



NEW FOCUS AUTO TECH HOLDINGS LIMITED

新焦點汽車技術控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 360)

Executive Director:

Mr. Tong Fei

Non-executive Directors:

Mr. Wang Zhenyu

Mr. Zhang Jianxing (*Acting Chairman*)

Independent Non-executive Directors:

Mr. Hu Yuming

Mr. Lin Lei

Mr. Zhang Xiaoya

Registered Office:

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Cayman Islands

Principal Place of Business in Hong Kong:

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Wan Chai

Hong Kong

29 July 2021

To the Shareholders

Dear Sir or Madam,

**(1) SUBSCRIPTION OF SHARES UNDER SPECIFIC MANDATE
(2) APPLICATION FOR WHITEWASH WAIVER
AND
(3) PROPOSED INCREASE OF AUTHORISED SHARE CAPITAL**

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Subscription and the Whitewash Waiver.

On 28 May 2021, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, a maximum of 11,252,732,911 Subscription Shares at the Subscription Price of HK\$0.059 per Subscription Share for a total consideration of not more than RMB554,381,000.

LETTER FROM THE BOARD

The primary purpose of this circular is to provide you with, among other things, (i) further details of the Subscription, the Whitewash Waiver and the Increase in Authorised Share Capital; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Subscription and the Whitewash Waiver; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the Whitewash Waiver; and (iv) the notice of the EGM.

SUBSCRIPTION AGREEMENT

- Date** 28 May 2021
- Parties** (i) the Company, as issuer; and
(ii) the Subscriber, as subscriber.

The Subscription Shares

Pursuant to the Subscription Agreement, the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, a maximum of 11,252,732,911 Subscription Shares at the Subscription Price of HK\$0.059 per Subscription Share and at an aggregate Subscription Price of not more than RMB554,381,000. The exact number of the Subscription Shares to be issued will be determined by dividing RMB554,381,000 to be converted into HKD at the exchange rate of the central parity rate of RMB to HKD announced by the People's Bank of China on the Business Day immediately prior to the Completion Date by the Subscription Price. For the avoidance of doubt, the Subscriber shall fully apply the HKD equivalent of RMB554,381,000 for the Subscription, subject to a cap of HK\$663,911,241.749 (being 11,252,732,911 Subscription Shares at the Subscription Price of HK\$0.059 each).

The 11,252,732,911 Subscription Shares represent approximately (i) 166.27% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) 62.44% of the enlarged fully paid up issued share capital of the Company upon Completion. The maximum aggregate nominal value of the Subscription Shares is HK\$1,125,273,291.1.

The Subscription Shares, when issued and fully paid-up, will rank *pari passu* in all respects among themselves and with all the Shares in issue as at the date of allotment and issue of the Subscription Shares.

The fully-paid Subscription Shares will be acquired with all dividends and distributions which are declared after the date of allotment of the Subscription Shares in their fully-paid form.

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The Subscription Price

The Subscription Price of HK\$0.059 per Subscription Share represents:

- (i) a discount of approximately 47.79% to the closing price of HK\$0.113 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 30.59% to the closing price of HK\$0.085 per Share as quoted on the Stock Exchange on 28 May 2021, being the date of the Subscription Agreement;
- (iii) a discount of approximately 23.97% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including 27 May 2021 of approximately HK\$0.0776 per Share;
- (iv) a discount of approximately 25.79% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including 27 May 2021 of approximately HK\$0.0795 per Share; and
- (v) a premium of approximately 22.92% over the audited consolidated net asset value per Share attributable to the Shareholders of approximately RMB0.04 (approximately HK\$0.048) per Share as at 31 December 2020, calculated based on the Group's audited consolidated net assets attributable to the Shareholders of approximately RMB272,203,000 as at 31 December 2020 and 6,767,636,215 Shares in issue as at the Latest Practicable Date.

