
THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.



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**



A letter from the Independent Board Committee is set out on pages 17 to 18 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 19 to 46 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, N.T., Hong Kong on Monday, 30 December 2024 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 17/F, Far East Finance Centre, 16 Harcourt Road, 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.

6 December 2024

CONTENTS

	<i>Page</i>
Definitions	1
 Letter from the Board	
Background	5
The Master Sales Agreement	6
The Master Purchases Agreement	8
Information about the Group	12
Information about Dr. Dong's associates	12
Reasons for entering into the Master Sales Agreement and the Master Purchases Agreement	13
Internal Control Measures	13
Listing Rules Implication	14
EGM	15
Recommendation	16
Further information	16
 Letter from the Independent Board Committee	 17
 Letter from Optima Capital	 19
 Appendix – General information	 I-1
 Notice of EGM	 EGM-1

DEFINITIONS

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

“2021 Agreements”	together, the 2021 Purchases Agreement and the 2021 Sales Agreement
“2021 Purchases Agreement”	the master purchases agreement dated 22 November 2021 in relation to the purchases of battery related components by the Group from Shenzhen Marshall Group (being Dr. Dong’s Associates), details of which are set out in the announcement of the Company dated 22 November 2021
“2021 Sales Agreement”	the master sales agreement dated 22 November 2021 in relation to the sales of batteries and related parts by the Group to Shenzhen Marshall Group (being Dr. Dong’s Associates), details of which are set out in the announcement of the Company dated 22 November 2021
“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
“Domestic Market”	the PRC, Hong Kong and Macau Special Administrative Region

DEFINITIONS

“Dr. Dong”	Dr. Dong Li, the Chairman of the Board and an executive Director, who, through Master Alliance, is interested in approximately 73.43% of the total issued share capital of the Company and hence a controlling Shareholder
“Dr. Dong’s Associates”	Dr. Dong and his associates, including Master Alliance, Shenzhen Marshall Group and other private entities controlled by Dr. Dong but excluding the Group
“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, N.T., Hong Kong on Monday, 30 December 2024 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) and as to voting at the EGM
“Independent Shareholders”	Shareholders other than Dr. Dong’s Associates
“Latest Practicable Date”	2 December 2024, 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

DEFINITIONS

“Master Alliance”	Master Alliance Investment Limited, a limited liability company incorporated in the British Virgin Islands which is wholly owned by Dr. Dong
“Master Purchases Agreement”	the master purchases agreement dated 2 December 2024 entered into between the Company and Dr. Dong (for and on behalf of all companies under his control other than the Group) in respect of the purchases by the Group from Dr. Dong’s Associates of: (a) battery related components including chargers, connecting cables, BMS, battery cells, battery holders and electric scooters etc.; and (b) low capacity lithium-ion batteries (for resale to customers upon request)
“Master Sales Agreement”	the master sales agreement dated 2 December 2024 entered into between the Company and Dr. Dong (for and on behalf of all companies under his control other than the Group) in respect of the sales by the Group to Dr. Dong’s Associates of batteries and related parts including connecting cables and molds etc.
“Optima Capital”	Optima Capital Limited, a corporation licensed to carry out 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)
“Overseas Market”	Europe, Middle East and Africa, Americas and Asia-Pacific regions (other than the Domestic Market)
“PRC”	the People’s Republic of China which, for the purposes of this circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Purchases Caps”	the maximum annual purchases amounts as set out in the Master Purchases Agreement
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“Sales Caps”	the maximum annual sales amounts 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)
“Shenzhen Marshall”	深圳瑪西爾電動車股份有限公司 (Shenzhen Marshall Electric Vehicle Co., Limited#), a company established in the PRC which is indirectly owned as to approximately 98.55% by Dr. Dong and his brother
“Shenzhen Marshall Group”	Shenzhen Marshall and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

LETTER FROM THE BOARD



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:

Dr. Dong Li
Ms. HONG Yu

Independent non-executive Directors:

Mr. CAO Yixiong Alan
Mr. LAU Chi Kit
Mr. LU Zhiqiang

Registered Office:

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

Headquarters:

152 BEACH ROAD
#22-01/04,
GATEWAY EAST,
SINGAPORE

Principal place of

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

6 December 2024

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 22 November 2021 in relation to certain continuing sales and purchases transactions between the Group and Shenzhen Marshall Group (being Dr. Dong's Associates) with their respective annual caps for the three years ending 31 December 2024 under the 2021 Agreements. As the 2021 Agreements will soon expire and the sales and purchases transactions between the Group and Dr. Dong's Associates 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 2027.

LETTER FROM THE BOARD

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:

2 December 2024

Parties:

- (i) The Company; and
- (ii) Dr. Dong (for and on behalf of all companies under his control other than the Group).

Subject matters:

Pursuant to the Master Sales Agreement, the Group has agreed to sell battery products including batteries and related parts including connecting cables and molds etc. to Dr. Dong's Associates for a term of three years commencing from 1 January 2025, 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 90 days after delivery.

LETTER FROM THE BOARD

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

	Year ending 31 December 2025 (RMB million)	Year ending 31 December 2026 (RMB million)	Year ending 31 December 2027 (RMB million)
Sales Caps	<u>120.8</u>	<u>151.0</u>	<u>188.7</u>

For each of the two years ended 31 December 2023 and the eight months ended 31 August 2024, sales of batteries and related parts under the 2021 Sales Agreement amounted to approximately RMB100.6 million, RMB74.3 million and RMB40.1 million respectively. The Company would ensure that the Sales Caps under the 2021 Sales Agreement will not be exceeded. In determining the Sales Caps, the Board has taken into account: (i) the historical amount of sales of batteries and related parts etc. under the 2021 Sales Agreement; (ii) the possible fluctuation in lead price; and (iii) the procurement plan provided by Dr. Dong's Associates for the coming years in respect of batteries to be sourced from the Group.

The historical amount of sales under the 2021 Sales Agreement for the three financial years ending 31 December 2024 were affected by several adverse factors such as the fierce competition in the domestic sightseeing car and low-speed vehicle market and the weak domestic economy in the PRC affecting the domestic sales, and certain overseas customers of Dr. Dong's Associates have increased their procurement of electric vehicles without carrying lead-acid batteries from Dr. Dong's Associates affecting the overseas demand for the products.

The management of Dr. Dong's Associates considers that, while it may continue to be challenging for their electric vehicles business in the coming years, given the stimulus measures adopted by the PRC government to boost the domestic economy, they expect the sales of Dr. Dong's Associates would achieve mild growth in the coming years. Based on the estimates of the management of Dr. Dong's Associates, the revenue of Dr. Dong's Associates for the year ending 31 December 2025 may reach approximately 90% of that for the year ended 31 December 2022. As such, Dr. Dong's Associates expect that they will procure more products currently sourced from the Group. Accordingly, the Sales Cap for the year ending 31 December 2025 is set with reference from the actual sales for the year ended 31 December 2022 of approximately RMB100.6 million. The Sales Caps has also incorporated a buffer of 20% to cater for unanticipated increases in demand of battery products supply to Dr. Dong's Associate.

