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## **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor.

**If you have sold or transferred** all your shares in **BYD ELECTRONIC (INTERNATIONAL) COMPANY LIMITED**, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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比亞迪電子（國際）有限公司

**BYD ELECTRONIC (INTERNATIONAL) COMPANY LIMITED**

*(incorporated in Hong Kong under the Companies Ordinance with limited liability)*

**(Stock Code: 285)**

### **SUPPLEMENTAL AGREEMENT FOR CONTINUING CONNECTED TRANSACTIONS**

**Independent Financial Adviser to  
the Independent Board Committee and the Independent Shareholders**



**Dakin Capital Limited**

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A letter from the Board is set out on pages 4 to 16 of this circular. A letter from the Independent Board Committee is set out on pages 17 to 18 of this circular. A letter from Dakin Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 37 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at the conference room of BYD Company Limited at No. 3009, BYD Road, Pingshan District, Shenzhen, the People's Republic of China on Monday, 29 June 2020 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular.

Whether or not you are able to attend and/or vote at the extraordinary general meeting in person, you are requested to complete the enclosed proxy form and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from subsequently attending and voting at the extraordinary general meeting or any adjournment thereof in person should you so wish.

11 June 2020

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## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“BYD”	BYD Company Limited (比亞迪股份有限公司), a joint stock limited company incorporated in the PRC whose H shares are listed on the Main Board of the Stock Exchange and A shares are listed on the Small and Medium Enterprise Board of Shenzhen Stock Exchange, and the controlling shareholder of the Company indirectly interested in approximately 65.76% of the issued share capital of the Company as at the Latest Practicable Date
“BYD Group”	BYD and its subsidiaries (excluding, except where the context indicates otherwise, the Group)
“Company”	BYD Electronic (International) Company Limited (比亞迪電子(國際)有限公司), a company incorporated under the laws of Hong Kong, whose Shares are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling Shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held to consider and, if thought fit, approve, inter alia, the Supplemental Agreement, the transactions contemplated thereunder and the Proposed Annual Cap
“Existing Annual Cap”	the existing annual cap of RMB1,200,000,000 for the transactions contemplated under the Supply Framework Agreement
“Golden Link”	Golden Link Worldwide Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of BYD

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## DEFINITIONS

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“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	a committee of the Board comprising Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie, being the independent non-executive Directors
“Independent Financial Adviser” or “Dakin Capital”	Dakin Capital Limited, a corporation licensed to conduct Type 6 (advising on corporate finance) regulated activities under the SFO, and is the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement, the Non-exempt Continuing Connected Transactions and the Proposed Annual Cap
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the EGM
“Latest Practicable Date”	8 June 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-exempt Continuing Connected Transactions”	being the continuing connected transactions of the Group as contemplated under the Supplemental Agreement, for which the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules exceed 5%, and, accordingly, is subject to the reporting, announcement, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules
“PRC”	the People’s Republic of China
“Proposed Annual Cap”	has the meaning ascribed to it under the paragraph headed “II. Supplemental Agreement for Continuing Connected Transactions – Annual Cap” in the letter from the Board contained in this circular
“RMB”	Renminbi, the lawful currency of the PRC

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## DEFINITIONS

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“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Shares
“Shares”	the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Supplemental Agreement”	the supplemental agreement dated 26 May 2020 between the Company and BYD to revise the Supply Framework Agreement
“Supply Framework Agreement”	the supply agreement dated 19 March 2020 entered into between the Company and BYD in relation to the supply of masks from the Group to the BYD Group
“%”	per cent.

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## LETTER FROM THE BOARD

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比亞迪電子（國際）有限公司  
**BYD ELECTRONIC (INTERNATIONAL) COMPANY LIMITED**  
*(incorporated in Hong Kong under the Companies Ordinance with limited liability)*  
**(Stock Code: 285)**

***Board of Directors:***

*Executive Directors*

Mr. WANG Nian-qiang

Mr. Jiang Xiang-rong

*Non-executive Directors*

Mr. WANG Chuan-fu

Mr. WANG Bo

*Independent Non-executive Directors*

Mr. CHUNG Kwok Mo John

Mr. Antony Francis MAMPILLY

Mr. QIAN Jing-jie

***Registered Office:***

Part of Unit 1712, 17th Floor, Tower 2

Grand Central Plaza

138 Shatin Rural Committee Road

New Territories

Hong Kong

***Head Office and Principal Place  
of Business in PRC:***

No. 3001, Bao He Road

Baolong, Longgang

Shenzhen, 518116

The PRC

11 June 2020

*To the Independent Shareholders*

Dear Sir or Madam,

**SUPPLEMENTAL AGREEMENT  
FOR CONTINUING CONNECTED TRANSACTIONS**

**I. INTRODUCTION**

Reference is made to the announcement of the Company dated 26 May 2020 regarding, among others, the Supplemental Agreement, the transactions contemplated thereunder and the Proposed Annual Cap.

This circular gives you further information in relation to (i) the Supplemental Agreement, the transactions contemplated thereunder and the Proposed Annual Cap; (ii) the advice from the Independent Board Committee to the Independent Shareholders in relation to the Supplemental Agreement, the transactions contemplated thereunder and the Proposed Annual Cap; and (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Agreement, the transactions contemplated thereunder and the Proposed Annual Cap.

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## LETTER FROM THE BOARD

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### II. SUPPLEMENTAL AGREEMENT FOR CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 19 March 2020 in respect of the supply of medical masks by the Group to the BYD Group in accordance with the Supply Framework Agreement and the announcement of the Company dated 26 May 2020 in which it was stated that the Company had entered into the Supplemental Agreement.

Following the signing of the Supply Framework Agreement, as a result of the continuing and rapid spread of the Novel Coronavirus (COVID-19) pandemic across of the globe and the unexpected rapid surge in demand of masks domestically and internationally, the transaction amounts under the Supply Framework Agreement is expected to be higher than the existing annual cap of RMB1,200,000,000. On 26 May 2020 (after trading hours), the Company entered into the Supplemental Agreement with BYD to expand the types of masks to be supplied, revise the Existing Annual Cap and amend the payment terms.

Details of the Supplemental Agreement are set out below:

<b>Parties</b>	:	(a) the Company; and  (b) BYD
<b>Date</b>	:	26 May 2020 (after trading hours)
<b>Duration</b>	:	19 March 2020 to 31 December 2020
<b>Effective Date</b>	:	The date on which Independent Shareholders' approval in respect of this agreement is obtained

#### Subject Matter

Pursuant to the Supplemental Agreement, in light of the influence of the Novel Coronavirus (COVID-19) pandemic, the Group shall supply to the BYD Group masks (including but not limited to disposable medical masks and/or N95/KN95 masks) from 19 March 2020 to 31 December 2020, unless terminated earlier in accordance with the terms of the Supplemental Agreement.

#### Principal terms and price determination

The parties shall execute separate orders in accordance with the terms of the Supplemental Agreement setting out, among others, the specifications and quantity of masks required and delivery schedules, and must comply with the terms of the Listing Rules and applicable laws.

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## LETTER FROM THE BOARD

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The Company and BYD shall negotiate in good faith the selling prices of the masks on normal commercial terms and the Group will determine the selling prices with reference to, and generally shall not be lower than, the reference price which represented the prices charged by the Group to independent third party customers of masks of same or similar specifications and for the same or comparable volume, delivery schedules and terms unless no such referable reference price is available. No fixed unit selling price of the masks to be sold to either the BYD nor any independent third parties were set as the demand and specifications required by BYD and independent third parties varied in different orders (this was especially the case here as the specific orders from BYD varied according to both its internal demand as well as external demands from its different stakeholders). As such, the selling prices were and will continue to be subject to arm's length negotiation with the BYD or the independent third parties primarily based on the costs of materials and labour costs and taking into consideration factors including not limited to, customer's requirements including specification and/or quantity of masks required, the estimate cost of engineering work which are caused by any necessary customising, and the estimated cost and expenses relating to, among others, packaging, shipping, temporary storage and/or insurance required from the Group.

To ensure that the pricing policy will be complied with and that transaction prices under the Supplemental Agreement will be fair and reasonable and on normal commercial terms, the business department of the Group will regularly review its prices charged to independent third parties customers for the supply of masks with same or similar consideration factors including not limited to, customer's requirements including specification and/or quantity of masks required, the estimate cost of engineering work which are caused by any necessary customising and the estimated cost and expenses relating to, among others, packaging, shipping, temporary storage and/or insurance required from the Group, and determine the reference price for setting the selling price of masks with BYD Group on an ongoing basis. Such reference price will then be reviewed and approved by the general manager of the business department of the Group. To ensure that the selling prices of the masks to be supplied to BYD will not be lower than those charged to independent third parties with same or comparable specifications, volume, delivery schedules and terms, the general manager of the business department of the Group and the finance department of the Group will review, compare and approve the selling price(s) offered to the BYD Group with the reference price before the quotations are sent. In accordance with the Company's internal policies, the transactions under the Supplemental Agreement will be properly recorded, including but not limited to prices determined and transaction amounts. The finance department will also regularly review and compare the invoices with the BYD Group and the independent third parties. As the management of the Group will review the aforesaid pricing policy on a regular basis, the Directors are of the view that the aforesaid method and procedures can ensure that the transactions contemplated under the Supplemental Agreement will be conducted on normal commercial terms and not prejudicial to the interest of the Company's minority Shareholders.

### **Payment terms**

Specific payment terms will be stipulated in the relevant order forms, which is normally payable within 15 days after delivery of the masks.



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## LETTER FROM THE BOARD

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### Annual Cap

Pursuant to the Supply Framework Agreement, the existing annual cap for the year ending 31 December 2020 is RMB1,200,000,000.

Following the signing of the Supply Framework Agreement, as a result of the continuing and rapid spread of the Novel Coronavirus (COVID-19) pandemic across of the globe and the unexpected rapid surge in demand of masks domestically and internationally, the transaction amounts under the Supply Framework Agreement is expected to be higher than the Existing Annual Cap. The Company proposes to revise the Existing Annual Cap to RMB12,750,000,000 (the “**Proposed Annual Cap**”).

