

Moreover, as advised by the Company, as at 11 November 2021, there was approximately USD70.2 million (by sales amount) of the confirmed purchase orders of plastic and metallic household products of Lisi Household which was not yet delivered. Hence, the demand of the Export Agency Services is expected to increase with such additional plastic and metallic household products to be exported for those confirmed purchase orders of Lisi Household.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered that (i) the Original Export Annual Cap for the year ended 31 March 2020 was almost fully utilized and the 2021 Export Transaction Amount has exceeded the Original Export Annual Cap for the year ended 31 March 2021 by approximately 8.6%; (ii) the gross transaction amount paid to Lisi Import & Export for the Export Agency Services for the year ended 31 March 2021 increased by approximately 29.5% as compared to the prior year; (iii) the expected increase in the annual export volume of the plastic and metallic household products of the Group and the expected increase in demand of the Export Agency Services; and (iv) the transactions contemplated under the Export Agency Agreement are conducted in the ordinary and usual course of business of the Group and in terms no less favourable to the Company than those offered by other independent third party agents as detailed in the section headed “3. Reasons and benefits for entering into the Export Agency Agreement and the Import Agency Agreement” above, we consider that the proposed Revised Export Annual Cap are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

Based on the actual transaction amounts as set out in the Letter from the Board, the accumulated amount involved for the period from 1 April 2021 to 15 November 2021 amounted to approximately RMB5.45 million. We noted that the average monthly transaction amount for the respective period was approximately RMB0.7 million, and the total transaction amount is estimated to be approximately RMB6.3 million for the nine months ending 31 December 2021 on a pro-rata basis. Further, we have obtained and reviewed the breakdowns of total sales amount of Lisi Household for the seven months ended 31 October 2020 and 31 October 2021, and noted that the increase in sales amount for the seven months ended 31 October 2021 compared to the corresponding period in 2020 is consistent with the estimation previously made based on the comparison of total sales amount of Lisi Household for the two months ended 31 May 2020 and 31 May 2021.

In view of the factors above and the internal control measures as discussed in the sub-section headed “6. Remedial and enhanced internal control measures” below, we concur that the Revised Export Annual Cap for the nine months ending 31 December 2021 is considered to be sufficient to cater the expected increase in the actual transaction amount.

5.2 Exceeding the Original Import Annual Cap for the nine months ending 31 December 2021 and the Revised Import Annual Cap

As stated in the 2018 Announcement, the Original Import Annual Cap for the nine months ending 31 December 2021 was RMB68.75 million. The Original Import Annual Caps was determined by the Directors with reference to, among others, (i) the amount of past transactions between Lisi Household and Lisi Import & Export and the actual gross transaction amounts up to 31 March 2018; (ii) the estimated annual purchase of Lisi Household for calendar year of 2019; (iii) the expected growth of the business of Lisi Household at the rate of 10% per annum for the calendar years of 2020 and 2021; and (iv) buffer for the annual growth and the impact of exchange rate fluctuation on import activities (assuming further depreciation of the RMB exchange rate for 5% per year).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board, for the period between April 2021 and September 2021, the export orders received by Lisi Household have increased substantially and the actual export volume of the Group increased about 35% when it is compared with the corresponding period in 2020. Lisi Household therefore purchases more raw materials or goods from Lisi Import & Export. In the meantime, the costs of the raw material increased about 15%. For example, the costs of the plastic raw material have increased for about 30% for the period of April 2021 to September 2021.

The orders from overseas surged during the first quarter of 2021. As advised by the Company, the management of the Group was of the view that the increase was due to the close of factories and suspension of manufacturing process in other Asian countries under their lockdown policies which render overseas buyers sourcing products from manufacturers in the PRC. The Group therefore received large amount of orders.

Based on the actual transaction amounts as set out in the Letter from the Board, the accumulated amount involved for the period from 1 April 2021 to the Latest Practicable Date has exceeded the original annual cap of the Import Agency Agreement for the period from 1 April 2021 to 31 December 2021. As disclosed in the Letter from the Board, due to the increase in demand of the products, the Company was of the view that cessation of conducting the transactions under the Import Agency Agreement may disrupt the normal operation of business of the Group and hence it has no alternative but to continue to perform the obligations under the Import Agency Agreement and accept the orders in order to maintain the normal operation of the business of the Group. As disclosed in the Letter from the Board, it took additional time for the Company to prepare the annual financial results for the financial year ended 31 March 2021 which in turn affects the preparation of the Circular relating to the continuing connected transaction contemplated under the Import Agency Agreement, the Company therefore failed to obtain the Shareholders' approval in respect of the Revised Import Annual Cap before the original annual cap for the nine months ending 31 December 2021 under the Import Agency Agreement was exceeded.

