Leoch International Technology Limited
理士國際技術有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 842)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

- Revenue increased by 43.7% to RMB4,062.0 million.
- Gross profit increased by 9.8% to RMB498.4 million.
- Profit attributable to owners of the parent decreased by 18.1% to RMB92.2 million.
- Basic earnings per share was RMB0.07.

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Leoch International Technology Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2017 with comparative figures for the corresponding period in the year 2016. The unaudited interim condensed consolidated financial statements have been reviewed by the auditors of the Company, Ernst & Young, and the audit committee of the Company (the "Audit Committee").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

	Notes	Six months ended 30 June **2017** **(Unaudited)** ***RMB'000***	2016 (Unaudited) *RMB'000*
REVENUE	*4*	**4,062,029**	2,826,402
Cost of sales		**(3,563,666)**	(2,372,441)
Gross profit		**498,363**	453,961
Other income and gains	*4*	**48,522**	33,476
Selling and distribution expenses		**(166,847)**	(120,214)
Administrative expenses		**(117,301)**	(90,960)
Research and development costs		**(63,728)**	(39,998)
Other expenses		**(3,630)**	(37,215)
Finance costs	*6*	**(68,768)**	(51,469)
Share of loss of a joint venture and an associate		**–**	(3,675)
PROFIT BEFORE TAX	*5*	**126,611**	143,906
Income tax expense	*7*	**(20,232)**	(31,810)
PROFIT FOR THE PERIOD		**106,379**	112,096
Attributable to:			
Owners of the parent		**92,216**	112,638
Non-controlling interests		**14,163**	(542)
		106,379	112,096
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic		**RMB0.07**	RMB0.08
Diluted		**RMB0.07**	RMB0.08

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
PROFIT FOR THE PERIOD	**106,379**	112,096
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**(10,163)**	(4,345)
Income tax effect	**2,541**	(1,916)
	(7,622)	(6,261)
Exchange differences on translation of foreign operations	**(1,879)**	15,665
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	**(9,501)**	9,404
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	**(9,501)**	9,404
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**96,878**	121,500
Attributable to:		
Owners of the parent	**81,531**	122,029
Non-controlling interests	**15,347**	(529)
	96,878	121,500

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	Notes	**30 June 2017 (Unaudited)** *RMB'000*	31 December 2016 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,017,322**	1,877,677
Investment properties		**30,978**	31,663
Properties under development		**40,869**	40,869
Prepaid land lease payments		**160,596**	120,600
Goodwill		**8,699**	8,660
Other intangible assets		**422,150**	285,030
Investments in a joint venture and an associate		**–**	4,127
Available-for-sale investments		**113,392**	123,967
Deposits paid for purchase of items of property, plant and equipment and land lease payments		**26,709**	14,615
Deferred tax assets		**51,871**	54,715
Total non-current assets		**2,872,586**	2,561,923
CURRENT ASSETS			
Inventories	*10*	**1,507,903**	1,127,126
Completed properties held for sale		**59,111**	61,702
Trade and bills receivables	*11*	**2,181,025**	2,264,377
Prepayments, deposits and other receivables		**179,862**	134,725
Derivative financial instruments	*15*	**4,535**	4,625
Equity investments at fair value through profit or loss		**13,045**	13,595
Pledged deposits	*12*	**514,218**	490,885
Cash and cash equivalents	*12*	**699,942**	214,344
Total current assets		**5,159,641**	4,311,379

	Notes	30 June 2017 (Unaudited) RMB'000	31 December 2016 RMB'000
CURRENT LIABILITIES			
Trade and bills payables	13	**1,687,115**	1,631,484
Other payables and accruals		**791,787**	542,867
Interest-bearing bank borrowings	14	**1,190,453**	1,275,014
Derivative financial instruments	15	**–**	13,636
Income tax payable		**90,578**	89,212
Total current liabilities		**3,759,933**	3,552,213
NET CURRENT ASSETS		**1,399,708**	759,166
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,272,294**	3,321,089
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**53,461**	31,448
Interest-bearing bank borrowings	14	**1,298,323**	488,463
Deferred government grants		**42,761**	43,249
Total non-current liabilities		**1,394,545**	563,160
Net assets		**2,877,749**	2,757,929
EQUITY			
Equity attributable to owners of the parent			
Share capital		**116,173**	115,846
Reserves		**2,604,367**	2,582,042
		2,720,540	2,697,888
Non-controlling interests		**157,209**	60,041
Total equity		**2,877,749**	2,757,929

Notes:

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 27 April 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and the Company's shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 November 2010. The registered office of the Company is located at the office of Conyers Trust Company (Cayman) Limited, at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture, development and sale of lead-acid batteries and other related items.

In the opinion of the directors of the Company (the "Directors"), the immediate holding company is Master Alliance Investment Limited, a company incorporated in the British Virgin Islands. The ultimate holding company is DB International Trust (Singapore) Limited, which is the trustee of a discretionary trust established by Mr. Dong Li and the beneficiaries of the trust are family members of Mr. Dong Li.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and International Accounting Standards ("IAS") 34 "*Interim Financial Reporting*" issued by the International Accounting Standards Board (the "IASB").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

These interim condensed consolidated financial statements are unaudited, but have been reviewed by the Audit Committee of the Company.

2.2 ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017. The adoption of the new standards and amendments does not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. OPERATING SEGMENT INFORMATION

The Group is engaged in the manufacture and sale of lead-acid batteries and other related items.