LETTER FROM THE BOARD

The PRC government has been consolidating its policy initiative to drive the growth of the new energy sector through actively developing clean energy and promoting green and low-carbon transition, and stepping up its efforts to expand the emerging electric vehicles industry. In particular, official guidelines have been issued recently to ramp up green transition in all areas of economic and social development, and encourage the application of low-carbon power system, which are expected to boost the overall demand for the Group's battery products including motive power batteries (which are part of the products to be sold under the Master Sales Agreement). In view of the aforesaid, despite the adverse factors existing for the three years ending 31 December 2024 as mentioned above, the Board is optimistic that the positive growth brought by the state-initiated stimulus policies would counterbalance such adverse factors in the coming years. The sales of Dr. Dong's Associates have also shown a growing trend since the second half of 2024, and demonstrated a recovering trend thereafter. The average monthly sales for the two months ended 31 August 2024 increased by about 38.6% as compared to that for the six months ended 30 June 2024, and the average monthly sales for the two months ended 31 August 2024 represented about 75.6% of the average monthly sales for the year ended 31 December 2022. The management of the Company also considers that the estimates provided by Dr. Dong's Associates are reasonable by reference to the policy-driven upward market trend described above. Therefore, the Sales Caps have been set to reflect the expected growth in the sales to Dr. Dong's Associates.

Lead is a major raw material for manufacturing lead-acid batteries of the Group and lead price generally experiences large fluctuation. Lead price quoted from the Shanghai Metals Market between 2022 and September 2024 ranged between RMB14,575 and RMB19,775 per metric ton, representing an overall high-low difference of approximately 35.7%. 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 Dr. Dong's Associates in the past, a 25% buffer for sales price increase has been incorporated to cater for possible fluctuations in lead price.

THE MASTER PURCHASES AGREEMENT

Date:

2 December 2024

LETTER FROM THE BOARD

Parties:

- (i) The Company; and
- (ii) Dr. Dong (for and on behalf of all companies under his control other than the Group).

Subject matters:

Pursuant to the Master Purchases Agreement, the Group has agreed to purchase: (a) battery related components including chargers, connecting cables, BMS, battery cells, battery holders and electric scooters etc.; and (b) low capacity lithium-ion batteries (for resale to customers upon request) from Dr. Dong's Associates for a term of three years commencing from 1 January 2025, subject to approval by the Independent Shareholders at the EGM.

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

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

	Year ending 31 December 2025 (RMB million)	Year ending 31 December 2026 (RMB million)	Year ending 31 December 2027 (RMB million)
Purchases Caps	<u>375.5</u>	<u>469.4</u>	<u>586.7</u>

For each of the two years ended 31 December 2023 and the eight months ended 31 August 2024, purchases of raw materials and products under the 2021 Purchases Agreement amounted to approximately RMB36.4 million, RMB44.3 million and RMB77.6 million respectively. The Company would ensure that the Purchases Caps under the 2021 Purchases Agreement will not be exceeded. In determining the Purchases Caps, the Board has taken into account: (i) the historical amount of purchases of raw materials under the 2021 Purchases Agreement; and (ii) the procurement by the Group for its production in the coming years.

LETTER FROM THE BOARD

The overall purchase amount from Dr. Dong's Associates under the 2021 Purchases Agreement has been increasing for the three years ending 31 December 2024, which was mainly due to increase in products prices of certain independent third parties resulting in the Group increasing its procurement from Dr. Dong's Associates, and increase in the Group's sales of lithium-ion batteries leading to the increase in procurement of related parts from Dr. Dong's Associates. For the year ended 31 December 2023, the Group increased the purchases from Dr. Dong's Associates particularly for connecting cables and plastic products as a result of the continued improvement in the sales of the Group's battery products. Due to keen competition in the Overseas Market, particularly in Europe, the sales of lithium-ion batteries to Overseas Markets in the first half of 2024 were relatively less than the first half of 2023. The Group has intensified its sales efforts in the American market and actively expanded into markets such as the Middle East and Australia during the second half of 2024, the momentum of overseas sales of lithium-ion batteries has started to resume. Another reason for the increase in the purchases in 2024 was that Dr. Dong's Associates have commenced the manufacturing and sales of battery racks since November 2023, the Group then also procured battery racks from Dr. Dong's Associates.

During the first half of 2024, the Group had recorded notable growth of 25.6% in its sales of battery products as compared to the corresponding period in 2023. The Board anticipates that the demands for lead-acid batteries would remain robust, with the rapid development of the global digital economy and wide application of technologies such as artificial intelligence, Internet of Things and big data, leading to an increase in the overall demand for data centers. Besides, the demand for home energy storage and industrial and commercial energy storage is also rising in light of the trends to reduce electricity cost and promote clean energy. These developments boost the demand for the Group's reserve power batteries. In addition, the growth in new energy vehicles contributes to the increasing demand for SLI batteries. Also, there has been increasing application of lithium-ion battery products in various sectors such as communications, data center, energy storage and low-speed vehicles. In light of the foregoing, the Board expects the purchases from Dr. Dong's Associates in respect of the Existing Purchases Products would also be increasing accordingly.

For the purpose of setting the Purchases Caps in respect of the Existing Purchases Products for the three years ending 31 December 2027, an annual growth of 25% has been incorporated based on the estimated purchase amount for the year ending 31 December 2024 for the Existing Purchases Products of approximately RMB81.4 million, and thus arrived at the Purchases Caps of approximately RMB101.7 million, RMB127.1 million and RMB158.9 million, respectively, for the three years ending 31 December 2027 in respect of the Existing Purchases Products.

LETTER FROM THE BOARD

The Board also expects that the Group will procure the Additional Purchases Products from Dr. Dong's Associates. BMS (and related parts such as connecting cables) and battery cells are the most important components of lithium-ion batteries which account for approximately 15% and 60% of the raw materials costs of lithium-ion battery products. In addition to telecommunication customers, the Group has been exploring and expanding its sales to other customers for the lithium-ion battery products such as home storage batteries, industrial and commercial storage batteries and auxiliary power batteries for vehicles. Upon obtaining fee quotations from independent suppliers, the management of the Group considers that with the products being identical and no additional services provided, sourcing battery cells products from Dr. Dong's Associates at more favourable terms (with a longer credit period of 90 days as compared to the independent supplier's 60 days), instead of directly from the independent supplier with comparable quality, is in the interests of the Group. The management of the Group also considers the battery cells sourced from Dr. Dong's Associates are of good quality that meet the Group's standard, and being well-suited for the production of lithium-ion batteries of the Group, in light of their research and development and design of battery cells products tailored to the Group's requirements for the production of lithium-ion batteries since 2024, and quality testing to ensure the quality of the processed battery cells products. In view of the potential continuous growth in the sales of the Group's lithium-ion battery products, the stable supply from Dr. Dong's Associates with good quality at a competitive price in light of their strategic cooperation with an independent supplier providing price and quality assurance, the Board expects the procurement for BMS and battery cells from Dr. Dong's Associates will continue to increase to satisfy the target growth in the overall sales of lithium-ion batteries.

For the purpose of setting the Purchases Caps in respect of BMS and battery cells for the year ending 31 December 2025, the Group has adopted the following parameters: (i) the estimated sales of lithium-ion batteries in 2024 of approximately HK\$560 million; (ii) a target growth of approximately 25% in sales of lithium-ion batteries, reaching approximately HK\$700 million for the year ending 31 December 2025; (iii) a target gross profit margin of around 20% for the sale of lithium-ion products of the Group, resulting in the corresponding cost of lithium-ion batteries of approximately HK\$560 million; (iv) approximately 15% and 60% of the raw material costs of lithium-ion batteries relate to BMS (and related parts) and battery cells, resulting in the corresponding cost for BMS (and related parts) and battery cells of approximately RMB84 million and RMB336 million, respectively; and (v) approximately 80% and 60% of the Group's BMS (and related parts) and battery cells would be sourced from Dr. Dong's Associates, with reference to (a) the actual purchases for BMS from Dr. Dong's Associates accounting for about 82.6% of the total purchase of BMS of the Group for the nine months ended 30 September 2024; (b) the actual Purchases for battery cells from Dr. Dong's Associates accounting for about 2.4% of the total purchase of battery cells of the Group for the nine months ended 30 September 2024; and (c) the management's anticipation of shifting half of purchases of battery cells from independent third parties suppliers towards Dr. Dong's Associates after taking into account the tailored services and assured quality of products provided by Dr. Dong's Associates, amounting to approximately RMB67.2 million for BMS (and related parts) and RMB201.6 million for battery cells. Based on the above, the Group estimated the amount of procurement of BMS (related parts) and battery cells from Dr. Dong's Associates for the year ending 31 December 2025 would amount to approximately RMB268.8 million. The respective Purchases Cap for the year ending 31 December 2026 and 2027 in respect of BMS and battery cells represents a 25% increase from the Purchases Cap for the preceding year, which have been estimated based on the growth in the target sales of lithium-ion batteries.