In view of the factors above, the Board anticipates that the Original Import Annual Cap for the nine months ending 31 December 2021 of RMB68.75 million will not be sufficient and proposes to set the Revised Import Annual Cap as RMB102.75 million, taking into account (i) the 2021 Import Transaction Amount of approximately RMB98.66 million; (ii) the expected increase in the annual import volume of the raw materials; (iii) the expected increase in demand of the Import Agency Services; and (iv) the increase in the costs of the raw materials.

To assess whether the Revised Import Annual Cap are fair and reasonable, we have discussed with the management of the Group on the historical transaction amounts paid to Lisi Import & Export for the Import Agency Services and the determination basis for the Revised Import Annual Cap.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5.2.1 Historical transaction amounts for the Import Agency Services

Set out below are the historical transaction amounts for the Import Agency Services contemplated under the Import Agency Agreement, the Original Import Annual Caps, and the Revised Import Annual Cap.

	For the year ended 31 March 2019 <i>(RMB'000)</i>	For the year ended 31 March 2020 <i>(RMB'000)</i>	For the year ended 31 March 2021 <i>(RMB'000)</i>	For the nine months ending 31 December 2021 <i>(RMB'000)</i>
Original Import Annual Caps	18,750	77,080	85,420	68,750
Historical transaction amounts	10,020	76,405	98,660	69,521 <i>(Note 1)</i>
Utilization rates	53.4%	99.1%	115.5%	N/A
Revised Import Annual Cap	N/A	N/A	98,660 <i>(Note 2)</i>	102,750

Notes:

1. Being the aggregate amount of gross transaction amount paid to Lisi Import & Export for the Import Agency Services for the seven months ended 31 October 2021.
2. Being the Original Import Annual Cap for the year ended 31 March 2021 to be ratified by an amount equals to the 2021 Import Transaction Amount.

As shown in the table above, (i) the utilization rate of the Original Import Annual Cap for the year ended 31 March 2020 was approximately 99.1%; (ii) the 2021 Import Transaction Amount has exceeded the Original Import Annual Cap for the year ended 31 March 2021 by approximately RMB13.24 million or 15.5%; and (iii) the accumulated amount involved for the period from 1 April 2021 to 31 October 2021 exceeded the Original Import Annual Cap for the nine months ending 31 December 2021 by approximately RMB0.8 million or 1.1%, and the Company proposes to ratify the Original Import Annual Cap for the year ended 31 March 2021 by an amount equals to the 2021 Import Transaction Amount and for the nine months ending 31 December 2021 to RMB102.75 million.

The aggregate amount of gross transaction amount paid to Lisi Import & Export for the Import Agency Services for the year ended 31 March 2021 was approximately RMB98.66 million, representing an increase of approximately 29.1% as compared to that of approximately RMB76.41 million for the year ended 31 March 2020.

The aggregate amount of gross transaction amount paid to Lisi Import & Export for the Import Agency Services for the seven months ended 31 October 2021 was approximately RMB69.5 million, representing an increase of approximately 23.9% as compared to that of approximately RMB56.1 million for the seven months ended 31 October 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered that (i) the higher-than-expected 2021 Import Transaction Amount; and (ii) the expected increasing demand and practical needs of the Import Agency Services to be provided by Lisi Import & Export to the Company as discussed in the subsection headed “5.2.2 Assessment on the Revised Import Annual Cap” below, we consider that the revision of the Original Import Annual Cap for the nine months ending 31 December 2021 is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

5.2.2 Assessment on the Revised Import Annual Cap

As stated in the Letter from the Board, the Revised Import Annual Cap of RMB102.75 million was determined by the Directors with reference to, (i) the 2021 Import Transaction Amount; (ii) the expected increase in the annual import volume of the raw materials; (iii) the expected increase in demand of the Import Agency Services; and (iv) the increase in the costs of the raw materials.

The 2021 Import Transaction Amount of approximately RMB98.66 million

The 2021 Import Transaction Amount, being the aggregate amount of gross transaction amount paid to Lisi Import & Export for the Import Agency Services, was approximately RMB98.66 million for the year ended 31 March 2021, representing an increase of approximately 29.1% as compared to that of approximately RMB76.41 million for the year ended 31 March 2020.

The expected increase in the annual import volume of the raw materials and the expected increase in demand of the Import Agency Services

As mentioned in the section headed “3. Reasons and benefits for entering into the Export Agency Agreement and the Import Agency Agreement” above, the major category of products involved in the Import Agency Agreement will be raw materials such as polypropylene and copolyester. The demand of the Import Agency Services is expected to increase with the annual import volume of the raw materials such as polypropylene and copolyester, which are the raw materials used in manufacturing plastic and metallic household products.

