

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**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; AND**  
**(II) PURCHASES OF RAW MATERIALS**

On 16 October 2018, (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 etc. to Mr. Dong's Associates; and (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 etc. from Mr. Dong's Associates.

As 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 Raw Materials 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 and the Master Raw Materials Purchases Agreement.

Further details of the Master Sales Agreement and the Master Raw Materials 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 7 November 2018 (being 15 business days from the date of this announcement).

## **BACKGROUND**

Reference is made to the announcement of the Company dated 13 October 2015 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 2018. As the 2015 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 2021.

## **THE MASTER SALES AGREEMENT**

**Date** : 16 October 2018

**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 2019, 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:

	<b>Year ending 31 December 2019 <i>(RMB million)</i></b>	<b>Year ending 31 December 2020 <i>(RMB million)</i></b>	<b>Year ending 31 December 2021 <i>(RMB million)</i></b>
Sales Caps	<u>138</u>	<u>172</u>	<u>215</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 2017 and the six months ended 30 June 2018, sales of lead-acid batteries and related parts etc. to Mr. Dong's Associates amounted to approximately RMB57 million, RMB84 million and RMB50 million respectively.

## **THE MASTER RAW MATERIALS PURCHASES AGREEMENT**

**Date** : 16 October 2018

**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, molds, chargers and electronic products etc. for the manufacturing of the Group's battery products or sale as accessories of the Group's battery products from Mr. Dong's Associates for a term of three years commencing from 1 January 2019, 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 Purchases Caps under the Master Raw Materials Purchases Agreement are set out below:

	<b>Year ending 31 December 2019 (RMB million)</b>	<b>Year ending 31 December 2020 (RMB million)</b>	<b>Year ending 31 December 2021 (RMB million)</b>
Purchases Caps	<u>41</u>	<u>55</u>	<u>72</u>

In determining the 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; and (ii) the Group's forecast for sales of the battery products in the coming years. For each of the two years ended 31 December 2017 and the six months ended 30 June 2018, purchases of raw materials from Mr. Dong's Associates amounted to approximately RMB27 million, RMB31 million and RMB7 million respectively.

## **REASONS FOR ENTERING INTO THE MASTER SALES AGREEMENT AND THE MASTER RAW MATERIALS PURCHASES AGREEMENT**

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. Mr. Dong's Associates refer to those companies controlled by Mr. Dong which are principally engaged in the manufacture and sales of 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 2015 Agreements, which will expire on 31 December 2018, with revised annual caps to cater for the continuing growth of the Group.

## **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 Raw Materials 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 following internal control measures are in place: (i) the sales department will 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 prices charged to Mr. Dong's Associates under the Master Sales Agreement are at least on the same bases and same rates for similar products sold to independent third parties; (ii) the procurement department will obtain quotation from Mr. Dong's Associates for each purchase and compare the quotations of similar raw materials from at least two other independent suppliers to ensure the price competitiveness of the raw materials purchases, before placing any purchase order(s) with Mr. Dong's Associates; (iii) the finance department will inform the sales and the procurement departments (as the case may be) the amounts of the Sales Caps and the Purchases Caps for the relevant period/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 Mr. Dong's Associates to ensure that the payment terms are in line with the relevant master agreement.

Based on the above, the Directors (excluding Mr. Dong who had abstained from voting 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 Raw Materials 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 Raw Materials 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**

Mr. Dong is the Chairman of the Board and an executive Director, who through Master Alliance, is interested in approximately 74.18% 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 and the Master Raw Materials Purchases Agreement constitute continuing connected transactions of the Company under the Listing Rules. As 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 Raw Materials 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 Raw Materials 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 Raw Materials Purchases Agreement (including the Purchases Caps) and the transactions contemplated thereunder. Mr. Dong, Master Alliance and Mr. Dong's Associates shall abstain from voting at the EGM.

## **GENERAL**

The Independent Board Committee comprising Mr. Liu Yangsheng, Mr. Cao Yixiong Alan and Mr. Lau Chi Kit, 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 Raw Materials Purchases Agreement (including the Purchases Caps) and as to voting.

Further details of the Master Sales Agreements and the Master Raw Materials 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 7 November 2018 (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:

“2015 Agreements”	(i) the master sales agreement dated 13 October 2015 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 13 October 2015 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 13 October 2015
“associate”	has the meaning ascribed to this term under the Listing Rules
“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) and the Master Raw Materials Purchases Agreement (including the Purchases Caps)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), 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 Raw Materials Purchases Agreement (including the Purchases Caps) and as to voting
“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 Mr. Dong

“Master Raw Materials Purchases Agreement”	the master purchases agreement dated 16 October 2018 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 etc.
“Master Sales Agreement”	the master sales agreement dated 16 October 2018 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 74.18% of the total issued share capital of the Company and hence a controlling Shareholder
“Mr. Dong’s Associates”	Mr. Dong and his associates, including Guangdong Marshall Electric Vehicle Co., Ltd., Shanghai Dongming Marshall Electric Vehicle Co., Ltd., and Anhui Marshall Electric Vehicle Co., Ltd. etc. but excluding the Group
“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 Raw Materials 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 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, 16 October 2018

*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. Liu Yangsheng, Mr. Cao Yixiong Alan and Mr. Lau Chi Kit.*