International Financial Reporting Standard 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to segments and to assess their performance. The information reported to the executive directors of the Company, who is the Group's CODM for the purpose of resource allocation and assessment of performance, does not contain profit or loss information of each product line and the executive directors reviewed the gross profit of the Group as a whole reported under International Financial Reporting Standards. Therefore, the operation of the Group constitutes one reportable segment. Accordingly, no segment information is presented.

No segment assets and liabilities, and related other segment information were presented as no such discrete financial information is provided to the CODM.

Information about products

An analysis of revenue by products is as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Lead-acid batteries	**3,339,858**	2,826,402
Recycled lead products	**722,171**	–
	4,062,029	2,826,402

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China*	**2,601,751**	1,694,829
European Union	**420,068**	327,509
United States of America (the "USA")	**422,775**	308,461
Other Asian countries/areas	**359,646**	292,664
Other countries	**257,789**	202,939
	4,062,029	2,826,402

* *Mainland China means any part of the People's Republic of China ("PRC") excluding Hong Kong, Macau and Taiwan.*

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	30 June	31 December
	2017	2016
	(Unaudited)	
	RMB'000	*RMB'000*
Mainland China	**2,411,367**	2,195,708
Others	**295,956**	187,533
	2,707,323	2,383,241

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

Revenue from each major customer, including sales to a group of entities which are known to be under common control with that customer, which accounted for 10% or more of the Group's revenue for the six months ended 30 June 2017 and 2016, is set out below:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Customer A	**837,142**	753,740
Customer B	**445,554**	–

Except for the aforesaid, no other single external customer accounted for 10% or more of the Group's revenue.

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold. An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**4,062,029**	2,826,402
Other income and gains		
Bank interest income	**6,795**	5,352
Government grants*	**5,618**	8,415
Dividend income from an available-for-sale investment	**1,301**	15,728
Sale of scrap materials	**3,813**	1,405
Foreign exchange gain, net	**15,060**	–
Reversal of impairment of trade receivables	**10,035**	–
Gains on disposal of items of property, plant and equipment	**–**	175
Fair value gain from derivative financial instruments, net	**1,283**	–
Rental income	**2,051**	1,404
Gain on bargain purchase *(note 16)*	**880**	–
Others	**1,686**	997
	48,522	33,476

* *The government grants represent various cash payments and subsidies provided by the local government authorities to the Group as encouragement to its investment and technological innovation. There are no unfulfilled conditions or contingencies relating to these subsidies.*

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cost of inventories sold	**3,063,224**	1,950,207
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	**331,378**	316,889
Performance-related bonuses	**–**	596
Equity-settled share option expenses	**2,874**	480
Pension scheme contributions	**33,163**	22,396
	367,415	340,361
Amortisation of other intangible assets except for deferred development costs	**7,528**	517
Research and development costs:		
Deferred development costs amortised*	**33,633**	20,395
Current period expenditure	**63,728**	39,998
	97,361	60,393
Derivative financial instruments:		
Unrealised loss/(gain)	**90**	(1,561)
Realised (gain)/loss	**(1,373)**	16,857
Fair value (gain)/loss from derivative financial instruments, net#	**(1,283)**	15,296
Equity investments at fair value through profit or loss:		
Unrealised loss/(gain)	**550**	(65)
Realised loss	**–**	1,574
Fair value loss from equity investments at fair value through profit or loss, net#	**550**	1,509

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**111,129**	95,261
Depreciation of investment properties	**685**	594
Amortisation of prepaid land lease payments	**1,687**	929
(Reversal of impairment)/impairment of trade receivables#	**(10,035)**	808
Reversal of impairment of inventories*	**(2,308)**	(1,881)
Loss/(gain) on disposal of items of property, plant and equipment, net#	**31**	(175)
Loss on remeasurement of the previously held interest in an associate# *(note 16)*	**2,064**	–
Foreign exchange (gain)/loss, net#	**(15,060)**	16,209
Minimum lease payments under operating leases	**5,034**	3,991

* *The amortisation of deferred development costs and reversal of impairment of inventories are included in "Cost of sales" in the condensed consolidated statement of profit or loss.*

\# *Net fair value loss from derivative financial instruments, net fair value loss from equity investments at fair value through profit or loss, impairment of trade receivables, net loss on disposal of items of property, plant and equipment, loss on remeasurement of the previously held interest in an associate and net foreign exchange loss are included in "Other expenses" in the condensed consolidated statement of profit or loss.*

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest on bank borrowings	**53,034**	38,313
Interest arising from discounted bills	**15,734**	13,156
	68,768	51,469

7. INCOME TAX

The Group calculates the income tax expense for the period using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed statement of profit or loss are:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current:		
Mainland China	**11,372**	19,755
Hong Kong	**1,976**	1,672
Singapore	**5,847**	3,635
USA	**664**	355
Deferred	**373**	6,393
Total tax charged for the period	**20,232**	31,810

8. DIVIDENDS

During the period, a final dividend for year ended 31 December 2016 of HK$5.50 cents per share (six months ended 30 June 2016: a final dividend for year ended 31 December 2015 of HK$2.60 cents per share) was approved by the shareholders.

