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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 LEAD-ACID BATTERIES;**
- (II) PURCHASES OF RAW MATERIALS; AND**
- (III) PURCHASES OF BATTERY FACILITIES**

On 13 October 2015, (i) the Company entered into the Master Sales Agreement with Mr. Dong in respect of sales of products including lead-acid batteries and related parts to Mr. Dong's Associates; (ii) the Company entered into the Master Raw Materials Purchases Agreement with Mr. Dong in respect of purchases of products including battery cases, parts, models, chargers and electronic products and electric scooters from Mr. Dong's Associates; and (iii) the Company entered into the Master Facilities Purchases Agreement with Mr. Dong in respect of purchases of Battery Facilities from Mr. Dong's Associates.

As each of the Sales Caps, the RM Purchases Caps and the Facilities 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, the Master Raw Materials Purchases Agreement and the Master Facilities 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's Associates shall abstain from voting at the EGM to be convened to approve, among other matters, the Master Sales Agreement, the Master Raw Materials Purchases Agreement and the Master Facilities Purchases Agreement.

Further details of the Master Sales Agreement, the Master Raw Materials Purchases Agreement and the Master Facilities 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 4 November 2015 (being 15 business days from the date of this announcement).

BACKGROUND

Reference is made to the prospectus of the Company dated 3 November 2010 in relation to certain continuing sales and purchases transactions between the Group and Mr. Dong's Associates with their respective annual caps for the three years ended 31 December 2012. Such continuing transactions were renewed by the 2012 Agreements with renewed annual caps for the three years ending 31 December 2015 as announced by the Company dated 25 October 2012. As the 2012 Agreements will soon expire and the sales and purchases transactions between the Group and Mr. Dong's Associates will continue in the foreseeable future, the Board is pleased to announce that the Master Sales Agreement and the Master Raw Materials 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 2018.

Reference is also made to the announcements of the Company dated 25 October 2012, 25 March 2013, 17 April 2014 and 14 August 2015 respectively in relation to the connected transactions for the purchases of certain Battery Facilities. In view of the continuing need for the Group to upgrade the Battery Facilities in compliance with the environmental requirements in the PRC and to increase its production capacity in the foreseeable future, the Board is also pleased to announce that the Master Facilities Purchases Agreement was also entered into in relation to the purchase of the Battery Facilities with annual caps for a term up to 31 December 2017.

THE MASTER SALES AGREEMENT

Date : 13 October 2015

Parties : (i) the Company; and
(ii) Mr. Dong

Subject matters:

Pursuant to the Master Sales Agreement, the Group has agreed to sell products including lead-acid batteries and related parts etc. to Mr. Dong's Associates for a term of three years commencing from 1 January 2016, 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 price list of the Group (which generally was determined on a fixed percentage of margins over costs and taking into account of the lead price fluctuation and the selling price of the competitors), namely, 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 2016 (RMB million)	Year ending 31 December 2017 (RMB million)	Year ending 31 December 2018 (RMB million)
Sales Caps	<u>100</u>	<u>150</u>	<u>200</u>

In determining the Sales Caps, the Board has taken into account: (i) the historical amount of sales of lead-acid batteries and related parts etc. to Mr. Dong's Associates in the past; and (ii) the purchase plan provided by Mr. Dong's Associates in the coming years. For each of the two years ended 31 December 2014 and the six months ended 30 June 2015, sales of lead-acid batteries and related parts etc. to Mr. Dong's Associates amounted to approximately RMB30.0 million, RMB40.8 million and RMB32.5 million respectively.

THE MASTER RAW MATERIALS PURCHASES AGREEMENT

Date : 13 October 2015

Parties : (i) the Company; and
(ii) Mr. Dong

Subject matters:

Pursuant to the Master Raw Materials Purchases Agreement, the Group has agreed to purchase products including battery cases, parts, models, chargers and electronic products (for the manufacturing of the Group's battery products or sale as accessories of the Group's battery products) and electric scooters (for use by members of the Group) etc. from Mr. Dong's Associates for a term of three years commencing from 1 January 2016, subject to approval by the Independent Shareholders at the EGM.

The purchase price of such raw materials by the Group shall be at the prevailing market price, namely, 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 on a monthly basis with two to three months' credit period for the Group.

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

	Year ending 31 December 2016 (RMB million)	Year ending 31 December 2017 (RMB million)	Year ending 31 December 2018 (RMB million)
RM Purchases Caps	<u>40</u>	<u>50</u>	<u>60</u>

In determining the RM Purchases Caps, the Board has taken into account: (i) the historical amount of purchases of raw materials from Mr. Dong's Associates in the past; (ii) the Group's forecast for sales of the battery products in the coming years; and (iii) inflation rate in the PRC. For each of the two years ended 31 December 2014 and the six months ended 30 June 2015, purchases of raw materials from Mr. Dong's Associates amounted to approximately RMB28.1 million, RMB29.2 million and RMB5.5 million respectively.