The Proposed Annual Cap was determined based on arm’s length negotiations between the Company and BYD having considered, among others, the following factors and assumptions:

- (a) the historical transaction amounts. In particular, from the commencement date of the Supply Framework Agreement to 30 April 2020, the actual transaction amount incurred under the Supply Framework Agreement was approximately RMB1,046 million, representing approximately 87.17% of the Existing Annual Cap;
- (b) the increased production capacity of the Group, especially the commencement of production of N95/KN95 masks which had higher unit price(s). As at 10 May 2020, the Group reached a daily production capacity of approximately 50.0 million masks per day and such capacity could be further increased by approximately 1 to 3 million masks per day flexibly according to customer’s demand;
- (c) the strong and increasing demand of masks by the BYD Group, which has increased by approximately 381% in terms of the expected number of masks (including disposable medical masks and N95/KN95 masks) required since the date of the Supply Framework Agreement, as a result of a substantial surge in demand from more local and overseas stakeholders of the BYD Group (including employees, shareholders and/or investors, customers, suppliers, government authorities, industry associations, non-governmental organisations, communities, media organisations and research/academic institutions), some of which are based in regions with relatively high level of confirmed COVID-19 infections recorded; and
- (d) the respective selling price of the disposable medical mask and N95/KN95 mask. For purpose of the calculation of the Proposed Annual Cap, the selling price of N95/KN95 masks is not less than four times than that of the disposable medical masks and the selling prices were assumed to be stable having regarded to, among others, the expected demand from BYD, the cost of production, the historical transactions between the Group and the BYD Group under the Supply Framework Agreement and the transactions with independent third parties.

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## LETTER FROM THE BOARD

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With the above considerations and assumptions, the Proposed Annual Cap was arithmetically arrived at based on the expected number of masks required (including both the disposable medical masks and N95/KN95 masks) as communicated with the BYD Group based on its communications and/or orders in negotiation and on hand with its stakeholders times the respective selling prices of the masks and added with the Existing Annual Cap. The Proposed Annual Cap represented an approximately 962.5% increase of the Existing Annual Cap as a result of the accumulated and compound effect of (i) the commencement of production of N95/KN95 masks after the signing of the Supply Framework Agreement which had a much higher selling price (of not less than four times) than that of the disposable medical masks; times (ii) the substantial increase in demand of masks by the BYD Group, which increased by approximately 381% in terms of the expected number of masks (including both the disposable medical masks and N95/KN95 masks). Notwithstanding the substantial surge in the expected demand of masks, to the best information and belief of the Directors after having made all reasonable enquiries, the Board confirms that it would have all necessary capacity to produce the expected volume of masks required by the BYD Group under the Supplemental Agreement.

As the transactions contemplated under the Supplemental Agreement constitute Non-exempt Continuing Connected Transactions and the Proposed Annual Cap are subject to the approval of the Independent Shareholders, the Supplemental Agreement is conditional upon the relevant resolution being passed at the EGM.

### **III. REASONS FOR AND THE BENEFITS OF ENTERING INTO THE SUPPLEMENTAL AGREEMENT AND REVISING THE EXISTING ANNUAL CAP**

As stated in the announcement of the Company dated 19 March 2020 in respect of the supply of medical masks by the Group to the BYD Group, in response to the COVID-19 pandemic, the Group actively allocates resources and utilises its research and development and manufacturing advantage to set up new production lines to produce masks primarily for use by the employees of the Group and the BYD Group, local and overseas governmental and medical institutions, research institutions and communities, as well as certain customers, suppliers and business partners in order to prevent and minimise the spread of the pandemic, minimise disruption to the business operation of both the Group and the BYD Group and serve as a reflection of the Group's active performance of public corporate social responsibility.

As a result of the continuing and rapid spread of the COVID-19 pandemic across of the globe and given the tight supply of masks in the short term, there has been a continuing increase in the demand of masks from BYD's local and overseas stakeholders through BYD Group after the signing of the Supply Framework Agreement. With the Group's mature OEM experience, leading production capacity, as well as BYD Group's brand influence, product design capacity, global marketing services and customer cooperation network advantages, it is understood that many of the local and overseas stakeholders of BYD Group are satisfied with the supply of masks, which have turned into a further increase in demand of masks from these stakeholders. Expecting that the Existing Annual Cap will be exceeded, the purpose of entering into the Supplemental Agreement is to primarily revise the Existing Annual Cap, so as to ensure that the Group and BYD Group can continue the transactions under the Supply Framework Agreement. The Board (including the independent non-executive Directors after taking the advice of the Independent Financial Adviser) are of the view that the entering into the Supplemental Agreement and the supplying more masks to the BYD Group is beneficial as

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## LETTER FROM THE BOARD

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not only can it help provide positive contribution to the sales revenue and profitability of the Group, but it can also help prevent the spread of COVID-19, ensure the safe and orderly operation of all stakeholders and enhance common brand influence of both the Group and the BYD Group through their joint efforts to effectively alleviate mask shortage crisis and fulfill social responsibility.

The Group had obtained all necessary licenses and/or approvals for the production of masks and hired additional supporting staff to develop additional masks production lines through our experienced research and development capabilities without affecting our existing production capacity for electronic products. It is expected that the supply of masks by the Group will not have a material adverse impact on the business operations and/or financial results of the Company.

The Company will continue to review and supervise the transaction amounts in respect of the Supplemental Agreement going forward with a view to ensuring that necessary measures and appropriate actions will be promptly taken in order to comply with the applicable requirements under the Listing Rules.

The Directors (including the independent non-executive Directors after taking the advice of the Independent Financial Adviser) have confirmed that the Supplemental Agreement and the transactions contemplated thereunder have been subject to arm's length negotiations between the parties and are entered into by the Group in the ordinary and usual course of business and on normal commercial terms, and are of the view that the Supplemental Agreement and the Proposed Annual Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

#### **IV. INTERNAL CONTROL MEASURES**

In addition to our measures to ensure that pricing policy will be complied with as detailed in the subsection headed "II. SUPPLEMENTAL AGREEMENT FOR CONTINUING CONNECTED TRANSACTIONS – Principal terms and price determination" in this section and our compliance with the requirements on annual review by external auditors and independent non-executive Directors under the Listing Rules in respect of the Group's continuing connected transactions, to ensure the transactions contemplated under the Supplemental Agreement do not exceed the Proposed Annual Cap, the business department of the Group shall fill in and submit statistical charts for the continuing connected transactions at least quarterly. In the event that the amount of the transactions incurred and/or to be incurred under the Supplemental Agreement is expected to reach the Proposed Annual Cap, the business department will follow up forthwith by reporting and proposing a response to the management of the Company, and in case that an amendment to the Proposed Annual Cap is required, report particulars to the Board and hold a Board meeting for considering the matters thereabout to ensure compliance of the requirements under the Listing Rules.

The Company also arranges compliance trainings for the Directors, senior management and staff from the relevant departments of the Company and its subsidiaries from time to time, primarily focusing on the rules relating to connected transactions under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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### V. REVENUE CONTRIBUTION FROM THE BYD GROUP

Despite the fact that a significant portion of the revenue of the Group may be derived from the BYD Group as a result of the transactions contemplated under the Supplemental Agreement based on the Proposed Annual Cap with reference to the consolidated revenue of the Company as at 31 December 2019, the Board does not consider this as an issue of undue reliance on the BYD Group on the following grounds:

- (a) while it might appear that there are various ongoing continuing connected transactions (“CCTs”) between the Group and the BYD Group, not all of them involves unilateral supply of products and/or services from the BYD Group to the Group or vice versa (which may be relevant to the potential concern of operational and/or financial dependence). Based on the calculation of the sum of the highest annual caps of the existing CCTs announced by the Company (excluding the transactions under the Supply Framework Agreement or the Supplemental Agreement in relation to the supply of masks which would be separately dealt with below and in paragraph (c) in detail) (the “**Transactions**”), the Transactions only represented approximately 14.55% in terms of revenue ratio calculation, of which (i) approximately 6.99% represented transactions which the BYD Group is the services and products supplier to the Group; and (ii) approximately 7.56% represented transactions which the Group is the services and products supplier to the BYD Group. If the Proposed Annual Cap is taken into account, the revenue ratio (for revenue to be received by the Group from BYD Group) would only be increased to approximately 31.59%. As such, the Company did not consider there is any issue of undue reliance with reference to the proposed transaction amount of the existing CCTs as compared with the revenue of the Group.
  
- (b) the business relationship and transaction amount between the Group and the BYD Group are unlikely to substantially decrease in the near future given the commercial benefits to support the day-to-day business operation of the Group in a cost-effective manner. As explained in the announcements of various CCTs, the CCTs were beneficial to both the Group and the BYD Group given the historical friendly business relationship between the Group and the BYD Group, the proximity of the factories and premises of the Group and the BYD Group, the mutual understanding of the parties’ business practice and standard required. Both the Group and the BYD Group were providing and/or receiving different services and products to each other by utilising their different business capabilities and/or expertise to support the business operations of each other effectively. In particular, the Group believes it is in the commercial interest of the Company to obtain/provide the relevant services or products from/to the BYD Group with minimised administrative costs in relation to the engagement and/or supervision/compliance of the required services/products and specifications, not to mention the commercial advantage which the Company is entitled to conduct the transactions on terms no less favourable than terms offered by or available to independent third parties. As such, the benefit from the CCTs is mutual and complementary to both the Group and the BYD Group as the existing arrangements can enable both parties to achieve synergy.