LETTER FROM THE BOARD

The Group used to procure low capacity lithium-ion batteries from independent third parties for resale to its customers as the Group does not manufacture low capacity lithium-ion batteries by itself. Low capacity lithium-ion batteries are mainly used for motorcycle production. During the year ended 31 December 2023, revenue of the Group generated from the sales of low capacity lithium-ion batteries amounted to approximately RMB5 million. As Dr. Dong's Associates will commence the manufacturing and sales of low capacity lithium-ion batteries in the first quarter of 2025, having taken into account that (i) the assured quality of BMS and battery cells resources available to Dr. Dong's Associates, which are major components for manufacturing low capacity lithium-ion batteries; and (ii) to secure a stable source of quality supply, the management of the Group expects to also procure low capacity lithium-ion batteries from Dr. Dong's Associates in the coming years.

For the purpose of setting the Purchases Caps in respect of low capacity lithium-ion batteries for the year ending 31 December 2025, RMB5.0 million has been adopted based on the sales amount of the Group for such products. The respective Purchases Cap for the year ending 31 December 2026 and 2027 in respect of low capacity lithium-ion batteries represents a 25% increase from the Purchases Cap for the preceding year, which have been estimated with reference to the target growth in the overall sales of lithium-ion batteries. Given that low capacity lithium-ion batteries are mainly for resale to other customers, the management considers that the basis on setting the Purchases Caps for this product is reasonable.

INFORMATION ABOUT THE GROUP

The Company is an investment holding company. The Group is principally engaged in the manufacture, development and sale of batteries and recycled lead business.

INFORMATION ABOUT DR. DONG'S ASSOCIATES

Dr. Dong's Associates refer to those companies controlled by Dr. Dong (i.e. Shenzhen Marshall Group and other private entities) which are principally engaged in the manufacture and sales of electronic products, low capacity lithium-ion batteries, chargers, converters, power supply products, plastic goods, and electric vehicles etc.

LETTER FROM THE BOARD

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

The transactions contemplated under the Master Sales Agreement and the Master Purchases Agreement have been conducted in the ordinary course of business of the Group. The Master Sales Agreement has provided a framework to protect the interests of the Group while enabling the Group with a stable source of revenue from the sales of batteries and related parts. It is expected that approximately 70% of the Sales Caps will be utilised for the Group's operations in the Domestic Market, and approximately 30% of the Sales Caps will be utilised for the Group's operations in the Overseas Market. The Master Purchases Agreement will allow the Group to have a stable source of supply of certain raw materials and products such as chargers, connecting cables, battery cells and BMS etc. with guaranteed quality for use in its production or for resale to the customers. The Master Sales Agreement and the Master Purchases Agreement are entered into to renew the 2021 Agreements, which will expire on 31 December 2024.

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 are conducted on normal commercial terms and not prejudicial to the Company's and its minority Shareholders' interest and to ensure that the pricing mechanism contemplated under the respective master agreements have been followed, the management of the Group will, among other things, procure that (i) the sales department will collect the price lists of lead-acid batteries from at least two independent competitors on a monthly basis and regularly review the price list of the Group to ensure that the selling price charged to Dr. Dong's Associates under the Master Sales Agreement is at least on the same bases and same rates for similar products sold by independent third parties; (ii) the procurement department will obtain quotation from Dr. Dong's Associates for each purchase and compare the quotations of similar raw materials and products from at least two other independent suppliers to ensure the price competitiveness of the purchases, before placing any purchase order(s) with Dr. Dong's Associates; (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 period/year and conduct monthly review of the actual transaction amounts to ensure that the Sales Caps and the Purchases Caps are not exceeded; and (iv) the finance department will also approve the payment to be made to Dr. Dong's Associates to ensure that the payment terms are in line with the relevant master agreement.

LETTER FROM THE BOARD

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 all material respects in accordance with: (a) the pricing policies of the Group; and (b) the terms and provisions of the Master Sales Agreement and the Master Purchases Agreement, and have not exceeded the relevant annual caps.

Based on the above, the Directors (excluding Dr. Dong who had abstained at the Board meeting in view of his material interests in the transactions, and the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee in this circular) consider that the entering into of the Master Sales Agreement and the Master Purchases Agreement is in the ordinary course of business of the Group and that the terms of the Master Sales Agreement (including the Sales Caps) and the Master Purchases Agreement (including the Purchases Caps) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

As Dr. Dong is the Chairman of the Board and an executive Director, who through Master Alliance, is interested in approximately 73.43% of the total issued share capital of the Company and hence a controlling Shareholder, he and his associates (i.e. Dr. Dong's Associates) are connected persons of the Company. Accordingly, the transactions contemplated under each of the Master Sales Agreement and the Master Purchases Agreement constitutes continuing connected transactions of the Company under the Listing Rules. As the maximum amounts of each of the Sales Caps and the Purchases Caps exceed 5% of the relevant percentage ratios and HK\$10,000,000 per annum, the transactions under each of the Master Sales Agreement and the Master Purchases Agreement will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

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, N.T., Hong Kong on Monday, 30 December 2024 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. Dr. Dong's Associates 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. 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 17/F, Far East Finance Centre, 16 Harcourt Road, 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.

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.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 17 to 18 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 19 to 46 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
Dr. Dong Li
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

6 December 2024

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 6 December 2024 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 16 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 19 to 46 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

Mr. Lu Zhiqiang

LETTER FROM OPTIMA CAPITAL

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

6 December 2024

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**

I 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 6 December 2024 (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.

LETTER FROM OPTIMA CAPITAL

On 2 December 2024, the Company entered into (i) the Master Sales Agreement with Dr. Dong (for and on behalf of all companies under his control other than the Group) in respect of the sales by the Group of batteries and related parts including connecting cables and moulds, etc. (the “Sales”) to Dr. Dong’s Associates; and (ii) the Master Purchases Agreement with Dr. Dong (for and on behalf of all companies under his control other than the Group) in respect of the purchases by the Group of battery related components including chargers, connecting cables, BMS, battery cells, battery racks, low capacity lithium-ion batteries and electrical vehicles such as forklifts and golf carts (the “Purchases”) from Dr. Dong’s Associates.

As Dr. Dong is the Chairman of the Board and an executive Director who, through Master Alliance, is interested in 1,015,021,000 Shares (equivalent to approximately 73.43% of the total issued share capital of the Company as at the date of the Master Agreements) and hence a controlling Shareholder, Dr. Dong and his associates 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 for 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. Dr. Dong and his associates 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 Mr. Lu Zhiqiang, each being an independent non-executive Director, has been established to advise the Independent Shareholders as to (i) whether the terms of the Master Agreements are fair and reasonable and on normal commercial terms; and (ii) whether the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, 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.

