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

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

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

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**LISI GROUP (HOLDINGS) LIMITED****利時集團（控股）有限公司***(Incorporated in Bermuda with limited liability)***(Stock Code: 526)****CONTINUING CONNECTED TRANSACTIONS  
AND  
NOTICE OF SPECIAL GENERAL MEETING****Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders****VINCO**  **城高****Vinco Capital Limited***(A wholly-owned subsidiary of Vinco Financial Group Limited)*

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A notice convening a special general meeting of Lisi Group (Holdings) Limited to be held at Suite 2418, 24/F, Jardine House, 1 Connaught Place, Central, Hong Kong at 3:00 p.m. on 12 February 2019 is set out on pages 31 and 32 of this circular. Whether or not you intend to attend the meeting, you are advised to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

22 January 2019

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## DEFINITIONS

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

“associates”	has the meaning ascribed to it in the Listing Rules
“Binhai Car City”	天津濱海國際汽車城有限公司 (Tianjin Binhai International Car City Co., Ltd.*), a company established in the PRC
“Board”	the board of Directors
“Bye-laws”	the bye-laws of the Company
“Company”	Lisi Group (Holdings) Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the main board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	the lawful currency for the time being of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors established for the purpose of advising the Independent Shareholders on the Strategic Cooperative Agreement
“Independent Shareholders”	Shareholders who are not involved or interested in the transactions contemplated under the Strategic Cooperative Agreement
“Latest Practicable Date”	18 January 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“OPCo”	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
“Parallel Import”	the importation of goods bearing a registered trademark or manufactured under license into a different jurisdiction by the owner of the trademark or right, otherwise with the consent of such owner

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## DEFINITIONS

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“Parallel Imported Cars”	cars imported into the PRC by way of Parallel Import
“PRC”	The People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Previous Agreement”	the strategic cooperative agreement dated 2 June 2016 made between the OPCo and Binhai Car City relating to the sale of Parallel Imported Cars
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be held on 12 February 2019 at 3:00 p.m. at Suite 2418, 24/F, Jardine House, 1 Connaught Place, Central, Hong Kong
“Shareholder(s)”	the holder(s) of the Shares
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategic Cooperative Agreement”	the Previous Agreement as amended and supplemented by the Supplemental Agreement relating to the sale of Parallel Imported Cars
“Supplemental Agreement”	the supplemental agreement dated 22 November 2018 made between the OPCo and Binhai Car City amending and supplementing the Previous Agreement
“Vinco Capital” or “Independent Financial Adviser”	Vinco Capital Limited, a wholly-owned subsidiary of Vinco Financial Group Limited (Stock Code: 8340), a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in regard to the Strategic Cooperative Agreement
“%”	per cent.

\* *The English translation of Chinese names is included for information purposes only and should not be regarded as their official English translation.*

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## LETTER FROM THE BOARD

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# LISI GROUP (HOLDINGS) LIMITED

## 利時集團（控股）有限公司

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 526)**

*Executive Directors:*

Mr Li Lixin (*Chairman*)  
Mr Tong Shiping  
Mr Cheng Jianhe (*Chief Executive Officer*)  
Ms Jin Yaxue

*Registered office:*

Clarendon House  
Church Street  
Hamilton HM 11  
Bermuda

*Non-Executive Director:*

Ms Cheng Weihong

*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

*Independent Non-Executive Directors:*

Mr He Chengying  
Mr Cheung Kiu Cho Vincent  
Mr Shin Yick Fabian  
Mr Kwong Kwan Tong

22 January 2019

*To the Shareholders*

Dear Sir/Madam,

### **CONTINUING CONNECTED TRANSACTION AND NOTICE OF SPECIAL GENERAL MEETING**

#### **INTRODUCTION**

It was disclosed in the Company's announcement dated 22 November 2018 that the OPCo and Binhai Car City entered into the Supplemental Agreement amending the Previous Agreement in relation to the sale of Parallel Imported Cars. Binhai Car City is a connected person of the Company. The Strategic Cooperative Agreement constitute continuing connected transactions for the Company.

This circular is to (i) give you information regarding the Strategic Cooperative Agreement, (ii) set out the recommendations of the Independent Board Committee in relation to the Strategic Cooperative Agreement and the advice of Vinco Capital in relation thereto and (iii) give you notice of the SGM to consider, and if thought fit, approve the Strategic Cooperative Agreement.

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## LETTER FROM THE BOARD

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### STRATEGIC COOPERATIVE AGREEMENT

#### Date of Supplemental Agreement

22 November 2018

#### Parties

- (1) the OPCo; and
- (2) Binhai Car City.

#### Subject

Pursuant to the Strategic Cooperative Agreement, Binhai Car City agreed to supply to the OPCo such Parallel Imported Cars as the OPCo may order from time to time, and procure the completion of all necessary procedures for the purpose of overseas procurement, including but not limited to, logistics and port clearance as well as tax filings to ensure that the sale of such Parallel Imported Cars to the OPCo satisfy all applicable laws, regulations and other conditions. The amount of the order of the Parallel Imported Cars to be made by the OPCo will be determined with reference to (i) the amount of inventory in stock; and (ii) the amount of orders with the OPCo placed by its customers. All the Parallel Imported Cars supplied by Binhai Car City to the OPCo are brand new cars imported from well known overseas car manufacturers such as Audi, BMW, Mercedes, Porsche and Toyota. Since the OPCo is not yet one of the pilot enterprises or pilot platforms as announced by Tianjin Binhai New Area Commission of Commerce (天津市濱海新區商務委員會) in accordance with the Pilot Implementation Plan for Parallel Import of Cars in the China (Tianjin) Pilot Free Zone (《中國(天津)自由貿易試驗區開展平行進口汽車試點實施方案》), the OPCo is unable to purchase Parallel Imported Cars directly from overseas dealers or manufacturers.

The Strategic Cooperative Agreement stated that according to the Pilot Implementation Plan for Parallel Import of Cars in the China (Tianjin) Pilot Free Zone (《中國(天津)自由貿易試驗區開展平行進口汽車試點實施方案》), Binhai Car City is the primary entity responsible for the quality of the imported cars and obligations such as after-sale services, product recall and claims. Therefore it further provided that in the event that any customer of the OPCo suffer any loss as a result of any purchase of Parallel Imported Cars from the OPCo which in turn cause any loss of Binhai Car City, the loss of which has been proven to be caused by reason of the OPCo, the OPCo shall within 15 days compensate Binhai Car City of such amount. In this regard, within 30 days upon the entering of the Strategic Cooperative Agreement, the OPCo shall provide a sum of RMB50,000,000 as guarantee amount. The circumstances under which the OPCo would be liable for loss of its customers include incorrect purchase order details such as car model, specifications and delivery date caused by the OPCo. The business model of the OPCo involves obtaining supply of Parallel Imported Cars from Binhai Car City and reselling the same to its customers. If after confirmation of the purchase order with Binhai Car City, the OPCo cancelled or revised the order, it may cause loss to Binhai Car City. The aforesaid compensation term by OPCo in favour of Binhai Car City is a standard term contained in all other similar strategic cooperative agreements made between Binhai Car City and other traders. The Strategic Cooperative Agreement in this respect is no less favourable than other similar strategic cooperative agreements made between Binhai Car City and other traders.