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## LETTER FROM THE BOARD

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- (c) As to the concern that the transactions contemplated under the Supplemental Agreement would bring additional significant revenue contribution to the Group, the Board considers that:
- (i) it is obvious that the supply and production of masks is a new business development of the Company or even many other companies caused by COVID-19 mainly to alleviate the mask shortage crisis. It was originally intended that the masks produced by the Company would be primarily for uses domestically (and some of which will be provided to the BYD Group for uses by its employees or stakeholders) which explained that only RMB1,200,000,000 was set as the annual cap under the Supply Framework Agreement having considered, among others, the then development of COVID-19 and the expected demand by the BYD Group and its limited stakeholders. It was the continuing and rapid spread of COVID-19 pandemic across of the globe and the unexpected rapid surge in demand of masks domestically and internationally which led to the substantial surge in demand of masks through BYD. With such uncontrollable demand, it would not be commercially sensible or socially responsible for the Company or BYD to turn down such demand and business opportunities when the Company has the capacity and resources to continue producing more masks to increase its revenue and alleviate the mask shortage crisis.
  - (ii) while the Proposed Annual Cap with reference to the consolidated revenue of the Company as at 31 December 2019 (i.e. in terms of revenue ratio) exceeded 24%, such analysis was arbitrary as it had not taken into account (i) the increase of revenue from the supply of masks to the BYD Group and to independent third parties by the Group (which was commenced after December 2019); (ii) the fact that the masks required by the BYD Group were not only intended for uses by the BYD Group internally; and (iii) the expected increase of revenue from the existing business of the Group. As at 30 April 2020, revenue from the supply of masks to the independent third parties of the Group accounted for approximately 30% of the total revenue recorded by the Group for the supply of masks since the commencement of the production of masks by the Group and it was expected that such revenue stream will continue to grow. As stated in the subsection headed “II. SUPPLEMENTAL AGREEMENT FOR CONTINUING CONNECTED TRANSACTIONS – Annual Cap” in this section of the circular, a majority of masks required by the BYD Group comprised of the demand from its local and overseas stakeholders (including but not limited to its customers, suppliers, government authorities and industry associations) which were independent third parties of the Group. It was noted that some of such independent third parties preferred to continue sourcing masks from the BYD Group due to their connections and long term business relationship with the BYD Group and convenience (as such independent third parties therefore would not have to re-run background and/or credit checks if they were to purchase masks from BYD (instead of the Company)). Further, as

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## LETTER FROM THE BOARD

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stated in the profit alert announcement of the Company dated 28 April 2020, the Board considers that with the Group's share in major customers continues to increase and with the achievements of new components projects of the Group, the profitability of the Group is expected to improve significantly in the second quarter of the year. As such, BYD Group shall not be considered as the major customer of the Group solely based on the Proposed Annual Cap.

- (iii) given the continuing increasing demand of masks, both the BYD Group and the Group had assessed other alternatives in order to capture the market demand and to reduce the transaction time and amount between the parties (including the possibility for BYD to also commence masks production). However, it was noted that it would not be commercially viable or effective for BYD to develop similar masks production capacity in the short term given the prolonged time and burdensome administrative procedures required for obtaining the necessary licences and/or approvals for the production of masks while the imminent demand of masks kept increasing. As such, it is expected that the transaction amount in terms of masks supply between the Group and the BYD Group is unlikely to decrease substantially in the near future.
- (iv) since the outbreak of COVID-19, the Company quickly developed the masks production lines and capability including machineries and dust-free clean rooms via its R&D expertise and obtained all necessary licences/approvals for the production of masks. As a result, the Company is now one of the major mask suppliers in the world. With the independently developed masks production capacity and the fact that there should be a subsisting demand of masks to prevent COVID-19 (at least until the end of the year), the Company is of the view that in the event that the BYD Group ceases to order masks from the Group, the Group shall still be able to capture the market demand from independent third parties.
- (d) there is no issue of management, financial or operational reliance on the BYD Group in relation to the existing and/or the proposed CCTs on the basis that (i) the day-to-day management of the business of the Group rests primarily with the Board and the senior management of the Company; (ii) the Group also has maintained an independent accounting, financial and internal control system, and will make financial decisions according to its own business needs; and (iii) the Group has developed independent expertise and capability in its principal business and the recent production of masks that are necessary to carry on and operate its business and has sufficient operational capacity in terms of capital and employees to operate independently from the BYD Group and has direct and independent access to suppliers and customers.

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## LETTER FROM THE BOARD

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### VI. LISTING RULES IMPLICATIONS

As BYD is the controlling Shareholder indirectly interested in approximately 65.76% of the issued share capital of the Company, it is a connected person of the Company. As such, the transactions contemplated under the Supplemental Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Pursuant to the Listing Rules, if the Company proposes to revise the annual cap for continuing connected transactions, the Company will be required to re-comply with the provisions of Chapter 14A of the Listing Rules in relation to the relevant connected transactions.

Mr. WANG Chuan-fu, being a non-executive Director, is also an executive director and chairman of the board of directors of BYD and is interested in approximately 19.00% of the total issued share capital of BYD as at the date of the Supplemental Agreement. Accordingly, Mr. WANG Chuan-fu, being a Director who may have a material interest, had voluntarily abstained from voting on the board resolution of the Company concerning the Supplemental Agreement.

As the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Supplemental Agreement exceed 5%, the transactions contemplated under the Supplemental Agreement constitute Non-Exempt Continuing Connected Transactions of the Company, which, together with the Proposed Annual Cap, are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company, being a non wholly-owned subsidiary of BYD, is not a connected person of BYD under Rule 14A.16(1) of the Listing Rules as, to the best knowledge, information and belief of the Directors after making all reasonable enquiry, (a) none of the connected persons of BYD is or are (individually or together) entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company; and (b) the Company is not an associate of the connected persons of BYD. Accordingly, the transactions contemplated under the Supplemental Agreement do not constitute connected transaction for BYD under Chapter 14A of the Listing Rules.

### VII. INFORMATION ON THE GROUP AND BYD GROUP

The Company is incorporated under the laws of Hong Kong with limited liability and whose Shares are listed on the Stock Exchange. Approximately 65.76% of the equity interests of the Company is owned by Golden Link Worldwide Limited, a company incorporated in the British Virgin Island, which is ultimately wholly-owned by BYD. Approximately 6.08% of the equity interests of the Company is owned by Gold Dragonfly Limited (“**Gold Dragonfly**”), a company incorporated in the British Virgin Islands and wholly-owned by BF Gold Dragon Fly (PTC) Limited as trustee of BF Trust, the beneficiaries of which are 28 employees of BYD, its subsidiaries and the Group.

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## LETTER FROM THE BOARD

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Approximately 0.76% of the equity interests of the Company is owned by Mr. Wang Nian-qiang, the executive Director, in his personal capacity and as beneficiary of BF Trust. Approximately 0.12% of the equity interests of the Company is beneficially owned by Mr. Wang Bo, the non-executive Director, as beneficiary of BF Trust. The Group is principally engaged in the business of the manufacture and sales of handset components and modules, the provision of handset design and assembly services, and the provision of parts and assembly services of other electronic products.

BYD is a joint stock company incorporated in the PRC with limited liability whose shares are listed on the Stock Exchange and the Shenzhen Stock Exchange. Based on public information available to the Directors, (i) approximately 19.00% of the entire equity interests of BYD is beneficially owned by Mr. Wang Chuan-fu, a non-executive Director and also an executive director and chairman of the board of directors of BYD; (ii) Mr. Lv Xiang-yang (a non-executive director of BYD) is interested in approximately 14.73% of the entire equity interests of BYD in his personal capacity and through Youngy Investment Holding Group Co., Ltd. (融捷投資控股集團有限公司) which is in turn held by Mr. Lv and his spouse; (iii) approximately 3.73% of the entire equity interests of BYD is beneficially owned by Mr. Xia-Zuo quan (non-executive director of BYD); (iv) approximately 0.70% of the entire equity interests of BYD is owned by Mr. Wang Nian-qiang, the executive Director; (v) approximately 8.25% of entire equity interests of BYD is owned by Berkshire Hathaway Energy Company (formerly known as MidAmerican Energy Holdings Company) which is a company controlled by Berkshire Hathaway Inc. (a company listed on the New York Stock Exchange); (vi) Citigroup Inc. (a company listed on the New York Stock Exchange) holds approximately 3.05% interests in BYD (approximately 1.70% as long position, approximately 0.56% as short position and approximately 0.79% as approved lending agent); and (vii) approximately 2.76% of the entire equity interests of BYD is owned by Himalaya Capital Investors, L.P. (formerly known as LL Investment Partners, L.P.) which is indirectly controlled by Li Lu. The BYD Group is principally engaged in rechargeable battery and photovoltaic business, handset components and assembly services, as well as automobile business which includes traditional fuel-engined vehicles and new energy vehicles and is actively developing the urban rail transportation business segment.

### VIII. EGM

A notice convening the EGM to be held at the conference room of BYD at No. 3009, BYD Road, Pingshan District, Shenzhen, the PRC on Monday, 29 June 2020 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. At the EGM, an ordinary resolution will be proposed to consider and, if thought fit, to approve the Supplemental Agreement and the transactions contemplated thereunder and the Proposed Annual Cap by way of poll. BYD and its associates are required to abstain from voting of the resolution at the EGM.



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## LETTER FROM THE BOARD

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Mr. WANG Nian-qiang, the director of the Company, is a beneficiary of BF Trust which is an employees' trust of the Company with BF Gold Dragon Fly (PTC) Limited acting as the trustee of the trust. As at the Latest Practicable Date, Mr. WANG Nian-qiang was interested in approximately 0.76% of the total issued share capital of the Company of which approximately 0.38% was held through BF Trust. Mr. WANG Nian-qiang and Mr. WANG Chuan-fu were also respectively interested in approximately 0.70% and 19.00% of the total issued share capital of BYD as at the Latest Practicable Date. Mr. WANG Nian-qiang and the trustee of BF Trust will abstain from voting of the resolution at the EGM in respect of the interest owned by Mr. WANG Nian-qiang.

A proxy form for use in connection with the EGM is accompanied with this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying proxy form in accordance with the instructions printed thereon to the branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from subsequently attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish.

### **IX. CLOSURE OF REGISTER OF MEMBERS**

#### **(a) For determining the entitlement to attend and vote at the EGM**

The EGM is scheduled to be held on Monday, 29 June 2020. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, 18 June 2020 to Monday, 29 June 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of Shares should ensure that all the share transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 17 June 2020.

#### **(b) For determining the entitlement to the proposed final dividend subject to the approval of Shareholders at the annual general meeting of the Company to be held on 23 June 2020**

Reference is made to the circular and the announcement of the Company dated 28 April 2020 in relation to the proposed final dividend which is subject to the approval of Shareholders at the annual general meeting of the Company to be held on 23 June 2020 (the "AGM"). It was stated that for determining the entitlement to the proposed final dividend if so approved at the AGM, the register of members of the Company will be closed from Tuesday, 30 June 2020 to Friday, 3 July 2020 (both days inclusive) and the last registration date to qualify for entitlement to the proposed final dividend is Monday, 29 June 2020.

