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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)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF ROBUST COOPERATION LIMITED AND ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

Financial advisor to the Company



THE ACQUISITION

The Board is pleased to announce that on 2 March 2019, the Company, the Vendor, and the Vendor Guarantor entered into the Agreement, pursuant to which, the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Shares at the Consideration of HK\$2,585 million, after offsetting the amount of the Properties Liabilities, which will be satisfied by (i) cash, (ii) the Consideration Shares and (iii) the Promissory Note to be issued by the Company.

LISTING RULES IMPLICATION

As at the date of this announcement, the Sale Shares are held by the Vendor, the entire issued share capital of which is owned by the Vendor Guarantor. Since the Vendor Guarantor is the son-in-law of Mr. Tong Shiping (an executive Director) and Ms. Cheng Weihong (a non-executive Director), and Mighty Mark Investments Limited, the entire issued share capital of which is owned by Ms. Cheng Weihong, is a substantial shareholder of the Company holding 1,689,407,702 Shares, representing approximately 22.39% of the total issued share of the Company as at the date of this announcement, both the Vendor and the Vendor Guarantor are connected persons of the Company under Chapter 14A of the Listing Rules. As such, the Acquisition constitutes a connected transaction of the Company under the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Acquisition exceeds 25% but all are less than 100%, the Acquisition constitutes a major transaction of the Company under the Listing Rules.

The Acquisition and the transactions contemplated under the Agreement, including the allotment and issue of the Consideration Shares under the Specific Mandate, are therefore subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

The Independent Board Committee has been established to advise the Independent Shareholders as to whether the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Independent Shareholders as a whole and on how to vote. The Company will appoint an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

GENERAL

The SGM will be convened and held for the Shareholders to consider, and if thought fit, approve, among other matters, the Agreement and the transactions contemplated thereunder (including the issue of the Consideration Shares under the Specific Mandate).

A circular containing, among other things, (i) further details of the Agreement and the transactions contemplated thereunder; (ii) the recommendation of the Independent Board Committee; (iii) the letter of advice from the independent financial adviser; (iv) the financial information of the Target Group; (v) other information as required to be disclosed under the Listing Rules; and (vi) a notice of the SGM and a form of proxy, are expected to be despatched to the Shareholders on or before 30 April 2019.

Completion of the Acquisition is subject to fulfillment (or waiver) of the conditions precedent set out in the Agreement, and therefore the Acquisition may or may not proceed to Completion. The Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

INTRODUCTION

The Board is pleased to announce that on 2 March 2019, the Company, the Vendor, and the Vendor Guarantor entered into the Agreement, pursuant to which, the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Shares at the Consideration, which shall be satisfied by (i) cash, (ii) the Consideration Share and (iii) the Promissory Note to be issued by the Company.

THE AGREEMENT

The principal terms of the Agreement are set out below:

Date: 2 March 2019

Parties: (i) the Company;
(ii) the Vendor; and
(iii) the Vendor Guarantor.

Asset to be acquired

Pursuant to the Agreement, the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Shares, representing 100% of the issued share capital of the Target Company as at the date of this announcement.

Consideration

Pursuant to the terms of the Agreement, the Consideration shall be HK\$2,585 million. The Consideration, after offsetting the amount of the Property Liability, shall be satisfied (i) cash of HK\$300 million; (ii) as to HK\$500 million by the issue of 500,000,000 Consideration Shares at HK\$1.00 per Consideration Share and (iii) as to HK\$400 million by issue of the Promissory Note by the Company to the Vendor within ten Business Days after Completion.

Consideration Shares

As at the date of this announcement, the Company has 7,544,020,391 Shares in issue. The Consideration Shares represent approximately 6.6% of the existing issued share capital of the Company and approximately 6.2% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no other change in the issued share capital of the Company).

The Consideration Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the existing Shares then in issue on the date of allotment and issue, and be entitled to receive all dividends and distributions which may be declared by the Company on or after the date of allotment and issue of the Consideration Shares.

The Consideration Shares will be allotted and issued to the Vendor under the Specific Mandate within ten Business Days after Completion. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The Issue Price of HK\$1.0 per Consideration Share represents:

- (i) a premium of approximately 14.9% to the closing price of HK\$0.87 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 17.9% to the average closing price of the Shares as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day of approximately HK\$0.848 per Share;
- (iii) a premium of approximately 15.9% to the average closing price of the Shares as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day of approximately HK\$0.863 per Share; and
- (iv) a premium of approximately 12.3% to the average closing price of the Shares as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day of approximately HK\$0.89 per Share.

The Issue Price was determined after arm's length negotiations among the parties taking into account the prevailing market price of the Shares.