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## LETTER FROM THE BOARD

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### **Term**

The Strategic Cooperative Agreement has a fixed term of three years commenced from 1 January 2019 and ending on 31 December 2021. The OPCo has a right to terminate the Strategic Cooperative Agreement by giving 30 days prior written notice to Binhai Car City. Binhai Car City has no such right to terminate the Strategic Cooperative Agreement.

### **Pricing Policy**

The purchase prices of the Parallel Imported Cars payable by the OPCo to Binhai Car City will be determined with reference to the prevailing market prices of similar products available on the market, and on terms no less favourable to the terms other independent third parties may offer to the OPCo. On the assumption that all conditions being equal, if the purchase price offered by other independent third parties to the OPCo is lower than the purchase price offered by Binhai Car City to the OPCo, Binhai Car City shall reduce the purchase price to the level in line with the lowest price in the market as other independent third parties may offer. Since all cars supplied by Binhai Car City are brand new cars, the OPCo is able to assess and compare the purchase price of cars of the same brand with the same specifications.

In the event there are suppliers which supply cars of the same brand and quality, OPCo shall ask for a price quote from such suppliers. The transaction between OPCo and Binhai Car City shall be effective upon confirmation by OPCo that the purchase price offered to OPCo by Binhai Car City does not exceed that offered by other suppliers.

In the event no suppliers supply cars of the same brand and quality (i.e. Binhai Car City being the exclusive supplier), Binhai Car City shall provide OPCo with a record of the purchase prices offered by Binhai Car City to other customers for cars of such brand and quality during a period of 30 days prior to the date of the proposed transaction. The transaction between OPCo and Binhai Car City shall be effective upon confirmation by OPCo that the purchase price offered to OPCo does not exceed the purchase prices offered to other customers.

It has been the business model of the OPCo to sell only popular models of well-known car brands. Due to the highly competitive market, invariably there will be other suppliers in the market supplying cars of the same brand and quality or that Binhai Car City had sold such cars before. It did not occur in the past three years that the OPCo ordered any particular car model from Binhai Car City of which Binhai Car City was the exclusive supplier or that Binhai Car City did not sell such cars for a period of 30 days. In the unlikely event that no suppliers supply cars of the same brand and quality and Binhai Car City did not sell such cars for the last 30 days prior to the date of the proposed transaction, the OPCo and Binhai Car City shall negotiate at arm's length on the price with reference to the proposed selling price of such cars by the OPCo to its customers and the historical mark-up rates of the OPCo for sale of similar cars to its customer and shall ensure that the mark-up rates for such cars will be no less than the OPCo's historical mark-up rates for similar cars and the pricing is fair and reasonable and under normal commercial terms.

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## LETTER FROM THE BOARD

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### *Internal control*

In order to ensure that the transactions contemplated under the Strategic Cooperative Agreement are conducted on normal commercial terms or better and in accordance with the pricing policy of the Group and will not be prejudicial to the interests of the Company and its Shareholders as a whole, the Group has adopted the following measures:

- Procurement personnel of the OPCo will obtain/retrieve and properly document, as the case may be, (i) at least two price quotes/invoices of transacted purchases from other independent suppliers within 30 days prior to or after the date receiving price quote from Binhai Car City for Parallel Imported Cars of comparable brands and quality; and (ii) at least two records of price quotes offered by Binhai Car City to other customers during a period of 30 days prior to the date of the proposed transaction in the event that the concerned Parallel Imported Cars are only available from Binhai Car City.
- The head of procurement department of the OPCo will make reference to above-mentioned price research and ascertain the purchase price offered by Binhai Car City does not exceed, as the case may be, (i) that offered to OPCo by other independent suppliers; and (ii) that offered by Binhai Car City to its other customers, prior to entering into each individual purchase contract.
- The finance department of the Group will conduct a monthly review on whether the OPCo has sufficient unused annual cap amounts for carrying out Continuing Connected Transaction during the year. If it is anticipated that the annual cap may be exceeded, the Group would take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules before continuing to carry out the Continuing Connected Transaction.
- The audit committee of the Group will annually sample 10% of the total number of purchase orders entered into between the OPCo and Binhai Car City contemplated under the Continuing Connected Transaction, and review the relevant documentation and assess whether such transactions are conducted in accordance with the Strategic Cooperative Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

### **Settlement term**

For Parallel Imported Cars to be purchased with reference to the OPCo's inventory level, 20% of the purchase price will be payable by the OPCo in cash when an order is placed within 3 days upon a change of inventory in stock and the remaining balance of the purchase price will be payable by the OPCo upon completion of tax and port clearance of the relevant Parallel Imported Cars after three months.



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## LETTER FROM THE BOARD

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For Parallel Imported Cars to be purchased with reference to the amount of orders placed with the OPCo by its customers, 20% of the purchase price will be payable by the OPCo in cash when the OPCo receives the deposit sum from its customers and places an order with Binhai Car City and the remaining balance of the purchase price will be payable by the OPCo upon completion of tax and port clearance of the relevant Parallel Imported Cars after three months. The OPCo usually requests customers to pay a deposit sum of 30% of the purchase price upon receiving the order. Therefore the risk of insufficient cash flow on the OPCo arising from substantial order placing is minimal.

In the event that there is late payment of the purchase price by OPCo, OPCo will be required to pay Binhai Car City damages amounting to 0.5% of the total amount payable calculated on a daily basis.

### Condition precedent

The Strategic Cooperative Agreement is conditional upon the approval being obtained from the Independent Shareholders at the SGM.

### Historical transaction amount

The historical transaction amounts between the OPCo and Binhai Car City under similar arrangements as the Strategic Cooperative Agreement are as follows:

<b>Period</b>	<b>Amount</b>
From 1 January 2016 to 31 December 2016	RMB281,097,935
From 1 January 2017 to 31 December 2017	RMB631,484,336
From 1 January 2018 to 31 October 2018	RMB428,910,900

### Annual Caps

The transaction amounts during the term of the Strategic Cooperative Agreement are expected not to exceed the following amounts:

<b>Period</b>	<b>Amount</b>
From 1 January 2019 to 31 December 2019	RMB800,000,000
From 1 January 2020 to 31 December 2020	RMB700,000,000
From 1 January 2021 to 31 December 2021	RMB600,000,000

The annual cap amounts of the transaction amounts under the Strategic Cooperative Agreement are determined with reference to (i) the historical transaction amount for the calendar year 2016 and 2017; (ii) the estimated annual purchase of OPCo for the calendar year of 2018 and the impact of China-US trade war on car imports especially in the second half of 2018; (iii) the open market prices and the anticipated increases in business demand and (iv) the reducing proportion of purchases to be made with Binhai Car City for the three years ending 31 December 2021.

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## LETTER FROM THE BOARD

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The expected transaction amount for the year ending 31 December 2018 is RMB713.7 million, after taking into account of the impact of China-US trade war. The cap amount for the year ending 31 December 2019 was arrived at after taking into account of (i) an expected increase in total purchase level of the OPCo in 2019 and (ii) the percentage of purchase to be made from Binhai Car City by the OPCo in 2019 remaining unchanged.