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## LETTER FROM THE BOARD

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Given the closure of the register of members for determining the entitlement to attend and vote and the EGM, the relevant dates of closure of the register of members for determining the entitlement to the proposed final dividend for the year ended 31 December 2019 will be changed to Monday, 6 July 2020 to Wednesday, 8 July 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for entitlement to the proposed final dividend, unregistered holders of Shares should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 3 July 2020.

### **X. RECOMMENDATION**

The Independent Board Committee, after taking into account the advice from the Independent Financial Adviser, considers that (i) the entering into of the Supplemental Agreement is conducted in the ordinary and usual course of business, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Proposed Annual Cap is fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and accordingly recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Supplemental Agreement, the transactions contemplated thereunder and the Proposed Annual Cap.

The text of the letter from the Independent Board Committee is set out on pages 17 to 18 of this circular. The text of the letter from Dakin Capital containing its advice to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons which it has taken into account in arriving at its advice is set out on pages 19 to 37 of this circular. Independent Shareholders are strongly recommended to read carefully these two letters for details of the advice.

### **XI. ADDITIONAL INFORMATION**

Your attention is drawn to the additional information contained in the appendix to this circular and the notice of the EGM.

By order of the Board of  
**BYD Electronic (International) Company Limited**  
**WANG Nian-qiang**  
*Director*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the full text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Supplemental Agreement, the transactions contemplated thereunder and the Proposed Annual Cap:*



比亞迪電子（國際）有限公司  
**BYD ELECTRONIC (INTERNATIONAL) COMPANY LIMITED**  
*(incorporated in Hong Kong under the Companies Ordinance with limited liability)*  
**(Stock Code: 285)**

11 June 2020

*To the Independent Shareholders*

Dear Sir or Madam,

**SUPPLEMENTAL AGREEMENT  
FOR CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 11 June 2020 issued by the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider the Supplemental Agreement, the transactions contemplated thereunder and the Proposed Annual Cap and to advise the Independent Shareholders as to the fairness and reasonableness of the same. Dakin Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

**RECOMMENDATION**

We wish to draw your attention to the letter from the Board, as set out on pages 4 to 16 of the Circular, and the letter from Dakin Capital which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement, the transactions contemplated thereunder and the Proposed Annual Cap as set out on pages 19 to 37 of the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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After taking into consideration the advice from Dakin Capital, we concur with the views of Dakin Capital and consider that (i) the entering into of the Supplemental Agreement is conducted in the ordinary and usual course of business, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Proposed Annual Cap is fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Supplemental Agreement, the transactions contemplated thereunder and the Proposed Annual Cap.

Yours faithfully  
Independent Board Committee

**CHUNG Kwok Mo John**  
*Independent non-executive  
Director*

**Antony Francis MAMPILLY**  
*Independent non-executive  
Director*

**QIAN Jing-jie**  
*Independent non-executive  
Director*

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## LETTER FROM DAKIN CAPITAL

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



11 June 2020

*To: the Independent Board Committee and the Independent Shareholders of  
BYD Electronic (International) Company Limited*

Dear Sirs/Madams,

### SUPPLEMENTAL AGREEMENT FOR CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement, the Non-exempt Continuing Connected Transactions and the Proposed Annual Cap, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 11 June 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular, unless the context otherwise requires.

Reference is made to the announcement of the Company dated 19 March 2020 in respect of the Supply Framework Agreement (the “**Supply Framework Agreement Announcement**”). On 19 March 2020 (after trading hours), the Company and BYD entered into the Supply Framework Agreement whereby the Group has agreed to supply medical masks to the BYD Group for a term from 19 March 2020 to 31 December 2020 (the “**Duration**”). Pursuant to the Supply Framework Agreement, the annual cap for the continuing connected transactions contemplated thereunder for the year ending 31 December 2020 is RMB1,200,000,000. As specified in the Supply Framework Agreement Announcement, the entering into of the Supply Framework Agreement (including the Existing Annual Cap) was then subject to the reporting and announcement requirements but were exempt from the independent Shareholders’ approval requirement under Chapter 14A of the Listing Rules. For further details about the Supply Framework Agreement, please refer to the Supply Framework Agreement Announcement.

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## LETTER FROM DAKIN CAPITAL

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Following the signing of the Supply Framework Agreement, as a result of the continuing and rapid spread of the Novel Coronavirus (“COVID-19”) pandemic across the globe and the unexpected rapid surge in the demand of masks domestically and internationally, the aggregate transaction value under the Supply Framework Agreement is expected to be higher than the Existing Annual Cap. In this regard, on 26 May 2020 (after trading hours), the Company entered into the Supplemental Agreement (which should be read in conjunction with the terms and conditions of the Supply Framework Agreement as set out in the Supply Framework Agreement Announcement) with BYD pursuant to which the parties agreed to expand the types of masks to be supplied, revise the Existing Annual Cap and amend the payment term. Save as the aforesaid, all other terms and conditions of the Supply Framework Agreement shall remain the same. Pursuant to the Supplemental Agreement, the Proposed Annual Cap for the year ending 31 December 2020 is RMB12,750,000,000.

As at the Latest Practicable Date, the equity interest of the Company was held as to approximately 65.76% by Golden Link which is ultimately wholly-owned by BYD. As such, BYD is a controlling Shareholder and a connected person of the Company under the Listing Rules. Accordingly, the Non-exempt Continuing Connected Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As the Proposed Annual Cap for the Non-exempt Continuing Connected Transactions exceed 5% of the applicable percentage ratios under the Listing Rules, the Non-exempt Continuing Connected Transactions (including the Proposed Annual Cap) are subject to the reporting, announcement, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Mr. Wang Chuan-fu, being a non-executive Director, is also an executive director and chairman of the board of directors of BYD and is interested in approximately 19.00% of the total issued share capital of BYD as at the date of the Supplemental Agreement. Accordingly, Mr. Wang Chuan-fu, being a Director who may have a material interest, had voluntarily abstained from voting on the board resolution of the Company concerning the Supplemental Agreement.

The Independent Board Committee, comprising Mr. Chung Kwok Mo John, Mr. Antony Francis Mampilly and Mr. Qian Jing-jie, each being an independent non-executive Director, has been established to advise the Independent Shareholders on whether the Supplemental Agreement is entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms thereof as well as the Proposed Annual Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We, Dakin Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

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## LETTER FROM DAKIN CAPITAL

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### OUR INDEPENDENCE

As at the Latest Practicable Date, Dakin Capital did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to the independence of Dakin Capital. In the last two years, there was no engagement between Dakin Capital and any member of the Group or the BYD Group. Apart from normal professional fees paid or payable to us in connection with the Company's appointment as the independent financial adviser regarding the Supplemental Agreement, the Non-exempt Continuing Connected Transactions and the Proposed Annual Cap, no other arrangements exist whereby we have received or will receive any fees or benefits from the Company or any other parties to the Supplemental Agreement that could reasonably be regarded as relevant to our independence as defined under Rule 13.84 of the Listing Rules.

### BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information, financial information and facts contained or referred to in the Circular; (ii) the information supplied by the Group, the BYD Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group and the BYD Group; and (iv) the relevant public information. We have assumed that all the information and financial information provided and facts, representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry and consideration. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the Directors, the management of the Group and the BYD Group, and/or the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group and the BYD Group are true, accurate, complete and not misleading in all respects at the time they were made and as at the Latest Practicable Date. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and the Shareholders will be notified of any material changes as soon as possible.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our opinion and recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group and the BYD

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## LETTER FROM DAKIN CAPITAL

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Group, and/or the advisers of the Company, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position, internal control, profitability or prospects of the Company, BYD or any of their respective subsidiaries or associates.

The Directors have collectively and individually accepted full responsibility for the truth, accuracy and completeness of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is true, 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 in the Circular or the Circular misleading. We, as the independent financial adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments or changes (including any material change in market, economic conditions and COVID-19) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company or BYD.

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

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Agreement, the Non-exempt Continuing Connected Transactions and the Proposed Annual Cap, we have taken into account the following principal factors and reasons:

#### **1. Information on the Group**

##### *(i) Business activities and recent performance*

As stated in the Letter from the Board, the Group is principally engaged in the business of the manufacture and sales of handset components and modules, the provision of handset design and assembly services, and the provision of parts and assembly services of other electronic products. The Directors confirmed that in view of the global spread of COVID-19 pandemic in the presence of sustained human-to-human transmission and to address the global mask shortage, the Group took a proactive approach to expand its business scope by tapping into mask production during the early stage of the COVID-19 outbreak in the PRC.



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## LETTER FROM DAKIN CAPITAL

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Set out below is the summary of results of operations of the Group for the two years ended 31 December 2018 and 2019 as extracted from the Company's annual report for the year ended 31 December 2019 (the **"2019 Annual Report"**):

	<b>For year ended 31 December</b>		<b>Year-on-year change</b>
	<b>2018</b>	<b>2019</b>	
	<i>RMB'000</i> (audited)	<i>RMB'000</i> (audited)	%
Revenue	41,047,139	53,028,376	29.2
Gross profit	4,171,983	3,957,328	(5.1)
Profit for the year	2,188,620	1,597,645	(27.0)

As depicted in the above table, the Group recorded an increase of approximately 29.2% in its revenue to approximately RMB53,028.4 million for the year ended 31 December 2019 as compared to the year ended 31 December 2018. However, the net profit for the year ended 31 December 2019 decreased by approximately 27.0% to approximately RMB1,597.6 million as compared with the prior fiscal year. According to the 2019 Annual Report, profit in the first half of 2019 was under pressure due to the affected business of certain customers amidst the China-United States trade conflict, coupled with the trough prior to the 5G smartphone replacement wave in the phone industry. In addition, it is also noted that other factors, including the changes of product structure and an increase in investment in the research and development of new business (such as automotive intelligent system, glass and ceramics), also contributed to the decrease in the net profit for the year ended 31 December 2019.

