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## THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Leoch International Technology Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, 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 circular.

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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)

**(1) CONTINUING CONNECTED TRANSACTIONS  
IN RELATION TO:  
(A) SALES OF BATTERY PRODUCTS; AND  
(B) PURCHASES OF RAW MATERIALS AND OTHER PRODUCTS;  
AND  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent financial adviser to  
the Independent Board Committee and the Independent Shareholders**



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A letter from the Independent Board Committee is set out on pages 16 to 17 of this circular. A letter from Optima Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 18 to 39 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at Unit C, 33/F., TML Tower, No 3 Hoi Shing Road, Tsuen Wan, New Territories Hong Kong on Friday, 17 December 2021 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the extraordinary general meeting of the Company is also enclosed with this circular.

Whether or not you are able to attend the meeting, you are requested to complete the accompanying 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, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy shall not preclude you from attending and voting at the meeting or any adjourned meeting (as the case may be) should you so wish.

26 November 2021

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### PRECAUTIONARY MEASURES FOR THE EGM

In light of the continuing risks posed by the COVID-19 pandemic, the Company strongly encourages Shareholders NOT to attend the EGM in person, and advises Shareholders to appoint the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM, by completing and returning the duly signed form of proxy in accordance with the instructions printed thereon.

Shareholders and other persons attending the EGM should note that, the Company will implement precautionary measures at the EGM including, without limitation:

- (a) mandatory body temperature screening;
- (b) mandatory health declaration;
- (c) mandatory wearing of surgical face masks; and
- (d) NO refreshments, no food and beverage service, and no handing out of corporate gifts or gift coupons.

For the safety of the attendees at the EGM, the Company reserves the right to deny entry into or require any person to leave the EGM venue if such person:

- (i) refuses to comply with any of the above precautionary measures;
- (ii) is having a body temperature of over 37.4 degree Celsius;
- (iii) is subject to any Hong Kong Government prescribed quarantine or has close contact with any person under quarantine; or
- (iv) has any flu-like symptoms.

The Company seeks the understanding and cooperation of all Shareholders to minimise the risk of spreading COVID-19.

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following respective meanings:*

“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 Shenzhen Marshall Group of products including lead-acid batteries; and (ii) the master purchases 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 Shenzhen Marshall Group 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 16 October 2018
“Announcement”	the announcement of the Company dated 22 November 2021 in relation to the Master Sales Agreement and the Master Purchases Agreement
“associate(s)”	has the meaning ascribed to this term under the Listing Rules
“BMS”	battery management system
“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 under stock code 842
“connected person(s)”	has the meaning ascribed to this term under the Listing Rules
“Director(s)”	the director(s) of the Company

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be convened and held at Unit C, 33/F., TML Tower, No 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong on Friday, 17 December 2021 at 10:00 a.m. to consider and, if appropriate, to approve, amongst other matters, each of the Master Sales Agreement (including the Sales Caps) and the Master Purchases Agreement (including the Purchases Caps) and the transactions contemplated thereunder
“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, established 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)
“Latest Practicable Date”	22 November 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“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 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

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## DEFINITIONS

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“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 item(s).
“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 SFO 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 circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Purchases Cap(s)”	the maximum annual purchases amount(s) as set out in the Master Purchases Agreement
“R&D”	research and development
“RMB”	Renminbi, the lawful currency of the PRC
“Sales Cap(s)”	the maximum annual sales amount(s) as set out in the Master Sales Agreement
“SFO”	Securities and Futures Ordinance, Cap. 571 of the laws of Hong Kong
“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)

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## DEFINITIONS

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“Shenzhen Marshall”	深圳瑪西爾電動車股份公司 (Shenzhen Marshall Electric Vehicle Co., Limited <sup>#</sup> ), 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
“%”	per cent.

<sup>#</sup> *The English name is not an official name but is provided for identification only.*

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## LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Mr. Dong Li  
Ms. Yin Haiyan

*Independent non-executive Directors:*

Mr. Cao Yixiong Alan  
Mr. Lau Chi Kit  
Dr. Nan Xinsheng

*Registered Office:*

Cricket Square, Hutchins Drive  
PO Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Head office and principal place of  
business in Hong Kong:*

Unit C, 33/F  
TML Tower  
No. 3 Hoi Shing Road  
Tsuen Wan  
New Territories  
Hong Kong

26 November 2021

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS  
IN RELATION TO:  
(A) SALES OF BATTERY PRODUCTS; AND  
(B) PURCHASES OF RAW MATERIALS AND OTHER PRODUCTS**

**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 Marshall 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 Marshall 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.

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## LETTER FROM THE BOARD

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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 Purchases Agreement will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with further details of the Master Sales Agreement and the Master Purchases Agreement, 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, other information relating to the Group and the Directors, and the notice of EGM.

### **THE MASTER SALES AGREEMENT**

**Date:**

22 November 2021

**Parties:**

- (i) The Company; and
- (ii) Shenzhen Marshall.

**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 the battery products for motive power, moulds and other miscellaneous items to Shenzhen Marshall 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.



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## LETTER FROM THE BOARD

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### Existing amounts of the sales caps under the 2018 Agreements, the actual and estimated sales to Shenzhen Marshell Group for the three years ending 31 December 2021 and the Sales Caps

Set out below are the existing sales caps under the 2018 Agreements and the historical actual sales to Shenzhen Marshell Group for the two financial years ended 31 December 2019 and 2020 and the annualised sales for the year ending 31 December 2021 based on the actual sales for the nine months ended 30 September 2021:

	<b>For the year ended 31 December</b>		<b>For the year ending 31 December</b>
	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Existing sales caps under the 2018 Agreements	138.0	172.0	215.0
Actual sales	59.3	79.6	96.7
			<i>(Note)</i>

*Note:* The figure represents the estimated sales to Shenzhen Marshell Group for the year ending 31 December 2021 calculated by annualising the actual sales for the nine months ended 30 September 2021 of approximately RMB72.5 million.

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

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

In determining the Sales Caps, the Board has taken into account: (i) the historical amount of sales of batteries and related parts etc. to members of Shenzhen Marshell Group in the past; (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.

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## LETTER FROM THE BOARD

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The historical amount of sales to the Shenzhen Marshell Group for the three financial years ending 31 December 2021 were affected by several adverse factors such as the on-going US-China trade war and the outbreak of COVID-19. The Board considers that following the easing of the tension of the US-China trade war and the curtailing measures adopted by the PRC government against the COVID-19 pandemic, the overall economic situation in the PRC has been recovering progressively and the demand from the Shenzhen Marshell Group for the Group's product will increase over the next three financial years.

The management of Shenzhen Marshell Group is optimistic that its performance would improve along with the recovery in the market and growth momentum of its business would be resumed in the next three years. Based on the estimates of the management of Shenzhen Marshell Group, the turnover of Shenzhen Marshell Group for the year ending 31 December 2021 may attain a growth rate of over 30% as compared with the previous financial year, and such growth is expected to continue for the next three years ending 31 December 2024. As such, Shenzhen Marshell Group expects that it will procure more products currently sourced from the Group. Accordingly, for the purpose of setting the Sales Cap in respect of the products currently sold to the Shenzhen Marshell Group for the year ending 31 December 2022, a growth rate of 30% has been adopted based on the estimated 2021 sales to the Shenzhen Marshell Group.

Lead is a major raw material for manufacturing lead-acid batteries of the Group and lead price generally experiences large fluctuation. Lead price as quoted from the Shanghai Metals Market between 2018 and September 2021 ranged between RMB14,038 and RMB20,513 per metric ton, representing a high-low difference of more than 40%. In considering the Sales Caps under the Master Sales Agreement, the Board had also taken into account the possible fluctuation in lead price in the future as the Group shall pass on the increase in lead price to its customers of lead-acid batteries and lead-acid batteries were the major products procured by the Shenzhen Marshell Group, for the purpose of setting the Sales Caps, a 30% buffer for sales price increase has been incorporated to cater for possible fluctuations in lead price.