The Company anticipates that there will be an overall increase in business demand due to growth of the PRC economy and government policies towards reducing import tariff for cars. The total purchase amount of the OPCo for each of the three years ending 31 December 2021 is expected to grow at an annual rate of 5%. The said growth rate is determined by the management of the OPCo after taking into account of (a) the average annual car sales growth in China from 2011 to 2018 (September) of approximately 6.3% according to Bloomberg, (b) the exponential annual growth rate of the total purchase amount of the OPCo of approximately 261% from the year 2016 (approximately RMB656 million) to the year 2017 (approximately RMB2,370 million) due to faster growth during the early stage of the OPCo, (c) the significant drop of the estimated annual growth rate of the total purchase amount of the OPCo to approximately 3.8% from the year 2017 to the year 2018 (estimated approximately RMB2,461 million) as the business of the OPCo became mature and stable and (d) expected improvement in the business prospects of the OPCo for the next three years.

The expected percentage of purchase amount from Binhai Car City to the total purchases of Parallel Imported Cars by OPCo for the three years ending 31 December 2021 is 29%, 24% and 19% respectively, representing an average drop in 5% per year and was determined by the management of the OPCo based on (a) a drop in 16% of the percentage of purchase from Binhai Car City from 2016 (approximately 43%) to 2017 (approximately 27%), (b) an estimated slight increase in approximately 2% of the percentage from 2017 to 2018 (approximately 29% based on the expected purchase amounts for 2018), (c) an average annual drop in approximately 7% of the percentage from 2016 (43%) to 2018 (29%), (d) a stall in the percentage for the year 2019 at 29% to allow for flexibility in purchase from Binhai Car City due to possible impact of the China-US trade war and (e) expected continued descending trend of the percentage from 2019 to 2021 at a smaller rate of decrease than the historical average rate due to smaller base number and to allow for more flexibility in purchase from Binhai Car City given the already much reduced percentage of purchase from it. In order to achieve an appropriate diversification of sources of supply and optimise its product mix, the OPCo will continue to reduce the proportion of total purchase to be made from Binhai Car City in the next three years. The OPCo will continue to enhance its business relationship with existing suppliers and develop business relationship with new suppliers in order to secure reliable alternative sources of Parallel Imported Cars of good quality at competitive price. Hence the cap amount for the year ended 2020 and 2021 was reduced to RMB700 million and RMB600 million respectively.

### REASONS FOR THE STRATEGIC COOPERATIVE AGREEMENT

The Group is principally engaged in (i) manufacturing and trading of plastic and metal household products, (ii) operation of department stores and supermarkets, (iii) wholesale of alcohol, wine, beverages and electrical appliances and (iv) trading and sales of imported cars.

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## LETTER FROM THE BOARD

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Binhai Car City is a company established in the PRC and is one of the largest platform companies engaged in the Parallel Import of cars in the China (Tianjin) Pilot Free Zone. Binhai Car City will be able to provide efficient and reliable services for the Group in securing stable supply from overseas car dealers and quality port services. The entering into of the Strategic Cooperative Agreement ensures that the OPCo would be able to have the flexibility to secure the supply of Parallel Imported Cars from Binhai Car City, a reliable quality supplier.

The OPCo has been purchasing Parallel Imported Cars from a number of readily available suppliers and will not be committed to purchase any Parallel Imported Cars only from Binhai Car City under the Strategic Cooperative Agreement. If any purchase is transacted pursuant to the Strategic Cooperative Agreement, all such purchase transactions must be on normal commercial terms and at a price that is not higher than the price offered by other suppliers in the market at the time of the transaction. The Strategic Cooperative Agreement will therefore give the OPCo the flexibility to purchase Parallel Imported Cars from Binhai Car City if it so wishes at competitive market prices.

The Strategic Cooperative Agreement is a renewal of the Previous Agreement of the same subject matters which expired on 31 December 2018.

The Directors consider that the terms of the Strategic Cooperative Agreement are fair and reasonable and the entering into of the Strategic Cooperative Agreement is in the interest of the Company and the Independent Shareholders as a whole.

### **LISTING RULES IMPLICATIONS**

Binhai Car City is a company 100% indirectly held by the son-in law of Mr Tong Shiping and Ms Cheng Weihong, Directors and substantial Shareholders. Binhai Car City is therefore a connected person of the Company. Accordingly, the transactions with Binhai Car City as contemplated under the Strategic Cooperative Agreement constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

As the applicable percentage ratios under Chapter 14A of the Listing Rules in respect of the annual cap amount under the Strategic Cooperative Agreement are more than 5%, the transactions under the Strategic Cooperative Agreement are subject to the requirements of reporting, announcement, circular and Independent Shareholders' approval under the Listing Rules.

### **SGM**

Notice of the SGM is set out on pages 31 and 32 of this circular. All resolutions to be proposed at the SGM will be voted on by poll.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend, you are advised to complete and return the enclosed form of proxy, in accordance with the instructions printed thereon and deposit the same with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, Ms Cheng Weihong is interested in 1,856,113,702 Shares (representing approximately 24.60% of the Company's entire issued share capital, which are held through Mighty Mark Investments Limited which is wholly owned by Ms Cheng Weihong. Pursuant to the Listing Rules, Ms Cheng Weihong and her associates, being connected persons of the Company with material interests in the Strategic Cooperative Agreement, shall abstain from voting in the SGM.

To the best knowledge, information and belief of the Company having made all reasonable enquiries, as at the Latest Practicable Date, Mr Tong Shiping, executive Director and Ms Cheng Weihong, non-executive Director, have a material interest in the Strategic Cooperative Agreement and are required to abstain from voting on the relevant board resolution to approve the Strategic Cooperative Agreement.

### RECOMMENDATION

An Independent Board Committee has been established to make recommendations to the Independent Shareholders in respect of the Strategic Cooperative Agreement.

Vinco Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Strategic Cooperative Agreement. Vinco Capital considers that the Strategic Cooperative Agreement is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned. Your attention is drawn to the letter of advice from Vinco Capital set out in this circular containing its recommendation and the principal factors and reasons it has taken into account in arriving at its recommendation are set out in this circular.

The Independent Board Committee, having taken the advice of Vinco Capital into account, considers the terms of the Strategic Cooperative Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions relating to the Strategic Cooperative Agreement. The full text of the letter from the Independent Board Committee is set out in this circular.

The Directors, including the independent non-executive directors, are of the opinion that entering into the Strategic Cooperative Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all Shareholders should vote in favour of the relevant resolutions to be proposed at the SGM.

Yours faithfully  
By Order of the Board  
**LISI GROUP (HOLDINGS) LIMITED**  
**Li Lixin**  
*Chairman*

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LETTER FROM INDEPENDENT BOARD COMMITTEE

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**LISI GROUP (HOLDINGS) LIMITED**

**利時集團（控股）有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 526)**

22 January 2019

*To the Independent Shareholders*

Dear Sir/Madam,

We have been appointed as the Independent Board Committee to advise Independent Shareholders in connection with the Strategic Cooperative Agreement, details of which are set out in the circular of the Company to the Shareholders dated 22 January 2019 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the advice of Vinco Capital in relation thereto as set out in the Circular, we are of the view that the Strategic Cooperative Agreement is 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 and the terms of the Strategic Cooperative Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Strategic Cooperative Agreement.