LETTER FROM OPTIMA CAPITAL

We are not associated or connected with the Company, Dr. Dong or their respective connected persons or associates. During the two years immediately prior to the date of our appointment, we have not (i) acted in the capacity as a financial adviser or independent financial adviser to the Company; (ii) provided any services to the Company; or (iii) had any relationship with the Company. We are therefore considered eligible to give independent advice in respect of the terms of the Master Agreements and the Continuing Connected Transactions. Apart from normal professional fees paid or payable to us in connection with our appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, Dr. Dong or their respective connected persons or associates. Accordingly, we consider that we are independent from the Company pursuant to Rule 13.84 of the Listing Rules.

II BASIS OF OUR OPINION

In formulating our advice and recommendations, we have relied on the information and facts supplied and the opinions expressed by the 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 respects at the time they were provided and expressed, and continue to be true, accurate and complete in all material respects up to the date hereof.

We have reviewed, among other things, (i) the Master Agreements; (ii) the announcement of the Company dated 2 December 2024 in respect of the Continuing Connected Transactions; (iii) the circular of the Company dated 26 November 2021 in respect of the 2021 Agreements and the transactions contemplated thereunder (the “**2021 Circular**”); (iv) the annual reports of the Company for the two years ended 31 December 2022 (the “**2022 Annual Report**”) and 2023 (the “**2023 Annual Report**”); (v) the interim report of the Company for the six months ended 30 June 2024 (the “**2024 Interim Report**”); and (vi) the information contained in the Circular;

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 of the Group and/or Dr. Dong’s Associates, nor have we carried out any independent verification of the information supplied.

LETTER FROM OPTIMA CAPITAL

III 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 Dr. Dong's Associates

1.1 Principal business of the Group

The Group is principally engaged in power solutions business, which refers to the development, sale and manufacture of battery products including lead-acid batteries and lithium batteries and other related items such as chargers, connecting cables, battery racks and moulds, and recycled lead business. The Group sells over 3,000 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. The Group's reserve power batteries are widely used in uninterrupted power supply systems across various industries such as data centers, healthcare and telecommunications. SLI batteries are mainly used for automotive production, while motive power batteries are mainly used in low-speed electric vehicles such as forklifts, material handling equipment and other heavy machineries. Currently, the Group has 18 battery production bases around the world located at Jiangsu, Zhaoqing, Anhui, Tianjin and Shunde of the PRC, Vietnam, Malaysia, India and Mexico.

1.2 Principal business of Dr. Dong's Associates

Dr. Dong's Associates refer to those companies controlled by Dr. Dong including Master Alliance, the Shenzhen Marshall Group and other entities controlled by Dr. Dong other than the Group. They are one of the major suppliers in the PRC for low-speed electric vehicles and battery related electronic products. Their 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.

Certain products manufactured by Dr. Dong's Associates 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 Dr. Dong's Associates. Accordingly, members of Dr. Dong's Associates are both customers and suppliers of the Group.

LETTER FROM OPTIMA CAPITAL

1.3 *Our view*

Having considered the respective principal activities of the Group and Dr. Dong's Associates 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 2021 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 the Shenzhen Marshall Group in the past. On 22 November 2021, the Company and Shenzhen Marshall entered into the 2021 Agreements in relation to the arrangement for the Sales to and the Purchases from the Shenzhen Marshall Group, details of which are set out in the announcement of the Company dated 22 November 2021 and the circular of the Company dated 26 November 2021. The 2021 Agreements and the transactions contemplated thereunder (including the relevant annual caps for the three years ending 31 December 2024) were approved by the then independent Shareholders at the extraordinary general meeting of the Company held on 17 December 2021. As the 2021 Agreements will expire on 31 December 2024 and the Sales and the Purchases are expected to continue in the future, the Company and Dr. Dong 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 2027. The entering into of the Master Agreements is a renewal of the 2021 Agreements.

LETTER FROM OPTIMA CAPITAL

2.2 Commercial rationale for the Master Agreements

The Sales to Dr. Dong's Associates for the two years ended 31 December 2022 and 2023 and the eight months ended 31 August 2024 amounted to approximately RMB100.6 million, RMB74.3 million and RMB40.1 million, respectively, representing approximately 0.8%, 0.6% and 0.4% of the consolidated revenue of the Group for the corresponding year/period, respectively. The Purchases from Dr. Dong's Associates for the two years ended 31 December 2022 and 2023 and the eight months ended 31 August 2024 amounted to approximately RMB36.4 million, RMB44.3 million and RMB77.6 million, respectively, representing approximately 0.3%, 0.4% and 0.9% 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 products 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 Dr. Dong's Associates, 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 Dr. Dong's Associates.

LETTER FROM OPTIMA CAPITAL

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 2022 and 2023, the auditor of the Company has performed procedures in respect of the 2021 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 2022 and 2023. 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 2022 and 2023 had been entered into (i) in the ordinary and usual course 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.

2.4 Our view

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 Dr. Dong’s Associates, 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.

LETTER FROM OPTIMA CAPITAL

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 battery products including batteries and related parts including connecting cables and moulds etc. to Dr. Dong's Associates.

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.

Based on our 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 Dr. Dong's Associates 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 took into account the fluctuation in prices of raw materials (principally lead) and the selling prices of similar products offered by other competitors. Based on the fluctuation of lead price and other raw material costs and price lists of similar products collated from at least two independent competitors 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.

LETTER FROM OPTIMA CAPITAL

The prices to be charged by the Group to Dr. Dong's Associates 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 Dr. Dong's Associates, 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 Dr. Dong's Associates 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 Dr. Dong's Associates as described above is fair and reasonable.

We have also, on a random basis, reviewed six samples of the Sales records and 12 samples of transaction records with independent third parties, including the sales contracts and invoices for lead-acid batteries. Given that all 18 samples were selected on a random basis and distributed over the period spanning the two years ended 31 December 2022 and 2023 and the nine months ended 30 September 2024, together with our review of the pricing policy and auditors' confirmation in relation to the Continuing Connected Transactions as set out in the Company's annual reports, we consider the samples are adequate and representative. We have compared each Sales record against two transaction records of comparable products with independent third parties, and noted that, for each sample, the selling price charged to Dr. Dong's Associates was not lower than those charged to independent third parties by the Group. Together with the discussion with the Management, we understood that the Sales had followed the pricing policies stipulated under the Master Sales Agreement.

Term and termination

The Master Sales Agreement is for a term of three years commencing from 1 January 2025 and ending on 31 December 2027. 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 Dr. Dong's Associates contemplated under the Master Sales Agreement is conditional upon the approval of the Independent Shareholders at the EGM.

LETTER FROM OPTIMA CAPITAL

Payment terms

Pursuant to the Master Sales Agreement, Dr. Dong's Associates shall settle the Sales within 30 to 90 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. We are given to understand that, in general, the Group would not grant credit period to new customers, while a credit period of 30 to 90 days after delivery of 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 Dr. Dong's Associates are neither new customers nor engaging in the telecommunication business, the credit period of 30 to 90 days granted to Dr. Dong's Associates 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, BMS, battery cells, battery racks, low capacity lithium-ion batteries and electrical vehicles such as forklifts and golf carts from Dr. Dong's Associates.

Pricing mechanism

The prices of products to be purchased by the Group from Dr. Dong's Associates 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.

LETTER FROM OPTIMA CAPITAL

As advised by the Management, most of the products purchased from Dr. Dong's Associates 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 Dr. Dong's Associates, 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 Dr. Dong's Associates to ensure that the prices offered by Dr. Dong's Associates 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 Dr. Dong's Associates and assess whether the purchase price is reasonable. The Group will also compare the purchase price for repeated Purchases against the price charged by Dr. Dong's Associates 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 Dr. Dong's Associates by comparing the terms against those available from two other independent suppliers, the costs breakdown supplied by Dr. Dong's Associates 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 Dr. Dong's Associates 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.