THE MASTER FACILITIES PURCHASES AGREEMENT

Date : 13 October 2015

Parties : (i) the Company; and
(ii) Mr. Dong

Subject matters:

Pursuant to the Master Facilities Purchases Agreement, the Group has agreed to purchase Battery Facilities from Mr. Dong's Associates for a term commencing from 1 November 2015 up to 31 December 2017, subject to approval by the Independent Shareholders at the EGM.

The purchase price of Battery Facilities by the Group shall be determined at 8% discount to the average purchase prices of similar Battery Facilities as obtained by the Group from two independent third parties 30 days prior to the date of relevant purchase order. Payment shall be made as to 30% upon entering into the relevant purchase contract as deposit, as to 60% upon satisfactory inspection and as to the remaining 10% as retention money payable after 1 year when no quality problem is identified.

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

	Two months ending 31 December 2015 (RMB million)	Year ending 31 December 2016 (RMB million)	Year ending 31 December 2017 (RMB million)
Facilities Purchases Caps	60	100	100

In determining the Facilities Purchases Caps, the Board has taken into account: (i) the historical amount of purchases of Battery Facilities from Mr. Dong's Associates in the past; and (ii) the Group's forecast for the purchases of Battery Facilities in the coming years to comply with the regulatory requirements in the PRC and to increase its production capacity. For each of the two years ended 31 December 2014 and the six months ended 30 June 2015, purchases of Battery Facilities from Mr. Dong's Associates amounted to approximately RMB19.8 million, RMB20.8 million and nil respectively. On 13 August 2015, the Group entered into various purchase agreements with Mr. Dong's Associates for the purchase of Battery Facilities of RMB36 million.

REASONS FOR ENTERING INTO THE MASTER SALES AGREEMENT, THE MASTER RAW MATERIALS PURCHASES AGREEMENT AND THE MASTER FACILITIES PURCHASES AGREEMENT

The Group is principally engaged in the sale, development and manufacture of lead-acid batteries. Mr. Dong's Associates refer to those companies controlled by Mr. Dong which are principally engaged in the manufacture and sales of Battery Facilities, electronic products, chargers, converters, power supply products, plastic goods, and electric vehicles etc..

The transactions contemplated under the Master Sales Agreement and the Master Raw Materials 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 lead-acid batteries and related parts. The Master Raw Materials Purchases Agreement will allow the Group to have a stable source of supply of certain raw materials such as battery cases, parts, models, chargers etc. with guaranteed quality for use in its production. The Master Sales Agreement and the Master Raw Materials Purchases Agreement are entered into to renew the 2012 Agreements, which will expire on 31 December 2015, with revised annual caps to cater for the continuing growth of the Group.

As mentioned in the announcements of the Company dated 25 October 2012, 25 March 2013, 17 April 2014 and 14 August 2015 respectively, the Group has commenced to update and upgrade its Battery Facilities and will continue to update and upgrade such facilities in accordance with the environmental requirements in PRC. The Group has been continually purchasing certain Battery Facilities from Mr. Dong's Associates from time to time since 2012 to ensure the application of advanced industrial technologies, the quality and due delivery of the relevant Battery Facilities and the protection of technology secrets, with the results of these objectives being achieved satisfactorily. In view of the continuing need for the Group to upgrade the Battery Facilities in compliance with the environmental requirements in the PRC and to increase its production capacity in the foreseeable future, the Board considers that the Master Facilities Purchases Agreement will ensure the Group to have a reliable source of supply of the Battery Facilities with proven quality to meet the PRC regulatory requirements.

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, the Master Raw Materials Purchases Agreement and the Master Facilities Purchases Agreement so as to ensure that the transactions to be conducted 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, the management of the Group will, among other things, (i) collect the price lists of lead-acid batteries from at least two independent competitors on a monthly basis and regularly review the price list of the Group to ensure that the selling price charged to Mr. Dong's Associates under the Master Sales Agreement is at least on the same bases and same rates for similar products sold to independent third parties; (ii) obtain quotation from Mr. Dong's Associates for each purchase and compare the quotations of similar raw materials and/or Battery Facilities from at least two other independent suppliers to ensure the price competitiveness of the raw materials and machineries purchases, before placing any purchase order(s) with Mr. Dong's Associates; and (iii) inform

the sales and the procurement departments (as the case may be) the amounts of the Sales Caps, RM Purchases Caps and the Facilities Purchases Caps for the relevant period/year and monitor from time to time if such annual caps are exceeded.