Yours faithfully

**He Chengying**

*Independent  
non-executive  
Director*

**Cheung Kiu Cho Vincent**

*Independent  
non-executive  
Director*

**Shin Yick Fabian**

*Independent  
non-executive  
Director*

**Kwong Kwan Tong**

*Independent  
non-executive  
Director*

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## LETTER FROM VINCO CAPITAL

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*The following is the text of a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders with respect to the Strategic Cooperative Agreement, which has been prepared for the purpose of incorporation in this circular:*



**Vinco Capital Limited**

Units 4909–4910, 49/F., The Center  
99 Queen's Road Central, Hong Kong

22 January 2019

*To the Independent Board Committee and the Independent Shareholders of  
**Lisi Group (Holdings) Limited***

Dear Sirs and Madams,

### CONTINUING CONNECTED TRANSACTIONS

#### A. INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the Strategic Cooperative Agreement, 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 22 January 2019 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 22 November 2018 (the “**Announcement**”). As set out in the Announcement, on 22 November 2018 after trading hours, the OPCo and Binhai Car City entered into the Supplemental Agreement amending the Previous Agreement in relation to the sale of Parallel Imported Cars for a period of three years with retrospective effect commencing from 1 January 2019 and ending on 31 December 2021.

Binhai Car City is a company 100% indirectly held by the son-in law of Mr Tong Shiping and Ms Cheng Weihong, Directors and substantial Shareholders. Binhai Car City is therefore a connected person of the Company. Accordingly, the transactions with Binhai Car City as contemplated under the Strategic Cooperative Agreement constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

As the applicable percentage ratios under Chapter 14A of the Listing Rules in respect of the annual cap amount under the Strategic Cooperative Agreement are more than 5%, the transactions under the Strategic Cooperative Agreement are subject to the requirements of reporting, announcement, circular and Independent Shareholders' approval under the Listing Rules.

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## LETTER FROM VINCO CAPITAL

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As at the Latest Practicable Date, Ms Cheng Weihong is interested in 1,856,113,702 Shares (representing approximately 24.60% of the Company's entire issued share capital, which are held through Mighty Mark Investments Limited which is wholly owned by Ms Cheng Weihong. Pursuant to the Listing Rules, Ms Cheng Weihong and her associates, being connected persons of the Company with material interests in the Strategic Cooperative Agreement, shall abstain from voting in the SGM.

To the best knowledge, information and belief of the Company having made all reasonable enquiries, as at the Latest Practicable Date, Mr Tong Shiping, executive Director and Ms Cheng Weihong, non-executive Director, have a material interest in the Strategic Cooperative Agreement and are required to abstain from voting on the relevant board resolution to approve the Strategic Cooperative Agreement.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr He Chengying, Mr Cheung Kiu Cho Vincent, Mr Shin Yick Fabian and Mr Kwong Kwan Tong, has been established by the Board to consider and advise the Independent Shareholders as to whether the Strategic Cooperative Agreement is 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. We have been appointed and have been approved by the Independent Board Committee, as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We were not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rule to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Strategic Cooperative Agreement. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we had received or will receive any fee or benefit from the Group and its associates. We have not acted as the independent financial adviser for the Company's other transactions in the past two years. Also, we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on the Strategic Cooperative Agreement.

### **B. BASIS OF OUR OPINION AND RECOMMENDATION**

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading.

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## LETTER FROM VINCO CAPITAL

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We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed. We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed all currently available information and documents, among others: (i) the annual reports of the Company for the year ended 31 March 2017 and 31 March 2018; (ii) the Circular; (iii) the Strategic Cooperative Agreement; (iv) the consolidated financial accounts of Mega Convention Group Limited, a 100% holding company of OPCo, for the year ended 31 December 2017; (v) the calculation basis and assumptions in relation to the annual caps from FY2019 to FY2021 considered by the Group; (vi) the historical transaction amounts between OPCo and Binhai Car City; (vii) sample walkthrough documents which includes but not limited to sales confirmation, payment advices, payment receipts and vouchers for purchase and settlement of past sales and purchases of Parallel Imported Cars between the Group and other independent third parties; (viii) the internal control measures and risk management policies governing continuing connected transactions and (ix) the pricing policy in relation to the continuing connected transactions which are made available to us and enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Strategic Cooperative Agreement, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration on the continuing connected transactions contemplated under the Strategic Cooperative Agreement, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.



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## LETTER FROM VINCO CAPITAL

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### C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and Independent Shareholders in relation to the Strategic Cooperative Agreement, we have considered the following principal factors and reasons set out below.

#### *Information of the Group*

The Company is an investment holding company. The Group is principally engaged in (i) manufacturing and trading of plastic and metal household products, (ii) operation of department stores and supermarkets, (iii) wholesale of alcohol, wine, beverages and electrical appliances and (iv) trading and sales of imported cars.

#### *Information of the Binhai Car City*

Binhai Car City is a company established in the PRC and is one of the largest platform companies engaged in the Parallel Import of cars in the China (Tianjin) Pilot Free Zone. Binhai Car City will be able to provide efficient and reliable services for the Group in securing stable supply from overseas car dealers and quality port services.

#### *Historical financial information of the Group*

Set out below is a summary of the audited consolidated financial results of the Group for the two years ended 31 March 2018, as extracted from the Company's annual report for the year ended 31 March 2018 (the "2018 Annual Report"):

	<b>For the year ended 31 March</b>	
	<b>2017</b>	<b>2018</b>
	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,239,692	3,885,467
Gross profit	248,595	391,673
Loss for the year attributable to equity holders of the Company	(656,758)	(938,992)
	<b>As at 31</b>	<b>As at 31</b>
	<b>March 2017</b>	<b>March 2018</b>
	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	4,037,758	4,680,833
Total liabilities	2,883,672	4,326,655
Net assets	1,154,086	354,178

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## LETTER FROM VINCO CAPITAL

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For the year ended 31 March 2018, the Group recorded a revenue of approximately RMB3.9 billion, representing an increase of approximately 213.4% when compared with the revenue of approximately RMB1.2 billion for the year ended 31 March 2017. According the 2018 Annual Report, the increase on revenue was mainly due to (i) an increase in car-sale business of the Group of approximately 1,619% from approximately RMB159.5 million to approximately RMB2,742.5 million for the year ended 31 March 2017 and 31 March 2018. This is mainly due to (i) the completion of the acquisition of the trading and sales of imported cars business in Tianjin, PRC in February 2017, which resulted in the new business line and (ii) an increase in retail and wholesale business of the Group whereas retail business increased by approximately 12.8% from approximately RMB430 million to approximately RMB485.5 million and wholesales business increased by approximately 5.1% from approximately RMB266.2 million to approximately RMB279.7 million.

The Group recorded a gross profit of approximately RMB391.7 million for the year ended 31 March 2018, representing an increase of approximately 57.6% compared to the year ended 31 March 2017 which was approximately RMB248.6 million. The increase was mainly due to a huge increase in revenue explained above, which offset the increase in cost of sales.

Net loss for the year ended 31 March 2018 was approximately RMB939 million compared to a net loss of RMB656.8 million for the year ended 31 March 2017. According to the 2018 Annual Report, the increase in net loss was mainly attributable to the increase in finance cost compared to the year ended 31 March 2017. The increase in finance cost was mainly due to positive change of approximately RMB1.0 billion in fair value on a contingent consideration.

### ***Reasons for the Strategic Cooperative Agreement***

The Strategic Cooperative Agreement is a renewal of the Previous Agreement of the same subject matters which expired on 31 December 2018.