No dividend is proposed by the directors of the Company for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,354,746,120 (six months ended 30 June 2016: 1,353,319,666) in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**92,216**	112,638

	Number of shares	
	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculations	**1,354,746,120**	1,353,319,666
Effect of dilution – weighted average number of ordinary shares:		
Share options	**5,394,400**	391,116
	1,360,140,520	1,353,710,782

10. INVENTORIES

	30 June 2017 (Unaudited)	31 December 2016
	RMB'000	*RMB'000*
Raw materials	**333,683**	155,153
Work in progress	**827,112**	699,257
Finished goods	**347,108**	272,716
	1,507,903	1,127,126

11. TRADE AND BILLS RECEIVABLES

	30 June 2017 (Unaudited)	31 December 2016
	RMB'000	*RMB'000*
Trade receivables	**2,128,505**	2,226,964
Bills receivable	**80,551**	75,479
Less: Impairment provision	**(28,031)**	(38,066)
	2,181,025	2,264,377

The Group grants different credit periods to customers. The credit period of individual customers is considered on a case-by-case basis. Certain customers are required to make partial payment before or upon delivery. The Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables of RMB282,625,000 (31 December 2016: RMB271,596,000) were under short term credit insurance and RMB57,779,000 (31 December 2016: RMB48,688,000) were under letters of credit. Trade receivables are non-interest-bearing.

As at 30 June 2017, the Group had pledged certain trade receivables amounting to RMB45,851,000 (31 December 2016: RMB86,651,000) to banks with recourse in exchange for cash. The proceeds from pledging the trade receivables of RMB26,421,000 (31 December 2016: RMB54,222,000) were accounted for as collateralised bank advances until the trade receivables were collected or the Group made good of any losses incurred by the banks *(note 14(iii))*.

An aged analysis of the trade and bills receivables as at 30 June 2017 and 31 December 2016 based on the invoice date, net of provisions, is as follows:

	30 June 2017 (Unaudited) *RMB'000*	31 December 2016 *RMB'000*
Within 3 months	**1,662,516**	1,641,807
3 to 6 months	**297,784**	386,401
6 to 12 months	**169,541**	176,558
1 to 2 years	**48,544**	49,930
Over 2 years	**2,640**	9,681
	2,181,025	2,264,377

12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2017 (Unaudited) *RMB'000*	31 December 2016 *RMB'000*
Cash and bank balances	**699,942**	214,344
Time deposits	**514,218**	490,885
	1,214,160	705,229
Less: Pledged for interest-bearing bank borrowings *(note 14(iv))*	**(9,008)**	(9,020)
Pledged for bills payable *(note 13)*	**(505,210)**	(481,865)
	(514,218)	(490,885)
Cash and cash equivalents	**699,942**	214,344
Denominated in RMB	**607,678**	606,720
Denominated in US$	**476,380**	67,282
Denominated in HK$	**123,314**	25,156
Denominated in Malaysian Ringgit ("MYR")	**4,066**	2,354
Denominated in Indian Rupee	**717**	335
Denominated in Singapore Dollar	**569**	2,709
Denominated in Great Britain Pound	**561**	–
Denominated in Australia Dollar	**426**	179
Denominated in Euro	**236**	305
Denominated in Sri Lankan Rupee	**213**	189
	1,214,160	705,229

13. TRADE AND BILLS PAYABLES

	30 June 2017 (Unaudited)	31 December 2016
	RMB'000	*RMB'000*
Trade payables	**598,452**	641,357
Bills payable	**1,088,663**	990,127
	1,687,115	1,631,484

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2017 (Unaudited)	31 December 2016
	RMB'000	*RMB'000*
Within 3 months	**648,110**	754,551
3 to 6 months	**539,349**	575,338
6 to 12 months	**492,645**	291,347
1 to 2 years	**3,072**	3,563
2 to 3 years	**402**	662
Over 3 years	**3,537**	6,023
	1,687,115	1,631,484

The trade payables are non-interest-bearing and are normally settled on 90-day terms. All the bills payable bear maturity dates within 360 days. As at 30 June 2017, bills payable amounting to RMB992,686,000 (31 December 2016: RMB860,452,000) were issued on intercompany sales transactions within Group companies and such bills were discounted to banks for short term financing.

As at 30 June 2017, certain of the Group's bills payable were secured by pledge of certain of the Group's time deposits amounting to RMB505,210,000 (31 December 2016: RMB481,865,000) *(note 12)*.

14. INTEREST-BEARING BANK BORROWINGS

	30 June 2017 (unaudited)			31 December 2016		
	Effective interest rate *(%)*	**Maturity**	***RMB'000***	Effective interest rate *(%)*	Maturity	*RMB'000*
Current						
Interest-bearing bank borrowings, unsecured	**2.87 to 3.23**	**2017-2018**	**104,150**	–	–	–
Interest-bearing bank borrowings, secured	**1.50 to 7.53**	**2017-2018**	**926,942**	1.50 to 6.77	2017	1,103,711
Collateralised bank advances, secured	**2.00 to 4.35**	**2017-2018**	**26,421**	2.00 to 3.50	2017	54,222
Current portion of long term bank borrowings, guaranteed	**LIBOR +2.50**	**2018**	**132,940**	LIBOR +3.00	2017	117,081
			1,190,453			1,275,014
Non-current						
Interest-bearing bank borrowings, secured	**1.50 to 7.53**	**2018-2028**	**101,870**	1.50 to 7.53	2018-2028	78,680
Interest-bearing bank borrowings, guaranteed	**LIBOR +2.50**	**2018-2020**	**1,196,453**	LIBOR +3.00	2018	409,783
			1,298,323			488,463
			2,488,776			1,763,477

Analysed into:

	30 June 2017 (Unaudited) ***RMB'000***	31 December 2016 *RMB'000*
Bank loans and advances repayable:		
Within one year	**1,190,453**	1,275,014
In the second year	**314,137**	429,342
In the third to fifth years, inclusive	**974,555**	49,225
Beyond five years	**9,631**	9,896
	2,488,776	1,763,477

The Group's bank borrowings are secured by the following pledge or guarantees:

(i) a charge over certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB689,385,000 (31 December 2016: RMB643,415,000) as at the end of the reporting period.