Notwithstanding the above, on 28 April 2020, the Company published the unaudited consolidated results of the Group for the three months ended 31 March 2020 (the **"Unaudited Result Announcement"**), setting out, among others, the Group's profit attributable to equity owners of the parent for the three months ended 31 March 2020 was approximately RMB657.3 million, which represents an increase of approximately 69.4% as compared to that of RMB387.9 million for the three months ended 31 March 2019. It is also noted from the positive profit alert announcement of the Company dated 28 April 2020 (the **"Profit Alert Announcement"**) that the Group expected to record an increase in profit attributable to the shareholders of the Company for the six months ended 30 June 2020 of no less than 280% compared to that of approximately RMB575.2 million for the six months ended 30 June 2019. Based on our discussion with the management of the Company regarding the foregoing, it has come to our knowledge that the aforesaid expected increase in profit is expected to be attributed to, among others, the increase in sales contribution of major customers, the achievements of importing new components projects, and the manufacturing and sales of masks. For further details, please refer to the Unaudited Result Announcement and the Profit Alert Announcement.

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## LETTER FROM DAKIN CAPITAL

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*(ii) New business opportunities arising from the COVID-19*

In response to the potential impacts of the global shortage of masks on the Group's business operations resulting from the COVID-19 pandemic, the Directors considered that the Group was apt to implement various measures to combat against the COVID-19 in the normal course of its business operations, including but not limited to, mask production after having considered the Group's possession of well-established production facilities equipped with high-precision equipment and dust-free rooms previously used for the assembly of smartphones as well as transferable skills and ability with extensive experience in using custom automated manufacturing systems in normal and usual operation. As advised by the management of the Group, by leveraging the Group's available resources and research and development and manufacturing advantage, the Group commenced its commercial production of masks ("**BE Masks**") in February 2020, initially primarily for internal use and health support purposes before gradually expanding the production capacity and the types of the masks to capture the business opportunities in both domestic and international mask markets (the "**Mask Supply Business**") arising from the rapid spread of COVID-19 across the world.

Subsequent to the declaration of the COVID-19 outbreak in late January 2020 by the World Health Organisation (the "**WHO**") as a Public Health Emergency of International Concern across the world, and given the drastic rise in global demand for masks to prevent the spread of the COVID-19 upon the announcement of the COVID-19 pandemic by the WHO in early March 2020, the Group has assumed an increasingly more active role in the manufacturing of BE Masks to alleviate mask shortage crisis, while fulfilling its corporate social responsibility with its capacity and resources. It is noted that the Group has been selling BE Masks mainly in the PRC to the BYD Group for internal use and onward sales pursuant to the Supply Framework Agreement and, to a lesser extent, independent third parties including but not limited to its existing customers. As at the Latest Practicable Date, the world is still confronted with a worsening shortage of masks. The Directors are of the view that the Group has to ramp up its production and supply as demand for BE Masks soars amid the COVID-19 pandemic since April 2020. It is stated in the Letter from the Board that the Group had hired additional supporting staff to develop additional masks production lines through its experienced research and development capabilities without affecting its existing production capacity for electronic products.

According to the management of the Group, as at the Latest Practicable Date, BE Masks sold to the BYD Group under the Supply Framework Agreement and the Group's independent third party customers were all manufactured in the Group's production facility equipped with fully-automated production lines which take advantage of the Group's manufacturing knowhow. We are given to understand that this well-equipped and fully-staffed facility can be configured to accommodate a variety of different types of masks ranging from disposable medical masks to N95 and KN95 masks and has an estimated daily production capacity of approximately 50.0 million masks per day as at 10 May 2020. As stated in the Letter from the Board, to the best information and belief of

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## LETTER FROM DAKIN CAPITAL

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the Directors after having made all reasonable enquiries, the Board confirms that it would have all necessary capacity to produce the expected volume of masks required by the BYD Group under the Supplemental Agreement.

As stated in the Letter from the Board, the Group has obtained all necessary licenses and/or approvals for the production of masks. The management of the Group confirmed that such licenses and permits are valid and subsisting as at the Latest Practicable Date.

***(iii) Business relationship with the BYD Group***

As stated in the Letter from the Board, BYD is a joint stock company incorporated in the PRC with limited liability whose shares are listed on the Stock Exchange and the Shenzhen Stock Exchange. The BYD Group is principally engaged in rechargeable battery and photovoltaic business, handset components and assembly services, as well as automobile business which includes traditional fuel-engined vehicles and new energy vehicles and is actively developing the urban rail transportation business segment. Based on the information set out in BYD's annual report for the year ended 31 December 2019 (the "**BYD 2019 Annual Report**"), it is believed that BYD possesses a broad clientele comprising not only domestic customers, but also foreign customers located in Asia Pacific (excluding the PRC) and the United States of America.

According to the management of the Group, the Group has established a stable business relationship with the BYD Group through the entering of various continuing connected transactions between them, including but not limited to sales and purchases of products, provision of processing services, sharing of ancillary services, and provision of purchasing services. In this regard, the Directors expect that any material disruption to the business operations of the BYD Group may have direct impact on the Group's business. For further details of the existing continuing connected transactions entered into between the Group and the BYD Group (other than the Non-exempt Continuing Connected Transactions) and their business relationship, please refer to the Supply Framework Agreement Announcement and other announcements of the Company dated 26 November 2018, 1 March 2019 and 27 November 2019, the 2019 Annual Report and the BYD 2019 Annual Report.

## **2. Overview of Mask Demand**

***(i) Shortage of masks around the globe***

According to the WHO, approximately 4.6 million confirmed cases of COVID-19 worldwide have been reported between 31 December 2019 and 17 May 2020, including approximately 0.8 million reported cases in Asia, approximately 2.0 million reported cases in the Americas and approximately 1.7 million reported cases in Europe.

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## LETTER FROM DAKIN CAPITAL

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Due to the outbreak of the COVID-19, the demand for personal protective equipment (including but not limited to masks, gloves and protective eyewear) increased around the globe. According to the WHO, as at February 2020, the demand for personal protective equipment in response to the COVID-19 had increased up to approximately 100 times than the normal demand. In particular, an estimate of 89 million of masks are required each month. The WHO estimated that the personal protective equipment industry needs to increase the manufacturing by approximately 40% in order to meet the demand to combat the COVID-19.

In addition to the increasing demand for personal protective equipment, the shortage of masks around the globe has been exacerbated by, among others, the fact that increasingly more countries are introducing mandatory mask-wearing in public spaces, with citizens facing a possible fine if caught without wearing one. There were five, 30 and four countries have made wearing masks mandatory in public spaces in March 2020, April 2020 and May 2020, respectively. Accordingly, it is foreseeable that public demand for masks will continue to increase in this respect.

### *(ii) Shortage of masks in the PRC*

According to the Ministry of Industry and Information Technology of the PRC, the PRC generally can produce approximately 20 million masks per day while the productivity during the Chinese New Year holiday was decreased to approximately 12 million masks per day. Notwithstanding this, since the outbreak of COVID-19, the PRC encouraged their citizens to wear a mask when going outdoors, with some local governments, including but not limited to Shanghai and Guangdong, making it even mandatory since February 2020. To alleviate the shortage of masks, the PRC government had adopted different means such as extension of the Chinese New Year holiday to allow for home quarantine in order to reduce the need for masks and other medical resources and importation of approximately 2.0 billion masks between 24 January 2020 and 29 February 2020 according to the General Administration of Customs of the PRC's statistics. Provincial regulators in the PRC has also granted new licenses to open additional factories capable of producing top-grade medical masks, including those that meet the standards for use by medical staff. Up to March 2020, the PRC can produce approximately 200 million masks per day, of which only approximately 0.6 million were N95 masks according to the National Development and Reform Commission of the PRC. Despite the increasing productivity of masks in the PRC, the increase in the demand of masks domestically and internationally still leads to a shortage in the PRC, especially for the medical staff.

### *(iii) Export restrictions on masks around the globe*

Due to the shortage of masks as discussed above, 80 countries and customs territories have banned or limited the export of masks and other personal protective equipment to mitigate shortages since the COVID-19 outbreak, as reported by the World Trade Organisation in April 2020. The export restrictions may highly affect countries

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## LETTER FROM DAKIN CAPITAL

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which rely on imports of medical products, including but not limited to the United States of the America and Japan. Nevertheless, the PRC posed no export restriction on medical goods including masks, allowing the mask manufacturers in the PRC to export relevant medical goods overseas to fight against the COVID-19. According to the Ministry of Commerce of the PRC, the export of masks from the PRC is increasing. The PRC exported approximately 3.86 billion pieces of masks during the period from 1 March 2020 to 4 April 2020 and approximately 27.8 billion pieces of masks since 1 March 2020 and up to 30 April 2020. There was an increase of export of masks of more than 500% in April 2020 when compared to that of March 2020.

In addition, it is believed that the PRC export of masks will continue to increase given that there were 54 countries and three international organisations having signed personal protective equipment purchase agreements with PRC enterprises as at 4 April 2020 to procure relevant personal protective equipment including masks. There were also 74 countries and ten international organisations who were in the process of signing personal protective equipment purchase agreements with PRC enterprises.

### **3. Reasons for and the Benefits of Entering into the Supplemental Agreement and Revising the Existing Annual Cap**

COVID-19 pandemic is continuing its spread across the world, with more than 4.6 million confirmed cases in over 200 countries or areas as at 17 May 2020. During this difficult time, the increasing number of confirmed cases of COVID-19 worldwide lead to a significant increase in demand for masks not only in the PRC, but all over the world. Based on the latest global development of COVID-19 pandemic and the overview of mask demand as discussed above, it is expected that masks will continue to be in short supply and the issue of global supply and demand gap of masks would still be left unresolved in the short term. Given this, and principally after taking into account the transferable skills and experiences of the Group and the stable business relationship between the Group and the BYD Group, it is considered to be reasonable for the Company to exploit the Group's available resources and research and development and manufacturing advantage to help protect the respective employees of the Group and the BYD Group in a similar manner from the COVID-19 outbreak in order to ensure safe and orderly business operations between them, particularly under the circumstances that the COVID-19 pandemic is still subject to a certain degree of uncertainty and the upward trend in the domestic demand for masks is expected to remain in the foreseeable future.