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## LETTER FROM THE BOARD

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In addition to the products currently sold by the Group to the Shenzhen Marshell Group, the Shenzhen Marshell Group has devised procurement plan for additional products from the Group as the Shenzhen Marshell Group has been developing and expanding its production of electric vehicles using lithium-ion batteries and electric forklifts. Shenzhen Marshell Group also expects that there will be 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 in the future. Shenzhen Marshell Group has devised procurement plan for the Group's lithium-ion batteries and lead-acid batteries for electric vehicles amounting to RMB100 million and RMB20 million respectively for the year ending 31 December 2022. With the increased production capacity of the Group for lead-acid batteries and for lithium-ion batteries at the new Anhui plant, the Board considers that the Group is ready to absorb the demand for the additional new products from Shenzhen Marshell Group for the coming years. Accordingly, for the year ending 31 December 2022, a total amount of RMB120 million for the additional new products is incorporated based on the aforesaid procurement plan provided by Shenzhen Marshell Group. Taking into account the estimate for the Existing Sales Products and fluctuations in lead price as discussed above, the Sales Cap for the year ending 31 December 2022 is set at RMB280 million.

The respective Sales Caps for the years ending 31 December 2023 and 2024 of RMB364.0 million and RMB473.2 million represents an increase of 30% over the Sales Cap for the preceding year, which growth is considered to be reasonable having considered the growth of sales to Shenzhen Marshell Group in 2020 and 2021.

### **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 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 Marshell Group for a term of three years commencing from 1 January 2022, subject to approval by the Independent Shareholders at the EGM.

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## LETTER FROM THE BOARD

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The purchase price of such raw materials 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, 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 by the Group within 60 to 90 days after delivery.

### **Existing amounts of the purchases caps under the 2018 Agreements, the actual and estimated purchases from Shenzhen Marshell Group for the three years ending 31 December 2021 and the Purchases Caps**

Set out below are the existing purchases caps under the 2018 Agreements and the historical actual purchases from Shenzhen Marshell Group for the two financial years ended 31 December 2019 and 2020 and the annualised purchases for the year ending 31 December 2021 based on the actual purchases for the nine months ended 30 September 2021:

	<b>For the year ended</b>		<b>For the</b>
	<b>31 December</b>		<b>year ending</b>
	<b>2019</b>	<b>2020</b>	<b>31 December</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Existing purchases caps under the 2018			
Agreements	41.0	55.0	72.0
Actual purchases	11.5	31.4	12.7
			<i>(Note)</i>

*Note:* The figure represents the estimated purchases from Shenzhen Marshell Group for the year ending 31 December 2021 calculated by annualising the actual purchases for the nine months ended 30 September 2021 of approximately RMB9.5 million.

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

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

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## LETTER FROM THE BOARD

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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; 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.

The overall purchase amount from the Shenzhen Marshell Group for the nine month period ended 30 September 2021 has decreased when compare with the figures for 2020 as logistic issues caused by COVID-19 pandemic affected the Group's shipment to the overseas markets and hence the Group placed less orders from the Shenzhen Marshell Group in the same period. Following the global recovery from COVID-19 pandemic, the Board anticipates that the Group's turnover will continue to grow in the near future and the need for raw materials and ancillary products and thus the Purchases would experience growth correspondingly.

The Group had deployed substantial resources in the past years to the establishment of the Anhui plant and R&D of lithium-ion batteries, with a view to capturing the substantial demand for lithium-ion batteries in the next five years along with the booming development of the 5G market as well as in other electronic applications. Sales of lithium-ion batteries to overseas markets amounted to approximately RMB400 million for the year ended 31 December 2018. As many 5G projects had been delayed due to COVID-19 pandemic, resulting in the relatively lower sales of lithium-ion batteries in 2019 and 2020. Following the gradual recovery in global economies, the Board expects the implementation of 5G projects will resume in the very near future. With the production of the Anhui plant for lithium-ion batteries now in operations and the capability to manufacture lithium-ion batteries in place, the Board anticipates that sales of lithium-ion batteries to overseas market for the year ending 31 December 2022 would exceed that for the year ended 31 December 2018. For the sole purpose of setting the Purchases Cap for the year ending 31 December 2022, the Group adopted an estimated export sales of lithium-ion batteries of RMB500 million.

Following the construction of the Anhui plant and the Group's commitment on R&D of high quality lithium-ion batteries, the Group now possesses the capability to participate in the tenders for major projects of lithium-ion batteries applications from the 5G construction companies and the principal telecommunication enterprises in the PRC and is well positioned to tap into the 5G market to capture the significant demand in the PRC market for lithium-ion batteries. The Group is in the course of preparing tender for certain major 5G construction projects to be launched next year. It is the target of the Group to achieve sales of lithium-ion batteries to the PRC market for the year ending 31 December 2022 at a similar amount to that from export as discussed above.

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## **LETTER FROM THE BOARD**

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Furthermore, the Board anticipates that with the increase in the demand for the Group's lithium-ion batteries along with the development of the 5G market as well as the application of lithium-ion batteries in electric vehicles, the Group is required to purchase BMS and other parts for use in the production of lithium-ion batteries. BMS is a major component of lithium-ion batteries which is responsible for monitoring and managing the performance, longevity and most importantly the safety of the battery. In order to launch bulk production of high quality lithium-ion batteries, stable supply of BMS with good quality would be of utmost importance to the Group.

The Shenzhen Marshall Group has substantial experience in the production of electronic parts and products for batteries, the Board considers it beneficial to secure the Shenzhen Marshall Group as one of the suppliers of BMS for the Group. As such, the Board considers the increase in the Purchases Caps to be reasonable given the anticipate increase in demand for the Group's lithium-ion batteries.

### **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 owned approximately 98.5% of 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 respective ordinary course of business of the Group and Shenzhen Marshall Group. The Master Sales Agreement has provided a framework to protect the interests of the Group while enabling the Group to enjoy a stable source of revenue from the sales of battery products and related parts. The Master Purchases Agreement will allow the Group to secure a stable source of supply of certain raw materials such as battery racks, BMS, parts, connecting cables, chargers etc. with guaranteed quality for use in its production. The Master Sales Agreement and the Master Purchases Agreement are entered into to renew the 2018 Agreements, which will expire on 31 December 2021, with revised annual caps to reflect the continuing growth of the Group.

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## LETTER FROM THE BOARD

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The Board considers that there is no disadvantage to the Group for entering into the Master Sales Agreement and the Master Purchases Agreement, except that the Group may have to spend time and costs on implementation of the various internal control measures (as disclosed below) and on the annual review requirements under the Listing Rules in respect of these continuing connected transactions.

### 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, (i) the sales department will regularly compare with the price list of the Group to ensure that the selling price charged to Shenzhen Marshell Group under the Master Sales Agreement 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 from at least two other independent suppliers to ensure the price competitiveness of the raw materials purchases, before placing any purchase order(s) with Shenzhen Marshell Group; (iii) the finance department will inform the sales or the procurement departments (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 as set out in this circular, 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) consider that the entering into the Master Sales Agreement and the Master Purchases Agreement are 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.

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## LETTER FROM THE BOARD

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### LISTING RULES IMPLICATION

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 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 Purchases Agreement will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### EGM

Set out on pages EGM-1 to EGM-3 of this circular is a notice convening the EGM which will be held at Unit C, 33/F., TML Tower, No 3 Hoi Shing Road, Tsuen Wan, New Territories Hong Kong on Friday, 17 December 2021 at 10:00 a.m. at which resolutions will be proposed to approve, among other matters, 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 to approve the Master Sales Agreement (including the Sales Caps) and the Master Purchases Agreement (including the Purchases Caps) and the transactions contemplated thereunder. To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon its ultimate beneficial owners and their respective associates; and (ii) no obligation or entitlement of its ultimate beneficial owners and their respective associates as at the Latest Practicable Date, whereby it or he has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its or his Shares to a third party, either generally or on a case-by-case basis.

The form of proxy for use at the EGM is enclosed with this circular. Such form is also available at the websites of the Company at <http://www.leoch.com> and of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk). Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, and in any event not less than 48 hours before the time appointed for the holding of the EGM. Delivery of a form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so desire.



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## LETTER FROM THE BOARD

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The Independent Board Committee comprising all the 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). Optima Capital has been appointed as the independent financial adviser 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).