Promissory Note

The Company shall issue to the Vendor the Promissory Note in the principal amount of HK\$400 million within ten Business Days after Completion on the following principal terms:

Issuer:	the Company
Principal amount:	HK\$400 million (the “Principal Sum”)
Interest:	Nil
Maturity date:	the date falling on the expiry of three years from the issue date (the “Maturity Date”)
Payment:	due and payable on the Maturity Date
Payment method:	The payment of all or any part of the Principal Sum under the Promissory Note should be paid in cash.
Transferability:	The Promissory Note is freely transferrable
Early payment:	the Company may pay all or part of the Principal Sum at any time prior to the Maturity Date by giving 10 days’ prior written notice to the Vendor

The Consideration was arrived at after arm’s length negotiations between the Company and the Vendor and was determined with reference to the preliminary valuation report of the Target Group with an appraised value of approximately RMB2,270 million as at 31 December 2018 determined by an independent valuer using the market approach.

The Company will use the internal resources of the Group, debt and/or equity financing to pay the Principal Sum under the Promissory Note.

Mr. Tong Shiping and Ms. Cheng Weihong, who are associates of the Vendor and the Vendor Guarantor, have abstained from voting on the Board resolutions approving the Agreement and the transactions contemplated thereunder. The Directors (excluding Mr. Tong Shiping and Ms. Cheng Weihong, and the independent non-executive Directors who will express their view after considering the advice from the independent financial adviser) consider that the terms of the Agreement are on normal commercial terms, fair and reasonable and the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion shall be conditional upon and subject to:

- (a) the Company having been satisfied with the results of the due diligence review on of the Target Group;
- (b) the Vendor having obtained all necessary approval, consents, notices, registration and licence required under applicable laws and regulations and other agreements or contracts in relation to transactions contemplated under the Agreement;
- (c) the Stock Exchange having approved the listing of, and permission to deal in, the Consideration Shares;
- (d) each of the representations and warranties provided by the Vendor under the Agreement remaining true, accurate and complete as at the date of the Agreement up to Completion;
- (e) since the date of the Agreement and up to the Completion Date, the Target Group maintains normal operations with no events having occurred in the aspects including but not limited to business operation, asset, financial and management which may cause material adverse impact to the Target Group or may constitute material issues or material risks that have not been disclosed to the Company;
- (f) the Vendor having fully performed and complied with in all aspects all the covenants and undertakings required to be performed or complied by it under the Agreement on or before the Completion;
- (g) the Independent Shareholders having passed the resolutions approving the Agreement and the transactions contemplated thereunder (including the issue and allotment of the Consideration Shares under the Specific Mandate) at the SGM; and

- (h) all third party consents, approvals and notices which are required to be obtained by the Vendor pursuant to any applicable laws or agreements involving the Vendor or any Target Group Company, and in connection with the transactions contemplated under the Agreement having been obtained.

The Company may waive (in whole or in part) any of the conditions (a) to (h) (except that conditions (b), (c) and (g) as set out above cannot be waived) by notice in writing to the Vendor.

In the event that any of the above conditions precedent have not been fulfilled (or waived, where applicable) on or before the Long Stop Date, the Agreement shall cease and terminate immediately. Upon which, parties to the Agreement shall be released and discharged from their respective obligations under the Agreement, save for obligations with continuing effect under the Agreement.

Vendor Guarantor

Pursuant to the Agreement, the Vendor Guarantor will guarantee as a primary obligor the due performance and observance by the Vendor of all its obligations, covenants, undertakings and warranties (if any) given by the Vendor pursuant to the Agreement and shall indemnify and keep the Company fully indemnified against all losses, liabilities, damages, costs and expenses which the Company may suffer or incur, arising from or in connection with any default or breach on the part of the Vendor in performance of its obligations, covenants, undertakings and warranties thereunder.

Completion

Completion shall take place on the Completion Date. The cash in the sum of HK\$300 million will be paid and the Consideration Shares and the Promissory Note will be issued by the Company to the Vendor within ten Business Days after Completion.

Upon Completion, the Target Company will become the Company's indirect wholly-owned subsidiary. Accordingly, the financial information of the Target Group will be consolidated into the accounts of the Group.