(ii) a charge over certain of the Group's leasehold lands with a net carrying amount of approximately RMB87,441,000 (31 December 2016: RMB78,520,000) as at the end of the reporting period.

(iii) certain of the Group's trade receivables with a carrying amount of approximately RMB45,851,000 (31 December 2016: RMB86,651,000) as at the end of the reporting period *(note 11)*.

(iv) the pledge of certain of the Group's time deposits amounting to approximately RMB9,008,000 (31 December 2016: RMB9,020,000) as at the end of the reporting period *(note 12)*.

(v) cross guarantees executed by companies within the Group.

The Group entered into a three-year term loan facility agreement amounting to US$200,000,000 on 8 May 2017 (the "Facility Agreement") with certain financial institutions (the "Lenders").

Under the Facility Agreement, there are specific performance obligations that Mr. Dong Li, who is the controlling shareholder of the Company, shall not cease to own, directly or indirectly, of at least 51% of the beneficial interest in the Company, carrying at least 51% of the voting right, free from any security. Mr. Dong Li shall not cease to have management control over the Company. Mr. Dong Li shall not cease to be the Chairman of the board of directors of the Company. At the date of approval of these interim condensed consolidated financial statements, such obligations have been complied with.

Five of the Company's wholly-owned subsidiaries, namely Catherine Holdings International Company Limited, Leoch Power Supply (H.K.) Limited, Leoch Battery Company Limited, Leoch Battery Pte. Ltd. and Leoch International Sales Limited were parties who act as guarantors, to guarantee punctual performance of the Group's obligations under the Facility Agreement.

As at 30 June 2017, the Group had fully utilised the loan facility amount of US$200,000,000 under the Facility Agreement. As at 30 June 2017, the outstanding term loan balance under the Facility Agreement amounted to US$200,000,000 (equivalent to RMB1,329,393,000), of which, RMB132,940,000 and RMB1,196,453,000 are repayable within 1 year and in the second to third years, respectively. The term loan bears interest at LIBOR+2.5% per annum.

15. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2017		31 December 2016	
	Assets	**Liabilities**	Assets	Liabilities
	(Unaudited)	**(Unaudited)**		
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Forward currency contracts	**4,535**	**–**	4,625	13,636

Forward currency contracts

The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are measured at fair value through profit or loss. The net gain, including realised and unrealised, on changes in the fair value of the forward currency contracts amounting to RMB1,283,000 (six months ended 30 June 2016: net loss of RMB15,296,000) was recognised in the statement of profit or loss during the period. The maturity dates of the derivative financial instruments are within one year.

16. BUSINESS COMBINATIONS

Taihe Dahua Energy Technology Co., Ltd.

On 18 November 2016, Anhui Uplus New Energy Material Technology Co., Ltd. ("Anhui Uplus New Energy"), a subsidiary of the Company, entered into an agreement with independent third parties ("Vendors") in relation to the proposed acquisition of 60% of the registered capital of Taihe Dahua Energy Technology Co., Ltd. ("Taihe Dahua"), a company in the PRC principally engaged in the recycle and remanufacture of lead from disposed batteries at a cash consideration of RMB115,200,000. On 9 January 2017, Anhui Uplus New Energy obtained control over Taihe Dahua which then become a subsidiary of the Company. On 12 January 2017, Anhui Uplus New Energy has paid an amount of RMB23,040,000 of the consideration. On 12 July 2017, Anhui Uplus New Energy paid an amount of RMB57,600,000 of the consideration.

The Group has elected to measure the non-controlling interests in Taihe Dahua at the non-controlling interest's proportionate share of Taihe Dahua's identifiable net assets.

The fair values of the identifiable assets and liabilities of Taihe Dahua as at the date of acquisition were as follows:

	Note	Fair value recognised on acquisition
		RMB$'000
Property, plant and equipment		101,234
Prepaid land lease payments		9,600
Other intangible assets		108,126
Deferred tax liabilities		(27,025)
Total identifiable net assets at fair value		191,935
Non-controlling interests		(76,774)
		115,161
Goodwill on acquisition		39
		115,200
Satisfied by:		
Cash		23,040
Cash considerations payable to the Vendors as at 30 June 2017		92,160
Contingent consideration	*(i)*	–
Total consideration		115,200

Note:

(i) Pursuant to the agreement, the Vendors have guaranteed that the audited aggregate net profit (the "Net Profit") attributable to shareholders of Taihe Dahua shall not be less than RMB40,000,000 (the "Guaranteed Profit") for each of the financial years, ending 31 December 2017, 2018 and 2019 (the "Relevant Financial Year"). In the event that the Net Profit of Taihe Dahua for any of the Relevant Financial Year is less than the Guaranteed Profit, the Group shall be entitled to a cash compensation from the Vendors equivalent to the difference between the Net Profit and the Guaranteed Profit for the Relevant Financial Year (the "Profit Guarantee").

As at the date of acquisition and as at 30 June 2017, the fair values of the Profit Guarantee were both nil. The fair value of the Profit Guarantee was the probability-weighted average of the present values of the shortfalls between the Profit Guarantee and the Net Profit under three scenarios. A discount rate of 20% has been used to calculate the present value of cash flows of the Profit Guarantee.