The Group is principally engaged in (i) manufacturing and trading of plastic and metal household products, (ii) operation of department stores and supermarkets, (iii) wholesale of alcohol, wine, beverages and electrical appliances and (iv) trading and sales of imported cars.

As stated in the “Letter from the Board”, Binhai Car City is a company established in the PRC and is one of the largest platform companies engaged in the Parallel Import of cars in the China (Tianjin) Pilot Free Zone. As confirmed by the Directors, Binhai Car City will be able to provide efficient and reliable services for the Group in securing stable supply from overseas car dealers and quality port services. The quality port services provided by Binhai Car City include value-added services such as logistics, customs declaration, customs clearance, insurance, information services, and financial facilities.

We have discussed with the Directors and the Directors confirmed that there were no material delay or out of stock on their purchases from Binhai Car City in the past three years, they consider Binhai Car City as a reliable quality supplier. Thus the Directors are of the view that entering into of the Strategic Cooperative Agreement ensures OPCo would be able to have the flexibility to secure the supply of Parallel Imported Cars from Binhai Car City.

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## LETTER FROM VINCO CAPITAL

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According to the “Letter from the Board”, the OPCo has been purchasing Parallel Imported Cars from a number of readily available suppliers and will not be committed to purchase any Parallel Imported Cars only from Binhai Car City under the Strategic Cooperative Agreement. If any purchase is transacted pursuant to the Strategic Cooperative Agreement, all such purchase transactions must be on normal commercial terms and at a price that is not higher than the price offered by other suppliers in the market at the time of the transaction. The Strategic Cooperative Agreement will therefore give the OPCo the flexibility to purchase Parallel Imported Cars from Binhai Car City if it so wishes at competitive market prices.

For our due diligence purpose, we have obtained and reviewed (i) the internal control measures and risk management policies of the Group; (ii) the pricing policy of the Group in relation to the continuing connected transaction; (iii) the Strategic Cooperative Agreement and (iv) sample walkthrough documents which includes but not limited to sales confirmation, payment advices, payment receipts and vouchers for purchase and settlement of past sales and purchases of parallel imported cars between the Group and other independent third parties. We are of the view that the Strategic Cooperative Agreement is in the ordinary and usual course of business and is in the interest of the Company and the Independent Shareholders as a whole.

### *Principle terms of the Continuing Connected Transaction*

Pursuant to the Strategic Cooperative Agreement, Binhai Car City agreed to supply to the OPCo such Parallel Imported Cars as the OPCo may order from time to time, and procure the completion of all necessary procedures for the purpose of overseas procurement, including but not limited to, logistics and port clearance as well as tax filings to ensure that the sale of such Parallel Imported Cars to the OPCo satisfy all applicable laws, regulations and other conditions. The amount of the order of the Parallel Imported Cars to be made by the OPCo will be determined with reference to (i) the amount of inventory in stock; and (ii) the amount of orders with the OPCo placed by its customers.

The Strategic Cooperative Agreement stated that according to the Pilot Implementation Plan for Parallel Import of Cars in the China (Tianjin) Pilot Free Zone (《中國(天津)自由貿易試驗區開展平行進口汽車試點實施方案》), Binhai Car City is the primary entity responsible for the quality of the imported cars and obligations such as after-sale services, product recall and claims. Therefore it further provided that, in the event that any customer of the OPCo suffer any loss as a result of any purchase of Parallel Imported Cars from the OPCo which in turn cause any loss of Binhai Car City, the loss of which has been proven to be caused by reason of the OPCo, the OPCo shall within 15 days compensate Binhai Car City of such amount. In this regard, within 30 days upon the entering of the Strategic Cooperative Agreement, the OPCo shall provide a sum of RMB50,000,000 as guarantee amount. The circumstances under which the OPCo would be liable for loss of its customers include incorrect purchase order details such as car model, specifications and delivery date caused by the OPCo. The business model of the OPCo involves obtaining supply of Parallel Imported Cars from Binhai Car City and reselling the same to its customers. If after confirmation of the purchase order with Binhai Car City, the OPCo cancelled or revised the order, it may cause loss to Binhai Car City. The aforesaid compensation term by OPCo in favour of Binhai Car City is a standard term contained in all other similar strategic cooperative agreements made between Binhai

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## LETTER FROM VINCO CAPITAL

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Car City and other traders. The Strategic Cooperative Agreement in this respect is no less favourable than other similar strategic cooperative agreements made between Binhai Car City and other traders.

### *Terms*

The Strategic Cooperative Agreement has a fixed term of three years commenced from 1 January 2019 and ending on 31 December 2021. The OPCo has a right to terminate the Strategic Cooperative Agreement by giving 30 days prior written notice to Binhai Car City.

### *Pricing Policy*

The purchase prices of the Parallel Imported Cars payable by the OPCo to Binhai Car City will be determined with reference to the prevailing market prices of similar products available on the market, and on terms no less favourable to the terms other independent third parties may offer to the OPCo. On the assumption that all conditions being equal, if the purchase price offered by other independent third parties to the OPCo is lower than the purchase price offered by Binhai Car City to the OPCo, Binhai Car City shall reduce the purchase price to the level in line with the lowest price in the market as other independent third parties may offer.

In the event there are suppliers which supply cars of the same brand and quality, OPCo shall ask for a price quote from such suppliers. The transaction between OPCo and Binhai Car City shall be effective upon confirmation by OPCo that the purchase price offered to OPCo by Binhai Car City does not exceed that offered by other suppliers.

In the event no suppliers supply cars of the same brand and quality (i.e. Binhai Car City being the exclusive supplier), Binhai Car City shall provide OPCo with a record of the purchase prices offered by Binhai Car City to other customers for cars of such brand and quality during a period of 30 days prior to the date of the proposed transaction. The transaction between OPCo and Binhai Car City shall be effective upon confirmation by OPCo that the purchase price offered to OPCo does not exceed the purchase prices offered to other customers.

As confirmed by the Directors, all the Parallel Imported Cars supplied by Binhai Car City to the OPCo are brand new cars imported from overseas, thus OPCo is able to assess and compare the purchase price of cars of the same brand with the same specifications. Hence we are of the view that the management assumptions on the price of the purchased cars from Binhai Car City are fair and reasonable.

It has been the business model of the OPCo to sell only popular models of well-known car brands. Due to the highly competitive market, invariably there will be other suppliers in the market supplying cars of the same brand and quality or that Binhai Car City had sold such cars before. It did not occur in the past three years that the OPCo ordered any particular car model from Binhai Car City of which Binhai Car City was the exclusive supplier or that Binhai Car City did not sell such cars for a period of 30 days.

We have discussed with the Directors and we note that in the unlikely event that no suppliers supply cars of the same brand and quality and Binhai Car City did not sell such cars for the last 30 days prior to the date of the proposed transaction, the OPCo and Binhai Car City shall negotiate at

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## LETTER FROM VINCO CAPITAL

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arm's length on the price with reference to the proposed selling price of such cars by the OPCo to its customers and the historical mark-up rates of the OPCo for sale of similar cars to its customer. After discussing with the Directors, we note that the Company's historical mark-up rate varies on different models of cars. The actual average mark-up rate for the latest calendar year is approximately 5.38%, which is equal to the gross profit margin of the car sales segment based on the Company's 2018 Annual Report. Hence the Directors are of the view that the estimated mark-up rate on the cars which Binhai Car City being the exclusive supplier, should be higher than 5.38%. Based on the above, we are of the view that the price determination based on historical mark-up rates on similar cars are fair and reasonable and in the interest of the shareholders.