As advised by the Company, the expected increase in the annual import volume of the raw materials such as polypropylene and copolyester is driven by the expected increase in demand for plastic and metallic household products. We have obtained and reviewed the breakdowns of the total sales amount of Lisi Household by end-customers for the seven months ended 31 October 2020 and 31 October 2021 in order to study the trend in demand for plastic and metallic household products of Lisi Household. We noted that the total sales amount of Lisi Household for the seven months ended 31 October 2021 was approximately RMB509.7 million, representing an increase of approximately 36.0% as compared to that of approximately RMB374.7 million for the seven months ended 31 October 2020. We also noted that the sales amounts to each of the top five customers of Lisi Household for the seven months ended 31 October 2021 increased by more than approximately 42.3% as compared to their respective sales amounts for the seven months ended 31 October 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Moreover, as advised by the Company, as at 11 November 2021, there was approximately USD70.2 million (by sales amount) of the confirmed purchase orders of plastic and metallic household products of Lisi Household which was not yet delivered, and the Company expected that additional raw materials such as polypropylene and copolyester need to be imported for manufacturing plastic and metallic household products in order to satisfy such purchase orders. Hence, the demand of the Import Agency Services is expected to increase with such additional raw materials to be imported for those confirmed purchase orders of plastic and metallic household products of Lisi Household.

The estimated increase in the cost of the raw materials

Pursuant to the Import Agency Agreement, for the provision of the Import Agency Services, Lisi Import & Export will charge Lisi Household an amount equivalent to 0.6% of the gross transaction amounts handled by Lisi Import & Export on behalf of Lisi Household.

The Directors expected that the cost of the raw materials such as polypropylene and copolyester will continue to increase. We have randomly selected and reviewed six samples of customs declaration form for the imported raw materials handled by Lisi Import & Export for the seven months ended 31 October 2020 and 2021, we noted that the unit price of the imported raw materials increased by more than 25% for the seven months ended 31 October 2021 as compared to the same period during the prior year. In addition, according to the purchasing price index for industrial sector for September 2021 and October 2021 published by the National Bureau of Statistics of the PRC (中華人民共和國統計局), the purchasing price of chemical raw materials increased by approximately 20.7% and 24.9% year-on-year, respectively.

Having considered that (i) the Original Import Annual Cap for the year ended 31 March 2020 was almost fully utilized and the 2021 Import Transaction Amount exceeded the Original Import Annual Cap for the year ended 31 March 2021 by approximately 15.5%; (ii) the gross transaction amount paid to Lisi Import & Export for the Import Agency Services for the year ended 31 March 2021 increased by approximately 29.5% as compared to the prior year; (iii) the expected increase in the annual import volume of the raw materials and the expected increase in demand of the Import Agency Services driven by the increasing trend in demand for plastic and metallic household products of Lisi Household; (iv) the estimated increase in the cost of the raw materials for manufacturing plastic and metallic household products; and (v) the transactions contemplated under the Import Agency Agreement are conducted in the ordinary and usual course of business of the Group and in terms no less favourable to the Company than those offered by other independent third party agents as detailed in the section headed “3. Reasons and benefits for entering into the Export Agency Agreement and the Import Agency Agreement” above, we consider that the proposed Revised Import Annual Cap are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the actual transaction amounts as set out in the Letter from the Board, the accumulated amount involved for the period from 1 April 2021 to 31 October 2021 amounted to approximately RMB69.5 million. We noted that the average monthly transaction amount for the respective period was approximately RMB9.9 million, and the total transaction amount is estimated to be approximately RMB89.1 million for the nine months ending 31 December 2021 on a pro-rata basis. Further, we have obtained and reviewed the breakdowns of total sales amount of Lisi Household for the seven months ended 31 October 2020 and 31 October 2021, and noted that the increase in sales amount for the seven months ended 31 October 2021 compared to the corresponding period in 2020 is consistent with the estimation previously made based on the comparison of total sales amount of Lisi Household for the two months ended 31 May 2020 and 31 May 2021.

In view of the factors above and the internal control measures as discussed in the sub-section headed “6. Remedial and enhanced internal control measures” below, we concur that the Revised Import Annual Cap for the nine months ending 31 December 2021 is considered to be sufficient to cater the expected increase in the actual transaction amount.

6. Remedial and enhanced internal control measures

As set out in the Letter from the Board, the Directors consider that the failure to re-comply with the requirements under Rule 14A.54(1) of the Listing Rules on a timely basis in respect of the transactions under the Export Agency Agreement and the Import Agency Agreement for the year ended 31 March 2021 and the nine months period ending 31 December 2021 was an inadvertent oversight and an isolated event.