The aggregate Subscription Price shall be payable in cash in HKD by the Subscriber on Completion with reference to the exchange rate of the central parity rate of RMB to HKD announced by the People's Bank of China on the Business Day immediately prior to the Completion Date. The Subscription Price of HK\$0.059 was arrived at after arm's length negotiations between the Company and the Subscriber after taking into account (i) an estimated market capitalisation of the Company of approximately HK\$400 million (approximately HK\$0.0591 per Share) with reference to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 45 consecutive trading days up to and including 18 February 2021 of approximately HK\$0.05887 per Share; (ii) the amount of the Subscription Shares to be issued; (iii) the controlling position to be obtained by the Subscriber; and (iv) the expected funding need of the Group, in particular, the substantial funding of approximately HK\$480 million which will be required to build a new production plant and to acquire the related production equipment.

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As it took time for the General Partner and the Limited Partners to discuss among themselves and seek internal approvals for the Subscription, the approximate Subscription Price must be agreed at the preliminary stage. Given the protracted nature of such internal processes (in particular, as one of the Limited Partners is a state-owned institution), the parties could not continuously reassess and revisit the Subscription Price based on the then prevailing closing prices of the Shares up to a date closer to the signing of the Subscription Agreement. As such, the historical 45 days average closing price up to 18 February 2021 was considered a reasonable benchmark (when compared with the average of the closing prices of the Shares as quoted on the Stock Exchange for the 30 and 60 consecutive trading days up to and including 18 February 2021, i.e. HK\$0.059 and HK\$0.06033 per Share, respectively) to determine the Subscription Price.

The Board considers that the Subscription Price and the terms of the Subscription Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Conditions of the Subscription

The Subscription is conditional upon satisfaction or waiver of the following conditions:

- (a) the Subscriber having completed due diligence on the legal, financial and business aspects of the Company and the Group and is satisfied with the due diligence results;
- (b) the undertakings and warranties given by the Company in the Subscription Agreement remaining true and accurate in all material respects;
- (c) the Shareholders (or the Independent Shareholders, as the case may be) passing all necessary resolutions to be proposed at the EGM which are necessary for the transactions contemplated under the Subscription Agreement to be effective in compliance with the Listing Rules and the Takeovers Code, including but not limited, to approve:
 - (i) the entering into, delivering and performance of the Subscription Agreement and the transactions contemplated thereunder;
 - (ii) the granting of the Specific Mandate for the allotment and issuance of the Subscription Shares in accordance with the terms and conditions of the Subscription Agreement;
 - (iii) the Whitewash Waiver (with at least 75% of the votes cast by the Independent Shareholders); and
 - (iv) the Increase in Authorised Share Capital;
- (d) the Listing Committee granting approval for the listing of, and permission to deal in, the Subscription Shares to be issued (and such approval not being subsequently revoked prior to the Completion);

LETTER FROM THE BOARD

- (e) the Executive granting the Whitewash Waiver to the Subscriber and parties acting in concert with it and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted;
- (f) CDH having delivered an undertaking to dispose of such number of Shares so as to ensure that the minimum public float of the Company's issued share capital as enlarged by the Subscription will be maintained in accordance with the Listing Rules;
- (g) all necessary acknowledgements, consents and approvals (if any) for the transactions contemplated under the Subscription Agreement from third parties having been obtained by the Company; and
- (h) before Completion, there shall not have occurred any of the following situations:
 - (i) any material adverse change in the financial or other positions, or the income, assets, business or operations of the Group; or any development which, is reasonably believed to, possibly lead to such material adverse change;
 - (ii) any governmental action, court order, proceeding, inquiry or investigation rendering the Subscription illegal or imposing a prohibition or restriction on the Subscription;
 - (iii) any suspension in the trading of Shares (other than any temporary suspension relating to the clearance of any announcement in respect of the Subscription Agreement) for a consecutive of five (5) Business Days;
 - (iv) any outbreak or escalation of hostilities or terrorist acts in Hong Kong, the Mainland China or any other jurisdictions, laws of which are applicable to the Group; or any declaration of a state of emergency, war or other disaster or crisis by any of the said jurisdictions;
 - (v) any major disruption to the commercial banks, securities settlement or clearing services in Hong Kong, the Mainland China or any other jurisdictions, laws of which are applicable to the Group; or any announcement made by the relevant departments stating that all commercial bank activities have been completely suspended; and
 - (vi) any material adverse change in the financial market or the international finance, the political or economic status, exchange rates, foreign exchange control or taxation policies of Hong Kong, the Mainland China or any other jurisdictions, laws of which are applicable to the Group; or any development relating to such material adverse change.

