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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)

**DISCLOSEABLE TRANSACTION:
ACQUISITION OF 70% EQUITY INTERESTS
IN THE TARGET COMPANIES**

THE ACQUISITION

On 25 July 2023, the Vendor as vendor, the Purchaser as purchaser and the Company as guarantor entered into the Agreement, pursuant to which the Purchaser agreed to acquire, and the Vendor agreed to dispose of the Sale Interest, i.e. 70% equity interest in each of the Target Companies, at the initial cash consideration of approximately RMB206.4 million (equivalent to about HK\$226.8 million) (subject to adjustment). Upon Completion, each of the Target Companies will become a 70%-owned subsidiary of the Company and their respective financial results, assets and liabilities will be consolidated into the financial results of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition (including the possible exercise of the put option by the Vendor) exceeds 5% but all of which are less than 25%, the entering into the Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements but exempt from shareholders' approval requirement under the Listing Rules.

Completion of the Acquisition is conditional upon the satisfaction of the conditions set out in the section headed “The Acquisition – Conditions precedent” in this announcement. Therefore, the Acquisition may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

THE ACQUISITION

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Date

25 July 2023

Parties

- (1) The Vendor as vendor
- (2) The Purchaser as purchaser
- (3) The Company as guarantor

Assets to be acquired

Pursuant to the Agreement, the Purchaser has agreed to acquire, and the Vendor has agreed to dispose of the Sale Interest, i.e. 70% equity interest in each of the Target Companies.

Consideration

Pursuant to the Agreement, the initial consideration shall be RMB206.4 million (equivalent to about HK\$226.8 million), representing about 70% of the sum of the net assets value of the Target Companies as at 31 December 2022 (subject to adjustment in the manner set out in the subsection headed “Consideration adjustment” below) and payable in cash by the Purchaser to the Vendor in the following manner:

- (i) RMB41.5 million (equivalent to about HK\$45.6 million) shall be paid at Completion;
- (ii) at least 15% of the consideration shall be paid on or before the first anniversary of the date of Completion;

- (iii) at least 35% of the consideration shall be paid on or before the second anniversary of the date of Completion; and
- (iv) the remaining consideration shall be paid on or before the third anniversary of the date of Completion.

The Acquisition will be financed by the internal resources of the Group.

Consideration adjustment

The initial consideration shall be adjusted to an amount equivalent to 70% of the sum of the net assets value shown in the audited balance sheets of both of the Target Companies as of 28 September 2023 and the partial payment by instalments of the consideration after the Completion shall be paid together with an interest to be accrued thereon at a rate of 4% per annum to be calculated from the date of Completion. Based on the latest financial information of the Target Companies available to the Board, it is expected that the final consideration payable by the Group will not be more than RMB280 million (equivalent to about HK\$307.7 million).

Basis for the determination of the consideration

The consideration of the Acquisition was determined after arm's length negotiations between the Purchaser and the Vendor with reference to, among others, (i) the net assets value of the Target Companies; (ii) the 70% equity interest of each of the Target Companies to be acquired by the Group under the Acquisition; and (iii) the reasons and benefits as more particularised in the section headed "REASONS FOR AND BENEFITS OF THE ACQUISITION" below.

Conditions precedent

Completion of the Acquisition is conditional upon the satisfaction or waiver of the below conditions precedent:

- (i) the amended and restated articles of the Target Companies having been duly adopted;
- (ii) the Purchaser, the Vendor and YBGD having executed a joint venture agreement of each of the Target Companies respectively;
- (iii) the Vendor having entered into a trademark licence agreement and technical license agreement with each of the Target Companies;

- (iv) TJGS having fully repaid all existing bank loans by using the funds borrowed from the Vendor;
- (v) the Target Companies having submitted the application for change of registration or filing in respect of, among other matters, the Acquisition with the relevant government authority; and
- (vi) the Purchaser and the Vendor having received evidence showing that the Purchaser has completed the merger control filing by the relevant government authority issuing a notice approving the Acquisition.