### *Settlement term*

For Parallel Imported Cars to be purchased with reference to the OPCo's inventory level, 20% of the purchase price will be payable by the OPCo in cash when an order is placed within 3 days upon a change of inventory in stock and the remaining balance of the purchase price will be payable by the OPCo upon completion of tax and port clearance of the relevant Parallel Imported Cars after three months.

For Parallel Imported Cars to be purchased with reference to the amount of orders placed with the OPCo by its customers, 20% of the purchase price will be payable by the OPCo in cash when the OPCo receives the deposit sum from its customers and places an order with Binhai Car City and the remaining balance of the purchase price will be payable by the OPCo upon completion of tax and port clearance of the relevant Parallel Imported Cars after three months.

In the event that there is late payment of the purchase price by OPCo, OPCo will be required to pay Binhai Car City damages amounting to 0.5% of the total amount payable calculated on a daily basis.

We have reviewed eleven samples of sales confirmation of the transactions (i) entered into between OPCo and Binhai Car City and (ii) entered into between OPCo and independent third parties in the two years ended 31 December 2017 and the ten months ended 31 October 2018. The eleven samples are selected on random basis from the total purchases of OPCo from all suppliers for the two years ended 31 December 2017 and the ten months ended 31 October 2018. The samples are selected with the basis that the cars purchased from Binhai Car City and other independent third parties are the same models. We note that the product pricing terms on the same model offered by Binhai Car City to OPCo are more favourable to those offered by independent third parties and the settlement terms offered by Binhai Car City to OPCo are the same or more favourable as those offered by independent third parties. Based on the total purchases price of the selected models we have reviewed, we noted that the purchase prices offered by Binhai Car City to OPCo are slightly lower than the prices offered by other independent third parties on the same model cars. We also noted that Binhai Car City allow OPCo to pay a particular percentage of the purchase price in cash when OPCo places an order with Binhai Car City and the remaining balance of the purchase price will be payable by the OPCo upon completion of tax and port clearance of the relevant Parallel Imported Cars, whereas most of the independent third parties require OPCo to pay the purchase price in one-off once the order is placed. Hence, we are of the view that the terms offered by Binhai Car City are more favourable than those by independent third parties.

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## LETTER FROM VINCO CAPITAL

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Taken into consideration of above analysis, we are of the view that the terms of the Cooperative Strategic Agreement is fair and reasonable and is on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

### *Historical annual caps*

Set out below are the historical amounts of the actual transactions for the two years ended 31 December 2017 and the ten months ended 31 October 2018.

<b>For the year ending 31 December</b>	<b>Annual cap (RMB' million)</b>	<b>Actual transaction amount (RMB' million)</b>	<b>Utilisation rate</b>
2016	390	281.1	72.1%
2017	1,000	631.5	63.1%
<b>Ten months ended 31 October</b>			
2018	900	428.9	47.7%

The historical transaction amounts between the OPCo and Binhai Car City under the Previous Agreement with similar arrangements as the Strategic Cooperative Agreement for the two years ended 31 December 2017 and the ten months ended 31 October 2018 were approximately RMB281.1 million, RMB631.5 million and RMB428.9 million respectively.

As depicted from the table above, we note that the relevant utilisation rate of the previous annual cap is approximately 72.1%, 63.1% and 47.7% for the two years ended 31 December 2017 and the ten months ended 31 October 2018, which the actual transaction amount did not exceed the annual cap for the two years ended 31 December 2017 and anticipated that it will not be exceeding the annual cap for the year ending 31 December 2018. As confirmed by the Directors, the expected transaction amount for the year ending 31 December 2018 is RMB713.7 million and hence the estimated utilisation rate for the year ending 31 December 2018 will be 79%. We have reviewed the estimated purchases balances prepared by the Group together with sample secured contracts signed with their suppliers. We have also reviewed signed confirmations from OPCo's customers on their respective intended purchases for the two months ending 31 December 2018. The approximate purchase amount in accordance to the number of motor cars by model, is approximately RMB800 million. In order to assess the reasonableness of achieving the estimated purchase amount, we have also reviewed purchase ledgers of OPCo for the eleven months ended 30 November 2018 and all signed sales confirmation between OPCo and Binhai Car City for the month ending 31 December 2018. For the period from 1 January 2018 to 12 December 2018, the total purchase from Binhai Car City amounted to approximately RMB582.1 million, whereas the total purchase of OPCo amounted to approximately RMB2.3 billion. For the month ended 30 November 2018 and the period from 1 December 2018 to 12 December 2018, the purchases solely from Binhai Car City amounted to approximately RMB63.3 million and RMB89.9 million respectively. The total purchase from Binhai Car City for the twelve calendar days in December 2018 is already 42% exceeded the total purchase

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## LETTER FROM VINCO CAPITAL

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for Binhai Car City in November. Based on the uptrend on purchase amount demonstrated during the first 12 days in December and confirmation by the Directors, it is anticipated that OPCo will continue to purchase from Binhai Car City for the month ending 31 December 2018 based on the anticipated increase in demand on Parallel Imported Cars for the month ending 31 December 2018, and we concur the Directors view that the anticipated total purchase from Binhain Car City in December 2018 will reach an amount of RMB222.6 million with an annual total purchase from Binhai Car City of approximately RMB713.7 million. Hence we are of the view that the estimated purchase amount of RMB713.7 million and the estimated utilisation rate of 79% for the year ending 31 December 2018 are reasonable. After discussing with the management of the Company, the previous annual caps were not fully utilised mainly due to an increase in the procurement channels of overseas suppliers which accordingly increase the variety of models in order to meet the diversified needs of customers, hence reducing the proportion on the purchases from Binhai Car City. As confirmed by the Directors, such factors are subject to uncertainties by negotiating with new suppliers as well as the needs of purchasing new types of models, thus there must be flexible room reserved for the annual caps to ensure customers' needs can be fulfilled.

### *Proposed Annual Caps*

It is proposed that the cap amounts of the continuing connected transaction for each of the three financial years ending 31 December 2021 under the Strategic Cooperative Agreement will not exceed the following:

<b>For the year ending 31 December</b>	<b>Annual Cap (RMB' million)</b>
2019	800
2020	700
2021	600

With reference to “the Letter from the Board” and our discussion with the Directors, the proposed annual cap amounts of the transaction amounts under the Strategic Cooperative Agreement for the three years ended 31 December 2021 are determined with reference to (i) the historical transaction amount for the calendar year 2016 and 2017, which was approximately RMB281.1 million and RMB631.5 million respectively; (ii) the estimated annual purchase of OPCo for the calendar year of 2018, with is approximately RMB2.5 billion and the impact of China-US trade war on car imports especially in the second half of 2018; (iii) the open market prices and the anticipated increases in business demand and (iv) the reducing proportion of purchases to be made with connected persons for the three years ending 31 December 2021.

The historical transaction amount of the continuing connected transaction for the two years ended 31 December 2017 and the ten months ended 31 October 2018 was RMB281.1 million, RMB631.5 million and RMB428.9 million respectively. As mentioned above in the “Historical annual caps” section, the expected transaction amount for the year ending 31 December 2018 is RMB713.7 million.