Anhui Uplus New Energy incurred transaction costs of RMB150,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the condensed consolidated statement of profit or loss. As at 30 June 2017, Anhui Uplus New Energy has not yet paid the remaining transaction costs amounting to RMB35,000.

None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows for the period ended 30 June 2017 in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(23,040)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(23,040)
Transaction costs of the acquisition included in cash flows from operating activities	(115)
	(23,155)

Since the acquisition, Taihe Dahua contributed RMB722,171,000 to the Group's turnover and RMB22,786,000 to the consolidated profit for the period ended 30 June 2017.

Had the combination taken place at the beginning of the period, the revenue and the profit of the Group for the period would have been RMB4,062,029,000 and RMB106,379,000, respectively.

Tele Power Sdn. Bhd.

As at 31 December 2016, Leoch International Holding Pte. Ltd. ("Leoch International Holding"), a subsidiary of the Company, held a 40% equity interest in MSB Manufacturing Sdn. Bhd., the name of which was changed to Tele Power Sdn. Bhd. (the "Tele Power") on 1 June 2017, which was accounted for as an investment in an associate.

On 1 September 2016, Leoch International Holding entered into a share purchase agreement with the existing shareholders of Tele Power to acquire 11% equity interests in Tele Power at a cash consideration of MYR366,000 (equivalent to RMB567,000). Upon completion of the share purchase, the Leoch International Holding held 51% of the equity interest in Tele Power. On 23 January 2017, the Group obtained control over Tele Power which then became a subsidiary of the Company. The total consideration for the investments in Tele Power consists of (i) cash of RMB567,000; and (ii) the fair value of the equity interest in Tele Power previously held by Leoch International Holding immediately before the acquisition of RMB2,063,000. As a result of the remeasurement of the equity interest in Tele Power from its carrying amount immediately before the acquisition of RMB4,127,000 to its fair value of RMB2,063,000, a loss of RMB2,064,000 *(note 5)* was recognised in the condensed consolidated statement of profit or loss during the period ended 30 June 2017.

The Group has elected to measure the non-controlling interests in Tele Power at the non-controlling interest's proportionate share of Tele Power's identifiable net assets.

The fair values of the identifiable assets and liabilities of Tele Power as at the date of acquisition were as follows:

	Note	**Fair value recognised on acquisition** *RMB$'000*
Property, plant and equipment		716
Inventories		8,165
Trade and bills receivables		7,498
Prepayments, deposits and other receivables		4,763
Cash and bank balances		2,447
Trade and bills payables		(4,599)
Other payables and accruals		(35)
Interest-bearing bank borrowings		(12,073)
Total identifiable net assets at fair value		6,882
Non-controlling interests		(3,372)
		3,510
Gain on bargain purchase	*4*	(880)
		2,630
Satisfied by:		
Cash		567
Previously held equity interest remeasured at acquisition-date fair value		2,063
Total consideration		2,630

No transaction costs were incurred in this acquisition.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(567)
Cash and bank balances acquired	2,447
Net inflow of cash and cash equivalents included in cash flows from investing activities	1,880

Since the acquisition, Tele Power contributed RMB12,623,000 to the Group's turnover and RMB3,600 to the consolidated profit for the period ended 30 June 2017.

Had the combination taken place at the beginning of the period, the revenue and the profit of the Group for the period would have been RMB4,062,058,000 and RMB106,379,000, respectively.

17. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its staff quarters and office premises under operating lease arrangements, with leases negotiated for terms ranging from one to eighteen years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 30 June 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2017 (Unaudited) ***RMB'000***	31 December 2016 *RMB'000*
Within one year	**3,181**	2,786
In the second to fifth years, inclusive	**12,504**	11,277
After five years	**11,251**	8,757
	26,936	22,820

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

As at 30 June 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2017 (Unaudited)	31 December 2016
	RMB'000	*RMB'000*
Within one year	**4,499**	5,341
In the second to fifth years, inclusive	**2,772**	4,968
	7,271	10,309

18. COMMITMENTS

In addition to the operating lease commitments as set out in note 17(b) above, the Group had the following capital commitments:

	30 June 2017 (Unaudited)	31 December 2016
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Land and buildings	**22,278**	13,191
Plant and machinery	**6,415**	18,145
Capital contribution payable to an available-for-sale investment	**36,774**	36,937
Acquisition of a subsidiary	**–**	115,200
	65,467	183,473

19. EVENT AFTER THE REPORTING PERIOD

On 26 July 2017, Shenzhen Leoch Battery Technology Co., Ltd. (the "Shenzhen Leoch Battery"), Leoch Battery Shenzhen Corp., and Shenzhen Lihang Battery Technology Co., Ltd., subsidiaries of the Company, collectively entered into a construction contract with Shenzhen Shekou Costal Realty Company Limited, a company in the PRC principally engaged in property development in relation to the construction of a property at a consideration capped at RMB516,000,000. The property is located at the development site situated on Tower E, Taizhi Bay Commercial Plaza, Shekou Gangwan Road, Nanshan District, Shenzhen, the PRC, with an estimated floor area of approximately 6,141.30 square meters. The property will be of commercial use and upon acquisition by the Group, is expected to be used as the principal office of the Group. Based on the currently estimated floor area of the property upon its completion, the consideration is expected to be RMB491,304,000. As at the date of approval of these financial statements, Shenzhen Leoch Battery has paid an amount of RMB49,130,000 of the consideration.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in manufacturing, development and sales of lead-acid batteries. The Group sells over 2,000 models of lead-acid battery products, ranging in capacity from 0.251 Ah to 4,055 Ah. Among the PRC battery manufacturers, the Group offers one of the broadest lines of lead-acid batteries. It further expands to lead recycling and remanufacturing business upon the completion of the acquisition 60% of the registered capital of Taihe Dahua Energy Technology Co., Ltd on 9 January 2017.