We have also, on a random basis, reviewed six samples of the Purchases records, including the procurement contracts and invoices for connecting cables and BMS, and 12 quotations of comparable products obtained from independent third parties. Given that all 18 samples were selected on a random basis and distributed over the period spanning the two years ended 31 December 2022 and 2023 and the nine months ended 30 September 2024, together with our review of the pricing policy and auditors' confirmation in relation to the Continuing Connected Transactions as set out in the Company's annual reports, we consider the samples are adequate and representative. We have compared each Purchase record against two quotations of comparable products obtained from independent third parties, and noted that, for each sample, the purchase price offered by Dr. Dong's Associates was not higher than those offered by independent third parties to the Group. Together with the discussion with the Management, we understood that the Purchases had followed the pricing policies stipulated under the Master Purchases Agreement.

LETTER FROM OPTIMA CAPITAL

Term and termination

The Master Purchases Agreement is for a term of three years commencing from 1 January 2025 and ending on 31 December 2027. 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 Dr. Dong's Associates 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 normally grant a credit period of 30 to 90 days after delivery of products to the Group, we consider that the payment terms stipulated in the Master Purchases Agreement are no less favourable than 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:

	For the year ending 31 December		
	2025	2026	2027
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Sales Caps	120.8	151.0	188.7

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 procurement plan of Dr. Dong's Associates for the coming years; and (iii) the possible fluctuation in lead price.

LETTER FROM OPTIMA CAPITAL

Historical amount of the Sales and expected change

Set out below are the annual caps for the Sales under the 2021 Agreements (the “**Existing Sales Caps**”), the historical actual Sales for the two financial years ended 31 December 2022 and 2023 and the annualised Sales for the year ending 31 December 2024 based on the actual Sales for the eight months ended 31 August 2024:

	For the year ended 31 December		For the year ending
	2022	2023	31 December
	<i>RMB million</i>	<i>RMB million</i>	2024
			<i>RMB million</i>
Existing Sales Caps	280.0	364.0	473.2
Actual/annualised Sales	100.6	74.3	60.2 ^(Note)
Approximate % change in actual/annualised Sales (as compared to the preceding year)	-13.8%	-26.2%	-19.0%
Approximate % of actual/annualised Sales to the Existing Sales Caps	35.9%	20.4%	12.7%

Note: The figure of the annualised Sales is for illustrative purpose only, which represents the estimated Sales for the year ending 31 December 2024 calculated by annualising the actual Sales for the eight months ended 31 August 2024 of approximately RMB40.1 million.

LETTER FROM OPTIMA CAPITAL

As shown in the table above, the actual/annualised Sales has been continuously reducing during the three years ending 31 December 2024. As advised by the Management, the drops in the Sales were mainly due to (i) the decrease in the domestic sales amount of Dr. Dong's Associates; and (ii) the increase in overseas sales orders for electric vehicles without carrying lead-acid batteries, resulting in the decrease in demand of Dr. Dong's Associates for the battery products of the Group. In the past two years, fierce competition in the domestic sightseeing car and low-speed vehicle market, coupled with the weak domestic economy in the PRC, has resulted in reduction in domestic sales of Dr. Dong's Associates. Concurrently, certain overseas customers of Dr. Dong's Associates have increased their procurement of electric vehicles without carrying lead-acid batteries from Dr. Dong's Associates, resulting in the decrease in demand for the battery products of the Group. As a result, the historical amount of the Sales has therefore been reducing. According to the management of Dr. Dong's Associates, during the two years ended 31 December 2022 and 2023, the revenue of Dr. Dong's Associates increased by approximately 36.0% and dropped by approximately 25.9%, respectively. Dr. Dong's Associates estimated that the fluctuation in sales has been stabilised and the revenue for the year ending 31 December 2024 is expected to maintain at the same level as the year ended 31 December 2023.

We note that the actual Sales for the two years ended 31 December 2022 and 2023 and the estimated Sales for the year ending 31 December 2024 represented approximately 35.9%, 20.4% and 12.7%, 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 2021 Agreements, the Management had considered, among other things, the then procurement plan provided by Dr. Dong's Associates for the coming years in respect of additional lithium-ion batteries and lead-acid batteries to be procured from the Group. As mentioned in the 2021 Circular, the Shenzhen Marshall Group had devised procurement plan for additional products from the Group as the Shenzhen Marshall Group had planned for the development and expansion of its production of electric vehicles using lithium-ion batteries and electric forklifts. It was also expected that there would 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. However, as further advised by the Management, the low demand from both domestic and overseas as mentioned above had failed the expansion plan of lithium-ion battery driven electric vehicles of Dr. Dong's Associates. In addition, the sales plan to the PRC government also had been unsuccessful. As a result, the procurement plan of Dr. Dong's Associates for the additional lithium-ion batteries and lead-acid batteries of the Group had not materialised, resulting in the low utilisation rate of the Existing Sales Caps.

LETTER FROM OPTIMA CAPITAL

According to the management of Dr. Dong's Associates, while it may continue to be challenging for their electric vehicles business in the coming years, taking into account that the fluctuation in sales has been stabilised in 2024, and the PRC government has implemented various measures to boost the domestic economy, they expect that the sales of Dr. Dong's Associates would achieve mild growth in the coming years. Dr. Dong's Associates anticipate that the revenue for the year ending 31 December 2025 would reach approximately 90% of that for the year ended 31 December 2022. In this regard, the Sales Cap for the year ending 31 December 2025 is set with reference to the actual Sales for the year ended 31 December 2022 of approximately RMB100.6 million. Furthermore, the Management advised that the Sales Cap for the year ending 31 December 2025 have incorporated a buffer of 20% to cater for unanticipated increases in demand of battery products supply to Dr. Dong's Associates. Thus, the Sales Cap is arrived at approximately RMB120.8 million for the year ending 31 December 2025.

As advised by the management of Dr. Dong's Associates, the adverse factors affecting the demand for the Group's battery products over the past two years are anticipated to be counterbalanced by the positive growth brought by state-initiated stimulus policies, leading to an anticipated recovery in the demand for battery products of the Group starting from the second half of 2024. We note that the sales of Dr. Dong's Associates have shown a growing trend since the second half of 2024. The average monthly sales of Dr. Dong's Associates for the two months ended 31 August 2024 represented an increase of about 25.4% as compared to that for the six months ended 30 June 2024. We further note that the actual Sales have also demonstrated a recovering trend since the second half of 2024. The average monthly Sales for the two months ended 31 August 2024 amounted to approximately RMB6.3 million, representing an increase of about 38.6% as compared to that for the six months ended 30 June 2024 of approximately RMB4.6 million. In particular, we note that the average monthly Sales for the two months ended 31 August 2024 of RMB6.3 million represented approximately 75.6% of the average monthly Sales for the year ended 31 December 2022 of approximately RMB8.4 million.

Based on the above, having also taken into account the official guidelines issued by the PRC government in August 2024 in relation to, among others, ramping up green transition in all areas of economic and social development, we consider it is reasonable for the Management to have a positive view on the estimates provided by Dr. Dong's Associates and to determine the Sales Cap for the year ending 31 December 2025 accordingly.

LETTER FROM OPTIMA CAPITAL

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. We have reviewed the lead price quoted from the Shanghai Metals Market between 2022 and 31 August 2024, and note that (i) the lead price for 2022 ranged between RMB14,575 and RMB15,925 per metric ton, representing a high-low difference of about 9.3%; (ii) the lead price for 2023 ranged between RMB14,900 and RMB16,825 per metric ton, representing a high-low difference of about 12.9%; (iii) the lead price for the eight months ended 31 August 2024 ranged between RMB15,700 and RMB19,775 per metric ton, representing a high-low difference of about 26.0%; (iv) the overall high-low difference during the period between 2022 and 31 August 2024 was approximately 35.7%; and (v) the lead price was generally showing an upward trend in the past years. 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 Dr. Dong's Associates in the past, a 25% buffer for sales price increase has been incorporated to cater for possible fluctuations in lead price for the Sales Caps for the two years ending 31 December 2026 and 2027. We consider such buffer to be reasonable having noted the historical fluctuations in lead price.