All resolutions proposed to be approved at the EGM will be taken by way of a poll and an announcement on the outcome of the EGM will be made by the Company following the EGM in compliance with the requirement under the Listing Rules.

### RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 16 to 17 of this circular. The Independent Board Committee, having taken into account the advice of Optima Capital, the text of which is set out on pages 18 to 39 of this circular, considers that (i) 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; and (ii) the transactions contemplated under each of the Master Sales Agreement and the Master Purchases Agreement are in the ordinary and usual course of business of the Group. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of all the resolutions to be proposed at the EGM to approve the Master Sales Agreement (including the Sales Caps) and the Master Purchases Agreement (including the Purchases Caps) and the transactions contemplated thereunder.

### FURTHER INFORMATION

Your attention is also drawn to the general information of the Group as included in the Appendix.

Yours faithfully,  
By order of the Board  
**Leoch International Technology Limited**  
**Mr. Dong Li**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)**

26 November 2021

*To the Independent Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 26 November 2021 issued by the Company (the “**Circular**”), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Master Sales Agreement (including the Sales Caps) and the Master Purchases Agreement (including the Purchases Caps) and to advise the Independent Shareholders as to the fairness and reasonableness of the Master Sales Agreement (including the Sales Caps) and the Master Purchases Agreement (including the Purchases Caps), and to recommend how the Independent Shareholders should vote at the EGM. Optima Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 15 of the Circular, and the letter from Optima Capital to the Independent Board Committee and the Independent Shareholders which contains its advice in respect of the Master Sales Agreement (including the Sales Caps) and the Master Purchases Agreement (including the Purchases Caps), as set out on pages 18 to 39 of the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account the advice of Optima Capital, we consider that: (i) 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; and (ii) the transactions contemplated under each of the Master Sales Agreement and the Master Purchases Agreement are in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Shareholders to vote in favour of all the resolutions to be proposed at the EGM to approve the Master Sales Agreement (including the Sales Caps) and the Master Purchases Agreement (including the Purchases Caps) and the transactions contemplated thereunder.

Yours faithfully,  
*Independent Board Committee*

**Mr. Cao Yixiong Alan**

**Mr. Lau Chi Kit**

**Dr. Nan Xinsheng**

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## LETTER FROM OPTIMA CAPITAL

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*The following is the text of a letter of advice from Optima Capital to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.*



Suite 1501, 15th Floor  
Jardine House  
1 Connaught Place  
Central, Hong Kong

26 November 2021

*To: the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS  
IN RELATION TO:  
(A) SALES OF BATTERY PRODUCTS;  
AND  
(B) PURCHASES OF RAW MATERIALS AND OTHER PRODUCTS**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation 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) (together, the “**Master Agreements**”) and the respective transactions contemplated thereunder (together, the “**Continuing Connected Transactions**”). Details of the Master Agreements and the Continuing Connected Transactions are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 26 November 2021 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless otherwise specified.

On 22 November 2021, the Company entered into (i) the Master Sales Agreement with Shenzhen Marshall in respect of the sales by the Group of batteries and related parts including connecting cables, moulds and other miscellaneous items (the “**Sales**”) to the Shenzhen Marshall Group; and (ii) the Master Purchases Agreement with Shenzhen Marshall in respect of the purchases by the Group of battery related components including chargers, connecting cables, BMS, battery racks, and electric vehicles and related parts (the “**Purchases**”) from the Shenzhen Marshall Group.

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## LETTER FROM OPTIMA CAPITAL

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Shenzhen Marshall is a company established in the PRC and is indirectly owned as to about 98.5% by Mr. Dong and his elder brother. As Mr. Dong is the Chairman of the Board and an executive Director who, through Master Alliance, is interested in 1,009,513,000 Shares (equivalent to approximately 74.36% of the total issued share capital of the Company as at the date of the Master Agreements) and hence a controlling Shareholder, Mr. Dong and his associates (including Shenzhen Marshall) are connected persons of the Company. Accordingly, the transactions contemplated under each of the Master Agreements constitute continuing connected transactions of the Company under Chapter 14A of 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 Continuing Connected Transactions are subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

The Company will seek the Independent Shareholders' approval of the Master Sales Agreements (including the Sales Caps), the Master Purchases Agreement (including the Purchases Caps) and the respective transactions contemplated thereunder at the EGM. The voting at the EGM will be conducted by way of poll. Mr. Dong and his associates (including Master Alliance) shall abstain from voting on the resolutions approving the Master Sales Agreement (including the Sales Caps), the Master Purchases Agreement (including the Purchases Caps) and the respective transactions contemplated thereunder at the EGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed above, no other Shareholder is required to abstain from voting at the EGM.

The Independent Board Committee, comprising Mr. Cao Yixiong Alan, Mr. Lau Chi Kit and Dr. Nan Xincheng, each being an independent non-executive Director, has been established to advise the Independent Shareholders as to (i) whether 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; and (ii) whether the transactions contemplated under each of the Master Agreements are in the ordinary and usual course of business of the Group, and to give a recommendation to the Independent Shareholders in respect of the voting on the resolutions to be proposed at the EGM. We, Optima Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, apart from the appointment as independent financial adviser, neither Optima Capital nor persons stipulated under Rule 13.84(4) of the Listing Rules had any other current business relationship with the Company, or a director, subsidiary, holding company or substantial shareholder of the Company, or parties to the Master Agreements, which would be reasonably considered to affect our independence in performing the duties as set out in the Listing Rules, or might reasonably give rise to a perception that our independence would be so affected.

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## LETTER FROM OPTIMA CAPITAL

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In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company (together, the “**Management**”) and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the date hereof and will continue to be so as at the date of the EGM. We have assumed that all the opinions or representations of the Management have been reasonably made after due and careful enquiry. We have also sought and received confirmation from the Management that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs and taxation implications of the Group, nor have we carried out any independent verification of the information supplied.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our advice with regard to the Master Agreements and the Continuing Connected Transactions, we have taken into account the principal factors and reasons set out below:

#### **1. Principal businesses of the Group and the Shenzhen Marshall Group**

The Company is a vertically integrated enterprise primarily engaged in the development, sale and manufacture of battery products including lead-acid batteries and lithium-ion batteries, and other related items such as chargers, connecting cables, battery racks and moulds. The Group sells over 1,800 models of battery products divided into three categories, namely (i) reserve power batteries, (ii) starting, lightening and ignition (“**SLI**”) batteries, and (iii) motive power batteries. Reserve power batteries are mainly used for telecommunication applications and energy projects. SLI batteries are mainly used for automotive production, while motive power batteries are mainly used in low-speed electric vehicles such as forklifts, golf carts and cleaning equipment. In 2019, the Group completed the construction of two new production plants in Vietnam which are mainly for the production of lead-acid batteries. Also, in 2019, the Group completed the construction of another new production plant in Anhui, the PRC, for the production of lithium-ion batteries. The total production capacity of lithium-ion batteries of the Anhui plant could reach 4 Gigawatt hours (“**Gwh**”). Production at the first phase commenced in December 2019, ramping up to total capacity of 1.8 Gwh (equivalent to approximately RMB2.2 billion capacity value) in the third quarter of 2020. The Group’s lithium-ion batteries are mainly used as reserve power batteries for 5G applications and green energy applications, and as motive power batteries for low-speed electric vehicles and forklifts and other logistics applications. Apart from power solutions, the Company is also engaged in lead recycling business.

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## LETTER FROM OPTIMA CAPITAL

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The Shenzhen Marshell Group is one of the major suppliers in the PRC for low-speed electric vehicles and battery related electronic products. Its products include electric vehicles such as sightseeing cars, golf carts, forklifts and other low-speed electric vehicles such as electric cleaning equipment and related parts, and battery related electronic products such as power inverters, jump starters and chargers, and related plastic goods. Certain products manufactured by the Shenzhen Marshell Group can be used as components for manufacturing of the Group's battery products, for re-sale as accessories of the Group's battery products, or for the Group's own use. On the other hand, the battery products manufactured by the Group can be used in the electric vehicles and certain electronic products manufactured by the Shenzhen Marshell Group. Accordingly, members of the Shenzhen Marshell Group are both customers and suppliers of the Group.