Based on our discussion with the management of the Group and according to the Letter from the Board, it is noted that the Company has adopted the following internal control procedures in relation to the monitoring of the utilization of annual caps:

- (i) the Company has established an operation team to regularly review and monitor the transaction amounts under the Export Agency Agreement, the Import Agency Agreement and other agreements;
- (ii) the operation team is responsible to prepare the quarterly report in relation to the actual amounts generated from the transactions contemplated under the Export Agency Agreement, Import Agency Agreement and other agreements within two weeks after the end of each quarter to the corporate governance team; and
- (iii) the corporate governance team is responsible to perform regular checks and monitoring of the utilization of annual caps to ensure its compliance with the limits approved by its independent shareholders.

At the time when the Company noted incidents, the Company immediately carried out some remedial measures such as (i) immediately examined the coordination and reporting path for conducting all continuing connected transactions; and (ii) promptly assigned the finance manager in Hong Kong office to oversee all transactions to make sure all continuing connected transactions of the Company will comply with the Listing Rules and all other laws and regulations.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Moreover, as disclosed in the Letter from the Board, in order to avoid any occurrence of similar events in the future, the Company will adopt the following additional internal control measures to strengthen the reporting and documentation systems of the Company:

1. the Board has enhanced the training provided to the Directors, the senior management and responsible finance staff by engaging its legal advisers to give seminars on the compliance requirements and practical knowledge of notifiable transactions (including the continuing connected transactions) to its staff, so as to reinforce their understanding of and to emphasize the importance of compliance with the Listing Rules. The Board has resolved to request the Directors to attend the directors training twice every year starting from 2022;
2. the Company has strengthened the implementation of its internal control system on transactions by designating a newly recruited staff as legal officer (法律專員) to be responsible for internal control and in particular to monitor and oversee all the on-going transactions (including the continuing connected transactions), and to ensure the effective coordination and communication between various departments of the Company, including the finance department, the business department and the Board. The legal officer will report to the Directors regularly (every month);
3. a working group comprising members from Hong Kong and the PRC has been set up to ensure the operational internal control procedures are fully implemented;
4. the Board will engage an expert which will conduct annual internal control assessment; and
5. the operation team and the corporate governance team of the Company are responsible for collecting data and statistics of the continuing connected transactions under the Export Agency Agreement and the Import Agency Agreement to ensure the respective Revised Export Annual Cap and the Revised Import Annual Cap approved are not exceeded.

For due diligence purpose, we have obtained and reviewed the internal control policy in respect of the continuing connected transactions of the Company, detailing the enhanced internal control measures for conducting the transactions contemplated under the Export Agency Agreement and the Import Agency Agreement going forward, and had discussions with the management of the Group regarding the abovementioned enhanced internal control measures. Having discussed with the management of the Group on the enhanced internal control procedures as set out above, we concur that the Company has taken reasonable active steps to ensure compliance with the Listing Rules with the view of the management of the Group that the remedial and enhanced internal control measures which have been and/or shall be adopted by the Company for the purpose of monitoring the Revised Export Annual Cap and the Revised Import Annual Cap going forward.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATIONS

Having considered the principal factors and reasons described above, we are of the opinion that the Export Agency Services and the Import Agency Services contemplated under the Export Agency Agreement and the Import Agency Agreement are conducted in the ordinary and usual course of business of the Company; and the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution(s) approving the EAA Ratification, the Revised Export Annual Cap, the IAA Ratification and the Revised Import Annual Cap at the SGM.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Joshua Liu
Managing Director

Mr. Joshua Liu is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 20 years of experience in the securities and investment banking industries.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

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

As at the Latest Practicable Date, save as disclosed below, none of the Directors or the chief executive of the Company or their associates had or was deemed to have any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or the chief executives of the Company or their associates were deemed or taken to have under provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Name	Capacity	Number of shares/ underlying shares (Note 1)	Approximate percentage of the issued share capital of the Company
Mr. Li Lixin	Note 2	2,755,137,680 (L)	34.25%
		2,737,284,681 (S)	34.03%
Ms. Cheng Weihong	Note 3	1,849,407,702 (L)	22.99%
		398,000,000 (S)	4.95%

Note 1: (L) denotes long positions (S) denotes short positions.

Note 2: Mr. Li Lixin's interest in 2,755,137,680 shares is held as to 17,822,000 shares personally, 1,382,141,014 shares through Big-Max Manufacturing Co., Limited ("**Big-Max**") and 1,355,174,666 shares through Shi Hui Holdings Limited ("**Shi Hui**"). The issued share capital of Big-Max and Shi Hui are wholly-owned by Mr. Li Lixin.