For the six months ended 30 June 2017 (the "Period"), the Group's revenue amounted to RMB4,062.0 million, representing an increase of 43.7% from RMB2,826.4 million for the same period in 2016.

During the Period, revenue from recycled lead products amounted to RMB722.2 million (six months ended 30 June 2016: Nil) while revenue from batteries and related items amounted to RMB3,339.9 million, representing an increase of 18.2% from RMB2,826.4 million for the same period in 2016. Since price linkage mechanism will pass raw material price fluctuation to customers, the growth in revenue was mainly contributed by the increase in average of lead price as compared with the same period in 2016. The Group's goods delivery records to end customers indicated that delivery increment in terms of ton was at single digit percentage growth.

Lead-acid batteries are generally classified into three market categories, namely reserve power batteries, SLI batteries and motive power batteries. Details of business operations of the Group in these three categories are as follows:

(A) Reserve power batteries

Reserve power batteries remain the major revenue contributor of the Group. The revenue of reserve power batteries during the Period amounted to RMB2,115.9 million, representing a slight increase of 0.8% as compared to the same period of last year. However, delivery records revealed that there was a high single digit percentage drop in total for goods being delivered in this category during the Period as compared to the same period of last year.

Reserve power battery products are further classified into four major application markets, namely uninterrupted power supply system ("UPS"), telecommunications, other consumer products and renewable energy.

Revenue and number of battery delivered in UPS and other consumer products application increased as compared to a decrease in telecommunications and renewable energy batteries. After the strong demand in 2016 due to the strategic restructuring among major telecommunication providers in the PRC, it is unavoidable that shipment in the PRC telecommunications application will drop on a larger scale. This was partially overcome by the strong demand at overseas and the increase in sales of batteries in other consumer products and UPS application contributed by our sales and marketing efforts to expand our market share in these application areas. During the Period, shipment in renewable energy battery also decreased mainly due to the weak overall market demand in this application.

(B) SLI batteries

SLI batteries are used mainly in starting automobiles and motorcycles. The revenue of SLI batteries during the Period amounted to RMB912.3 million, representing an increase of 70.6% as compared to the same period of last year. Delivery record revealed that goods being delivered for automobiles and motorcycles applications increased more than 35% and 15% respectively during the Period as compared to the same period of last year. The significant increase was a result of continuing investment in SLI batteries. This category enjoys a high growth rate mainly due to the prevailing favorable business environment for SLI batteries in the PRC and the Group's effort in enhancing areas like research and development, production, product quality, sales and marketing. These elements contribute to customer bases enlargement and market penetration.

(C) Motive power batteries

Motive power batteries are mainly used to provide power for electric vehicles such as forklifts, golf carts and electric bicycles and other portable devices. During the Period, the Group recorded sales revenue from Motive power batteries of RMB221.3 million, representing an increase of 133.8% as compared to the same period of last year. Delivery record revealed that goods being delivered for this category increased more than 2 times during the Period as compared to the same period of last year. This remarkable result was contributed by the substantial increase in sales of batteries for the use by electric vehicles and forklifts.

Sales network

The Group distributes its products to more than 100 countries through a well established global sales network. Currently, the Group has over 750 dedicated sales and after-sales employees. The Group's regional sales centres are located in Beijing, Shenzhen, Zhaoqing, Nanjing, the United States, the European Union, Hong Kong, Singapore, India, Sri Lanka and Malaysia, together with 39 domestic sales centres across China. The Group will continue to expand its sales teams and marketing network to support the growth in sales, distribution, and after-sales services for the respective batteries categories of the Group.

Research and development of new products

The Group is a leader in research and development ("R&D") and application of lead–acid battery technologies in China. To support its R&D efforts, the Group works closely with international and domestic battery experts and research institutions to develop new technologies. The Group's battery research and development team consists of more than 400 researchers and technicians. Currently, the Group holds 230 patents and 74 other proprietary technologies are in the process of patent applications.

The Group has grasped and applied most of lead-acid battery technologies in the world, including technologies used in the first generation open-type fluid infusion battery, the second generation Absorbent Glass Mat battery and new energy battery, the third generation pure lead battery, and the fourth generation Stop-Start battery. The Group is one of a handful of enterprises in the world possessing the third and the fourth generations of technologies. The Group's strong R&D capabilities enable it to produce a broad range of battery products deploying most of the key lead-acid battery technologies. Currently, the Group has developed more than 2,000 models of battery products of different types employing various application technologies, making the Group one of the battery enterprises with the broadest range of lead-acid batteries.

Production bases

The Group has eight established lead-acid battery production bases, including four wholly-owned production bases in the PRC, a wholly-owned production base in Sri Lanka, two joint venture production bases in Malaysia and a joint venture production base in India, with a total site area of approximately 940,000 square meters. As at 30 June 2017, the Group had production capacity of 20.7 million KVAH. During the Period, the Group acquired a lead recycling and manufacturing production base in the PRC with a site area of approximately 72,000 square meters. To cope with the potential business expansion, the Group is planning to further expand its manufacturing capacities in the PRC and overseas.

Trend of lead price

Lead is the main raw material of lead-acid batteries and accounts for a major sales cost for the Group's battery production. According to Shanghai Metals Market, an information service provider of the non-ferrous metal market, the monthly average lead price per ton was moving between the range of RMB15,931 to RMB18,933 during the Period, changed within the range of –18.6% to –3.2% as compared with December 2016 monthly average of RMB19,563 per ton.