Having considered the respective principal activities of the Group and the Shenzhen Marshell Group as described above, we are of the view that the Master Agreements are entered into in the ordinary and usual course of business of the Group.

## **2. Background of and reasons for the Master Agreements**

### ***2.1 The 2018 Agreements***

As set out in the letter from the Board in the Circular, certain continuing Sales and Purchases have been conducted, in the ordinary and usual course of businesses, between the Group and members of the Shenzhen Marshell Group in the past. On 16 October 2018, the Company and Mr. Dong entered into the 2018 Agreements in relation to the arrangement for the Sales to and the Purchases from the Shenzhen Marshell Group, details of which are set out in the announcement of the Company dated 16 October 2018 and the circular of the Company dated 7 November 2018. The 2018 Agreements and the transactions contemplated thereunder (including the relevant annual caps for the three years ending 31 December 2021) were approved by the then independent Shareholders at the extraordinary general meeting of the Company held on 3 December 2018. As the 2018 Agreements will expire on 31 December 2021 and the Sales and the Purchases are expected to continue in the future, the Company and Shenzhen Marshell entered into the Master Sales Agreement and the Master Purchases Agreement to govern the continuing Sales and Purchases respectively for a further term of three years up to 31 December 2024. The entering into of the Master Agreements is a renewal of the 2018 Agreements.

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## LETTER FROM OPTIMA CAPITAL

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### ***2.2 Commercial rationale for the Master Agreements***

The Sales to the Shenzhen Marshall Group for the two years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021 amounted to approximately RMB59.3 million, RMB79.6 million and RMB72.5 million respectively, representing approximately 0.71%, 0.83% and 0.88% of the consolidated revenue of the Group for the corresponding year/period respectively. The Purchases from the Shenzhen Marshall Group for the two years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021 amounted to approximately RMB11.5 million, RMB31.4 million and RMB9.5 million respectively, representing approximately 0.16%, 0.37% and 0.14% of the consolidated cost of sales of the Group for the corresponding year/period respectively. Neither the Sales nor the Purchases accounted for a significant portion of the Group's consolidated revenue or cost of sales. The Management considers that the Master Sales Agreement enables the Group to generate revenue from the Sales to a recurring customer while providing a framework to protect the interests of the Group, and the Master Purchases Agreement allows the Group to secure a stable source of certain raw materials and supplies of which the Group is satisfied with the quality. As the Master Sales Agreement and the Master Purchases Agreement do not impose any obligation on the part of the Group to sell or purchase a committed amount of products to or from the Shenzhen Marshall Group, or restrict the Group from selling products to or purchasing raw materials and supplies from other independent third parties, we are of the view that the entering into of the Master Agreements would not result in the Group placing over-reliance on the Shenzhen Marshall Group.

### ***2.3 Auditors and independent non-executive Directors' review of past transactions***

As stated in the annual reports of the Company for the two financial years ended 31 December 2019 and 2020, the auditor of the Company has performed procedures in respect of the 2018 Agreements in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor had issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Rule 14A.56 of the Listing Rules for each of the two years ended 31 December 2019 and 2020. In addition, the independent non-executive Directors had also reviewed and confirmed that the Sales and the Purchases during each of the two years ended 31 December 2019 and 2020 had been entered into (i) in the ordinary and usual course



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## LETTER FROM OPTIMA CAPITAL

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of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Taking into account the background and commercial reasons for the Master Agreements and the results of the review of the Sales and the Purchases in the past two financial years by the auditor of the Company and the independent non-executive Directors respectively as described above, we are of the view that it is in the commercial interest of the Group to continue its business relationship with the Shenzhen Marshall Group, and the entering into of the Master Agreements to govern the principal terms of the Continuing Connected Transactions and ensure compliance with the Listing Rules is in the interests of the Company and the Shareholders as a whole.

### **3. Principal terms of the Master Agreements**

In assessing whether the terms of the Master Agreements are fair and reasonable, we have reviewed the principal terms of each of the Master Agreements as discussed below:

#### **3.1 The Master Sales Agreement**

##### *Subject matter*

The Group shall sell batteries and related parts including connecting cables (which are components of battery products for motive power), moulds and other miscellaneous items to the Shenzhen Marshall Group.

##### *Pricing mechanism*

The selling prices of the products shall be at prevailing market prices, being the prices 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, or on terms which are no less favourable to the Group than terms available to independent third parties who are willing to order similar quantity under similar conditions.

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## LETTER FROM OPTIMA CAPITAL

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Based on the discussions with the Management, we understand that the Company has a standard price list for all battery products which is applicable to all customers (including the Shenzhen Marshall Group and other independent third parties). The standard price list for each type of products is compiled by the sales department generally based on a fixed percentage of margins over costs and takes into account the fluctuation in raw material prices and the selling prices of similar products offered by other battery products manufacturers in the market. Based on the fluctuation of lead price and other raw material costs and price lists of similar products collated from at least two independent battery products manufacturers on a monthly basis, the standard price list is reviewed monthly and approved by the head of sales department and the general manager of the Group. The selling price quoted for each customer order by the sales department is generally based on the standard price list of the Group and adjusted by bulk purchase discounts on a case by case basis. The price of other non-battery products are based on a fixed percentage of margins over costs and takes into account the selling prices of similar products offered by other manufacturers in the market, which is applicable to all customers.

The prices to be charged by the Group to the Shenzhen Marshall Group for the Sales shall be determined in accordance with the aforesaid pricing policy, and on terms no less favourable than the terms offered by the Group to independent third parties. Prior to the entering into of any sales contracts with the Shenzhen Marshall Group, the head of sales department, the manager of finance department and the head of finance department of the Group shall review and approve the terms of the sales contracts and compare them with the terms of similar sales contracts with independent third parties, to ensure that the selling prices offered to the Shenzhen Marshall Group are in accordance with the pricing policy as described above.

We consider that the pricing policy adopted for determining the selling prices to be charged to the Shenzhen Marshall Group as described above is fair and reasonable.

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## LETTER FROM OPTIMA CAPITAL

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### *Term and termination*

The Master Sales Agreement is for a term of three years commencing from 1 January 2022 and ending on 31 December 2024. Upon expiry of the term, the Master Sales Agreement will, subject to the requirements of the Listing Rules, be renewed for a further period of three years by mutual agreement. Either party may, at any time before the expiry of the Master Sales Agreement, give not less than 30 days' written notice to the other party to terminate the Master Sales Agreement. The Sales to the Shenzhen Marshell Group contemplated under the Master Sales Agreement is conditional upon the approval of the Independent Shareholders at the EGM.

### *Payment terms*

Pursuant to the Master Sales Agreement, the Shenzhen Marshell Group shall settle the Sales within 30 to 60 days after delivery of the products.

We have compared the above payment terms with the credit policy of the Group offered to other independent customers. We note that the credit period granted by the Group varies with the type of customers. In general, the Group would not grant credit period to new customers, while a credit period of 30 to 60 days after delivery of the products would be granted to major customers. For customers engaging in the telecommunication industry, approximately 70% to 80% payment is required to be made within 60 days after signing of the sales contracts and the remaining balance shall be payable by installments upon integration of the Group's products into the telecommunication equipment and completion of final inspection. As members of the Shenzhen Marshell Group are neither new customers nor engaging in the telecommunication business, the credit period of 30 to 60 days granted to the Shenzhen Marshell Group under the Master Sales Agreement is in line with that available to other independent customers.

### **3.2 The Master Purchases Agreement**

#### *Subject matter*

The Group shall purchase battery related components including chargers, connecting cables (for use in 5G and reserve power applications), BMS, battery racks, and electric vehicles and related parts from the Shenzhen Marshell Group.

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## LETTER FROM OPTIMA CAPITAL

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### *Pricing mechanism*

The prices of products to be purchased by the Group from the Shenzhen Marshall Group shall be at prevailing market prices, being the prices 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, or on terms which are no less favourable to the Group than the terms available from independent third parties for purchasing similar quantity under similar conditions.