Furthermore, the management of the Group has pointed out that with the aim to help prevent the spread of the COVID-19 pandemic in the local communities and to support the overseas countries, while the Mask Supply Business assists the Company in fulfilling the internal needs of masks within the Group and the BYD Group to withstand and minimise disruption to business operations, BE Masks have been and will continue to be sold to (i) independent third parties including primarily the Group's existing customers and government authorities in the PRC; and (ii) the BYD Group for onward sales primarily to the local and overseas governmental and medical institutions, research institutions and communities, as well as certain customers, suppliers and business partners under the Supply

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## LETTER FROM DAKIN CAPITAL

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Framework Agreement as amended and supplemented by the Supplemental Agreement. Given the income-generating nature of the Mask Supply Business, the current and future global demand for masks and the target customer group identified for BE Masks, the Directors are of the view that the Non-exempt Continuing Connected Transactions represent promising business opportunities for the Company to broaden its revenue stream during COVID-19 crisis. In particular, while many countries have posed export restrictions on masks, the global mask shortage has prompted the PRC government to support export sales of masks from the PRC to overseas countries to help fight against the COVID-19 pandemic. It is expected that by leveraging the BYD Group's competitiveness in both the domestic and foreign markets, the Group can reap the benefits of the continuing increase in the demand of BE Masks through the BYD Group, thereby generating more sales and revenues from the Mask Supply Business.

As stated in the Letter from the Board, after the signing of the Supply Framework Agreement, there has been a continuing increase in the demand for BE Masks domestically and internationally particularly through the BYD Group as a result of the continuing and rapid spread of the COVID-19 across the globe. To accommodate the expected increase in the Non-exempt Continuing Connected Transactions, the Directors consider that the entering into of the Supplemental Agreement with the adoption of the Proposed Annual Cap is essential for the Group, ensuring it to become more profitable amid a severe shortage of masks which in turn is expected to maximise the return on the Group's investment in the Mask Supply Business. With the expansion of types of BE Masks to be supplied by the Group, the entering into of the Supplemental Agreement will enable the Group to access new markets and hence extend the coverage of the Mask Supply Business to a wider range of customers. This is expected to enable the Group to create synergistic effects, allowing it to take advantage of the BYD Group's global network and stay competitive to generate a stronger business outcome. In line with the disclosure in the Profit Alert Announcement that the mask production of the Group is expected to provide positive contribution to the sales revenue and profitability of the Group for the six months ended 30 June 2020, it is stated in the Letter from the Board that the supply of BE Masks by the Group is expected to have no material adverse impact on the business operations and/or financial results of the Company.

Given the nature of the Non-exempt Continuing Connected Transactions and under the current situation of increasing demand for masks and tight supply in the global mask market, it is reasonable to expect that the Non-exempt Continuing Connected Transactions will continue to take place on a regular and frequent basis and in the ordinary and usual course of business of the Group in the future up to the end of the Duration. It would be impractical for the Group to strictly comply with the Listing Rules requirements regarding "connected transactions" on each occasion when it arises. Therefore, we are of the view that the adoption of the Proposed Annual Cap is essential for the Group in ensuring the continued smooth operation of the Mask Supply Business from 19 March 2020 to 31 December 2020.

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## LETTER FROM DAKIN CAPITAL

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### 4. Principal terms of the Non-exempt Continuing Connected Transactions

On 19 March 2020, the Company and BYD entered into the Supply Framework Agreement in respect of the supply of medical masks by the Group to the BYD Group for the Duration. The Supply Framework Agreement is a framework agreement which contains the principles, mechanisms and terms and conditions which the parties thereto are subject to in carrying out the continuing connected transactions contemplated thereunder. The Supplemental Agreement is a supplemental agreement to the Supply Framework Agreement. Except to the extent expressly amended and supplemented by the Supplemental Agreement, all terms and conditions of the Supply Framework Agreement shall remain the same. Accordingly, upon the Supplemental Agreement becoming effective (being the date on which the Independent Shareholders' approval in respect of the Supplemental Agreement is obtained), the Non-exempt Continuing Connected Transactions for the remaining period of the Duration will be subject to the terms and conditions of the Supply Framework Agreement as amended and supplemented by the Supplemental Agreement (collectively, the “**Terms**”).

Details of the principal Terms of the Non-exempt Continuing Connected Transactions are set out below:

***Date***

26 May 2020 (the Supplemental Agreement)

***Parties***

- (i) the Company; and
- (ii) BYD

***Term***

From 19 March 2020 to 31 December 2020

***Subject matter***

In light of the influence of the COVID-19 pandemic, the Group shall supply to the BYD Group masks (including but not limited to disposable medical masks and/or N95/KN95 masks) from 19 March 2020 to 31 December 2020, unless terminated earlier in accordance with the Terms.

The parties shall execute separate orders in accordance with the Terms setting out, among others, the specifications and quantity of masks required and delivery schedules, and must comply with the requirements of the Listing Rules and applicable laws.

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## LETTER FROM DAKIN CAPITAL

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The Group shall not be restricted from selling any masks to any independent third party customers, or the BYD Group shall not be restricted from buying any masks from any independent third party suppliers.

### *Pricing basis*

The Group will determine the selling prices of the masks with reference to, and generally shall not be lower than, the reference price which represents the prices charged by the Group to independent third party customers of masks of same or similar specifications.

As confirmed by the management of the Group, subject to the above pricing basis, the Non-exempt Continuing Connected Transactions will be conducted in line with the pricing method and procedures adopted by the Group in conducting the Mask Supply Business under the current practice. In particular, it is confirmed that while there have been no fixed unit selling prices of BE Masks set by the Group as the demand and specifications required by its independent third party customers and the BYD Group varied in different orders, the actual selling prices of BE Masks sold to the BYD Group have been and will continue to be determined after arm's length negotiations between the relevant parties (1) with reference to the selling prices of BE Masks to the independent third party customers for sales of BE Masks that are of the same or similar specifications and for the same or comparable sales volume, delivery schedules and terms, unless no such referable reference price is available; and (2) after principally factoring in the estimated cost and expenses relating to, among others, the engineering work which is caused by any necessary product customisation, the increase in production cost, packaging, shipping, temporary storage and/or insurance incurred by the Group to be borne by the relevant purchaser pursuant to the pricing terms as stipulated in the Supply Framework Agreement as amended and supplemented by the Supplemental Agreement. The management of the Group further confirmed that when conducting the Non-exempt Continuing Connected Transactions with the BYD Group, the prices for BE Masks to be offered by the Group to the BYD Group will be no less favorable to the Group than those offered to the independent third party customers for ordinary sales of BE Masks of the same or similar specifications within the same region (the "**Independent Parties**").

In light of the above, we have reviewed, among others, (i) the list of the historical transactions and the underlying prices for the Group's sales of BE masks to the BYD Group and the Independent Parties respectively; (ii) the relevant purchase orders of BE Masks received by the Group respectively from the BYD Group and the Independent Parties and the Group's invoices relating thereto; and (iii) the Group's internal quotation approval forms containing, among others, the key pricing factors considered for the sales of BE Masks to the BYD Group and the Independent Parties respectively. We have also discussed with the management of the Group on (1) the pricing method and procedures adopted by the Group under the current practice that it will follow to determine the actual selling prices of the BE Masks for the Non-exempt Continuing Connected Transactions; (2) the key pricing components and factors considered in determining the actual selling



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## LETTER FROM DAKIN CAPITAL

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prices of BE Masks; and (3) the process for estimating and approving the selling prices for different types of BE Masks. All the aforesaid, as confirmed by the Company, apply to the mask-related transactions with the Group's independent customers as well as the BYD Group. It is noted that the Group has principally taken into account (i) the location and delivery schedule of the relevant customers alongside the associated potential additional costs that may arise therefrom, as well as the sales quantity and the types and specifications of BE Masks as required by the relevant customers, for each transaction is conducted; (ii) the selling prices of BE Masks of the same or similar specifications to the Independent Parties; and (iii) the production and manufacturing overhead costs of BE Masks incurred by the Group. In addition, we also noted that the historical prices of BE Masks sold to the BYD Group under the Supply Framework Agreement were not lower than the selling prices of those sold to the Independent Parties during the two months ended 30 April 2020.

Further, based on the information available on the website of the Stock Exchange as at the Latest Practicable Date, we have, on a best effort basis, identified and made reference to, as far as we are aware, six comparable transactions regarding sales and purchase of medical-related products (such as medical consumables and personal protective equipment including medical/respirator masks) for the period from 1 January 2018 to the Latest Practicable date, which involved four companies whose shares are currently listed on the Stock Exchange (the "**Comparable Transactions**"). We have reviewed the pricing basis of the Comparable Transactions, and noted that the price determination was made based on arms' length negotiations between their respective sellers and the buyers, and after taking into account factors including the price of similar products to independent third parties and/or the prevailing market prices of similar products. Given that (i) for the period between 1 January 2018 and the Latest Practicable Date, the Comparable Transactions are exhaustive samples of transactions involving sales and purchase of the relevant medical-related products (including masks), each constituted a continuing connected transaction of a company listed on the Stock Exchange pursuant to the Listing Rules; and (ii) likewise, in determining the selling prices of the medical-related products under the Comparable Transactions, prices offered to independent third parties are to be considered by the relevant sellers in their price determination process, we consider that the Comparable Transactions would serve as fair and representative samples for the purpose of drawing a meaningful comparison with the pricing basis stipulated under the Supply Framework Agreement as amended and supplemented by the Supplemental Agreement. We also consider the period of selecting the Comparable Transactions (i.e. since 1 January 2018 and until the Latest Practicable Date, being a period that covered market transactions undertaken by listed companies on the Stock Exchange which took place around two to three years preceding the Latest Practicable Date) to be a reasonable period to select comparable transactions in order to draw a meaningful comparison with the pricing basis of the Non-exempt Continuing Connected Transactions.

In light of the above, we concur with the view of the Directors that the pricing basis for the Non-exempt Continuing Connected Transactions is fair and reasonable.