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In the event that any of the above conditions shall not have been fulfilled or waived by the Subscriber (except for items (c), (d) and (e) which cannot be waived) within a period of six (6) months from the date of the Subscription Agreement (i.e. 28 May 2021), the Subscriber shall be entitled to extend the timing of fulfillment of the above conditions for a further period of not more than six (6) months or notify the Company to terminate the Subscription Agreement. Upon such termination (other than on grounds of the non-fulfillment of item (a) or (h)), the Company shall indemnify the Subscriber of all reasonable costs incurred by the Subscriber in connection with the negotiation, preparation, execution or termination of the Subscription Agreement (including professional services fees relating to due diligence for the Subscription) subject to a cap of not more than RMB3,000,000 in accordance with the relevant provisions in the Subscription Agreement.

The Subscriber will not waive item (f) above so long as there remains a possibility that the Company's public float will fall below the prescribed minimum public float requirement under the Listing Rules upon full issuance of the Subscription Shares.

In respect of item (g) above, save for the consent from CCBI Solar Energy (Holding) Limited (being the holder of the Notes), the Company is not aware of any acknowledgements, consents and approvals which are required from third parties for the transactions contemplated under the Subscription Agreement. For details of the Notes, please refer to the announcement of the Company dated 26 September 2019.

As at the Latest Practicable Date, none of the conditions had been fulfilled.

Completion

Completion is expected to take place within ten (10) Business Days after all of the above conditions have been fulfilled or waived (or such other date as the Company and the Subscriber may agree in writing). The Company's obligation to issue the Subscription Shares shall be subject to the minimum public float requirement under the Listing Rules being met by the Company upon Completion. If the minimum public float requirement under the Listing Rules cannot be met upon Completion, the Subscription will not proceed.

Ranking

The Subscription Shares will rank equally in all respects with the Shares in issue as at the date of allotment and issuance of the Subscription Shares.

Mandate for the issue of the Subscription Shares

The allotment and issuance of the Subscription Shares is subject to approval by the Independent Shareholders at the EGM to be convened and held. Resolutions will be proposed at the EGM to approve, among other things, the Specific Mandate to allot and issue the Subscription Shares under the Subscription Agreement.