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, the Master Raw Materials Purchases Agreement and the Master Facilities 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), the Master Raw Materials Purchases Agreement (including the RM Purchases Caps) and the Master Facilities Purchases Agreement (including the Facilities 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

Mr. Dong is the Chairman of the Board and an executive Director, who through Master Alliance, is interested in approximately 74.05% of the total issued share capital of the Company and hence a controlling Shareholder, he and his associates (i.e. Mr. Dong's Associates) are connected persons of the Company. Accordingly the transactions contemplated under each of the Master Sales Agreement, the Master Raw Materials Purchases Agreement and the Master Facilities Purchases Agreement constitutes continuing connected transactions of the Company under the Listing Rules. As each of the Sales Caps, the RM Purchases Caps and the Facilities 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, the Master Raw Materials Purchases Agreement and the Master Facilities Purchases Agreement will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

EGM

An EGM will be convened and held to approve the Master Sales Agreement (including the Sales Caps), the Master Raw Materials Purchases Agreement (including the RM Purchases Caps) and the Master Facilities Purchases Agreement (including the Facilities Purchases Caps) and the transactions contemplated thereunder. Mr. Dong's Associates shall abstain from voting at the EGM.

GENERAL

The Independent Board Committee comprising Mr. Liu Yangsheng, Mr. Cao Yixiong Alan, Mr. Lau Chi Kit and Dr. Gong Fangxiong, 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), the Master Raw Materials Purchases Agreement (including the RM Purchases Caps) and the Master Facilities Purchases Agreement (including the Facilities Purchases Caps). An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

Further details of the Master Sales Agreements, the Master Raw Materials Purchases Agreement and the Master Facilities 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 4 November 2015 (being 15 business days from the date of this announcement).

DEFINITIONS

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

“2012 Agreements”	(i) the master sales agreement dated 25 October 2012 entered into between the Company and Mr. Dong in relation to the sales by the Group to Mr. Dong’s Associates of products including lead-acid batteries; and (ii) the master purchase agreement dated 25 October 2012 entered into between the Company and Mr. Dong in relation to the purchases by the Group from Mr. Dong’s Associates of products including battery cases, parts, models, chargers and electronic products and electric scooters, details of which are set out in the announcement of the Company dated 25 October 2012
“associates”	has the meaning ascribed to this term under the Listing Rules
“Battery Facilities”	environmental protection facilities, manufacturing facilities and inspection facilities for lead acid batteries and reserve power batteries and related products
“Board”	the board of Directors
“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), the Master Raw Materials Purchases Agreement (including the RM Purchases Caps) and the Master Facilities Purchases Agreement (including the Facilities Purchases Caps)
“Facilities Purchases Caps”	the maximum annual purchases amounts as set out in the

Master Facilities Purchases Agreement

“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), the Master Raw Materials Purchases Agreement (including the RM Purchases Caps) and the Master Facilities Purchases Agreement (including the Facilities Purchases Caps)
“Independent Shareholders”	Shareholders other than Mr. Dong’s Associates
“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 Jingle Bells Group Limited, which in turn is wholly owned by DB International Trust (Singapore) Limited (which is a trustee of a discretionary trust established by Mr. Dong and the beneficiaries of which are family members of Mr. Dong)
“Master Facilities Purchases Agreement”	the master purchases agreement dated 13 October 2015 entered into between the Company and Mr. Dong in respect of the purchases by the Group from Mr. Dong’s Associates of the Battery Facilities
“Master Raw Materials Purchases Agreement”	the master purchases agreement dated 13 October 2015 entered into between the Company and Mr. Dong in respect of the purchases by the Group from Mr. Dong’s Associates of products including battery cases, parts, models, chargers and electronic products and electric scooters etc.
“Master Sales Agreement”	the master sales agreement dated 13 October 2015 entered into between the Company and Mr. Dong in respect of the sales by the Group to Mr. Dong’s Associates of products including lead-acid batteries and related parts etc.
“Mr. Dong”	Mr. Dong Li, the Chairman of the Board and an executive Director, who through Master Alliance, is interested in approximately 74.05% of the total issued share capital of

	the Company and hence a controlling Shareholder
“Mr. Dong’s Associates”	Mr. Dong and his associates, including Shenzhen Marshall Green Power Co., Ltd., Shenzhen Marshall Power Supply Co., Ltd., Shenzhen Marxon Power Supply Co., Ltd., Guangdong Marshall Electric Vehicle Co., Ltd., Shanghai Dongming Marshall Electric Vehicle Co., Ltd. and Shanghai Donmin Vehicle Co., Ltd. but excluding the Group
“PRC”	the People’s Republic of China which, for the purposes of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“RM Purchases Caps”	the maximum annual purchases amounts as set out in the Master Raw Materials Purchases Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Sales Caps”	the maximum 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)
“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, 13 October 2015

As of the date of this announcement, the executive Directors are Mr. Dong Li, Ms. Zhao Huan and Mr. Philip Armstrong Noznesky and the independent non-executive Directors are Mr. Liu Yangsheng, Mr. Cao Yixiong Alan, Mr. Lau Chi Kit and Dr. Gong Fangxiang.