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## LETTER FROM VINCO CAPITAL

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The proportional of the purchases from Binhai Car City compared to the total purchases of the parallel imported cars by the OPCo for the two years ended 31 December 2017 and ten months ended 31 October 2018 are approximately 43%, 27% and 21%, this shows a descending trend in OPCo's reliance on purchasing parallel imported cars from Binhai Car City. As confirmed by the directors, the expected purchases amount from Binhai Car City to the total purchases of Parallel Imported Cars by OPCo for the three years ending 31 December 2021 is 29%, 24% and 19% respectively. For the period from 1 January 2018 to 12 December 2018, the total purchase from Binhai Car City amounted to approximately RMB582.1 million, whereas the total purchase of OPCo amounted to approximately RMB2.3 billion. The total purchase for the eleven months ended 30 November 2018 of OPCo is approximately RMB2.3 billion. In order to have an annual purchase of RMB2.5 billion for the year ending 31 December 2018, OPCo will need to have a purchase of approximately RMB0.2 billion for the month ending 31 December 2018. For the period from 1 December 2018 to 12 December 2018, the total purchase of OPCo was approximately RMB106 million, which is already 46.5% of RMB0.2 billion. As we have discussed with and confirmed by the Directors, the Company will continue to purchase Parallel Imported Cars from both Binhai Car City and independent third parties for the month ending 31 December 2018 and anticipate the annual total purchase of FY2018 of OPCo will be amounted to approximately RMB2.5 billion. In light of the above, we are of the view that the estimated annual purchase of approximately RMB2.5 billion is fair and reasonable.

As per our discussion with the Directors, the annual caps are determined based on (i) the historical transaction amount for the calendar year 2016 and 2017, which was approximately RMB281.1 million and RMB631.5 million respectively; (ii) the estimated annual purchase of parallel imported cars of OPCo for calendar year of 2018, which is approximately RMB2.5 billion, and the expected transaction amount for the year ending 31 December 2018 which is RMB713.7 million; (iii) the open market prices and the anticipated increases in business demand and (iv) the decreasing on the total proportion of purchases from Binhai Car City to the total purchases of Parallel Imported Cars by OPCo for the two years ended 31 December 2017 and the ten months ended 31 October 2018; (v) the anticipated impact on the trade war between China and the United States and (vi) the reducing proportion of purchases to be made with connected persons for the three years ending 31 December 2021. After our discussion with the Directors, we are also aware that OPCo will increase its procurement channels of overseas suppliers on Parallel Imported Cars, thus reducing the reliance on Binhai Car City.

In accessing the reasonableness of the basis and assumptions of the proposed annual caps, we have discussed with the Directors and note that they anticipate that there will be an increase in business demand. We have performed desktop searches on the business demand of the automobile industry market outlook, the Consumer News and Business Channel ("CNBC") reported on 18 September 2018 that China sales in automobile are expected to offset slight declines in sales in the U.S, and predicted the sales volume will be increasing. According to the reports provided by Moody's and the Global Auto Report published by Scotiabank, Moody's estimated the car sales in China to increase by approximately 2.5% in 2019 whereas Scotiabank estimated the car sales of China increasing by approximately 2.98%, reaching a unit of approximately 24.9 million for the year ending 31 December 2018 compared to 2017.



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## LETTER FROM VINCO CAPITAL

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The estimated utilisation rate of the total purchases from Binhai Car City on the proposed annual caps will be 94%, 91% and 90% for the three years ending 31 December 2021 respectively. The total purchase amount of OPCo is estimated to approximately RMB2.6 billion for the year ending 31 December 2019. It is determined by an expected growth of the annual rate of 5% for the three years ending 31 December 2021. As discussed with the Directors, the 5% growth rate is determined by the management of OPCo after taking into account of (a) the average annual car sales growth in China from 2011 to 2018 (September) of approximately 6.3% according to Bloomberg, (b) the exponential annual growth rate of the total purchase amount of the OPCo of approximately 261% from the year 2016 (approximately RMB656 million) to the year 2017 (approximately RMB2,370 million) due to faster growth during the early stage of OPCo, (c) the significant drop of the estimated annual growth rate of the total purchase amount of OPCo to approximately 3.8% from the year 2017 to the year 2018 (estimated approximately RMB2,461 million) as the business of OPCo became mature and stable and (d) expected improvement in the business prospects of OPCo. The estimated annual purchase from Binhai Car City for the year ending 31 December 2019 will share the same growth rate of 5% compared to 2018, with an amount of approximately RMB750 million.

We have also reviewed signed confirmation from one of the major customers of OPCo, the intended purchase amount of the customer amounted to approximately RMB1 billion in accordance to the number of motor cars by model, which has already accounted for approximately 38% of the estimated total purchase of OPCo in 2019. In view of the positive feedback from its major customer, the Directors are of the view that the total purchase amount of RMB2.6 billion for the year ending 31 December 2019 of OPCo is achievable and is slightly higher than the total purchase amount of approximately RMB2.5 billion recorded in 2018. Given that OPCo had purchased approximately 29% of its total purchase from Binhai Car City in 2018 and as confirmed by the Directors, the total purchases from Binhai Car City to the total purchases will be maintained at approximately 29% in 2019, which is the same as the percentage for the same period in 2018. We have discussed with the Directors and noted that a stall in the percentage for the year 2019 at 29% is to allow flexibility in purchase from Binhai Car City due to the possible impact of the China-US trade war.

In light of the above, we are of the view that the estimated purchase amount of approximately RMB750 million from Binhai Car City to the total purchases of Parallel Imported Cars by OPCo for 2019 of approximately 29% are in line with the growth of total purchases, and the proposed annual cap of RMB800 million for the year ending 31 December 2019 fair and reasonable.

We have also performed desktop searches on the impact of trade war in accessing the basis and assumption on the proposed annual caps regarding the trade war. On 8 August 2018, the CNBC reported that China announced 25 percent tariffs on \$16 billion in US goods, which included approximately \$10 billion in automobiles that Chinese motorists were expected to purchase in FY2018. In addition, the South China Morning Post published on 25 September 2018 that tariffs on vehicles exported to China had reached to 40%. According to an article published by the Wharton School at the University of Pennsylvania on 30 July 2018, automakers are revising downward financial forecasts, in part because of tariffs. Hence the purchase in Parallel Imported Cars from the US is likely to be affected due to fluctuated purchase prices. According to Bloomberg and the Wall Street Journal on 22 May 2018, China will cut the import duty on passenger cars to 15 percent starting July 1 in a concession to U.S. trade complaints, the move will also end up benefiting

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## LETTER FROM VINCO CAPITAL

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European and Asian manufacturers from Daimler AG to Toyota Motor Corp, benefiting to German auto makers and Chinese consumers. Accordingly, on 9 August 2018, Nikkei Asian Review announced that China's automobile imports rose to a monthly record in July after tariff cuts on vehicles coming from places other than the U.S.