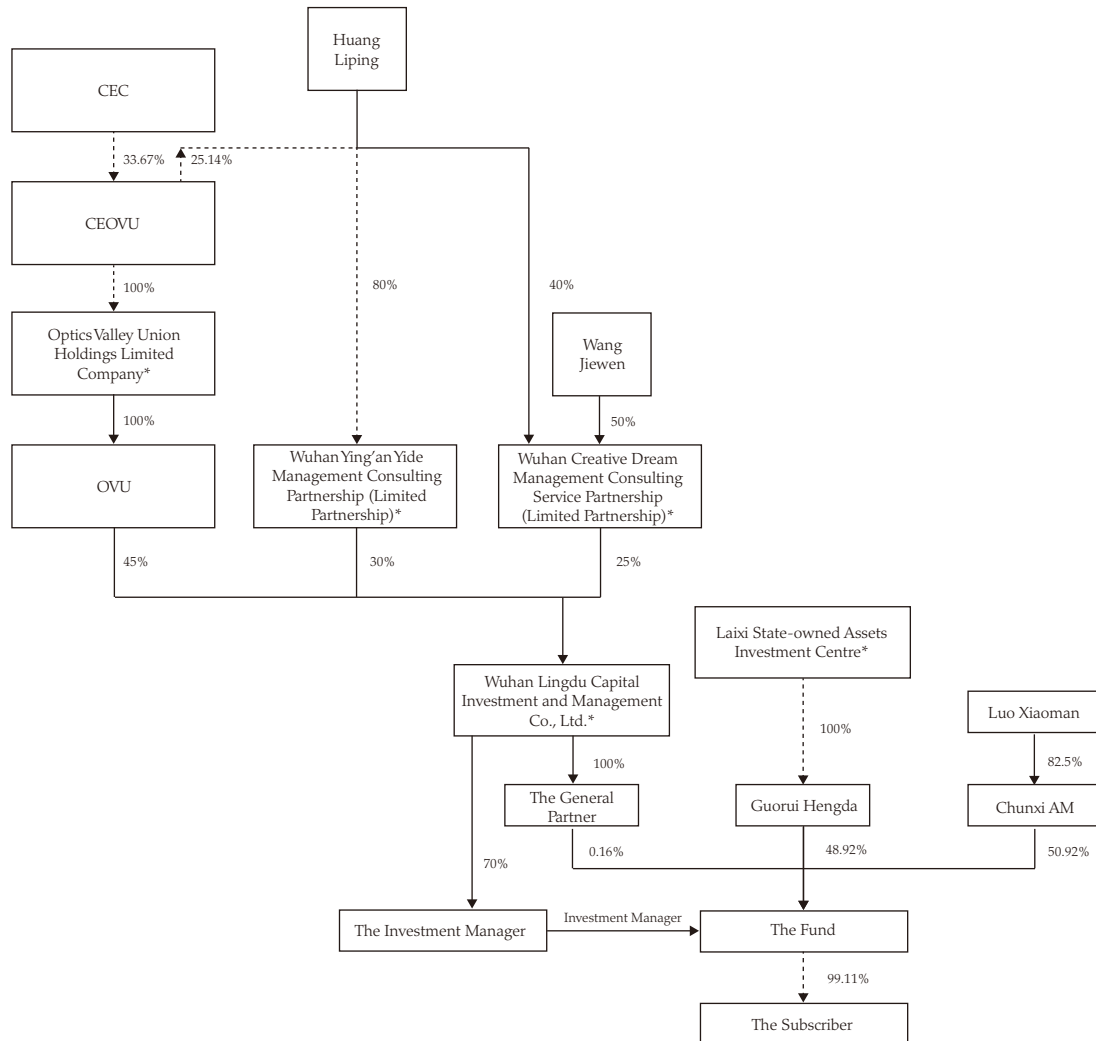
Listing application

An application will be made to the Listing Committee for the listing of, and permission to deal in, the Subscription Shares.

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INFORMATION OF SUBSCRIBER

The Subscriber is a company incorporated in Hong Kong with limited liability and an indirect 99.11%-owned subsidiary of the Fund, which is managed by the Investment Manager with its shareholding structure as set out in the chart below:



Note: a dotted line denotes an indirect holding.

As set out in the chart above, the Fund is directly owned by the Limited Partners, namely Chunxi AM and Guorui Hengda, and the General Partner as to approximately 50.92%, 48.92% and 0.16%, respectively.

Guorui Hengda is ultimately and beneficially wholly owned by Laixi State-owned Assets Investment Center* (萊西市國有資產投資中心), a municipal public institution* (市屬事業單位) established in Laixi by Qingdao Laixi Municipal Government, whereas Chunxi AM is a limited partnership incorporated in the PRC, which is beneficially owned by Ms. Luo Xiaoman (羅小曼) as to approximately 82.5% and by Shenzhen Limingtai

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Equity Investment Fund Co., Ltd.* (深圳市利明泰股權投資基金有限公司) and Mr. Li Dongshan (李東山) as to 16.67% and 0.83%, respectively. Ms. Luo is also the sole director of the Subscriber.

Each of the General Partner and the Investment Manager is owned as to 100% and 70% by Wuhan Lingdu Capital Investment and Management Co., Ltd.* (武漢零度資本投資管理有限公司), which is indirectly beneficially owned by China Electronics Optics Valley Union Holding Company Limited (Stock Code: 798) (“CEOVU”) (a company listed on the Stock Exchange and ultimately owned as to approximately 33.67% by China Electronics Corporation Limited* (中國電子信息產業集團有限公司), a state-owned enterprise established under the laws of the PRC (“CEC”) and as to approximately 25.14% by Mr. Huang Liping (黃立平)) and two other limited partnerships (both of which are ultimately beneficially owned by Mr. Huang Liping as to 80% and 40%) as to 45%, 30% and 25%, respectively.