Note 3: Ms. Cheng Weihong's interest in 1,849,407,702 shares is held as to 956,407,702 shares through Mighty Mark Investments Limited ("**Mighty Mark**") and 893,000,000 shares through Hopeful Glad Limited ("**Hopeful Glad**"). The issued share capital of Mighty Mark and Hopeful Glad are wholly-owned by Ms. Cheng Weihong.

Save as disclosed above, none of the Directors or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at the Latest Practicable Date.

(b) Substantial Shareholders' interests and short positions

As at the Latest Practicable Date, save as disclosed below, so far as was known to any Director or chief executive of the Company, no other person or company (other than the Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register kept by the Company pursuant to section 336 of the SFO which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Name	Capacity	Number of shares/ underlying shares (Note)	Approximate percentage of the issued share capital of the Company
Big-Max Manufacturing Co., Limited	Beneficial owner	1,382,141,014 (L)	17.18%
		1,382,111,014 (S)	17.18%
Shi Hui Holdings Limited	Beneficial owner	1,355,174,666 (L)	16.85%
		1,355,173,667 (S)	16.85%
Tong Shipping	Interest of spouse	1,849,407,702 (L)	22.99%
		398,000,000 (S)	4.95%
Mighty Mark Investments Limited	Beneficial owner	956,407,702 (L)	11.89%
Hopeful Glad Limited	Beneficial owner	893,000,000 (L)	11.10%
		398,000,000 (S)	4.95%
Central Huijin Investment Limited	Person having a security interest in shares/interest in controlled corporation	2,413,065,680 (L)	29.99%
China Construction Bank Corporation	Person having a security interest in shares/interest in controlled corporation	2,413,065,680 (L)	29.99%
Poly Platinum Enterprises Limited	Beneficial owner/ Person having a security interest in shares	1,051,144,000 (L)	13.07%
Greater Bay Area Homeland Development Fund (GP) Limited	Person having a security interest in shares/interest in controlled corporation	1,051,144,000 (L)	13.07%

Name	Capacity	Number of shares/ underlying shares (Note)	Approximate percentage of the issued share capital of the Company
Ministry of Finance of Zhejiang Province, the People's Republic of China (中華人民共和國浙江省 財政廳)	Person having a security interest in shares	1,049,971,001 (L)	13.05%
浙江省財務開發公司	Person having a security interest in shares	1,049,971,001 (L)	13.05%
Greater Bay Area Homeland Investments Limited	Person having a security interest in shares/interest in controlled corporation	1,048,124,000 (L)	13.03%
Caitong Securities Co., Limited	Person having a security interest in shares	700,971,001 (L)	8.71%

Note: (L) denotes long positions (S) denotes short positions.

Save as disclosed above, the Company had not been notified and is not aware of any other persons who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group as at the Latest Practicable Date.

3. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, save as disclosed below, so far as the Directors are aware of, none of the Directors nor their respective close associates had any interest in any business which competes or is likely to compete, or is in conflict or is likely to be in conflict, either directly or indirectly, with the business of Group.

Mr. Li Lixin, an executive Director and a controlling Shareholder of the Company and his son, beneficially owns 98.15% equity interest of 利時集團股份有限公司 (Lisi Group Co. Ltd) (“**Lisi Co.**”). Mr. Cheng Jianhe, an executive Director, and Ms. Jin Yaxue, an executive Director, are also directors of Lisi Co. As at the Latest Practicable Date, the principal businesses of Lisi Co. and its subsidiaries (“**Lisi Group**”) include the manufacturing and sale of plastic and hardware products, the operation of department stores and supermarket chain, and investments in property development in the PRC.

Lisi Group operates four department stores (the “**Excluded Department Stores**”) and one supermarket (the “**Excluded Supermarket**”). Two out of the four Excluded Department Stores and the Excluded Supermarket are located in Ningbo City and the remaining two Excluded Department Stores are located in Tonglu County, Hangzhou City and Haiyan County, Jiaqing City in Zhejiang Province, respectively. All four Excluded Department Stores commenced business in 2010 or 2011 and recorded net losses for each of the two financial years ended 31 December 2012. Since the Excluded Department Stores are still in their startup stage of operation and are loss making, the Directors decided not to acquire the Excluded Department Stores at the material time.

The Excluded Supermarket is situated at the basement of one of the Excluded Department Stores and forms part of that Excluded Department and as such, the Directors decided not to include the Excluded Supermarket into the target group acquired by the Group from Lisi Group in August 2013.