Guarantee

The Company as guarantor has unconditionally and irrevocably undertaken to, among other matters, ensure that the Purchaser would perform when due all its obligations under the Agreement and to pay any such amount to the Vendor as if it were the principal obligor in respect of such amount if the Purchaser fails to make any payment when it is due.

Completion

Subject to the fulfillment of the conditions set out under the paragraph headed “Conditions precedent” above, Completion shall take place on 28 September 2023.

Upon Completion, each of the Target Companies will become a 70%-owned subsidiary of the Company and their respective financial results, assets and liabilities will be consolidated into the financial results of the Group.

Put option

After the third anniversary of the Completion, the Vendor may exercise a put option and request the Purchaser to purchase, and the Purchaser shall be obliged to purchase, an additional 10% of the registered capital of both or either of the Target Companies. The consideration of the acquisition of such additional equity interest shall be calculated on a pro-rata basis in accordance with the net assets value of both or either of the Target Companies (as the case may be) as of 28 September 2023 or the consideration of the Acquisition.

In addition, if TJGS records a profit-making position for any financial year ending before the third anniversary of the Completion, the Vendor may propose to exercise the above put option before the third anniversary of the Completion at the consideration aforesaid mentioned and the parties shall negotiate with each other with respect to other terms and conditions of such transfer.

INFORMATION ON THE TARGET COMPANIES

TJGS

TJGS is a company established in the PRC in 1991 principally engaged in the manufacture and sale of lead-acid batteries for automobile. It has over 30 years of battery manufacturing experience. TJGS has become an excellent supporting supplier for many world-famous automobile manufacturers. There are more than 20,000 pop service points in the national aftermarket, under which there are three major brands of battery including GS battery. As at the date of this announcement, it is owned as to 92.5% by the Vendor and as to 7.5% by YBGD. Set out below is the financial information of TJGS for the two financial years ended 31 December 2022 prepared in accordance with the generally accepted accounting principles of the PRC:

	For the year ended 31 December 2021	For the year ended 31 December 2022
	<i>(RMB)</i>	<i>(RMB)</i>
	(audited)	(audited)
Net Turnover	1,059 million	930 million
Loss before tax	435 million	37 million
Loss after tax	435 million	37 million

The unaudited net assets value of TJGS was approximately RMB180.0 million as at 30 June 2023.

YBSD

YBSD is a company established in the PRC in 2002, specialised in the development, manufacture and sales of YUASA Yuasa brand lead-acid batteries for automobiles and motorcycles. Since YBSD started production in 2003, its products have been supplied to major automobile and motorcycle factories such as Honda, Suzuki, Southeast, Mitsubishi, Toyota, Mazda, etc., and sold to the domestic aftermarket, as well as exported to Japan, the United Kingdom and other countries. The high-quality products and services have been unanimously recognised and praised by the majority of users, and have been awarded excellent suppliers and quality awards over the years. As at the date of this announcement, it is wholly-owned by the Vendor. Set out below is the financial information of YBSD for the two financial years ended 31 December 2022 prepared in accordance with the generally accepted accounting principles of the PRC:

	For the year ended 31 December 2021	For the year ended 31 December 2022
	<i>(RMB)</i>	<i>(RMB)</i>
	(audited)	(audited)
Net Turnover	568 million	525 million
Profit/(loss) before tax	5 million	(8) million
Profit/(loss) after tax	2 million	(9) million

The unaudited net assets value of YBSD was approximately RMB215.2 million as at 30 June 2023.

INFORMATION ON THE PARTIES

The Vendor

The Vendor is a limited liability company incorporated in Japan which is principally engaged in the manufacturing and sale of batteries and related products.

To the best of the Directors' knowledge, information and belief, after making all reasonable enquiries, the Vendor is owned by GS Yuasa Corporation which is a Kyoto-based Japanese company specializing in the development and production of lead acid and lithium-ion batteries used in automobiles, motorcycles and other areas including aerospace and defense applications, whose issued shares are listed on the Tokyo Stock Exchange. The Vendor together with its ultimate beneficial owners are Independent Third Parties.