Mr. Huang Liping, aged 59, is an executive director and the president of CEOVU, while he served as the vice chairman and the president of Optics Valley Union Holding Limited Company* (光谷聯合控股有限公司), and he is the ultimate sole beneficial owner of a substantial shareholder of CEOVU. Mr. Huang founded Wuhan Optics Valley Union Group Company Limited* (武漢光谷聯合集團有限公司) (“OVU”) in 2005 with its principal activities of industrial park development and operation. As the chairman and the president of CEOVU, he has changed the name of the listed company to “CEOVU” after leading the listing of OVU on the Stock Exchange on 28 March 2014 and introducing CEC as the largest shareholder of CEOVU on 30 June 2016. Mr. Huang has over 25 years of experience in business management. He was one of the founders of Hongtao K Group Company Limited* (紅桃開集團股份有限公司) (a company principally engaged in the development and manufacturing of bio-pharmaceutical products including Chinese medicine and health products, and real estate) and served as the vice chairman and an executive director. He also served as the chairman of Wuhan East Lake High Technology* (武漢東湖高新集團有限公司), a public company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 600133), and successively founded high-tech enterprises such as “Kenuo Biotechnology” and “Chopper Biology”.

Ms. Luo Xiaoman, aged 61, has extensive experiences in the catering industry, construction engineering industry and the trading of building materials and investment management. Ms. Luo invested in Chunxi AM in 2019, which is principally engaged in enterprise investment, providing direction for company operations and strategies advice for company development.

As disclosed above, the Fund is a single purpose fund funded and established in December 2020 with a fund size of RMB601 million by the investment platform of Qingdao Laixi Municipal Government and other industrial capital, which comprises capital contribution made from each of Chunxi AM (RMB306 million), Guorui Hengda (RMB294 million) and the General Partner (RMB1 million) and with net investment amount of RMB554,381,000 in the Subscription. The Fund’s investment’s focus is on new energy vehicle related industries. The Subscriber is a special purpose vehicle being used by the Fund for the purpose of the Subscription.

As at the Latest Practicable Date, each of the Subscriber and its ultimate beneficial owners was an Independent Third Party.

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INFORMATION ON THE COMPANY AND THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the (i) manufacture and sale of automobile accessories; (ii) trading of automobile accessories; and (iii) operation of 4S dealership stores and related business.

REASONS FOR THE SUBSCRIPTION

The Board was informed by the Investment Manager and noted that with the recovery of the automobile market and the vigorous development of new energy vehicles, the Fund continues to be optimistic about the development direction of the automobile industry and vigorously deploys related industries upstream and downstream. After communicating with the Qingdao Laixi Municipal Government through the Investment Manager, the Company and the Fund considered that they are highly compatible with each other, and the Qingdao Laixi Municipal Government strongly supports the auto parts industry and the investment by the Fund through the Subscription.

The Directors are also of the view that the Subscription represents a good opportunity for the Company to introduce a strategic investor with strong local government support and to raise sufficient funds to enhance its capabilities in product development and upgrade its manufacturing infrastructure and sales platforms, and further expand the scale of product production and improve operating efficiency. The funds raised under the Subscription can also strengthen the Company's capital base and be utilised towards repayment of outstanding bank loans which will help significantly reduce the Company's capital cost and improve its financial position.

The Board (including the Independent Board Committee) is therefore of the view that the Subscription is in the interests of the Company and the Shareholders as a whole.

Future intentions of the Subscriber regarding the Group

Upon Completion, the Subscriber will become a controlling shareholder (as defined under the Listing Rules) of the Company. The Subscriber has confirmed that:

- (a) it is intended that the Group will continue with its existing business following Completion;
- (b) it shares the view of the Board as disclosed in the paragraph headed "Reasons for the Subscription" above, in which it is mentioned that the Subscription is in the interests of the Group; and
- (c) there is no intention to (i) introduce any major changes to the existing business of the Group or (ii) discontinue the employment of any of the Group's employees or (iii) redeploy the fixed assets of the Group other than in its ordinary course of business.

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CHANGE OF COMPOSITION OF THE BOARD

At the Latest Practicable Date, the Subscriber intended to nominate new Directors (i.e. one executive Director, two non-executive Directors and one independent non-executive Director) to the Board upon Completion.

Details of the actual change of the Board composition and biographies of any new Directors to be appointed will be further announced as and when appropriate in accordance with the Takeovers Code and the Listing Rules.

