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Leoch International Technology Limited
理士國際技術有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 842)

CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO:
(I) SALES OF BATTERY PRODUCTS; AND
(II) PURCHASES OF RAW MATERIALS AND OTHER PRODUCTS

On 22 November 2021 (after trading hours), (i) the Company entered into the Master Sales Agreement with Shenzhen Marshall in respect of sales of batteries and related parts including connecting cables which are components of battery products for motive power, moulds and other miscellaneous items to Shenzhen Marshall Group; and (ii) the Company entered into the Master Purchases Agreement with Shenzhen Marshall in respect of purchases of battery related components including chargers, connecting cables used in 5G and reserve power application, BMS, battery racks and electric vehicles and related parts from Shenzhen Marshall Group.

As the maximum amounts of each of the Sales Caps and the Purchases Caps exceed 5% of the relevant percentage ratios and HK\$10,000,000 per annum, the transactions under each of the Master Sales Agreement and the Master Purchases Agreement will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Mr. Dong and his associates (including Master Alliance) shall abstain from voting at the EGM to be convened to approve, among other matters, the Master Sales Agreement and the Master Purchases Agreement.

Further details of the Master Sales Agreement and the Master Purchases Agreement, together with the letter from the Independent Board Committee to the Independent Shareholders, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, and the notice of EGM will be included in the circular to be despatched to the Shareholders on or before 26 November 2021.

BACKGROUND

Reference is made to the announcement of the Company dated 16 October 2018 in relation to certain continuing sales and purchases transactions between the Group and certain members of the Shenzhen Marshell Group with their respective annual caps for the three years ending 31 December 2021 under the 2018 Agreements. As the 2018 Agreements will soon expire and the sales and purchases transactions between the Group and Shenzhen Marshell Group will continue in the foreseeable future, the Board is pleased to announce that the Master Sales Agreement and the Master Purchases Agreement were entered into in relation to the same subject transactions with revised annual caps for a further term of 3 years up to 31 December 2024.

THE MASTER SALES AGREEMENT

Date : 22 November 2021

Parties : (i) the Company; and
(ii) Shenzhen Marshell

Subject matters:

Pursuant to the Master Sales Agreement, the Group has agreed to sell batteries and related parts including connecting cables which are components of battery products for motive power, moulds and other miscellaneous items to Shenzhen Marshell Group for a term of three years commencing from 1 January 2022, subject to approval by the Independent Shareholders at the EGM.

The selling price by the Group shall be at the prevailing market price based on the standard price list of the Group for its products applicable to all its customers (which generally was determined by the sales department on a fixed percentage of margins over costs and taking into account of the lead price fluctuation and the selling price of the competitors), being the price at which the same type of products is sold by the Group to independent third parties on normal commercial terms in the ordinary course of business in the PRC, or on terms which are of no less favourable to the Group than terms available to other independent third parties who are willing to order similar quantity under similar conditions. The selling price shall be settled within 30 to 60 days after delivery.

The Sales Caps under the Master Sales Agreement are set out below:

| | Year ending 31 December 2022 <i>(RMB million)</i> | Year ending 31 December 2023 <i>(RMB million)</i> | Year ending 31 December 2024 <i>(RMB million)</i> |
|------------|---|---|---|
| Sales Caps | <u>280.0</u> | <u>364.0</u> | <u>473.2</u> |

For each of the two years ended 31 December 2020 and the nine months ended 30 September 2021, sales of batteries and related parts etc. to members of the Shenzhen Marshell Group amounted to approximately RMB59.3 million, RMB79.6 million and RMB72.5 million respectively. In determining the Sales Caps, the Board has taken into account: (i) the historical amount of the sales of products to the Shenzhen Marshell Group; (ii) the possible fluctuation in lead price; and (iii) the procurement plan provided by Shenzhen Marshell Group for the coming years in respect of additional lithium-ion batteries and lead-acid batteries for electric forklifts which are additional products to be sourced from the Group as Shenzhen Marshell Group has been developing and expanding its production of electric vehicles using lithium-ion batteries and electric forklifts.

THE MASTER PURCHASES AGREEMENT

Date : 22 November 2021

Parties : (i) the Company; and

(ii) Shenzhen Marshell

Subject matters:

Pursuant to the Master Purchases Agreement, the Group has agreed to purchase products including: (a) battery related components including chargers, connecting cables used in 5G and reserve power application, BMS, battery racks for the manufacturing of the Group's battery products or sale as accessories of the Group's battery products; and (b) electric vehicles and related parts for the Group's own use from Shenzhen Marshell Group for a term of three years commencing from 1 January 2022, subject to approval by the Independent Shareholders at the EGM.

The purchase price of such raw materials and products by the Group shall be at the prevailing market price, being the price at which the same type of products is purchased by the Group from independent third parties on normal commercial terms in the ordinary course of business in the PRC, or on terms which are no less favourable to the Group than the terms available from independent third parties for purchase of similar materials of comparable quality and quantity. The purchase price shall be settled within 60 to 90 days after delivery.