SPECIFIC MANDATE

The Consideration Shares will be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the SGM. The Company will make an application to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares, when issued and fully paid, will rank *pari passu* in all respects with each other and with other Shares then in issue at the time of issue of the Consideration Shares.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the shareholding structure of the Company (i) as at the date of this announcement and (ii) immediately upon allotment and issue of all the Consideration Shares (assuming that there is no other change in the issued share capital of the Company):

	As at the date of this announcement		Immediately upon allotment and issue of all Consideration Shares	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Li Lixin and his associates (<i>Note 1</i>)	2,847,939,680	37.8	2,847,939,680	35.4
Mighty Mark Investments Limited and its associates (<i>Note 2</i>)	1,793,552,456	23.8	1,793,552,456	22.3
Vendor	0	0	500,000,000	6.2
Public Shareholders	2,902,528,255	38.4	2,902,528,255	36.1
Total	7,544,020,391	100	8,044,020,391	100

Note:

- Mr. Li Lixin's interests in 2,832,373,680 Shares are held as to 17,822,000 Shares personally, 1,332,139,014 Shares through Big-Max Manufacturing Co., Limited and 1,482,412,666 Shares through Shi Hui Holdings Limited. The issued share capital of Big-Max Manufacturing Co., Limited and Shi Hui Holdings Limited are wholly owned by Mr. Li Lixin. Mr. Li Zhangyi, son of Mr. Li Lixin, is beneficially interested in 15,566,000 Shares.
- Ms. Cheng Weihong is interested in 1,689,407,702 Shares through Mighty Mark Investments Limited, the entire issued share capital of which is owned by Ms. Cheng Weihong. Ms Cheng's associates, Beauty East Asia Limited and the other two individuals, are interested in 99,144,754 Shares, 2,000,000 Shares and 3,000,000 Shares respectively.

INFORMATION OF THE GROUP

The Company is a company incorporated in Bermuda with limited liability. Its principal activity is investment holding. The Group is principally engaged in (i) manufacturing and trading of plastic and metal household products, (ii) operation of department stores and supermarkets, and (iii) wholesale of alcohol, wine, beverages and electrical appliances; (iv) the trading and sales of imported cars; and (v) investment holding.

INFORMATION ON THE VENDOR AND THE TARGET GROUP

The Vendor was incorporated with limited liability in the BVI and is an investment holding company. The Vendor is the legal and beneficial owner of the entire issued share capital of the Target Company at the date of this announcement.

The Target Company is an investment holding company incorporated in the BVI on 5 February 2018. As at the date of this announcement, the Target Company is the legal and beneficial owner of the entire issued share capital of the HK Company. The HK Company is an investment holding company incorporated in Hong Kong on 20 June 2012, which owns 100% equity interest in WFOE.

WFOE is a limited liability company established in the PRC on 27 November 2002, which is an investment holding company and engaged in the provision of ancillary services related to parallel imported car trading platform. As at the date of this announcement, the registered capital of WFOE is USD10 million, all of which is paid and the entire equity interest in WFOE is indirectly owned by the Target Company and WFOE owns the entire equity interest in the Operating Company.

The Operating Company is a limited liability company established in the PRC on 28 February 2001, which is the primary operating company in the Target Group and principally engaged in the operation of parallel imported car trading platform. As at the date of this announcement, the registered capital of the Operating Company is RMB350 million, which is fully paid-up and the entire equity interest in the Operating Company is indirectly owned by the Target Company.

FINANCIAL INFORMATION OF THE TARGET GROUP

Set out below is the unaudited consolidated financial information of the Target Group prepared in accordance with the Hong Kong financial Reporting Standards for the two years ended 31 December 2017 and 2018.

	Year ended 2017 (unaudited) (RMB\$000)	Year ended 2018 (unaudited) (RMB\$000)
Gross merchandise volume*	4,405,307	4,963,508
Revenue**	121,232	194,280
Net profit before taxation	156,539	173,369
Net profit after taxation	116,412	128,689

The unaudited consolidated net asset value of the Target Group was approximately RMB1,175,877,000 as at 31 December 2018.

* This represents the total sales dollar value for imported cars traded through the platform of the Target Group.

** This represents commission and service income earned from the operation of parallel imported car trading platform and rental income from Property A and Property B.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Target Group owns two properties located in Tianjin, the PRC, which are used for conducting its business. The land use rights of two parcels of land where the Properties are situated have been granted to the Operating Company. Details of the Properties are as follows:

	Location	Gross Floor Area (square meters)
Property A	No. 188 Tianbao Avenue, Binhai New District, Tianjin, PRC	28,568.61
Property B	No. 86 Tianbao Avenue, Binhai New District, Tianjin, PRC	42,302.36

The current use of Property A and Property B are leased to tenants for rental income. The main business operations of the Target Group are trading and sales of imported cars and operation of various car showrooms in Tianjin, the PRC with a showroom area of over 40,000 square metres with over 1,000 display car spaces, as well as its involvement with more than 200 car dealers.