USE OF PROCEEDS

The maximum gross proceeds to be raised from the Subscription is HK\$663,911,241.749. The maximum net proceeds to be raised from the Subscription is estimated to be approximately HK\$662 million, of which:

- (i) approximately HK\$480 million will be applied for enhancement of the Company's manufacturing capability:
 - (a) as to approximately HK\$70 million for purchase of land use rights in Economic Development Zone, Laixi City, Qingdao City, Shandong Province for construction of new production plants in late 2021 or first half of 2022;
 - (b) as to approximately HK\$360 million for the construction of new production plants and other supporting facilities including warehouse, research and development center, office building, staff dormitory and showroom on the lands through the above purchase of land use rights in Shandong Province to expand the Group's production capacity and technology capability for its manufacturing business. The construction work is expected to commence from late 2021 and be completed by 2023; and
 - (c) as to approximately HK\$50 million for purchase of related production equipment in the PRC for production of automotive parts for new energy vehicle, mainly including inverters and multifunctional mobile power supplies, to broaden the Group's product portfolio and pursue opportunities to expand its exposure in the new energy vehicle industry;
- (ii) approximately HK\$120 million will be applied for repayment of the outstanding bank loans of the Group; and
- (iii) approximately HK\$62 million will be applied as general working capital of the Group:
 - (a) as to approximately HK\$44 million for the procurement costs of the Group's manufacturing business and automobile dealership and service business;

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- (b) as to approximately HK\$10 million for the remuneration of the Group's employees; and
- (c) as to approximately HK\$8 million for the Group's other daily expenses (including professional fees payable to the Group's legal advisers and auditors).

The net issue price per Subscription Share will be approximately HK\$0.059 per Subscription Share.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company had a total of 6,767,636,215 Shares in issue. The Company had no other outstanding shares, options, warrants, derivatives or other relevant securities that carry a right to subscribe for or which are convertible into Shares.

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon Completion, assuming there is no change in the issued share capital of the Company other than the issue of the Subscription Shares; and (iii) upon Completion, assuming there is no change in the issued share capital of the Company other than the issue of the Subscription Shares and CDH has disposed of its Shares:

Shareholders	As at the Latest Practicable Date		Upon Completion (assuming a maximum of 11,252,732,911 Subscription Shares to be issued) ²		Upon Completion (assuming a maximum of 11,252,732,911 Subscription Shares to be issued and CDH has disposed of its Shares)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
The Subscriber and its parties acting in concert	-	-	11,252,732,911	62.44	11,252,732,911	62.44
CDH ¹	2,889,580,226	42.70	2,889,580,226	16.04	1,800,234,900	9.99 ³
Fame Mountain	1,904,761,905	28.15	1,904,761,905	10.57	1,904,761,905	10.57
Public Shareholders	1,973,294,084	29.15	1,973,294,084	10.95	3,062,639,410	17.00
Total	6,767,636,215	100.00	18,020,369,126	100.00	18,020,369,126	100.00

Notes:

- CDH is beneficially wholly owned by CDH Fund IV, L.P. and the general partner of CDH Fund IV, L.P. is CDH IV Holdings Company Limited which is 80% beneficially owned by China Diamond Holdings IV, L.P. China Diamond Holdings Company Limited is the general partner of China Diamond Holdings IV, L.P., and China Diamond Holdings Company Limited is ultimately and beneficially owned as to (i) approximately 33.20% by Mr. Wu Shangzhi; (ii) approximately 28.78% by Mr. Jiao Shuge; (iii) approximately 7.79% by Mr. Wang Zhenyu, who is a non-executive Director; and (iv) approximately 30.23% by five Independent Third Parties, with each of them holding not more than 10% beneficial interest in China Diamond Holdings Company Limited.
- This scenario is for illustration purpose only and will not occur, as the Subscription Shares will not be issued if the minimum public float requirement under the Listing Rules cannot be met upon Completion. As such, the Company's public float will not, in any event, fall below the prescribed minimum public float upon full issuance of the Subscription Shares.
- CDH will become a public Shareholder upon its shareholding in the Company being decreased to less than 10% before Completion.

LETTER FROM THE BOARD

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company had not conducted any fund raising activities during the twelve months immediately preceding the Latest Practicable Date.