After surge to the highest month average point in the last month of 2016, domestic average lead price per ton for the first six months in 2017 as compared to December 2016 monthly average was adjusted downward by 6.5%, 3.2%, 7.7%, 15.5%, 18.6% and 12.8% respectively. The latest information shows that July and August lead prices continue to rebound and lead price as at 21 August 2017 was close to December 2016 monthly average lead price.

To cope with potential risks of fluctuations in lead price, the Group adopts a price linkage mechanism, passing raw materials price fluctuations to customers to hedge relevant risks. The Group's centralized procurement of raw materials enables it to trim down costs of raw materials through favorable negotiations on bulk purchase contracts.

Future Prospects

The Group anticipates that lead-acid batteries will sustain the growth momentum in three categories, namely reserve power batteries, SLI batteries and motive power batteries in 2017. Although the unstable lead price in PRC creates delay effect in order placing during the Period, our records show that there has been significant improvement in June 2017 with approximately 20% growth as compared to average delivery volume in terms of ton in 2016 and the momentum continues. The Group believes that all three categories of battery will continue sustaining growth in different degree in current year.

The Group has formulated the following strategic plans for the three categories of lead-acid batteries:

(A) Reserve power batteries

Telecom operators and equipment manufacturers are the Group's major customers. Reserve power battery products have four major application areas, namely UPS, telecommunications, other customer products and renewable energy. The Group strongly believes that reserve power batteries will continue to sustain its growth in these four major application markets.

The Group commanded leading position after its rapid growth in sale of telecommunication application batteries in the PRC. We will continue solidifying our market position in this area and plan to further increase our market share. Looking forward, further upgrade and development of the 5G network will provide additional boost to the demand for telecommunications batteries over the next few years. The rapid development of IT technologies such as cloud computing, big data, commerce and various types of data centers and servers will continue contributing to the growth momentum of reserve power batteries. Besides, the market size of the customer products and renewable energy will also enjoy different degree of growth rate. We believe the Group will continue to benefit from the growth in the reserve power market in the PRC and will exert all our efforts to expand our market share and secure our leading position in the domestic market of reserve power battery. To deal with the intense competition and trade barrier in overseas market, the Group plans to expand overseas production base and will continue seeking high quality joint venture partners to further expand overseas business.

(B) SLI batteries

As a result of continuing investment in SLI batteries, the Group achieved very strong sales during the Period with approximately 70.6% growth in revenue as compared to the same period of 2016. Volume delivered in terms of ton increased by approximately 33% during the Period as compared to the same period in 2016. Without considering the recycled lead products, SLI batteries accounted for approximately 27.3% of lead-acid batteries revenue as compared to 18.9% in the same period of 2016.

SLI batteries is the most important application area for lead-acid batteries with about 40-50% of the total batteries being used worldwide. Since 2010, the PRC has been ranked the first in the world for vehicle production and sales. A consensus has formed that the PRC will be the largest market in which demand for SLI batteries will continue to grow and can account for up to 50% of the total SLI batteries global sales by 2020.

With the implementation of the China Passenger Vehicle Fuel Consumption Standard IV, which requires the average fuel consumption of all new vehicles sold in 2020 to be 5.0L/100 km as compared to the current level of 6.9L/100 km, being put into effect from the beginning of 2016, the demand for start-stop batteries in China is poised for strong growth. Furthermore, the aftermarket segment will facilitate the demand for SLI batteries as a result of the ageing of the vehicle fleet in the country. With more than 90 million new vehicles expected to be added over the next 5 years, the demand for SLI batteries remains robust.

Being one of the few manufacturers that possess the fourth generation Stop-Start battery, the Group is well prepared and planned to further increase the production capacity for SLI batteries aiming to become one of the leading suppliers of SLI batteries in the PRC. The Group is planning to expand our overseas production capacity to fulfill part of the demand from other countries.

(C) Motive power batteries

The commitment in strengthening investment in motive power batteries by the Group resulted in continuing high growth and sales revenue increased by approximately 133.8% during the Period as compared to the same period of 2016. Without considering the recycled lead products, motive power batteries accounted for approximately 6.6% of lead-acid batteries revenue as compared to 3.3% in the same period of 2016.

The demand for motive power batteries has been propelled by the extensive promotion and application of the batteries in electric transportation and equipment such as electric bicycles, low-speed battery vehicles and forklifts. The Group will pull in sufficient resources to maintain its competitiveness in the sector of low-speed vehicles and forklifts and try to expand its market share at a faster pace.

FINANCIAL REVIEW

For the six months ended 30 June 2017, the Group's revenue amounted to RMB4,062.0 million, representing an increase of 43.7% compared to the same period in 2016. The profit for the Period amounted to 106.4 million, representing a decrease of 5.1% compared to the same period in 2016, of which the profit attributable to owners of the parent amounted to RMB92.2 million, representing a decrease of 18.1%. Basic and diluted earnings per share for the six months ended 30 June 2017 was RMB0.07.

Revenue

The Group's revenue increased by 43.7% from RMB2,826.4 million for the six months ended 30 June 2016 to RMB4,062.0 million for the six months ended 30 June 2017, of which the Group's revenue from battery business increased by 18.2% from RMB2,826.4 million for the six months ended 30 June 2016 to RMB3,339.9 million for the six months ended 30 June 2017.