As advised by the Management, most of the products purchased from the Shenzhen Marshall Group can be sourced from other independent suppliers in the market and the purchase price of the products varies depending on, among other things, the quality of products supplied, market prices of similar products, payment terms offered and timeliness of delivery. According to the Group's internal policies, the Group is required to maintain at least two suppliers for each type of raw materials and supplies. Prior to placing purchase orders with the Shenzhen Marshall Group, the Group shall obtain quotations from at least two independent suppliers for products of similar quality and quantity and compare the terms of the quotations with those of the Shenzhen Marshall Group to ensure that the prices offered by the Shenzhen Marshall Group are no less favourable to the Group than those offered by independent suppliers. In case there is no other supplier available for a particular type of raw materials or supplies, the Group shall request for a cost breakdown from the Shenzhen Marshall Group and assess whether the purchase price is reasonable. The Group will also compare the purchase price for repeated Purchases against the price charged by the Shenzhen Marshall Group in last transaction. The head of procurement department, the manager of finance department and the head of finance department shall review and approve the quotations from the Shenzhen Marshall Group by comparing the terms against those available from two other independent suppliers, the costs breakdown supplied by the Shenzhen Marshall Group or the most recent transaction price (as the case may be) so as to ensure that the terms (including the price and payment terms) offered by the Shenzhen Marshall Group are fair and reasonable and no less favourable to the Group than the terms offered by independent third parties.

We consider that the policy adopted for determining the purchase prices of the Purchases as described above is fair and reasonable.

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## LETTER FROM OPTIMA CAPITAL

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### *Term and termination*

The Master Purchases Agreement is for a term of three years commencing from 1 January 2022 and ending on 31 December 2024. Upon expiry of the term, the Master Purchases Agreement will, subject to the requirements of the Listing Rules, be renewed for a further period of three years by mutual agreement. Either party may, at any time before the expiry of the Master Purchases Agreement, give not less than 30 days' written notice to the other party to terminate the Master Purchases Agreement. The Purchases from the Shenzhen Marshell Group contemplated under the Master Purchases Agreement is conditional upon the approval of the Independent Shareholders at the EGM.

### *Payment terms*

Pursuant to the Master Purchases Agreement, the Group shall settle the Purchases within 60 to 90 days after delivery of products to the Group.

In assessing whether the above payment term is fair and reasonable, we have compared it against the credit period offered by independent suppliers of products to the Group. We note that independent suppliers of major raw materials for the Group's production, such as lead, require settlement upon delivery, while the independent suppliers of supplementary raw materials or supplies normally grant a credit period of approximately three months to the Group. As the Purchases from the Shenzhen Marshell Group are mainly supplementary raw materials and other supplies, we consider that the payment terms stipulated in the Master Purchases Agreement are in line with those available from independent third parties.

## **4. The annual caps**

### **4.1 Sales Caps**

Pursuant to the Master Sales Agreement, the Sales Caps are set at the following amounts:

	<b>For the year ending 31 December</b>		
	<b>2022</b>	<b>2023</b>	<b>2024</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Sales Caps	280.0	364.0	473.2

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## LETTER FROM OPTIMA CAPITAL

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We have discussed with the Management and understand that the Sales Caps were determined after taking into account (i) the historical amount of the Sales; (ii) the possible fluctuation in lead price; and (iii) the procurement plan provided by the Shenzhen Marshall Group for the coming years in respect of additional lithium-ion batteries and lead-acid batteries for electric forklifts (the “**New Sales Products**”).

### *Historical amount of the Sales and expected growth*

Set out below are the annual caps for the Sales under the 2018 Agreements (the “**Existing Sales Caps**”), the historical actual Sales for the two financial years ended 31 December 2019 and 2020 and the annualised Sales for the year ending 31 December 2021 based on the actual Sales for the nine months ended 30 September 2021:

	For the year ended		For the year
	31 December		ending
	2019	2020	2021
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Existing Sales Caps	138.0	172.0	215.0
Actual/Annualised Sales	59.3	79.6	96.7 <sup>(Note)</sup>
Approximate % increase/(decrease) in actual/annualised Sales (as compared to the preceding year)	(41.7%)	34.2%	21.5%
Approximate % of actual/annualised Sales to the Existing Sales Caps	43.0%	46.3%	45.0%

*Note:* The figure represents the estimated Sales for the year ending 31 December 2021 (the “**Estimated 2021 Sales**”) calculated by annualising the actual Sales for the nine months ended 30 September 2021 of approximately RMB72.5 million.

The Sales as shown above were mainly related to lead-acid battery products and related parts (the “**Existing Sales Products**”) which are the principal products of the Group.

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## LETTER FROM OPTIMA CAPITAL

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The Sales for the year ended 31 December 2019 dropped by approximately 41.7% from approximately RMB101.7 million for the preceding year to approximately RMB59.3 million. The Management advised us that the drop in the Sales was mainly due to (i) the decrease of approximately 20.5% in the turnover of the Shenzhen Marshell Group generated from electronic products as a result of drop in overseas demand due to the US-China trade war, and therefore its demand for the Group's battery products reduced accordingly; (ii) two customers of the Shenzhen Marshell Group used to purchase the Group's battery products through the Shenzhen Marshell Group changed to purchase battery products directly from the Group; and (iii) the Group was not able to supply certain battery products with upgraded specifications requested by the Shenzhen Marshell Group as substantial resources of the Group had been deployed to the development of its new production plants in Vietnam and Anhui as well as R&D of lithium-ion batteries, causing the Shenzhen Marshell Group sourcing such battery products from suppliers other than the Group.

For the year ended 31 December 2020, the Sales amounted to approximately RMB79.6 million, representing an increase of approximately 34.2% from that for the year ended 31 December 2019. As advised by the Management, the increase in the Sales was mainly attributable to the Group having resolved the technicalities involved in the production of upgraded lead-acid battery products and therefore the Shenzhen Marshell Group resumed to source such battery products from the Group. The growth in Sales was less significant than expected amidst the adverse impact of the COVID-19 pandemic affecting demand for electric vehicles especially sightseeing cars of the Shenzhen Marshell Group and the drop in turnover of the Shenzhen Marshell Group by approximately 5.3% as compared with the preceding year.

The Estimated 2021 Sales of approximately RMB96.7 million represents an increase of approximately 21.5% over the Sales for the year ended 31 December 2020.

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## LETTER FROM OPTIMA CAPITAL

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We note that the actual Sales for the two years ended 31 December 2019 and 2020 and the Estimated 2021 Sales represented approximately 43.0%, 46.3% and 45.0% respectively of the Existing Sales Caps for the respective year. As advised by the Management, when determining the Existing Sales Caps at the material time of the 2018 Agreements, the Management had considered, among other things, the then procurement plan for the Group's battery products by the Shenzhen Marshall Group, which took into account the expected growth in the turnover of the Shenzhen Marshall Group. However, due to the adverse impact brought by the US-China trade war and the COVID-19 pandemic respectively, the demand for the products of the Shenzhen Marshall Group from its customers reduced, and therefore the originally expected growth in the turnover of the Shenzhen Marshall Group was not achieved. As a result, the procurement amount of the Group's products by the Shenzhen Marshall Group did not achieve the corresponding growth as estimated when considering the Existing Sales Caps. The Management considered that the substantial fluctuation of the actual Sales in the past few years was brought by unusual and extraordinary events which significantly affected the business development of the Shenzhen Marshall Group and thereby its demand for the battery products of the Group.

As advised by the Management, following the easing of the tension of the US-China trade war and the curtailing measures adopted by the PRC government against the COVID-19 pandemic, the overall economic situation in the PRC has been recovering progressively. The management of the Shenzhen Marshall Group is optimistic that performance of the Shenzhen Marshall Group would also improve along the recovery in the market and growth momentum of its business would be resumed. Based on the estimates of the management of the Shenzhen Marshall Group, the turnover of the Shenzhen Marshall Group for the year ending 31 December 2021 may attain a growth of over 30% as compared to that for the year ended 31 December 2020, and such growth is expected to continue for the next three years ending 31 December 2024. As such, the Shenzhen Marshall Group expects that it will procure more Existing Sales Products from the Group. Accordingly, for the purpose of setting the Sales Cap for the year ending 31 December 2022 (the "**2022 Sales Cap**") and in respect of the Existing Sales Products, a growth rate of 30% has been adopted based on the Estimated 2021 Sales. Such growth is, in our view, reasonable having considered the growth in Sales in 2020 and 2021 as discussed above.