INFORMATION REQUIRED UNDER THE TAKEOVERS CODE

Each of the Subscriber, its ultimate beneficial owners and/or the parties acting in concert with it has confirmed that, save for the Subscription and the Subscription Shares, neither it nor any party acting in concert with it:

- (i) has acquired or disposed of or entered into any agreement or arrangement to acquire or dispose of any voting rights in the Company within the six months prior to the date of the Announcement and up to the Latest Practicable Date;
- (ii) owns or has control or direction over any voting rights or rights over the Shares or any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of Shares nor has entered into any outstanding derivative in respect of securities in the Company;
- (iii) has any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) with any other persons in relation to the relevant securities of the Company or of the Subscriber which might be material to the transactions contemplated under the Subscription Agreement and/or the Whitewash Waiver;
- (iv) has any agreements or arrangements to which it is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the transactions contemplated under the Subscription Agreement or the Whitewash Waiver, other than the conditions of the Subscription under the Subscription Agreement;
- (v) apart from the Subscription consideration payable under the Subscription Agreement, has paid or will pay any other consideration, compensation or benefit in whatever form to the Company or any party acting in concert with it in connection with the Subscription;
- (vi) has entered into any understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between the Subscriber, its ultimate beneficial owners or any parties acting in concert with them on one hand and the Company or any party acting in concert with it on the other hand; and
- (vii) save for the undertakings relating to the public float to be obtained from CDH, has entered into any understanding, arrangement or agreement or special deal (as defined under Rule 25 of the Takeovers Code) between (i) any Shareholder; and (ii)(a) the Subscriber, its ultimate beneficial owners, or any parties acting in concert with them, or (b) the Company, its subsidiaries or associated companies.

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IMPLICATIONS UNDER THE TAKEOVERS CODE

Upon Completion, the Subscriber will hold a maximum of 11,252,732,911 Shares, representing approximately 62.44% of the enlarged fully paid up issued share capital of the Company (assuming there is no other change in the issued share capital of the Company save for the allotment and issuance of the Subscription Shares pursuant to the Subscription).

Under Rule 26.1 of the Takeovers Code, upon the allotment and issuance of the Subscription Shares at Completion, the Subscriber would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it unless the Whitewash Waiver is granted by the Executive and the approval by 75% of the Independent Shareholders by way of poll is obtained in accordance with the Takeovers Code.

In this regard, an application has been made to the Executive for the Whitewash Waiver in respect of the allotment and issuance of the Subscription Shares. The Executive has indicated that it is minded to grant the Whitewash Waiver subject to, among other things, the condition that respective resolutions relating to the Whitewash Waiver on one hand, and the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate) on the other hand, being separately approved by at least 75% and more than 50% respectively, of the votes cast by the Independent Shareholders either in person or by proxy at the EGM by way of poll. Save for CDH (which held 2,889,580,226 Shares, representing approximately 42.70% of the issued share capital of the Company as at the Latest Practicable Date), none of the Shareholders is required to abstain from voting for resolutions relating to the Whitewash Waiver, the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate).

The Whitewash Waiver may or may not be granted by the Executive. Completion is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Subscription will not proceed. As at the Latest Practicable Date, the Company did not believe that the proposed transactions under the Subscription Agreement give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Subscription does not comply with other applicable rules and regulations.

MINIMUM PUBLIC FLOAT IN THE SHARES

CDH shall, as one of the conditions precedent to the Subscription Agreement, give an undertaking to dispose of such number of Shares before Completion so as to ensure that the minimum public float will be maintained at all times in accordance with the Listing Rules upon Completion.

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It is the intention of the Board and the Subscriber that the Company will remain listed on the Stock Exchange after Completion. In addition to the undertaking from CDH as disclosed above, each of the Company and the Subscriber will undertake to the Stock Exchange to take appropriate steps to ensure that not less than 25% of the issued Shares will be held by the public. If the minimum public float requirement under the Listing Rules cannot be met upon Completion, the Subscription will not proceed.

