



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:*

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Church Street  
Hamilton HM 11  
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*Principal place of business in Hong Kong:*

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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.

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.

## **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).

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:

<b>Month</b>	<b>Actual amount involved for the period from 2021 April to 15 November 2021 (unaudited) RMB</b>	<b>Accumulated amount involved for the period from 2021 April to 15 November 2021 (unaudited) RMB</b>
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.

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.

## **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.

### **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.

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

<b>Month</b>	<b>Actual amount involved for the period from 2021 April to 31 October 2021 (unaudited) RMB</b>	<b>Accumulated amount involved for the period from 2021 April to 31 October 2021 (unaudited) RMB</b>
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 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 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.

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.

## 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.

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.

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.

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.

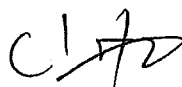
## **FURTHER INFORMATION**

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*