LETTER FROM OPTIMA CAPITAL

Our view

Having considered that (i) the general business environment of the domestic sightseeing car and low-speed vehicle market; (ii) the actual/annualised Sales for the three years ending 31 December 2024 has been decreasing; (iii) the historical utilisation rate of the Existing Sales Caps had been low; (iv) Dr. Dong's Associates expect that the revenue for the year ending 31 December 2025 would achieve approximately 90% of that for the year ended 31 December 2022; (v) a buffer of 20% on top of the actual Sales for the year ended 31 December 2022 is moderate, and it allows some extent of flexibility to the Group to promptly cope with any unanticipated increases in demand of battery products supply to Dr. Dong's Associates for the year ending 31 December 2025; and (vi) the Group shall pass on the potential increase in raw materials costs to its customers by adjusting sales price of its lead-acid batteries and upward trend in lead price were seen historically, we are of the view that the Sales Caps estimated by the Management for the three years ending 31 December 2027 are fair and reasonable.

4.2 Purchases Caps

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

	For the year ending 31 December		
	2025	2026	2027
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Purchases Caps	375.5	469.4	586.7

We have discussed with the Management and understand that the Purchases Caps were determined after taking into account (i) the historical amount of Purchases for existing raw materials and supplies (excluding BMS and related parts) (the “**Existing Purchases Products**”) from Dr. Dong's Associates; (ii) the growth in the business of the Group; and (iii) the procurement plan of the Group for the coming years for BMS (and related parts) and additional products of (a) battery cells principally for the production of lithium-ion batteries; and (b) low capacity lithium-ion batteries (the “**Additional Purchases Products**”).

LETTER FROM OPTIMA CAPITAL

Historical amount of the Purchases and expected change

Set out below are the annual caps for the Purchases under the 2021 Agreements (the “**Existing Purchases Caps**”), the historical actual Purchases for the two financial years ended 31 December 2022 and 2023 and the annualised Purchases for the year ending 31 December 2024 based on the actual Purchases for the eight months ended 31 August 2024:

	For the year ended 31 December		For the year ending
	2022	2023	31 December
	<i>RMB million</i>	<i>RMB million</i>	2024
			<i>RMB million</i>
Existing Purchases			
Caps	80.0	104.0	135.2
Actual/annualised			
Purchases	36.4	44.3	116.4 ^(Note)
Approximate % change in actual/ annualised Purchases (as compared to the preceding year)	101.4%	21.8%	163.0%
Approximate % of actual/annualised Purchases to the Existing Purchases Caps	45.4%	42.6%	86.1%

Note: The figure of the annualised Purchase is for illustrative purpose only, which represents the estimated Purchases for the year ending 31 December 2024 calculated by annualising the actual Purchases for the eight months ended 31 August 2024 of approximately RMB77.6 million.

LETTER FROM OPTIMA CAPITAL

As shown in the table above, the actual/annualised Purchases has been continuously increasing for the three years ending 31 December 2024. As advised by the Management, the increase in the Purchases for the two years ended 31 December 2023 was mainly due to increase in products prices of certain independent third parties resulting in the Group increasing its procurement from Dr. Dong's Associates, and increase in the Group's sales of lithium-ion batteries leading to the increase in procurement of related parts from Dr. Dong's Associates. For the year ended 31 December 2023, the Group increased the Purchases from Dr. Dong's Associates particularly for connecting cables and plastic products as a result of the continued improvement in the sales of the Group's battery products. Based on the 2022 Annual Report and the 2023 Annual Report, the revenue of the Group increased by approximately 13.6% to approximately RMB12,845.9 million for the year ended 31 December 2022 from approximately RMB11,303.1 million in the preceding year, and further increased by approximately 4.9% to approximately RMB13,471.2 million for the year ended 31 December 2023.

Based on the estimated Purchases for the year ending 31 December 2024 of approximately RMB116.4 million, the Purchases are expected to record an increase of approximately 163.0% as compared with the Purchases for the year ended 31 December 2023. As advised by the Management, the increase in the Purchases in 2024 was mainly driven by two factors. First, the Group increased the Purchases of BMS as a result of the increasing sales of lithium-ion batteries of the Group. During the two years ended 31 December 2022 and 2023, the revenue of the Group generated from the sales of lithium-ion batteries amounted to approximately RMB330.6 million and RMB569.5 million, representing a year-on-year increase of approximately 40.3% and 72.3%, respectively. Due to keen competition in overseas markets, particularly in Europe, the sales of lithium-ion batteries to overseas markets in the first half of 2024 were relatively less than the first half of 2023. The Group has intensified its sales efforts in the American market and actively expanded into markets such as the Middle East and Australia during the second half of 2024, the momentum of overseas sales of lithium-ion batteries has started to resume. Based on the estimation of the Management, the revenue of the Group to be generated from the sales of lithium-ion batteries for the year ending 31 December 2024 would be about RMB560.0 million. Another reason for the increase in the Purchases in 2024 was that Dr. Dong's Associates have commenced the manufacturing and sales of battery racks since November 2023, the Group then also procured battery racks from Dr. Dong's Associates.

LETTER FROM OPTIMA CAPITAL

We note that the actual Purchases for the two years ended 31 December 2022 and 2023 and the estimated Purchases for the year ending 31 December 2024 represented approximately 45.4%, 42.6% and 86.1%, respectively, of the Existing Purchases Caps for the respective year. As advised by the Management, when determining the Existing Purchases Caps at the material time of the 2021 Agreements, the Management had considered, among other things, the procurement by the Group of new supplies from the Shenzhen Marshall Group including BMS, connecting cables and battery racks for the production of lithium-ion batteries. In view of the increase in the sales of lithium-ion batteries by the Group leading to the increase in the Purchases of BMS, together with the Purchases of the battery racks, as mentioned above, the utilisation rate of the Existing Purchases Caps has therefore increased accordingly.

As advised by the Management, during the first half of 2024, the Group had recorded notable growth in its sales of battery products. The demands for lead-acid batteries remained robust, driven by sectors such as automotive, energy storage, and industrial applications. As shown in the 2024 Interim Report, the Group's revenue for the six months ended 30 June 2024 was approximately RMB7,542.9 million, representing an increase of approximately 25.6% as compared to approximately RMB6,003.4 million for the corresponding period in 2023. With the rapid development of the global digital economy, technologies such as artificial intelligence, Internet of Things and big data have been widely used, leading to an increase in the overall demand for data centers. Besides, in order to reduce electricity cost and promote clean energy, demand for home energy storage and industrial and commercial energy storage is also rising. These developments boost the demand for the Group's reserve power batteries. In addition, the growth in new energy vehicles contributes to the increasing demand for SLI batteries. Also, there has been increasing application of lithium-ion battery products in various sectors such as communications, data center, energy storage and low-speed vehicles. In light of meeting the abovementioned potential growth in the business of the Group, the Management expects the Purchases for the Existing Purchases Products would also be increasing accordingly.