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## LETTER FROM OPTIMA CAPITAL

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### *Possible fluctuations in lead price*

As advised by the Management, lead is a major raw material for manufacturing lead-acid batteries of the Group and lead price generally experiences large fluctuation. For instance, the lead price as quoted from the Shanghai Metals Market (“SMM”) between 2018 and September 2021 ranged between RMB14,038 and RMB20,513 per metric ton, representing a high-low difference of more than 40%. As the Group shall pass on the increase in lead price to its customers of lead-acid batteries and lead-acid batteries were the major products procured by the Shenzhen Marshell Group in the past, for the purpose of setting the 2022 Sales Cap and in respect of the Existing Sales Products, a 30% buffer for sales price increase has been incorporated to cater for possible fluctuations in lead price. We consider such buffer to be reasonable having noted the historical significant fluctuations in lead price.

### *Procurement of the New Sales Products*

The Management has further advised us that the Shenzhen Marshell Group has devised procurement plan for additional products from the Group as the Shenzhen Marshell Group has been developing and expanding its production of electric vehicles using lithium-ion batteries and electric forklifts. The Shenzhen Marshell Group has put in substantial resources in the manufacture and sale of electric forklifts since 2018 and expects to see such efforts to bear fruit with increasing sales contribution in the near future. It also expects that there will be strong demand for lithium-ion battery driven electric vehicles from the PRC government to replace existing vehicles used for patrolling and other applications required in various government units. According to the management of the Shenzhen Marshell Group, due to the unstable environment caused by the US-China trade war and the COVID-19 pandemic, government tenders for lithium-ion battery driven electric vehicles were suspended in 2020. The Shenzhen Marshell Group anticipates that the tender process would resume in the near future and intends to actively participate in these tenders to seize business opportunities. In view of the expected strong demand for electric forklift and lithium-ion battery driven electric vehicles from the PRC government, the Shenzhen Marshell Group has devised procurement plan for the Group’s lithium-ion batteries and lead-acid batteries for electric vehicles (the “**New Sales Products**”) amounting to RMB100 million and RMB20 million respectively for the year ending 31 December 2022. With the increased production capacity of the Group for lead-acid batteries and for lithium-ion batteries at the new Anhui plant, the Management is of the view that the Group is ready to absorb the demand for the New Sales Products from the Shenzhen Marshell Group for the coming years. Accordingly, for the purpose of the 2022 Sales Cap, a total amount of RMB120 million for the New Sales Products is incorporated based on the

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## LETTER FROM OPTIMA CAPITAL

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aforesaid procurement plan provided by the Shenzhen Marshall Group. Taking into account the estimate for the Existing Sales Products and fluctuations in lead price as discussed above, the 2022 Sales Cap is set at RMB280 million.

The respective Sales Caps for the year ending 31 December 2023 and 2024 of RMB364.0 million and RMB473.2 million represents an increase of 30% over the Sales Cap for the preceding year, which growth is considered to be reasonable having considered the growth of the Sales in 2020 and 2021.

### *Our view*

Having considered that (i) the general business environment particularly in 2019 and 2020 was adversely affected by the US-China trade war and the COVID-19 pandemic, the market is now expected to stabilise and resume its growth momentum; (ii) the actual Sales for the year ended 31 December 2020 grew by 34.3% over the preceding year and the Estimated 2021 Sales amounted to approximately HK\$96.7 million, representing an increase of about 21.5% over the Sales for the year ended 31 December 2020; (iii) the Group would pass on the increase in lead price to its customers by adjusting sales price of its lead-acid batteries and significant fluctuations in lead price were seen historically; and (iv) the Shenzhen Marshall Group devised and provided the Group with its procurement plan for the New Sales Products, we are of the view that the Sales Caps estimated by the Management for the three years ending 31 December 2024 are fair and reasonable.

### **4.2 Purchases Caps**

Pursuant to the Master Purchases Agreement, the Purchases Caps are set as follows:

	<b>For the year ending 31 December</b>		
	<b>2022</b>	<b>2023</b>	<b>2024</b>
	<i>MB million</i>	<i>RMB million</i>	<i>RMB million</i>
Purchases Caps	80.0	104.0	135.2

We have discussed with the Management and understand that the Purchases Caps were determined after taking into account (i) the historical amount of the Purchases of existing battery product components and supplies (the “**Existing Purchases Products**”); and (ii) the possible procurement by the Group of new supplies from the Shenzhen Marshall Group including BMS, connecting cables and battery racks principally for the production of lithium-ion batteries (the “**New Purchases Products**”).

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## LETTER FROM OPTIMA CAPITAL

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### *Historical amount of the Purchases of the Existing Purchases Products and expected growth*

Set out below are the annual caps of Purchases under the 2018 Agreements (the “**Existing Purchases Caps**”), the historical actual Purchases for the years ended 31 December 2019 and 2020 and the estimated Purchases for the year ending 31 December 2021 based on actual Purchases for the nine months ended 30 September 2021:

	For the year ended		For the year
	31 December		ending
	2019	2020	2021
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Existing Purchases Caps	41.0	55.0	72.0
Actual/Annualised Purchases	11.5	31.4	12.7 <sup>(Note)</sup>
Approximate % increase/(decrease) in actual/annualised Purchases (as compared to the preceding year)	37.4%	173.0%	(59.6%)
Approximate % of actual/annualised Purchases to the Existing Purchases Caps for the respective year	28.0%	57.1%	17.6%

*Note:* The figure represents the estimated Purchases for the year ending 31 December 2021 (the “**Estimated 2021 Purchases**”) calculated by annualising the actual Purchases for the nine months ended 30 September 2021 of approximately RMB9.5 million.

The actual Purchases from the Shenzhen Marshall Group were approximately RMB11.5 million and RMB31.4 million respectively for each of the two years ended 31 December 2019 and 2020. As advised by the Management, the increase in the Purchases for the year ended 31 December 2019 was mainly attributable to the commencement of the new plants of the Group in Vietnam and Anhui in 2019, leading to more procurement of the Existing Purchases Products from the Shenzhen Marshall Group such as electric vehicles and forklifts for the Group’s own use. For the year ended 31 December 2020, as a result of the increase in turnover of the Group mainly attributable to the rebound of the PRC markets after the quick curtailing of the COVID-19 pandemics by the PRC government and the increase in exports to capture the demand which was not served by overseas manufacturers who experienced disruption in their production during the COVID-19 pandemic, the Purchases also increased accordingly to support the increased sales.

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## LETTER FROM OPTIMA CAPITAL

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Based on the Estimated 2021 Purchases of approximately RMB12.7 million, the Purchases are expected to record a decrease of approximately 59.6% as compared with the Purchases for the year ended 31 December 2020. As advised by the Management, the decrease in Purchases was mainly due to logistic issues caused by the COVID-19 pandemic and only limited capacity could be arranged for shipment of products to the overseas markets, hence the Group prioritised the delivery of battery products to its customers and reduced the shipment and thus the procurement of ancillary products such as chargers and connecting cables sourced from the Shenzhen Marshall Group.

We note that the actual Purchases for the two years ended 31 December 2019 and 2020 and the Estimated 2021 Purchases represented approximately 28.0%, 57.1% and 17.6% respectively of the Existing Purchases Caps for the respective year. As advised by the Management, due to the adverse impact of the US-China trade war and the COVID-19 pandemic, the demand from the overseas market was affected which, coupled with logistics issue in delivering the products to overseas market, the actual Purchases were lower than the expected Purchases when setting the Existing Purchases Caps at the material time of the 2018 Agreements.

Following the easing of the tension of the US-China trade war and the “new normal” of co-existing with the COVID-19 pandemic, the Management expects that the overall market conditions would stabilise. With the expected global recovery from the unusual and temporary downturn in 2020 and 2021, and the strengthened production capacity of the Group and continuous efforts on R&D for upgraded products, the Management estimates that the Group’s turnover will continue to grow in the near future and the need for raw materials and ancillary products and thus the Purchases would experience growth correspondingly. For the purpose of setting the Purchases Cap for the year ending 31 December 2022 (the “**2022 Purchases Cap**”) and in respect of the Existing Purchases Products, a 30% growth has been incorporated based on the Estimated 2021 Purchases. In this respect, we noted that the turnover of the Group increased by approximately 40.6% from approximately RMB3.7 billion for the six months ended 30 June 2020 to approximately RMB5.2 billion for the six months ended 30 June 2021. We also noted that the Group had experienced a compound annual growth rate (“**CAGR**”) in turnover of approximately 25% historically in recent years, prior to 2019 and 2020 when the global market experienced chaos. On this basis, we are of the view that the growth rate of 30% adopted for the purpose of setting the 2022 Purchases Cap in respect of the Existing Purchases Products is reasonable.