The Target Group is one of the first enterprises to engage in the business of parallel import and sales of cars in the PRC with experience of nearly 20 years, and is one of the leaders in the industry. The Company considers that possessing distinguished port service resources in Tianjin and access to the domestic sales network, the Target Group is well positioned as a sales and logistics hub for trading and sales of imported cars in the PRC.

The Board believes that the automotive industry is a fast growing market in the PRC with significant growth potential. The Directors consider that it is beneficial for the Group to seek suitable investment opportunities from time to time to expand its automotive business and to broaden its source of income.

IMPLICATIONS OF THE LISTING RULES

As at the date of this announcement, the Sale Shares are held by the Vendor, the entire issued share capital of which is owned by the Vendor Guarantor. Since the Vendor Guarantor is the son-in-law of Mr. Tong Shiping (an executive Director) and Ms. Cheng Weihong (a non-executive Director), and Mighty Mark Investments Limited, the entire issued share capital of which is owned by Ms. Cheng Weihong, is a substantial shareholder of the Company holding 1,689,407,702 Shares, representing approximately 22.39% of the total issued share of the Company as at the date of this announcement, both the Vendor and the Vendor Guarantor are connected persons of the Company under Chapter 14A of the Listing Rules. As such, the Acquisition constitutes a connected transaction of the Company under the Listing Rules.

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Days”	means 9:00 a.m. to 5:00 p.m. on any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are open for normal banking business
“BVI”	the British Virgin Islands
“Company”	Lisi Group (Holdings) Limited (stock code: 526), a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“Completion”	the completion of the Acquisition pursuant to the terms and conditions of the Agreement
“Completion Date”	a day falling on the third Business Day following the conditions precedent to the Agreement are fulfilled (or waived, where applicable)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the sum of HK\$2,585 million to be paid by the Company to the Vendor for the Sale Shares pursuant to the Agreement
“Consideration Shares”	500,000,000 new Shares to be allotted and issued by the Company to the Vendor for part settlement of the Consideration
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Group Company”	a member of the Target Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK Company”	盛海國際企業有限公司(Prosper Ocean International Enterprise Limited), a company incorporated in Hong Kong with limited liability
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors, namely Mr. He Chengying, Mr Cheung Kiu Cho Vincent, Mr. Shin Yick Fabian and Mr. Kwong Kwan Tong, to advise the Independent Shareholders on the Agreement and the transaction contemplated thereunder
“Independent Shareholders”	Shareholders other than Mighty Mark Investments Limited, together with its respective associates (if any) who are required by the Listing Rules to abstain from voting on the resolutions approving the Agreement and the transactions contemplated thereunder
“Issue Price”	the issue price of HK\$1.00 of each Consideration Share
“Last Trading Day”	1 March 2019, being the last trading day of the Shares before the signing of the Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 July 2019 or such other date as the parties to the Agreement may agree in writing
“Operating Company”	天津濱海國際汽車城有限公司, a company established in the PRC with limited liability
“PRC”	the People’s Republic of China which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Promissory Note”	the promissory note in the principal sum of HK\$400 million to be issued by the Company to the Vendor
“Properties”	Property A and Property B
“Properties Liability”	the total bank loans of the Target Group with primarily the Properties as securities as shown in the management account for the financial year ended 31 December 2018 in the sum of approximately RMB1,216 million (or approximately HK\$1,385 million)
“Property A”	the Cali Building located at No. 188 Tianbao Avenue, Binhai New District, Tianjin, the PRC

“Property B”	the Tianjin Binhai International Automobile City located at No. 86 Tianbao Avenue, Binhai New District, Tianjin, the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	50,000 ordinary shares in the Target Company, representing 100% of the total issued shares of the Target Company as at the date of the Agreement
“SGM”	a special general meeting of the Company to be convened to approve the Agreement and transactions contemplated thereunder (including the issue of the Consideration Shares under the Specific Mandate)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	a specific mandate to be granted to the Directors pursuant to an ordinary resolution to be passed at the SGM to issue and allot the Consideration Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Target Company”	Robust Cooperation Limited, a company incorporated in the BVI with limited liability
“Target Group”	the Target Company together with its subsidiaries
“Target Group Company”	a member of the Target Group
“Vendor”	Valuable Peace Limited, a company incorporated in the BVI with limited liability
“Vendor Guarantor”	a natural person who is the son-in-law of Mr Tong Shiping (an executive Director) and Ms. Cheng Weihong (a non-executive Director and a substantial shareholder of the Company) as at the date of this announcement
“WFOE”	天津英之傑國際物流有限公司, a company established in the PRC with limited liability

“%”

per cent.

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

Hong Kong, 3 March 2019

As at the date of this announcement, 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.