The Purchases Caps under the Master Purchases Agreement are set out below:

| | Year ending 31 December 2022 <i>(RMB million)</i> | Year ending 31 December 2023 <i>(RMB million)</i> | Year ending 31 December 2024 <i>(RMB million)</i> |
|----------------|---|---|---|
| Purchases Caps | <u>80.0</u> | <u>104.0</u> | <u>135.2</u> |

For each of the two years ended 31 December 2020 and the nine months ended 30 September 2021, purchases of raw materials and products from members of the Shenzhen Marshell Group amounted to approximately RMB11.5 million, RMB31.4 million and RMB9.5 million respectively. In determining the Purchases Caps, the Board has taken into account: (i) the historical amount of the purchases of existing battery products components and supplies from members of Shenzhen Marshell Group; and (ii) the procurement by the Group of new supplies from Shenzhen Marshell Group including BMS, connecting cables and battery racks principally for the production of lithium-ion batteries to cater for the demand for 5G applications and other motive power equipment.

INFORMATION ABOUT THE GROUP

The Group is a vertically integrated enterprise primarily engaged in the development, sale and manufacture of lead-acid batteries and other related items. It is one of the leading manufacturers and exporters of lead-acid batteries in the PRC.

INFORMATION ABOUT SHENZHEN MARSHELL

Shenzhen Marshall is a company established in the PRC and Mr. Dong and his elder brother indirectly own approximately 98.5% equity interests in Shenzhen Marshall. Shenzhen Marshall and its subsidiaries are principally engaged in the manufacture and sales of electronic products, chargers, converters, power supply products, plastic goods, and electric vehicles etc..

REASONS FOR ENTERING INTO THE MASTER SALES AGREEMENT AND THE MASTER PURCHASES AGREEMENT

The transactions contemplated under the Master Sales Agreement and the Master Purchases Agreement have been conducted in the ordinary course of business of the Group. The Master Sales Agreement has provided a framework to protect the interests of the Group while enabling the Group with a stable source of revenue from the sales of batteries and related parts, especially in view of the expected strong demand for lithium-ion batteries driven electric vehicles from the PRC government to replace existing vehicles used for patrolling and other applications required in various government units. The Master Purchases Agreement will allow the Group to have a stable source of supply of certain raw materials and other products such as battery cases, BMS, parts, molds, chargers, electric vehicles and forklifts etc. with guaranteed quality for use in its production, which would facilitate the Group to tap into the 5G market to capture the significant demand in the PRC market for lithium-ion batteries. The Master Sales Agreement and the Master Purchases Agreement are entered into to renew the 2018 Agreements, which will expire on 31 December 2021.

INTERNAL CONTROL MEASURES

As part of its internal control procedures to determine the price and terms of the transactions contemplated under each of the Master Sales Agreement and the Master Purchases Agreement so as to ensure that the transactions to be conducted are on normal commercial terms and not prejudicial to the Company's and its minority Shareholders' interest and to ensure that the pricing mechanism contemplated under the respective master agreements have been followed, among other things, (i) the sales department will regularly compare the selling price charged to Shenzhen Marshell Group under the Master Sales Agreement with the price list of the Group to ensure that such selling price is at least on the same bases and same rates for similar products sold to independent third parties by the Group; (ii) the procurement department will obtain quotation from Shenzhen Marshell Group for each purchase and compare the quotations of similar raw materials and products from at least two other independent suppliers to ensure the price competitiveness of the raw materials and products purchases, before placing any purchase order(s) with Shenzhen Marshell Group; (iii) the finance department will inform the sales or the procurement department (as the case may be) the amounts of the Sales Caps or the Purchases Caps for the relevant year and monitor from time to time if such annual caps are exceeded; and (iv) the finance department will also approve the payment to be made to Shenzhen Marshell Group to ensure that the payment terms are in line with the relevant master agreement.

The independent non-executive Directors shall annually review the transactions contemplated under the Master Sales Agreement and the Master Purchases Agreement to ensure that the transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and are fair and reasonable and in the interests of the Shareholders as a whole. The auditors of the Company shall review the transactions contemplated under the Master Sales Agreement and the Master Purchases Agreement annually and confirm that the transactions have been entered into in accordance with the pricing policies, in accordance with the terms and provisions of the Master Sales Agreement and the Master Purchases Agreement and not exceeded the relevant annual caps.

Based on the above, the Directors (excluding Mr. Dong who had abstained at the Board meeting in view of his material interests in the transactions, and the independent non-executive Directors whose views will be subject to the advice of the independent financial advisers) consider that the entering into of the Master Sales Agreement and the Master Purchases Agreement is in the ordinary course of business of the Group and that the terms of the Master Sales Agreement (including the Sales Caps) and the Master Purchases Agreement (including the Purchases Caps) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

As Mr. Dong is the Chairman of the Board and an executive Director, who through Master Alliance, is interested in approximately 74.36% of the total issued share capital of the Company and hence a controlling Shareholder, he and his associates are connected persons of the Company. Accordingly, the transactions contemplated under each of the Master Sales Agreement and the Master Purchases Agreement constitutes continuing connected transactions of the Company under the Listing Rules. As the maximum amounts of each of the Sales Caps and the Purchases Caps exceed 5% of the relevant percentage ratios and HK\$10,000,000 per annum, the transactions under each of the Master Sales Agreement and the Master Purchases Agreement will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

Optima Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Master Sales Agreement (including the Sales Caps) and the Master Purchases Agreement (including the Purchases Caps).