We have discussed with the Directors of the impact of trade war on the purchase amount from Binhai Car City. We note that the Directors estimated the purchase from Binhai Car City will fluctuate due to trade war. However, they are of the view that the impact of trade war is immaterial on the purchase amount of OPCo from Binhai Car City with the assumption that (i) the decrease of tariff on imported automobiles from other countries, which offset the decrease in purchases of imported cars from US; (ii) customers can purchase cars imported from countries other than the US as substitutes; (iii) US imported cars accounted to only approximately 20% of the total imported cars of China, based on the analysis information published by 智通財經 (<https://www.zhitongcaijing.com/content/detail/168141.html>) and (iv) anticipate the trade war between China and US will cease from 2020 onwards.

In light of the above, we concur the Directors view that the increase in purchase in Parallel Imported Cars from other countries due to a reduction in tariff on imported cars will offset the impact on purchase of US imported cars due to the fluctuated purchase prices. Hence we concur the Directors view that the estimated impact of trade war is immaterial in determining the annual cap. Based on all of the above, we are of the view that setting of the proposed annual caps at a lower level is reasonable.

Based on all of the above, we concur the Director's basis and assumptions on the proposed annual caps, and we are of the view that the basis of determining annual caps for the Strategic Cooperative Agreement is fair and reasonable to the Company and the Shareholders as a whole.

### **Conclusion**

Having taken into consideration of the following principal factors and reasons regarding the continuing connected transaction, including:

- a) the prospects in the Parallel Import Car industry in the PRC;
- b) the terms of the Strategic Cooperative Agreement are in normal commercial terms; and
- c) the basis of determining the annual caps are fair and reasonable,

we are of the view that the continuing connected transactions is in the usual and ordinary course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM VINCO CAPITAL

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Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Strategic Cooperative Agreement.

Yours faithfully,  
For and on behalf of  
**Vinco Capital Limited**  
**Alister Chung**  
*Managing Director*

*Note:* Mr Alister Chung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Vinco Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong for over 10 years.

## 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

### Interests of directors and chief executive

As at the Latest Practicable Date, the interests or short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required, (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under Appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Interests in Shares, underlying shares and debentures of the Company or its associated corporations:

Name of Director	Company/name of associated corporation	Capacity	Number of shares (approximate % shareholding) (Note 3)
Li Lixin	Company	Beneficial, corporate and deemed Interest (Note 1)	2,832,373,680 (L) (37.54%) 2,814,550,681 (S) (37.31%)
Tong Shipping	Company	Deemed Interest (Note 2)	1,856,113,702 (L) (24.60%)
Cheng Weihong	Company	Corporate Interest (Note 2)	1,856,113,702 (L) (24.60%)

Notes:

- These shares are held as to 17,822,000 shares personally, 1,332,139,014 shares through Big-Max Manufacturing Co., Limited (“**Big-Max**”) and 1,482,412,666 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.

2. Mr Tong Shiping is the husband of Ms Cheng Weihong. Ms Cheng Weihong's interest in 1,856,113,702 shares is held through Mighty Mark Investments Limited ("**Mighty Mark**"). The issued share capital of Mighty Mark is wholly owned by Ms Cheng Weihong.
3. (L) denotes long position; (S) denotes short position

### 3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service agreements with any member of the Group, excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

### 4. 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, the chairman, an executive Director and a controlling Shareholder of the Company, together with his spouse 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, is also a director 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 after completion of the acquisition of the entire issued share capital of Wealthy Honor Holdings Limited by the Company 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 Covenantors 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 Covenantors 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.

## 5. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date:

- (a) none of the Directors had any interest, either direct or indirect, in any assets which have, since 31 March 2018 (being the date to which the latest published audited accounts of the Group were made up), 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; and
- (b) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which is subsisting as at the date of this circular and is significant in relation to the business of the Group save for the following:
- (1) the lease agreement dated 31 October 2018 made between Ningbo Lisi Electrical Appliances Manufacturing and Ningbo Lisi Household Products Company Limited as disclosed in the Company’s announcement dated 31 October 2018;
  - (2) the lease agreement dated 22 November 2018 made between Da Mei (Ningbo) New Materials Company Limited and Ningbo Lisi Household Products Company Limited as disclosed in the Company’s announcement dated 22 November 2018;

- (3) the export agency agreement dated 22 November 2018 made between Lisi Import and Export Company Limited and Ningbo Lisi Household Products Company Limited as disclosed in the Company's announcement dated 22 November 2018;
- (4) the import agency agreement dated 22 November 2018 made between Lisi Import and Export Company Limited and Ningbo Lisi Household Products Company Limited as disclosed in the Company's announcement dated 22 November 2018;
- (5) the mutual supply agreement dated 22 November 2018 made between New JoySun Corp. and Lisi Group Co., Ltd as disclosed in the Company's announcement dated 22 November 2018;
- (6) the Strategic Cooperative Agreement as disclosed in this circular.

## 6. EXPERT AND CONSENT

The followings are the names and the qualifications of the professional advisers who have given opinions or advice which are contained or referred to in this document:

Name	Qualification
Vinco Capital Limited	licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance Cap 571

As at the Latest Practicable Date, Vinco Capital had no beneficial interest in the share capital of any member of the Group nor did they 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 or have any interest, either directly or indirectly, in any assets which have been, since 31 March 2018, being the date to which the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Vinco Capital has given and has not withdrawn its written letter of consent to the issue of this circular with the inclusion herein of references to its name in the form and context in which they respectively appear.

## 7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (i.e. from 9:30 a.m. to 6:00 p.m. on Monday to Friday at the principal place of business of the Company in Hong Kong at Workshop 06 & 07, 36th Floor, King Palace Plaza, No. 52A Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong from 22 January 2019, the date of this circular up to and including 12 February 2019:

1. copy of the Strategic Cooperative Agreement.

**8. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2018, the date to which the latest audited consolidated financial statements of the Group were made up.



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## NOTICE OF THE SPECIAL GENERAL MEETING

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### **LISI GROUP (HOLDINGS) LIMITED**

### **利時集團（控股）有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 526)**

**NOTICE IS HEREBY GIVEN** that the special general meeting of Lisi Group (Holdings) Limited (利時集團(控股)有限公司) (“**Company**”) will be held at Suite 2418, 24/F, Jardine House, 1 Connaught Place, Central, Hong Kong on 12 February 2019 at 3:00 p.m. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

#### **ORDINARY RESOLUTION**

1. “**THAT**

- (a) the Strategic Cooperative Agreement (as defined and described in the circular of the Company dated 22 January 2019 (the “**Circular**”), a copy of which is tabled at the meeting and marked “A” and signed by the chairman of the meeting for identification purpose), and the transactions contemplated thereunder be and are hereby confirmed, approved and ratified;
- (b) the annual caps (as set out in the Circular, of which this notice forms part) of the Strategic Cooperative Agreement for each of the periods up to 31 December 2021 be and is hereby approved;
- (c) any one director of the Company be and is hereby authorized on behalf of the Company to 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 the Strategic Cooperative Agreement and the transactions contemplated thereunder.”

By Order of the Board  
**LISI GROUP (HOLDINGS) LIMITED**  
**Li Lixin**  
*Chairman*

Date: 22 January 2019

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## NOTICE OF THE SPECIAL GENERAL MEETING

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*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 of Level 22, 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. For determining the Shareholders' entitlement to attend and vote at the SGM, the record date will be on Friday, 1 February 2019. In order to be eligible to attend and vote at the SGM, unregistered holders of shares of the Company should ensure that all the 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 at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 1 February 2019.

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