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## LETTER FROM OPTIMA CAPITAL

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### *Procurement of the New Purchases Products*

The Group had deployed substantial resources in recent years to the establishment of the Anhui plant and R&D of lithium-ion batteries, with a view to capturing the substantial demand for lithium-ion batteries in the next five years along with the booming development of the 5G market as well as in other electronic applications. Although 5G projects of many countries had been delayed due to the adverse impact of the COVID-19 pandemic, the continuous development of the 5G network is certainly a global trend and the demand for high quality lithium-ion batteries for use in 5G applications such as base stations and data centres would be promising. In this respect, we note from an article published on the website of the Ministry of Commerce of the PRC that it is expected that there will be approximately 1.32 million 5G base stations (“**5G Stations**”) in the PRC by the end of year 2021. The number of 5G Stations is expected to increase significantly from 2020 to 2022, reaching approximately 8 million by the year 2025, equivalent to a CAGR of approximately 56.9%. We also note from a report titled “Global EV Outlook 2020” published by the International Energy Agency that the historical global demand of lithium-ion batteries for electric vehicles sold in 2019 was approximately 17 kilo tonnes, and the global demand will increase to approximately 185 kilo tonnes by the year 2030, equivalent to a CAGR of approximately 24%.

As advised by the Management, sales of lithium-ion batteries by the Group to overseas markets amounted to approximately RMB400 million for the year ended 31 December 2018. As mentioned above, many 5G projects had been delayed, resulting in the relatively lower sales of lithium-ion batteries in 2019 and 2020. Following the gradual recovery in global economies, the Management expects the implementation of 5G projects will resume in the very near future. With the production of the Anhui plant for lithium-ion batteries now in operations and the capability to manufacture lithium-ion batteries in place, the Management expects that the sales of lithium-ion batteries to overseas market for the year ending 31 December 2022 would exceed that for the year ended 31 December 2018. For the sole purpose of setting the 2022 Purchases Cap, the Group adopted an estimated export sales of lithium-ion batteries of RMB500 million.

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Following the construction of the Anhui plant in 2019 and the operation of the first phase of the production plant since 2020, as well as the substantial resources that the Group had deployed in the R&D of high quality lithium-ion batteries, the Group now possesses the capability to participate in the tenders for major projects of lithium-ion battery applications from the 5G construction companies and the principal telecommunication enterprises in the PRC and is well positioned to tap into the 5G market to capture the significant demand in the PRC market for lithium-ion batteries. To this end, the Group is in the course of preparing tender for certain major 5G construction projects to be launched in 2022. It is the target of the Group to achieve sales of lithium-ion batteries to the PRC market for the year ending 31 December 2022 at a similar amount to that from export as discussed above.

In light of the potential sales of lithium-ion batteries as discussed above, the Group is required to purchase BMS and other parts for use in the production of lithium-ion batteries. BMS is a major component of lithium-ion batteries which is responsible for monitoring and managing the performance, longevity and most importantly the safety of the batteries. Lithium-ion batteries are extremely sensitive to high temperatures and inherently flammable. Therefore a quality BMS is essential to protect a lithium-ion battery from operating outside its safe operating area and the danger of explosion under severe over-charging conditions. In order to launch bulk production of high quality lithium-ion batteries, stable supply of BMS with good quality would be of utmost importance to the Group.

For the sole purpose of setting the 2022 Purchases Cap for the New Purchases Products, the Management has adopted the following parameters: (i) no less than 40% of its BMS requirement and related parts such as connecting cables and battery racks would be sourced from the Shenzhen Marshall Group; (ii) approximately 20% of the raw material costs of lithium-ion batteries relate to BMS, connecting cables and battery racks; (iii) the target sales of lithium-ion batteries as discussed above; and (iv) the target average gross profit margin of the Group of around 15%. Based on the above, the Group estimated the amount of procurement of BMS and related parts from the Shenzhen Marshall Group would amount to approximately RMB60 million. Together with the estimated Purchases for the Existing Purchases Products as described above, the 2022 Purchases Cap is set at RMB80 million.

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## LETTER FROM OPTIMA CAPITAL

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In assessing the reasonableness of the aforesaid parameters, we have discussed with the Management and considered the following factors: (i) given the importance of BMS in lithium-ion batteries as explained above, it is essential for the Group to be able to source stable and reliable supply of quality BMS. In light of the substantial experience of the Shenzhen Marshell Group in the production of electronic parts and products for batteries, the Management considers it beneficial to secure the Shenzhen Marshell Group as one of the suppliers of BMS for the Group and thus allows for a sizeable portion of BMS and related parts procurement from the Shenzhen Marshell Group; (ii) the target gross profit margin of 15% is comparable to the average gross profit margin of approximately 14.4% achieved by the Group for the six months ended 30 June 2021 as disclosed in the interim report of the Company; (iii) the proportion of raw material costs attributable to BMS and related parts is estimated based on historical production costs analysis and production plan; and (iv) the Purchases Caps do not impose any obligations or commitments on the part of the Group to purchase the raw materials from the Shenzhen Marshell Group up to the amount of the Purchases Caps. Rather, they should be estimated on a basis to provide sufficient flexibility for the Group to conduct its ordinary businesses under proper governance and control. On this basis, we are of the view that the aforesaid parameters to be reasonable.

The respective Purchases Cap for the year ending 31 December 2023 and 2024 represents a 30% increase from the Purchases Cap for the preceding year. We are of the view that the growth rate of 30% adopted for the purpose of setting the Purchases Caps is reasonable taking into account the historical growth in turnover of the Group.

### *Our view*

Having considered (i) the Estimated 2021 Purchases of approximately RMB12.7 million; (ii) the growth rate of 30% adopted in the Purchases Caps in light of the historical and expected growth of turnover of the Group; and (iii) the prospects for lithium-ion batteries and the expected procurement amount of RMB60 million for the New Purchases Products to provide for the demand for lithium-ion batteries for 5G applications and other motive power equipment, we are of the view that the Purchases Caps for the three years ending 31 December 2024 are fair and reasonable.

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## LETTER FROM OPTIMA CAPITAL

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### 5. Corporate governance measures

In addition to the pricing policies set out in its internal control manual as described in the paragraph headed “Principal terms of the Master Agreements” above, the Company has also adopted the following corporate governance measures to ensure that the Continuing Connected Transactions with the Shenzhen Marshall Group will be conducted on normal commercial terms:

- (i) the Director(s) and/or the Shareholder(s) with an interest in the relevant transaction(s) shall abstain from voting in respect of the resolution(s) approving the Master Agreements and the transactions contemplated thereunder at the Board meeting and at the EGM respectively;
- (ii) the Group shall comply with the relevant reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules for the Continuing Connected Transactions;
- (iii) the Group will engage the Company’s auditor to report on the Continuing Connected Transactions every year in accordance with Rule 14A.56 of the Listing Rules; and
- (iv) the Group will duly disclose in the annual reports and accounts the Continuing Connected Transactions during each financial period, together with the conclusions (with basis) drawn by the independent non-executive Directors whether the transactions are conducted on normal commercial terms, fair and reasonable, in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole.

We have reviewed the internal control manual and samples of historical documents and records maintained by the Group for walkthrough purpose to understand the nature of the Sales and Purchases and the aforesaid internal control procedures. Among which, we observed that the Group’s personnel with appropriate level of authorities are involved in the approval and/or review process in relation to the Continuing Connected Transactions. We also noted that the auditor of the Company has issued unqualified letter in respect of its review on the continuing connected transactions for the years ended 31 December 2020 and 2021. Whilst our scope of work as an independent financial adviser does not include a review of the effectiveness of the internal control measures of the Group, we are of the view that based on our work described above and having regard to the nature of the Continuing Connected Transactions, the internal control measures of the Group are appropriate to ensure that the Continuing Connected Transactions will be conducted on normal commercial terms and to safeguard the interests of the Company and the Shareholders as a whole.