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## LETTER FROM DAKIN CAPITAL

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### *Maximum transaction value*

The maximum aggregate value for the Non-Exempt Continuing Connected Transactions shall be revised from RMB1,200,000,000 to RMB12,750,000,000 for the Duration, with effect from the date on which the Independent Shareholders' approval in respect of the Supplemental Agreement at the EGM is obtained. For further details of the Proposed Annual Cap, please refer to the subsection headed "Proposed Annual Cap" below.

### *Payment term*

Specific payment terms will be stipulated in the relevant purchase orders, which is normally payable within 15 days after delivery of the masks.

Based on our discussion with the management of the Group on the payment terms of sales of BE Masks between the Group and the Independent Parties and review on the relevant purchase orders, we understand that payments by the Independent Parties are normally payable within 15 days after the delivery of BE Masks. It is also noted that the Group's payment term offered to the BYD Group for the relevant historical transactions conducted in March and April 2020 is similar or no longer than those offered under similar transactions with the Group's Independent Parties.

### *Termination*

Termination is subject to a two-month prior written termination notice to be served by the Company.

## 5. Proposed Annual Cap

The table below sets out the historical transaction amount derived from the Supply Framework Agreement (the "**Historical Transaction Amount**") for the period from the date of the Supply Framework Agreement to 30 April 2020, the Existing Annual Cap and its utilisation rate as at 30 April 2020 and the Proposed Annual Cap:

	Historical Transaction Amount for the period from the date of the Supply Framework Agreement to 30 April 2020	Existing Annual Cap for the year ending 31 December 2020	Proposed Annual Cap
Supply of BE Masks by the Group to the BYD Group	approximately RMB1,046,000,000	RMB1,200,000,000	RMB12,750,000,000
Utilisation rate	–	approximately 87.2%	–

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## LETTER FROM DAKIN CAPITAL

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*(i) The Historical Transaction Amount*

The Historical Transaction Amount was approximately RMB1,046 million for the period from the date of the Supply Framework Agreement to 30 April 2020, representing approximately 87.2% of the Existing Annual Cap for the year ending 31 December 2020. The Directors confirmed that the Group achieved a sales volume of over 700 million pieces of BE Masks under the Mask Supply Business within a short period of less than three months after entering into the Supply Framework Agreement, the majority of which were attributable to its mask supplies (mainly disposable medical masks) to the BYD Group.

*(ii) The basis of determination of the Proposed Annual Cap*

The Proposed Annual Cap in respect of the Non-exempt Continuing Connected Transactions for the year ending 31 December 2020 is RMB12,750,000,000, representing more than 10 times the Existing Annual Cap. The Directors confirmed that such increase is in line with the expected growth of the Group's mask supplies to the BYD Group estimated by the management of the Group for the remaining period of the Duration, and that the Proposed Annual Cap was principally determined based on the following factors and assumptions.

- the Historical Transaction Amount of approximately RMB1,046 million for the period from the date of the Supply Framework Agreement to 30 April 2020, representing approximately 87.2% of the Existing Annual Cap;
- the increased production capacity of the Group for BE Masks, especially with the expansion of product range to include N95 and KN95 masks which the Group can sell at relatively higher unit selling prices among BE Masks, reaching a daily production capacity of approximately 50.0 million masks per day as at 10 May 2020, which is adjustable to have additional daily output of approximately 1 to 3 million masks per day according to customer's demand;
- the strong and increasing demand of BE Masks by the BYD Group, which has increased by approximately 381% in terms of the expected number of masks (including disposable medical masks and N95/KN95 masks) required since the date of the Supply Framework Agreement, as a result of a substantial surge in demand from more local and overseas stakeholders of the BYD Group (including employees, shareholders and/or investors, customers, suppliers, government authorities, industry associations, non-governmental organisations, communities, media organisations and research/academic institutions), some of which are based in regions with relatively high level of confirmed COVID-19 infections recorded; and

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## LETTER FROM DAKIN CAPITAL

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- the respective selling prices of the disposable medical masks and N95/KN95 masks. For purpose of the calculation of the Proposed Annual Cap, the selling price of N95/KN95 masks is not less than four times than that of the disposable medical masks and the selling prices were assumed to be stable having regarded to, among others, the expected demand from BYD, the cost of production, the historical transactions between the Group and the BYD Group under the Supply Framework Agreement and the transactions with independent third parties.

In our assessment of the fairness and reasonableness of the Proposed Annual Cap, we have obtained and reviewed the sales projection based on the estimated sales volume and selling price of each type of BE Masks in respect of the Non-exempt Continuing Connected Transactions for the Duration prepared by the Group, as well as the Group's actual sales amount and sales quantity of BE Masks sold to the BYD Group in both March and April 2020. Based on our independent work done and discussion with the management of the Company on the underlying bases and assumptions adopted in arriving at the Proposed Annual Cap, we noted that the Directors have principally taken into account (i) the commencement of production of N95/KN95 masks after entering into the Supply Framework Agreement which had a higher selling price than that of the disposable medical masks and the selling price of N95/KN95 masks is not less than four times than that of the disposable medical masks; (ii) the Group's actual total sales volume of BE Masks sold to the BYD Group for the two months ended 30 April 2020 which revealed a remarkable month-over-month growth of approximately 266% in the demand for BE Masks from the BYD Group; (iii) the projected subsequent sales quantity of BE Masks to the BYD Group up to the end of the Duration based on the BYD Group's latest indicative demand with a significant increase of approximately 381% for internal use or onward sales purposes; (iv) the historical unit selling prices of BE Masks of same or similar specifications offered by the Group to the Independent Parties; (v) that the projected unit selling price of each type of BE Masks to the BYD Group and the Independent Parties respectively will remain stable up to the end of the Duration; (vi) the Group's daily production capacity of BE Masks of approximately 50.0 million masks per day as at 10 May 2020; and (vii) that the prevailing domestic and foreign market conditions for mask demand and supply amid the COVID-19 pandemic would have no material change in the foreseeable future.

Based on the factors and reasons discussed above, in particular (1) the utilisation level of the Existing Annual Cap stood at nearly 90% as at 30 April 2020; (2) the substantial growth of approximately 266% in the actual sales quantity of BE Masks to the BYD Group from March 2020 to April 2020; (3) the current market conditions there appeared a continuously increasing trend in demand for masks around the globe along with the persistent shortage of masks; (4) the expansion of the types of BE Masks pursuant to the Supplemental Agreement and their price differential, with the actual unit selling prices of BE masks of same or similar specifications sold to the Independent Parties being made reference to in the aforesaid sales projection; and (5) the Group's current productivity level for BE Masks being sufficient to accommodate the

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## LETTER FROM DAKIN CAPITAL

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expected strong demand of BE Masks from the BYD Group, we concur with the view of the Directors that it is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole to set the Proposed Annual Cap at the proposed level.

### MONITORING AND REPORTING

#### 1. Internal control measures within the Group

As stated in the Letter from the Board, the Group has established the following internal control measures for the purpose of monitoring the execution and implementation of the Non-exempt Continuing Connected Transactions:

- (i) to ensure that the pricing method and procedures will be complied with and that transaction prices under the Supplemental Agreement will be fair and reasonable and on normal commercial terms, while the Non-exempt Continuing Connected Transactions will be properly recorded, including but not limited to prices determined and transaction amounts, the business department of the Group will also regularly review its prices charged to independent third parties customers for the supply of masks with same or similar consideration factors including but not limited to, customer's requirements including specification and/or quantity of masks required, the estimated cost of engineering work which is caused by any necessary product customisation and the estimated cost and expenses relating to, among other, packaging, shipping, temporary storage and/or insurance required from the Group, and determine the reference price(s) for setting the selling price(s) of BE Masks with the BYD Group on an ongoing basis. Such reference price(s) will then be reviewed and approved by the general manager of the business department of the Group. To ensure that the selling prices of BE Masks to be supplied to BYD will not be lower than those charged to independent third parties with same or comparable specifications, volume, delivery schedules and terms, the general manager of the business department of the Group and the finance department of the Group will review, compare and approve the selling price(s) offered to the BYD Group with the reference price before the quotations are sent. The finance department will also regularly review and compare the invoices with the BYD Group and the independent third parties;
- (ii) conduct annual review by external auditors and independent non-executive Directors under the Listing Rules in respect of continuing connected transactions to ensure the Non-exempt Continuing Connected Transactions do not exceed the Proposed Annual Cap;
- (iii) the business department of the Group shall fill in and submit statistical charts for the continuing connected transactions at least quarterly;

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## LETTER FROM DAKIN CAPITAL

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- (iv) in the event that the amount of the transactions incurred and/or to be incurred under the Supplemental Agreement is expected to reach the Proposed Annual Cap, the business department will follow up forthwith by reporting and proposing a response to the management of the Company;
- (v) in case that an amendment to the Proposed Annual Cap is required, report particulars to the Board and hold a Board meeting for considering the matters thereabout to ensure compliance of the requirements under the Listing Rules; and
- (vi) the Company arranges compliance trainings for the Directors, senior management and staff from the relevant departments of the Company and its subsidiaries from time to time, primarily focusing on the rules relating to connected transactions under Chapter 14A of the Listing Rules.

### **2. Requirements of the Listing Rules**

In line with the Duration, for the Company's financial year ending 31 December 2020, the Non-exempt Continuing Connected Transactions will be subject to review by the independent non-executive Directors and the Company's independent auditors as required by Rules 14A.55 and 14A.56 of the Listing Rules. The independent non-executive Directors must confirm in the Company's annual report whether the Non-exempt Continuing Connected Transactions have been entered into:

- in the ordinary and usual course of business of the Group;
- on normal commercial terms or better; and
- according to the agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Furthermore, the Listing Rules require that the Company to engage its auditors to report on the Non-exempt Continuing Connected Transactions for the Company's financial year ending 31 December 2020 and that the Company's auditors must provide a letter to the Board (a copy of which must also be provided to the Stock Exchange pursuant to Rule 14A.57 of the Listing Rules) confirming whether anything has come to their attention that causes them to believe that such transactions:

- have not been approved by the Board;
- were not, in all material respects, in accordance with the pricing basis for the Non-exempt Continuing Connected Transactions;
- were not entered into, in all material respects, in accordance with the relevant agreements governing the Non-exempt Continuing Connected Transactions; and
- have exceeded the Proposed Annual Cap.