LETTER FROM OPTIMA CAPITAL

For the purpose of setting the Purchases Caps in respect of the Existing Purchases Products for the three years ending 31 December 2027, an annual growth of 25% has been incorporated based on the estimated Purchases for the year ending 31 December 2024 for the Existing Purchases Products of approximately RMB81.4 million, and thus arrived at the Purchases Caps of approximately RMB101.7 million, RMB127.1 million and RMB158.9 million, respectively, for the three years ending 31 December 2027 in respect of the Existing Purchases Products. In this respect, we noted that the growth rate of the revenue of the Group for the six months ended 30 June 2024 was approximately 25.6%. We also note that the Group had experienced a compound annual growth rate in revenue of approximately 12.2% for the past ten years. On this basis and having considered the prospects of the Group, we are of the view that the growth rate of 25% adopted for the purpose of setting the Purchases Cap in respect of the Existing Purchases Products for the three years ending 31 December 2027 is reasonable.

Procurement of BMS and the Additional Purchases Products

Based on the procurement plan provided by the Management, it is expected that the Group will procure BMS and the Additional Purchases Products from Dr. Dong's Associates which include (a) BMS (and related parts) and battery cells principally for the production of lithium-ion batteries; and (b) low capacity lithium-ion batteries.

As advised by the Management, BMS (and related parts such as connecting cables) and battery cells are the most important components of lithium-ion batteries which account for approximately 15% and 60% of the raw materials costs of lithium-ion battery products. In a nutshell, BMS is the "brain" and battery cells are the "body" of a lithium-ion battery. In addition to telecommunication customers, the Group has been exploring and expanding its sales to other customers for the lithium-ion battery products such as home storage batteries, industrial and commercial storage batteries and auxiliary batteries for vehicles. In view of the potential continuous growth in the sales of the Group's lithium-ion battery products, the Management expects the procurement for BMS and battery cells will continue to increase.

LETTER FROM OPTIMA CAPITAL

The Group has been procuring BMS from Dr. Dong's Associates pursuant to the 2021 Agreements. During the nine months ended 30 September 2024, the actual Purchases for BMS from Dr. Dong's Associates amounted to approximately RMB28.9 million, representing an increase of approximately 195.8% as compared to approximately RMB9.8 million for the year ended 31 December 2023. On the other hand, the Group's purchases for BMS from independent third parties amounted to approximately RMB6.1 million for the nine months ended 30 September 2024. By annualising the actual purchases during the first nine months of 2024, the Management expects the purchases for BMS from Dr. Dong's Associates and independent third parties for the year ending 31 December 2024 would be approximately RMB38.6 million and RMB8.1 million, respectively. In view of the stable supply of BMS with good quality, it is expected that the Group will continue to increase its procurement of BMS from Dr. Dong's Associates. Besides, the Management also advised that Dr. Dong's Associates entered into a strategic cooperation agreement with an independent supplier in respect of the supply of battery cells. The independent supplier warrants that the prices of the battery cells offered to Dr. Dong's Associates will be better than or equal to the prices offered to other customers in competition with Dr. Dong's Associates. According to the strategic cooperation agreement, the independent supplier will also provide Dr. Dong's Associates with a product quality inspection report, issued by a nationally accredited third-party testing organisation, on an annual basis, to assure the quality of its supply of battery cells meets the requirements of Dr. Dong's Associates. As such, it is expected that the prices of battery cells products sourced from such supplier through Dr. Dong's Associates would be more competitive and the quality of battery cells products would be more guaranteed. The Group has obtained quotations for the same products from Dr. Dong's Associates and the independent supplier, and noted that both offered the same prices. However, Dr. Dong's Associates provided a credit period of 90 days, while the independent supplier offered 60 days. Given the same products and regardless of additional services provided, the Management considers that sourcing battery cells products from Dr. Dong's Associates at more favourable terms (i.e. a longer credit period), instead of directly from the independent supplier with comparable quality, is in the interests of the Group.

LETTER FROM OPTIMA CAPITAL

As advised by the Management, Dr. Dong's Associates commenced research and development and design of BMS and battery cells products tailored to the Group's requirements for production of lithium-ion batteries in 2024. Dr. Dong's Associates will also conduct quality testing to ensure the good quality of the processed BMS and battery cells products. In this regard, the Management anticipates the supply of BMS (and related parts) and battery cells products by Dr. Dong's Associates is of good quality meeting the Group's standards, and being well-suited for the production of lithium-ion batteries.

Currently, the Group has been sourcing battery cells from various independent third parties for its manufacturing purpose. For the nine months ended 30 September 2024, the Group's actual purchases for battery cells from independent third parties and Dr. Dong's Associates amounted to approximately RMB139.9 million and RMB3.5 million, respectively. By annualising the actual purchases during the first nine months of 2024, the Management expects the purchases for battery cells from independent third parties and Dr. Dong's Associates for the year ending 31 December 2024 would be approximately RMB186.5 million and RMB4.6 million, respectively. In view of the continuing increasing volume of production of high quality lithium-ion batteries, stable supply of battery cells with competitive prices and good quality would be of utmost importance to the Group. As Dr. Dong's Associates would be able to supply quality battery cells products at a competitive price, the Management considered, and we concurred, that it would be in the interest of the Group to shift part of its procurement of battery cells products to Dr. Dong's Associates.

LETTER FROM OPTIMA CAPITAL

For the purpose of setting the Purchases Caps in respect of BMS and battery cells for the year ending 31 December 2025, the Management has adopted the following parameters: (i) the estimated sales of lithium-ion batteries in 2024 of approximately HK\$560 million; (ii) a target growth of approximately 25% in sales of lithium-ion batteries, reaching approximately HK\$700 million for the year ending 31 December 2025; (iii) a target gross profit margin of around 20% for the sale of lithium-ion products of the Group, resulting in the corresponding cost of lithium-ion batteries of approximately HK\$560 million; (iv) approximately 15% and 60% of the raw material costs of lithium-ion batteries relate to BMS (and related parts) and battery cells, resulting in the corresponding cost for BMS (and related parts) and battery cells of approximately RMB84 million and RMB336 million, respectively; and (v) approximately 80% and 60% of BMS (and related parts) and battery cells would be sourced from Dr. Dong's Associates, which are determined with reference to (a) the actual Purchases for BMS from Dr. Dong's Associates accounted for approximately 82.6% of the total purchases of BMS of the Group for the nine months ended 30 September 2024; (b) the actual Purchases for battery cells from Dr. Dong's Associates accounted for approximately 2.4% of the total purchases of battery cells of the Group for the nine months ended 30 September 2024; and (c) the Management's anticipation of shifting half of battery cells purchases from independent third parties towards Dr. Dong's Associates after taking into account the tailored services and assured quality of products provided by Dr. Dong's Associates, amounting to approximately RMB67.2 million for BMS (and related parts) and RMB201.6 million for battery cells. Based on the above, the Group estimated the amount of procurement of BMS (and related parts) and battery cells from Dr. Dong's Associates for the year ending 31 December 2025 would amount to approximately RMB268.8 million. The respective Purchases Cap for the year ending 31 December 2026 and 2027 in respect of BMS and battery cells represents a 25% increase from the Purchases Cap for the preceding year, which have been estimated based on the growth in the target sales of lithium-ion batteries.

LETTER FROM OPTIMA CAPITAL

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 and battery cells 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 and battery cells. In light of the historical procurement of BMS and the strategic cooperation agreement entered into by Dr. Dong's Associates and independent supplier of battery cells, the Management considers it beneficial to secure Dr. Dong's Associates as one of the suppliers of BMS and battery cells for the Group and thus allows for a sizeable portion of BMS and battery cells procurement from Dr. Dong's Associates; (ii) the target gross profit margin of 20% is comparable to the actual gross profit margin of approximately 20.8% achieved by the Group for the eight months ended 31 August 2024 for the sale of lithium-ion products; (iii) the proportion of raw material costs attributable to BMS and battery cells 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 Dr. Dong's Associates 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.