EGM

An EGM will be convened and held to approve the Master Sales Agreement (including the Sales Caps) and the Master Purchases Agreement (including the Purchases Caps) and the transactions contemplated thereunder. Mr. Dong and his associates (including Master Alliance) shall abstain from voting at the EGM.

GENERAL

The Independent Board Committee comprising Mr. Cao Yixiong Alan, Mr. Lau Chi Kit and Dr. Nan Xinsheng, being all independent non-executive Directors, has been formed to advise the Independent Shareholders as to the terms of the Master Sales Agreement (including the Sales Caps) and the Master Purchases Agreement (including the Purchases Caps).

Further details of the Master Sales Agreements and the Master Purchases Agreement, together with the letter from the Independent Board Committee to the Independent Shareholders, the letter of advice from Optima Capital to the Independent Board Committee and the Independent Shareholders, and the notice of EGM will be included in the circular to be despatched to the Shareholders on or before 26 November 2021.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following respective meaning:

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| “2018 Agreements” | (i) the master sales agreement dated 16 October 2018 entered into between the Company and Mr. Dong in relation to the sales by the Group to certain members of the Shenzhen Marshell Group of products including lead-acid batteries; and (ii) the master purchase agreement dated 16 October 2018 entered into between the Company and Mr. Dong in relation to the purchases by the Group from certain members of the Shenzhen Marshell Group of products including battery cases, parts, molds, chargers and electronic products, electric vehicles and forklifts etc., details of which are set out in the announcement of the Company dated 16 October 2018 |
| “associates” | has the meaning ascribed to this term under the Listing Rules |
| “BMS” | battery management system |
| “Board” | the board of Directors |

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| “Company” | Leoch International Technology Limited, a company incorporated in the Cayman Islands and the issued Shares of which are listed on the main board of the Stock Exchange |
| “connected person” | has the meaning ascribed to this term under the Listing Rules |
| “Directors” | the directors of the Company |
| “EGM” | the extraordinary general meeting of the Company to be held to approve, amongst other matters, each of the Master Sales Agreement (including the Sales Caps) and the Master Purchases Agreement (including the Purchases Caps) |
| “Group” | the Company and its subsidiaries |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | an independent committee of the Board, comprising all the independent non-executive Directors, to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Master Sales Agreement (including the Sales Caps) and the Master Purchases Agreement (including the Purchases Caps) |
| “Independent Shareholders” | Shareholders other than Mr. Dong and his associates (including Master Alliance) |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Master Alliance” | Master Alliance Investment Limited, a limited liability company incorporated in the British Virgin Islands which is wholly owned by Mr. Dong |

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|------------------------------|---|
| “Master Purchases Agreement” | the master purchases agreement dated 22 November 2021 entered into between the Company and Shenzhen Marshall in respect of the purchases by the Group from Shenzhen Marshall Group of battery related components including chargers, connecting cables, BMS, battery racks, and electric vehicles and related parts |
| “Master Sales Agreement” | the master sales agreement dated 22 November 2021 entered into between the Company and Shenzhen Marshall in respect of the sales by the Group to Shenzhen Marshall Group of batteries and related parts including connecting cables, moulds and other miscellaneous items |
| “Mr. Dong” | Mr. Dong Li, the Chairman of the Board and an executive Director, who through Master Alliance, is interested in approximately 74.36% of the total issued share capital of the Company and hence a controlling Shareholder |
| “Optima Capital” | Optima Capital Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Master Sales Agreement (including the Sales Caps) and the Master Purchases Agreement (including the Purchases Caps) |
| “PRC” | the People’s Republic of China which, for the purposes of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan |
| “Purchases Caps” | the annual purchase amounts as set out in the Master Purchases Agreement |

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| “RMB” | Renminbi, the lawful currency of the PRC |
| “Sales Caps” | the annual sales amounts as set out in the Master Sales Agreement |
| “Share(s)” | ordinary share(s) of HK\$0.10 each in the issued share capital of the Company |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Shenzhen Marshall” | 深圳瑪西爾電動車股份公司 (Shenzhen Marshall Electric Vehicle Co., Limited [#]), a company established in the PRC which is indirectly owned as to approximately 98.5% by Mr. Dong and his elder brother |
| “Shenzhen Marshall Group” | Shenzhen Marshall and its subsidiaries |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “%” | percent. |

By order of the Board of
Leoch International Technology Limited
Mr. Dong Li
Chairman

Hong Kong, 22 November 2021

As of the date of this announcement, the executive Directors are Mr. DONG Li and Ms. YIN Haiyan; and the independent non-executive Directors are Mr. CAO Yixiong Alan, Mr. LAU Chi Kit and Dr. NAN Xinsheng.

[#] *for identification purpose only*