The Directors believed that the Group was capable of carrying on its business independently of, and at arm's length from, the Excluded Department Stores and the Excluded Supermarket owned by Lisi Group, on the basis that, among other factors:

- (a) while two of the Excluded Department Stores are situated in Ningbo City, the districts in which they are located are different from those in which the two department stores owned by the Group namely, New JoySun department store and Xiangshan Lisi Department Store, are located. The other two Excluded Department Stores are located in Tonglu County, Hangzhou City and Haiyan County, Jiaqing City; and

- (b) the Company entered into a non-competition deed (the “**Non-competition Deed**”) with Shi Hui, the guarantors and Lisi Co (the “**Covenantors**”) on 31 August 2013. Under the Non-Competition Deed, the Covenantors has undertaken not to engage, other than through the Excluded Department Stores and the Excluded Supermarket, in any businesses of manufacture and sale of household products as well as the retail trade in merchandise in department stores and supermarkets in Ningbo City. The non-competition restrictions under the Non-Competition Deed shall terminate on the earlier of (i) the date on which the Convenators cease to be a controlling Shareholder; and (ii) the date on which the Shares ceased to be listed on the Stock Exchange. As such, Lisi Group will not open, own or operate any new department stores or supermarkets in Ningbo City other than the Excluded Department Stores and the Excluded Supermarket so long as the Non-Competition Deed is in effect. Under the Non-Competition Deed, the Convenators granted the Company an option to purchase the whole or part of the interest in the Excluded Department Stores or the Excluded Supermarket. The price at which the option will be exercised shall be negotiated and agreed between the Company and Lisi Co. at the time of exercise. If the parties fail to agree on the exercise price, an independent internationally recognised firm of valuers will be appointed to determine the exercise price. The Covenantors also granted the Company a right of first refusal in the event that Lisi Co. wishes to sell the whole or part of its interest in the Excluded Department Stores or the Excluded Supermarket to any third party. Decisions as to whether or not to exercise the right of first refusal shall be subject to the review and approval of the independent non-executive Directors. If the Company decides not to acquire such interest, an announcement will be issued by the Company setting out the reasons for not exercising such right and Lisi Co. may proceed to sell to the third party, provided that the price may not be lower than the price which was offered to the Company.

4. DIRECTORS’ INTERESTS IN ASSETS

On 1 April 2021, Lisi Household entered into a lease agreement (the “**Lease Agreement**”) with 寧波利時電器制造有限公司 (Ningbo Lisi Electrical Appliances Manufacturing Company Limited*) (“**Lisi Electrical**”) for the renewal of the leasing of a property at 518 Cheng Xin Lu, Yinzhou Investment & Venture Centre, Yinzhou, Ningbo, PRC for a period of three years commenced from 1 June 2021 and expiring on 31 May 2024. For details, please refer to the announcement of the Company dated 1 April 2021. Lisi Electrical is indirectly wholly owned by 寧波利時塑膠有限公司 (Ningbo Lisi Plastics Company Limited*) (“**Lisi Plastics**”). Lisi Plastics is owned as to 75% by Lisi Group. Lisi Group in turn is ultimately beneficially owned as to 98.15% by Mr. Li Lixin, the Company’s executive Director and substantial Shareholder, and his son.

As at the Latest Practicable Date, so far as the Directors are aware, save for Mr. Li’s interest in the Lease Agreement mentioned above, none of the Directors had any interest, either directly or indirectly, in any assets which has since 31 March 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up), up to the Latest Practicable Date, been acquired or disposed of by or leased to, any member of the Group or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

6. DIRECTORS' INTERESTS IN CONTRACT OR ARRANGEMENT OF SIGNIFICANCE

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which is significant in relation to the businesses of any member of the Group, save for the following:

- (a) the lease agreement dated 22 November 2018 made between Da Mei (Ningbo) New Materials Company Limited (“**Da Mei**”) and Lisi Household as disclosed in the Company’s announcement dated 22 November 2018 pursuant to which Da Mei leased a property located in 中國寧波市鄞州區投資創業中心誠信路518號 (518 Cheng Xin Lu, Yinzhou Investment & Venture Centre, Yinzhou, Ningbo, PRC*) to Lisi Household for a term of three years commenced from 1 January 2019 and ending on 31 December 2021 where Da Mei is principally engaged in property holding. Da Mei is a non-wholly owned subsidiary of Lisi Group, which is beneficially owned as to 98.15% by Mr. Li Lixin, executive director and substantial shareholder, and his son;
- (b) the Export Agency Agreement as disclosed in the Company’s announcement dated 22 November 2018 pursuant to which Lisi Import & Export provided export agency services to Lisi Household pursuant to such agreement for a terms of three years commenced from 1 January 2019 and ending on 31 December 2021 where Lisi Import & Export is owned as to 80% by Lisi Group and 18.18% by a company wholly owned by Mr. Li Lixin and his son;
- (c) the Import Agency Agreement as disclosed in the Company’s announcement dated 22 November 2018 pursuant to which Lisi Import and Export provided import agency services to Lisi Household for a term of three years commenced from 1 January 2019 and ending on 31 December 2021 where Lisi Import & Export is owned as to 80% by Lisi Group and 18.18% by a company wholly owned by Mr. Li Lixin and his son;
- (d) the mutual supply agreement dated 22 November 2018 made between New JoySun Corp. and (“**New JoySun**”) Lisi Group as disclosed in the Company’s announcement dated 22 November 2018 pursuant to which New JoySun agreed to procure its subsidiaries to supply to Lisi Group and its subsidiaries food and beverage products. In return, Lisi Group agreed to procure its subsidiaries to supply to New JoySun and its subsidiaries certain household products where Lisi Group is beneficially owned as to 98.15% by Mr. Li Lixin, executive director and substantial shareholder, and his son;

- (e) the strategic cooperative agreement as disclosed in the Company's circular dated 22 January 2019 pursuant to which 天津濱海國際汽車城有限公司 (Tianjin Binhai International Car City Co., Ltd.*) ("Binhai Car City") agreed to supply to 天津開利星空汽車城運營管理有限公司 (Tianjin Calistar Automall Operations Management Co., Ltd.*), a company established in the PRC and an indirectly wholly-owned subsidiary of the Company ("OPCo") such parallel imported cars as OPCo may order from time to time, and procure the completion of all necessary procedures for the purpose of overseas procurement. Binhai Car City is a company 100% indirectly held by the son-in law of Ms. Cheng Weihong, a Director and substantial Shareholder; and
- (f) the Lease Agreement, the details of which is set out in paragraph 4 above, where Lisi Electrical is indirectly wholly owned by 寧波利時塑膠有限公司 (Ningbo Lisi Plastics Company Limited*) ("Lisi Plastics"). Lisi Plastics is owned as to 75% by Lisi Group. Lisi Group in turn is ultimately beneficially owned as to 98.15% by Mr. Li Lixin, the Company's executive Director and substantial Shareholder, and his son.

7. EXPERT AND CONSENT

The following are the qualifications of the expert who have given opinion contained in this circular:

Name	Qualification
Lego Corporate Finance	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, advice, opinion and/or report and references to its name in the form and context in which they respectively appeared.

As at the Latest Practicable Date, the Independent Financial Adviser (i) did not have any direct or indirect interest in any assets which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 March 2021, the date to which the latest audited financial statements of the Group was made up; and (ii) was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

8. MATERIAL ADVERSE CHANGES

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 March 2021, the date to which the latest published audited consolidated financial statements of the Group were made up.

9. MISCELLANEOUS

- (a) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be published on the websites of the Stock Exchange and the Company for a period of 14 days from the date of this circular:

- (a) the letter from the Board, the text of which is set out on pages 5 to 18 of this circular;
- (b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 19 to 20 of this circular;
- (c) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 21 to 41 of this circular;
- (d) the Export Agency Agreement, the Import Agency Agreement; and
- (e) the written consents referred to in the section headed “Experts and Consents” of this Appendix.

NOTICE OF SPECIAL GENERAL MEETING



CHINA AUTOMOBILE NEW RETAIL (HOLDINGS) LIMITED 中國汽車新零售（控股）有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 526)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting (the “**SGM**”) of China Automobile New Retail (Holdings) Limited (the “**Company**”) will be held at 14/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong on 17 December 2021, Friday at 11:30 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. **“THAT**

- (a) the transactions under the Export Agency Agreement (as defined in the circular of the Company dated 30 November 2021 (the “**Circular**”)) for the year ended 31 March 2021 and the period from 1 April 2021 to 31 December 2021 that exceeded the original annual cap for the financial year ended 31 March 2021 and the period from 1 April 2021 to 31 December 2021 respectively (the “**EAA Ratification**”) be ratified, confirmed and approved;
- (b) the revision of the annual cap for the continuing connected transaction contemplated under the Export Agency Agreement (as defined in the Circular) for the nine months ending 31 December 2021 (the “**Revised Export Annual Cap**”), be and are hereby ratified, confirmed and approved;
- (c) any one director of the Company be and is hereby authorised to, on behalf of the Company, do all such acts and sign, seal, execute and deliver all such documents and take all such actions as he/she may consider necessary or desirable for the purpose of or in connection with or to give effect to EAA Ratification and the Revised Export Annual Cap and the transactions contemplated thereunder; and

NOTICE OF SPECIAL GENERAL MEETING

- (d) any and all actions of the Company, or of any Director or officer of the Company, taken in connection with the foregoing resolutions prior to the execution hereof be and were hereby ratified, confirmed, approved and adopted in all respects as fully as if such action(s) had been presented to for approval, and approved by, the Company prior to such action being taken.