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## LETTER FROM OPTIMA CAPITAL

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### OPINION

Having taken into account the above principal factors and reasons, we consider that (i) 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; and (ii) the transactions contemplated under each of the Master Agreements are in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Shareholders and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Master Sales Agreement (including the Sales Caps) and the Master Purchases Agreement (including the Purchases Caps) and the transactions contemplated thereunder.

Yours faithfully,

for and on behalf of

**Optima Capital Limited**

**Beatrice Lung**

*Managing Director, Corporate Finance*

*Ms. Beatrice Lung is a responsible officer of Optima Capital and a licensed person registered with the Securities and Futures Commission to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO. Ms. Lung has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Directors or the chief executive of the Company had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

Name of Director	Note	Nature of Interest	Number of Shares held	Number of underlying shares held	Approximate percentage of issued share capital
Mr. Dong	1	Interest of a controlled corporation	1,009,513,000 (L)	–	74.36%
Ms. Yin Haiyan	2	Beneficial owner	–	2,650,000 (L)	0.20%
Mr. Cao Yixiong Alan	3	Beneficial owner	–	800,000 (L)	0.06%
Mr. Lau Chi Kit	4	Beneficial owner	–	800,000 (L)	0.06%

*The letter "L" denotes long position in the Shares/underlying shares*

Notes:

- Mr. Dong is deemed to be interested in 1,009,513,000 Shares held by Master Alliance, a company which is wholly owned by Mr. Dong.

2. Ms. Yin Haiyan has been granted options for 150,000 Shares under the share option scheme of the Company which was approved and adopted by the Company pursuant to the resolutions in writing passed by all shareholders of the Company on 25 May 2010 (the “**Pre-IPO Share Option Scheme**”) and 1,500,000 Shares and 1,000,000 Shares under the share option schemes of the Company which were approved and adopted by the Company pursuant to the resolutions in writing passed by all shareholders of the Company on 14 October 2010 (the “**2010 Share Option Scheme**”) and 30 October 2020 (the “**2020 Share Option Scheme**”) respectively.
3. Mr. Cao Yixiong Alan has been granted options for 800,000 Shares under the 2010 Share Option Scheme.
4. Mr. Lau Chi Kit has been granted options for 800,000 Shares under the 2010 Share Option Scheme.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

**(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO**

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Note	Nature of interest	No. of Shares held	Approximate percentage of issued share capital
Master Alliance	<i>1</i>	Beneficial owner	1,009,513,000 (L)	74.36%

*The letter “L” denotes long position in the Shares*

*Note:*

1. Master Alliance is a company wholly owned by Mr. Dong. Mr. Dong is a director of Master Alliance.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such share capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, and none of the Directors or proposed Director is a director or employee of the above-mentioned companies.

**(c) Director's interests in contracts**

As at the Latest Practicable Date, save as disclosed below, there is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Group:

- (a) a master sales agreement dated 16 October 2018 entered into between the Company and Mr. Dong in respect of the sales by the Group to certain members of Shenzhen Marshall Group of products including lead-acid batteries and related parts etc.;
- (b) a master purchases agreement dated 16 October 2018 entered into between the Company and Mr. Dong in respect of the purchases by the Group from certain members of Shenzhen Marshall Group of products including battery cases, parts, models, chargers and electronic products and electric scooters etc.;
- (c) A master leasing agreement dated 15 February 2019 as supplemented by a supplemental master leasing agreement dated 6 March 2019 and entered into between the Company and Mr. Dong, pursuant to which members of the Group will lease from Mr. Dong and/or his associates various properties owned by them for a term of three years commencing on 1 January 2019;
- (d) the Master Sales Agreement; and
- (e) the Master Purchases Agreement.

**(d) Director's interests in assets**

As at the Latest Practicable Date, save for the master agreements referred to in the paragraph headed "Director's interests in contracts" above, none of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up.

**(e) Competing business**

As at the Latest Practicable Date, none of Directors and their respective associates were interested in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

**3. SERVICE CONTRACT**

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

**4. MATERIAL ADVERSE CHANGE**

The Directors are not aware of any circumstances or events that may give rise to a material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest audited financial statements of the Group were made up.

**5. EXPERT'S QUALIFICATION AND CONSENT**

Optima Capital is a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO which has provided its opinion contained in this circular.

Optima Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Optima Capital was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up.

**6. DOCUMENTS ON DISPLAY**

The following documents will be published on the websites of the Company at <http://www.leoch.com> and of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk) from the date of this circular up to and including the date of the EGM:

- (a) the Master Sales Agreement; and
- (b) the Master Purchases Agreement.

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## NOTICE OF EGM

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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)**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (“**EGM**”) of Leoch International Technology Limited (the “**Company**”) will be held at Unit C, 33/F., TML Tower, No 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong on Friday, 17 December 2021 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions of the Company:

### ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the master sales agreement dated 22 November 2021 (the “**Master Sales Agreement**”) entered into between the Company and 深圳瑪西爾電動車股份有限公司 (Shenzhen Marshall Electric Vehicle Co., Limited<sup>#</sup>) (“**Shenzhen Marshall**”) in respect of the sales by the Company and its subsidiaries (together the “**Group**”) to Shenzhen Marshall and its subsidiaries (together the “**Shenzhen Marshall Group**”) of batteries and related parts including connecting cables, moulds and other miscellaneous items (together the “**Sales Products**”) for a term of three years commencing from 1 January 2022 (a copy of the Master Sales Agreement is marked “A” and produced to the EGM and signed by the chairman of the EGM for identification purpose) and the transactions contemplated thereby be and are hereby approved, confirmed and ratified;
- (b) the maximum values for sales of the Sales Products under the Master Sales Agreement of RMB280.0 million, RMB364.0 million and RMB473.2 million for each of the three years ending 31 December 2024 respectively be and are hereby approved; and

<sup>#</sup> *The English name is not an official name but is provided for identification only.*

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## NOTICE OF EGM

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- (c) any one or more directors (the “**Directors**”) of the Company be and are hereby authorised to do all such acts and things as they consider necessary or expedient for the purposes of giving effect to the Master Sales Agreement and the transactions contemplated thereby.”

2. “**THAT:**

- (a) the master purchases agreement dated 22 November 2021 (the “**Master Purchases Agreement**”) entered into between the Company and Shenzhen Marshall in respect of the purchase of battery related components including chargers, connecting cables, battery management systems, battery racks, and electric vehicles and related parts by the Group from Shenzhen Marshall Group (together the “**Purchases Products**”) for a term of three years commencing from 1 January 2022 (a copy of the Master Purchases Agreement is marked “B” and produced to the EGM and signed by the chairman of the EGM for identification purpose) and the transactions contemplated thereby be and are hereby approved, confirmed and ratified;
- (b) the maximum values for purchases of the Purchases Products under the Master Purchases Agreement of RMB80.0 million, RMB104.0 million and RMB135.2 million for each of the three years ending 31 December 2024 respectively be and are hereby approved; and
- (c) any one or more Directors be and are hereby authorised to do all such acts and things as they consider necessary or expedient for the purposes of giving effect to the Master Purchases Agreement and the transactions contemplated thereby.”

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

Hong Kong, 26 November 2021

*Registered office:*  
Cricket Square, Hutchins Drive  
PO Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Head office and principal place of  
business in Hong Kong:*  
Workshop C, 33/F  
TML Tower  
No. 3 Hoi Shing Road  
Tsuen Wan  
New Territories  
Hong Kong



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## NOTICE OF EGM

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*Notes:*

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. The register of members of the Company will be closed from Tuesday, 14 December 2021, to Friday, 17 December 2021, (both days inclusive) for the purpose of determining Shareholders' entitlement to attend and vote at the EGM, during which period no transfer of Shares will be registered. In order to be eligible to attending and vote at the EGM, Shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Monday, 13 December 2021.
3. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.
4. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
5. All resolutions at the EGM will be conducted by way of a poll.