The Company will require CDH to provide a list of purchasers/transferees/places who will acquire the Shares held by CDH to the Company so that it can ensure those purchasers/transferees/places are Independent Third Parties before CDH's disposal prior to Completion and will designate individual(s) to be responsible for monitoring the public float position of the Company and any changes in the shareholdings of the substantial shareholders of the Company from time to time.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee, comprising all three (3) independent non-executive Directors, namely Mr. Hu Yuming, Mr. Lin Lei and Mr. Zhang Xiaoya has been formed to advise the Independent Shareholders as to whether the terms of the Subscription Agreement and the transactions contemplated thereunder as well as the Whitewash Waiver are fair and reasonable and on how to vote at the EGM. None of the members of the Independent Board Committee has any interest or involvement in the transactions contemplated under the Subscription Agreement or the Whitewash Waiver. The two (2) non-executive Directors, namely Mr. Wang Zhenyu and Mr. Zhang Jianxing, are not taking part in the Independent Board Committee due to (i) both of them being the employees of CDH Investments Management (Hong Kong) Limited, an affiliate of the general partner of CDH Fund IV, L.P., which indirectly holds the entire equity interests in CDH; and (ii) Mr. Wang Zhenyu's indirect interests in CDH.

Octal Capital Limited has been appointed, with the approval of the Independent Board Committee, as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Subscription Agreement and the transactions contemplated thereunder as well as the Whitewash Waiver.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

The Board proposes to increase the authorised share capital of the Company from HK\$1,000,000,000.00 divided into 10,000,000,000 Shares of HK\$0.1 each to HK\$2,000,000,000.00 divided into 20,000,000,000 Shares of HK\$0.1 each by the creation of an additional 10,000,000,000 new Shares, which shall rank equally in all respects with the existing Shares.

The Increase in Authorised Share Capital is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM to consider and, if thought fit, approve the Increase in Authorised Share Capital. The approval of the Increase in Authorised Share Capital by the Shareholders at the EGM is a condition precedent to the Completion.

LETTER FROM THE BOARD

EGM

A notice convening the EGM to be held at Room 1809, Feidiao International Building, No.1065A Zhaojiabang Road, Xuhui District, Shanghai, PRC on Monday, 13 September 2021 at 2 p.m. is set out on pages EGM-1 to EGM-3 of this circular. The EGM will be held for the Shareholders or the Independent Shareholders to consider and, if thought fit, pass the resolutions to approve, among other things: (i) the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate); (ii) the Whitewash Waiver; and (iii) the Increase in Authorised Share Capital.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the enclosed form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjournment thereof if they so wish.

Save for CDH, no Shareholder has a material interest in the Subscription and the transactions contemplated thereunder (including the Specific Mandate), and the Whitewash Waiver, and will be required to abstain from voting on the resolutions to approve the Subscription and the transactions contemplated thereunder (including the Specific Mandate), and the Whitewash Waiver at the EGM. In addition, no Shareholders will be required to abstain from voting on the resolution to approve the Increase in Authorised Share Capital.

An announcement on the results of the EGM will be made by the Company following the EGM in accordance with the Listing Rules and the Takeovers Code.

RECOMMENDATION

Your attention is drawn to (i) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate) as well as the Whitewash Waiver; and (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate) as well as the Whitewash Waiver.

The Board (including members of the Independent Board Committee after taking the advice of the Independent Financial Adviser) considers that the terms of the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate) as well as the Whitewash Waiver are fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

LETTER FROM THE BOARD

The Board is also of view that the Increase in Authorised Share Capital is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

Independent Shareholders are reminded to review the letter from the Independent Board Committee and the letter from the Independent Financial Adviser which are included in this circular.

GENERAL

Your attention is drawn to the additional information set out in the appendices to this circular.

Since Completion is subject to the fulfillment of the conditions as set out in the Subscription Agreement, the Subscription may or may not proceed.

The Whitewash Waiver may or may not be granted by the Executive and if granted, will, among others things, be subject to the approval by at least 75% of the votes cast by the Independent Shareholders by way of poll in respect of the Whitewash Waiver and more than 50% of the votes cast by the Independent Shareholders by way of poll in respect of the Subscription and the grant of the Specific Mandate, respectively, at the EGM. Completion is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders.

If the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, immediately upon issuance of the Subscription Shares, the shareholding of the Subscriber and parties acting in concert with it in the Company will exceed 50%. The Subscriber and parties acting in concert with it may increase their shareholding without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer for the securities of the Company.

Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

* For identification purpose only



Yours faithfully,
By order of the Board
New Focus Auto Tech Holdings Limited
Tong Fei
Executive Director