2. **“THAT**

- (a) the transactions under the Import Agency Agreement (as defined in the Circular) for the year ended 31 March 2021 and the period from 1 April 2021 to 31 December 2021 that exceeded the original annual cap for the financial year ended 31 March 2021 and the period from 1 April 2021 to 31 December 2021 respectively (the **“IAA Ratification”**) be ratified, confirmed and approved;
- (b) the revision of the annual cap for the continuing connected transaction contemplated under the Import Agency Agreement (as defined in the Circular) for the nine months ending 31 December 2021 (the **“Revised Import Annual Cap”**), be and are hereby ratified, confirmed and approved;
- (c) any one director of the Company be and is hereby authorised to, on behalf of the Company, do all such acts and sign, seal, execute and deliver all such documents and take all such actions as he/she may consider necessary or desirable for the purpose of or in connection with or to give effect to IAA Ratification and the Revised Import Annual Cap and the transactions contemplated thereunder; and
- (d) any and all actions of the Company, or of any Director or officer of the Company, taken in connection with the foregoing resolutions prior to the execution hereof be and were hereby ratified, confirmed, approved and adopted in all respects as fully as if such action(s) had been presented to for approval, and approved by, the Company prior to such action being taken.

By Order of the Board

CHINA AUTOMOBILE NEW RETAIL (HOLDINGS) LIMITED

Cheng Jianhe

Executive Director

Hong Kong, 30 November 2021

NOTICE OF SPECIAL GENERAL MEETING

Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or, if he is the holder of two or more shares, more than one proxy to attend and vote in his stead. A proxy need not be a member of the Company.
2. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be deposited with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. Completion and return of the accompanying form of proxy will not preclude members of the Company from attending and voting in person at the meeting or any adjournment thereof should they so wish.
4. The transfer books and register of members of the Company will be closed from 14 December 2021 to 17 December 2021, both days inclusive, to determine the entitlement of shareholders of the Company to attend and vote at the SGM, during which period no share transfers can be registered. In order to be eligible to attend and vote at the SGM, all duly completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 13 December 2021.
5. Pursuant to Rule 13.39(4) of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited, the resolutions as set out in this notice will be decided by poll at the meeting.

In view of the current COVID-19 pandemic situation, the Company will implement the following precautionary measures at the SGM to protect the Shareholders and other attendees from risk of infection:

1. At the entrance of the SGM Venue, a compulsory body temperature check will be conducted on every person attending the SGM. Any person with a body temperature of over 37.3 degrees Celsius, or any individual who has any flu-like symptoms or is otherwise unwell will not be admitted to the SGM Venue.
2. Every attendees will be required to sign and complete a health declaration form before admission to the SGM Venue.
3. Seating at the SGM Venue will be arranged so as to allow for appropriate social distancing. As a result, there will be limited capacity for Shareholders to attend the SGM. The Company may limit the number of attendees at the SGM as may be necessary to avoid over-crowding.
4. Every attendee is required to wear a surgical face mask at any time within the SGM Venue.
5. Any attendee who declines any of the abovementioned measures will not be admitted to the SGM Venue.
6. No food or beverages or gifts will be provided to the attendees at the SGM.

NOTICE OF SPECIAL GENERAL MEETING

To the extent permitted under the laws of Hong Kong, the Company reserves the right to deny entry to the SGM venue or require any person to leave the SGM Venue in order to ensure the safety of the attendees at the SGM.

The Company would like to remind the Shareholders to consider appointing the Chairman of the SGM as his/her/its proxy to vote on the resolution at the SGM as an alternative to attending the SGM in person. In order to be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the SGM.

Subject to the development of the COVID-19 situation, the Company may implement and/or adjust precautionary measures for the SGM at short notice as the public health situation changes, and may issue further announcement(s) on such measures as and when appropriate.

As at the date of this notice, the Board comprises Mr. Li Lixin, Mr. Cheng Jianhe and Ms. Jin Yaxue being executive Directors, Ms. Cheng Weihong being non-executive Director, Mr. He Chengying, Mr. Shin Yick Fabian and Mr. Kwong Kwan Tong being independent non-executive Directors