LETTER FROM OPTIMA CAPITAL

As further advised by the Management, the Group used to procure low capacity lithium-ion batteries from independent third parties for resale to its customers as the Group does not manufacture low capacity lithium-ion batteries by itself. Low capacity lithium-ion batteries are mainly used for motorcycle production. During the year ended 31 December 2023, revenue of the Group generated from the sales of low capacity lithium-ion batteries amounted to approximately RMB5.0 million. As Dr. Dong's Associates will commence the manufacturing and sales of low capacity lithium-ion batteries in the first quarter of 2025, having taken into account that (i) the assured quality of BMS and battery cells resources available to Dr. Dong's Associates, which are major components for manufacturing low capacity lithium-ion batteries; and (ii) to secure a stable source of quality supply, the Management expects to also procure low capacity lithium-ion batteries from Dr. Dong's Associates in the coming years. For the purpose of setting the Purchases Caps in respect of low capacity lithium-ion batteries for the year ending 31 December 2025, RMB5.0 million has been adopted based on the sales amount of the Group for such products. The respective Purchases Cap for the year ending 31 December 2026 and 2027 in respect of low capacity lithium-ion batteries represents a 25% increase from the Purchases Cap for the preceding year, which have been estimated with reference to the target growth in the overall sales of lithium-ion batteries. Given that low capacity lithium-ion batteries are mainly for resale to other customers, the Management considers, and we concur, that the basis on setting the Purchases Caps for this product is reasonable.

Our view

Having considered (i) the estimated Purchases for the year ending 31 December 2024 of approximately RMB116.4 million; (ii) the growth rate of 25% adopted in the Purchases Caps for the Existing Purchases Products and the Additional Purchases Products in light of the historical and expected growth of revenue of the Group; (iii) the prospects for lithium-ion batteries and the expected procurement amount of RMB268.8 million for BMS (related parts) and battery cells to provide for the demand for lithium-ion batteries; and (iv) the historical sales and the expected procurement amount of RMB5.0 million for low capacity lithium-ion batteries, we are of the view that the Purchases Caps for the three years ending 31 December 2027 are fair and reasonable.

LETTER FROM OPTIMA CAPITAL

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 Dr. Dong’s Associates 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.

LETTER FROM OPTIMA CAPITAL

We have obtained and reviewed the internal control manual and samples of historical documents and, on a random basis, 12 records maintained by the Group, including the sales/procurement contracts and invoices, 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. Given that all 12 samples were selected on a random basis and distributed over the period spanning the two years ended 31 December 2022 and 2023 and the nine months ended 30 September 2024, we consider the samples are adequate and representative. 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 2022 and 2023. 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.

IV OPINION AND RECOMMENDATION

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 and on normal commercial terms; and (ii) the transactions contemplated under each of the Master Agreements are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. 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
Ng Ka Po
Managing Director, Corporate Finance

Mr. Ng Ka Po is a responsible officer of Optima Capital and a licensed person registered with the Securities and Futures Commission to carry out type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Ng 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) Interests and short positions of the Directors and the chief executive of the Company 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 Issuers (the “**Model Code**”) adopted by the Company:

Name of Director/ chief executive	Note	Nature of Interest	Number of Shares held	Number of underlying Shares held	Approximate percentage of issued share capital
Dr. Dong Li	1	Interest of controlled corporation	1,015,021,000 (L)	–	73.43%
Ms. Hong Yu	2	Beneficial owner	934,000 (L)	1,000,000 (L)	0.14%
Mr. Cao Yixiong Alan	3	Beneficial owner	–	1,100,000 (L)	0.08%
Mr. Lau Chi Kit	4	Beneficial owner	–	1,100,000 (L)	0.08%
Mr. Lu Zhiqiang	5	Beneficial owner	–	225,000 (L)	0.02%
Mr. Chang Jianwei	6	Beneficial owner	236,000 (L)	700,000 (L)	0.07%

The letter “L” denotes long position in the Shares/underlying Shares

Notes:

1. Dr. Dong is deemed to be interested in 1,015,021,000 Shares held by Master Alliance, a company which is wholly owned by Dr. Dong. Dr. Dong, the chairman of the Company and an executive Director, is a director of Master Alliance, which has an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO.
2. Ms. HONG Yu has purchased 90,000 shares on 6 May 2024 as beneficial owner, so Ms. HONG's number of shares held is 934,000 shares. Ms. HONG Yu has been granted options for 1,800,000 shares under the share option scheme of the Company adopted on 30 October 2020 (the "**New Share Option Scheme**"), and has exercised 556,000 and 244,000 shares options in April 2024 and May 2024 respectively, so Ms. HONG has 1,000,000 share options under the New Share Option Scheme.
3. Mr. Cao Yixiong Alan has been granted options for (i) 800,000 Shares under the share option scheme of the Company adopted on 14 October 2010 (the "**2010 Share Option Scheme**"); and (ii) 300,000 Shares under the New Share Option Scheme.
4. Mr. Lau Chi Kit has been granted options for (i) 800,000 Shares under the 2010 Share Option Scheme; and (ii) 300,000 Shares under the New Share Option Scheme.
5. Mr. LU Zhiqiang held 225,000 share options under the New Share Option Scheme.
6. Mr. CHANG Jianwei has been granted options for 700,000 Shares under the New Share Option Scheme.
7. As at the Latest Practicable Date, the number of issued shares of the Company was 1,382,333,166.

Save as disclosed above, as at the Latest Practicable Date, (a) 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 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; and (b) none of the Directors or proposed Director is a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) 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 in relation to the business of the Group:

- (i) 2021 Sales Agreement;
- (ii) 2021 Purchases Agreement;
- (iii) the Master Sales Agreement; and
- (iv) the Master Purchases Agreement.

(c) 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 2023, being the date to which the latest published audited financial statements of the Group were made up.

(d) 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 2023, being the date to which the latest published 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 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. The letter from the above expert is given as of the date of this circular for incorporation in this circular.

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 2023, 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 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.

NOTICE OF EGM



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, N.T., Hong Kong on Monday, 30 December 2024 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 2 December 2024 (the “**Master Sales Agreement**”) entered into between the Company and Dr. Dong Li (“**Dr. Dong**”) in respect of the sales by the Company and its subsidiaries (together the “**Group**”) to Dr. Dong and his associates (together the “**Dr. Dong’s Associates**”) 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 2025 (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 RMB120.8 million, RMB151.0 million and RMB188.7 million for each of the three years ending 31 December 2027 respectively be and are hereby approved; and
 - (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.”

NOTICE OF EGM

2. “**THAT:**
- (a) the master purchases agreement dated 2 December 2024 (the “**Master Purchases Agreement**”) entered into between the Company and Dr. Dong in respect of the purchases by the Group from Dr. Dong’s Associates of battery related components including chargers, connecting cables, battery management systems, battery cells, battery holders, and electric scooters and related parts, and low capacity lithium-ion batteries (together the “**Purchases Products**”) for a term of three years commencing from 1 January 2025 (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 purchase of the Purchases Products under the Master Purchases Agreement of RMB375.5 million, RMB469.4 million and RMB586.7 million for each of the three years ending 31 December 2027 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
Dr. Dong Li
Chairman

Hong Kong, 6 December 2024

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

Headquarters:
152 BEACH ROAD
#22-01/04,
GATEWAY EAST,
SINGAPORE

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

NOTICE OF EGM

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. 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 17/F, Far East Finance Centre, 16 Harcourt Road, 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.
3. The register of members of the Company will be closed from Monday, 23 December 2024, to Monday, 30 December 2024, (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration by no later than 4:30 p.m. on Friday, 20 December 2024.
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.

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