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## LETTER FROM DAKIN CAPITAL

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### OPINION AND RECOMMENDATION

Having taken into account the principal factors and reasons discussed above, we consider that (i) the entering into of the Supplemental Agreement is conducted in the ordinary and usual course of business, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Proposed Annual Cap is fair and reasonable so far as the Company and the Independent Shareholders are concerned 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 ordinary resolution to be proposed at the EGM to approve the Supplemental Agreement, the Non-exempt Continuing Connected Transactions and the Proposed Annual Cap.

Yours faithfully,  
for and on behalf of  
**DAKIN CAPITAL LIMITED**  
**Kinson Li**                      **Annie Kwong**  
*Managing Director*                      *Director*

*Note:* Mr. Kinson Li is a licensed person and a responsible officer of Dakin Capital Limited registered with the Securities and Futures Commission of Hong Kong to carry out type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in corporate finance industry. Ms. Annie Kwong is a licensed person and a responsible officer of Dakin Capital Limited registered with the Securities and Futures Commission of Hong Kong to carry out type 6 (advising on corporate finance) regulated activity under the SFO. She has over 15 years of experience in corporate finance industry.

*In case of any discrepancy, inconsistency or ambiguity between the English and Chinese versions of this letter, the English version shall prevail.*

## 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) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interest and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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 are taken or deemed to have under such provisions of the SFO), or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or 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 were as follows:

#### (i) Long position in the Shares

Name of Director	Capacity	Number of Shares held	Approximate percentage of total issued share capital as at the Latest Practicable Date	Note
Mr. WANG Nian-qiang	Beneficial owner and Beneficiary	17,102,000	0.76%	(1)
Mr. WANG Bo	Beneficiary	2,805,000	0.12%	(2)

*Notes:*

- (1) Of which 8,500,000 shares are held by Mr. Wang Nian-qiang and 8,602,000 shares held by Gold Dragonfly Limited ("Gold Dragonfly"), a company incorporated in the British Virgin Islands and wholly-owned by BF Gold Dragon Fly (PTC) Limited ("BF Trustee") as trustee of BF Trust, the beneficiaries of which include Mr. WANG Nian-qiang.
- (2) The shares are held by Gold Dragonfly, a company wholly-owned by BF Trustee as trustee of BF Trust, of which Mr. WANG Bo is one of the beneficiaries.



*(ii) Long positions in the shares of associated corporations*

Name of associated corporation	Name of Director (Note 3)	Capacity	Number of shares held as at the Latest Practicable Date	Percentage of total issued share capital of the relevant associated corporation as at the Latest Practicable Date	Note
BYD	Mr. WANG Nian-qiang	Beneficial owner	19,049,740	0.70%	(1)
	Mr. WANG Chuan-fu	Beneficial owner	518,351,550	19.00%	(2)

*Notes:*

- (1) These are the A shares of BYD held by Mr. WANG Nian-qiang. The total share capital of BYD as at the Latest Practicable Date was RMB2,728,142,855, comprising 1,813,142,855 A shares and 915,000,000 H shares, all were of par value of RMB1 each. The A shares of BYD held by Mr. WANG Nian-qiang represented approximately 1.05% of the total issued A shares of BYD as of the Latest Practicable Date.
- (2) These are the 513,623,850 A shares, 3,727,700 A shares held in No. 1 Assets Management Plan through E fund BYD and 1,000,000 H shares of BYD held by Mr. WANG Chuan-fu, which represented approximately 28.53% and approximately 0.11% of total issued A shares and H shares of BYD as at the Latest Practicable Date, respectively. Mr. Wang Chuan-fu is also an executive director and chairman of the board of BYD.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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 and short positions which they were taken or deemed to have under such provisions of the SFO); or were required to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO; or 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.

**(b) Interests of substantial shareholders***(i) Long Position in the Shares*

As at the Latest Practicable Date, so far as was known to the Directors, the persons (other than the Directors) having interests in the Shares and underlying Shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	Capacity	Number of Shares	Percentage of total issued share capital as at the Latest Practicable Date	Note
Golden Link	Beneficial interest	1,481,700,000	65.76%	(1)
BYD (H.K.) Co., Limited ("BYD H.K.")	Interest of controlled corporation	1,481,700,000	65.76%	(1)
BYD	Interest of controlled corporation	1,481,700,000	65.76%	(1)
Gold Dragonfly	Beneficial interest	137,081,650	6.08%	(2)
BF Trustee	Trustee	137,081,650	6.08%	(2)

*Notes:*

- (1) BYD is the sole shareholder of BYD H.K., which in turn is the sole shareholder of Golden Link. As such, both BYD H.K. and BYD were deemed to be interested in the shares of the Company held by Golden Link.
- (2) The 137,081,650 shares of the Company are held by Gold Dragonfly, a company wholly-owned by BF Trustee as trustee of BF Trust, the beneficiaries of which are 28 employees of BYD, its subsidiaries and the Group. As such, BF Trustee was deemed to be interested in the shares of the Company held by Gold Dragonfly.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, other than a Director or chief executive of the Company, there was no person who had an interest or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of other members of the Group or any options in respect of such capital.

**3. DIRECTORS' INTERESTS IN CONTRACTS**

As at the Latest Practicable Date:

- (a) none of the Directors had entered, or proposed to enter into a 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;
- (b) save for the acquisition of assets from BYD Group as announced by the Company on 21 February 2020 and the disposal of assets to BYD Group pursuant to an agreement entered into between the parties on the same date (not subject to disclosure requirement), none of the Directors had any interest, direct or indirect, in any assets which had been, since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group. Please refer to paragraph 2(a)(ii) of this appendix for details of the interests of Mr. WANG Nian-qiang and Mr. WANG Chuan Fu in BYD; and
- (c) save as disclosed in this circular and except for the Supply Framework Agreement and the Supplemental Agreement, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and was significant in relation to the business of the Group.

**4. DIRECTORS' INTEREST IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors or their respective close associates (as defined in the Listing Rules) had any interest in a business which competed or might compete with the business of the Group, or had or might have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

**5. MATERIAL ADVERSE CHANGE**

The Directors confirm that there had been no material adverse change in the financial or trading positions of the Group since 31 December 2019 (being the date to which the latest published audited financial statements of the Group were made up) to the Latest Practicable Date.

**6. EXPERT**

The following sets out the qualification of the expert who has given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Dakin Capital Limited	a corporation licensed to conduct Type 6 (advising on corporate finance) regulated activities under the SFO

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

As at the Latest Practicable Date, Dakin Capital did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Dakin Capital did not have any direct or indirect interest in any assets which had been, since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group.

**7. GENERAL**

In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Reed Smith Richards Butler at 17/F, One Island East, Taikoo Place, 18 Westlands Road, Quarry Bay, Hong Kong during normal business hours from the date of this circular up to the date of the EGM (except Saturdays, Sundays and public holidays):

- (a) the Supplemental Agreement;
- (b) letter from the Independent Board Committee dated 11 June 2020, the text of which is set out in the section headed “Letter from the Independent Board Committee” of this circular;

- (c) letter from Dakin Capital dated 11 June 2020, the text of which is set out in the section headed “Letter from Dakin Capital” of this circular;
- (d) the written consent referred to in the paragraph headed “Expert” in this appendix;  
and
- (e) this circular.

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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比亞迪電子（國際）有限公司  
**BYD ELECTRONIC (INTERNATIONAL) COMPANY LIMITED**  
*(incorporated in Hong Kong under the Companies Ordinance with limited liability)*  
**(Stock Code: 285)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (“EGM”) of BYD Electronic (International) Company Limited (the “**Company**”) will be held at the conference room of BYD Company Limited at No. 3009, BYD Road, Pingshan District, Shenzhen, the People’s Republic of China on Monday, 29 June 2020 at 10:00 a.m. for the purposes of considering and, if thought fit, passing, with or without modification, the following resolution as ordinary resolution of the Company:

### **ORDINARY RESOLUTION**

“**THAT** the supplemental agreement referred to in the section headed “II. Supplemental Agreement for Continuing Connected Transactions” in the “Letter from the Board” contained in the circular (the “**Circular**”) of the Company of which this notice forms part, the transactions contemplated thereunder and the Proposed Annual Cap (as defined in the Circular) be and are hereby approved.”

By order of the Board of  
**BYD Electronic (International) Company Limited**  
**WANG Nian-qiang**  
*Director*

Hong Kong, 11 June 2020

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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*Registered Office:*

Part of Unit 1712, 17th Floor, Tower 2  
Grand Central Plaza,  
No. 138 Shatin Rural Committee Road  
New Territories  
Hong Kong

*Head Office and Principal Place of Business in PRC:*

No. 3001, Bao He Road  
Baolong, Longgang  
Shenzhen, 518116  
The PRC

*Notes:*

1. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxies (who must be an individual or individuals) to attend and vote on behalf of him. A proxy need not be a member of the Company.
2. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, 18 June 2020 to Monday, 29 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the EGM, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, 17 June 2020.
3. Reference is made to the circular and the announcement of the Company dated 28 April 2020 in relation to the proposed final dividend which is subject to the approval of Shareholders at the annual general meeting of the Company to be held on 23 June 2020 (the "AGM"). It was stated that for determining the entitlement to the proposed final dividend if so approved at the AGM, the register of members of the Company will be closed from Tuesday, 30 June 2020 to Friday, 3 July 2020 (both days inclusive) and the last registration date to qualify for entitlement to the proposed final dividend is Monday, 29 June 2020.

Given the closure of the register of members for determining the entitlement to attend and vote and the EGM, the relevant dates of closure of the register of members for determining the entitlement to the proposed final dividend for the year ended 31 December 2019 will be changed to Monday, 6 July 2020 to Wednesday, 8 July 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for entitlement to the proposed final dividend, unregistered holders of Shares should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 3 July 2020. It is expected that the final dividend will remain to be distributed before 31 August 2020.

4. To be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

*As at the date of this notice, the Board consists of Mr. WANG Nian-qiang and Mr. JIANG Xiang-rong being the executive directors, Mr. WANG Chuan-fu and Mr. WANG Bo being the non-executive directors and Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie being the independent non-executive directors.*