The Purchaser and the Company

The Purchaser is a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of the Company. The Company and its subsidiaries (including the Purchaser) are principally engaged in the manufacture, development and sale of lead-acid batteries and other related item.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Target Companies are principally engaged in development, manufacture and sales of lead-acid batteries for automobiles and motorcycles which are in line with the principal businesses of the Group. The Target Companies are reputable in the market and have promising growth prospects in their fields. The Company has been looking for opportunities to, among others, expand its business scales and market share in acquiring companies which are well managed, with advanced technology and engaged in its principal businesses. The Target Companies met the selection criteria and the Board believes that the Acquisition is a golden opportunity for the Group to further expand the scale and scope of the Group's business operations, increase its market share and enhance its competitiveness in the PRC, which is in line with the strategic needs of the Group. It is expected that the Acquisition would create synergies to the Group and the Target Companies as a result of sharing of resources (such as technological know-how, shared marketing and sales force) as well as the economies of scale. Given the background of the Target Companies as one of the largest manufacturers of lead-acid batteries for automobiles in the world, the combination of the Group and Target Companies would create a unique and strategic position in terms of market positioning. Besides, by leveraging on the technology and quality of the products manufactured by the Target Companies, the Group will secure capital and technological support which are necessary to attract high quality and sizeable targets and/or other strategic market participants for further business expansion and consolidation. Furthermore, it is expected that significant long term benefits can be obtained through the combination of the Target Companies' expertise and the Group's well-established distribution channel in the PRC. The joint venture agreements to be entered into among the Purchaser, the Vendor and YBGD will record the respective rights and obligations of the parties and the arrangements between them with respect to the ownership, management and operations of the Target Companies and do not involve any capital commitment on the part of the Group. The purpose of the put option arrangement is to foster the relationship of the parties for the better development of the joint venture as well as encouraging joint venture parties to perform their respective obligations and responsibilities thereunder.

In view of the above, the Directors (including all independent non-executive Directors) consider that the terms of the Agreement are fair and reasonable and are on normal commercial terms and the Acquisition is in line with the Group’ strategy and development plan to expand the scale and scope of its business operations and in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

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DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Acquisition”	the proposed acquisition of the Sale Interest by the Purchaser from the Vendor pursuant to the Agreement
“Agreement”	the conditional equity transfer agreement dated 25 July 2023 and entered into between the Vendor, the Purchaser and the Company in relation to the Acquisition
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Leoch International Technology Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 842)

“Completion”	completion of the Acquisition
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Parties”	party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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
“Purchaser”	Leoch Battery Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Sale Interest”	70% of the equity interests in each of the Target Companies
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holders of the Shares from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Companies”	TJGS and YBSD collectively
“TJGS”	Tianjin GS Battery Company Limited# (天津傑士電池有限公司), a company established under the laws of the PRC

“Vendor”	GS Yuasa International Limited, a company established under the laws of Japan and an Independent Third Party
“YBGD”	Yuasa Battery (Guangdong) Company Limited# (廣東湯淺蓄電池有限公司), a company established under the laws of PRC, which is the legal and beneficial owner of 7.5% registered capital of TJGS
“YBSD”	Yuasa Battery (Shunde) Company Limited# (湯淺蓄電池(順德)有限公司), a company established under the laws of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“RMB”	Renminbi yuan, the lawful currency of the PRC
“%”	per cent.

The English transliteration of the Chinese names of these entities are for reference only.

In this announcement, amounts in RMB are translated into HK\$ on the basis of RMB1 = HK\$1.10. The conversion rate is for illustration purpose only and should not be taken as a representation that RMB could actually be converted into HK\$ at such rate or at other rates or at all.

By order of the Board
Leoch International Technology Limited
Dr. DONG Li
Chairman

Hong Kong, 25 July 2023

As at the date of this announcement, the executive Directors are Dr. DONG Li, Ms. YIN Haiyan and Ms. HONG Yu and the independent non-executive Directors are Mr. CAO Yixiong Alan, Mr. LAU Chi Kit and Mr. LU Zhiqiang.