The revenue of reserve power batteries slightly increased by 0.8% from RMB2,099.5 million for the six months ended 30 June 2016 to RMB2,115.9 million for the six months ended 30 June 2017, as a result of strong market demand of other consumer product and UPS batteries compensating for a plunge in market demand of telecommunication batteries. The revenue of SLI batteries during the Period increased by 70.6% from RMB534.9 million for the six months ended 30 June 2016 to RMB912.3 million for the six months ended 30 June 2017, which was primarily attributable to the enlarged customer bases and intensive market penetration as a result of continuing investment in SLI batteries. The revenue of motive power batteries increased by 133.8% from RMB94.6 million for the six months ended 30 June 2016 to RMB221.3 million for the six months ended 30 June 2017, which was mainly attributable to the substantially increased sales of batteries used by electric vehicles and forklifts. Details of the Group's revenue for the six months ended 30 June 2017 and 2016 by category of batteries are set out below:

	Six months ended 30 June				
	2017			2016	
Product category	**Revenue**		**Revenue increase/ (decrease)**	Revenue	
	RMB'000	*%*		*RMB'000*	*%*
Lead-acid batteries:					
Reserve power batteries	**2,115,890**	**52.1%**	**0.8%**	2,099,518	74.3%
SLI batteries	**912,336**	**22.5%**	**70.6%**	534,929	18.9%
Motive power batteries	**221,322**	**5.4%**	**133.8%**	94,645	3.3%
Others	**90,310**	**2.2%**	**(7.2)%**	97,310	3.5%
Sub-total	**3,339,858**	**82.2%**	**18.2%**	2,826,402	100%
Recycled lead products	**722,171**	**17.8%**	**N/A**	–	–
Total	**4,062,029**	**100%**	**43.7%**	2,826,402	100%

Geographically, the Group's customers are principally located in the PRC, the United States, European Union and other Asian countries/areas. The Group recorded different degree of growth in its sales in all locations.

The Group's sales revenue in the PRC increased by 53.5% from RMB1,694.8 million for the six months ended 30 June 2016 to RMB2,601.8 million for the six months ended 30 June 2017, representing 64.1% of the Group's total revenue (six months ended 30 June 2016: 60.0%). The significant increase was principally due to the contribution from the lead recycling and remanufacturing business, which was acquired on 9 January 2017, and the comparatively strong market demand of lead-acid battery in the PRC during the Period.

The Group's sales revenue in the United States and European Union increased by 37.1% and 28.3% from RMB308.5 million and RMB327.5 million for the six months ended 30 June 2016 to RMB422.8 million and RMB420.1 million for the six months ended 30 June 2017, respectively, which was mainly due to the Group's increased marketing efforts in developing the United States of America and European Union markets. The Group's sales revenue in the other Asian countries/areas increased by 22.9% from RMB292.7 million for the six months ended 30 June 2016 to RMB359.6 million for the six months ended 30 June 2017. The increase was principally attributable to the contribution of two joint venture production plants in Malaysia, which became the Group's subsidiaries on 10 July 2016 and 23 January 2017, respectively, and focus mainly on the other Asian country markets. The Group's sales revenue in other counties increased by 27.0% from RMB202.9 million for the six months ended 30 June 2016 to RMB257.8 million for the six months ended 30 June 2017, which was mainly due to the increase in sales to existing customers during the Period.

The following table sets forth details of the Group's revenue during the six months ended 30 June 2017 and 2016 based on the geographic locations:

	Six months ended 30 June				
	2017			2016	
	Revenue		**Percentage increase**	Revenue	
	RMB'000	*%*		*RMB'000*	*%*
Mainland China	**2,601,751**	**64.1%**	**53.5%**	1,694,829	60.0%
European Union	**420,068**	**10.3%**	**28.3%**	327,509	11.6%
United States of America (the "USA")	**422,775**	**10.4%**	**37.1%**	308,461	10.9%
Other Asian countries/areas	**359,646**	**8.9%**	**22.9%**	292,664	10.3%
Other countries	**257,789**	**6.3%**	**27.0%**	202,939	7.2%
Total	**4,062,029**	**100%**	**43.7%**	2,826,402	100%

Cost of Sales

The Group's cost of sales increased by 50.2% from RMB2,372.4 million for the six months ended 30 June 2016 to RMB3,563.7 million for the six months ended 30 June 2017, mainly because of increased lead price and addition of lead recycling and manufacturing business.

Gross Profit

The Group's gross profit increased by 9.8% from RMB454.0 million for the six months ended 30 June 2016 to RMB498.4 million for the six months ended 30 June 2017, mainly attributable to the addition of lead recycling and manufacturing business during the Period. The overall gross profit margin decreased from 16.1% for the six months ended 30 June 2016 to 12.3% for the six months ended 30 June 2017. The decrease was mainly because the lead price hike cannot be fully transferred to customers. It was further compounded by the relatively low gross margin from lead recycling and manufacturing business.

Other Income and Gains

Other income and gains increased by 44.9% from RMB33.5 million for the six months ended 30 June 2016 to RMB48.5 million for the six months ended 30 June 2017, which was primarily due to the reversal of impairment of trade receivables and recognition of foreign exchange gains during the Period.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by 38.8% from RMB120.2 million for the six months ended 30 June 2016 to RMB166.8 million for the six months ended 30 June 2017, primarily due to: i) the significantly increased cost of logistic service following the acquisition of the lead recycling and manufacturing business; ii) the increased staff costs due to the expansion in the research and development and sale personnel to cope with the business expansion in the future; and iii) the increased travelling, entertainment and promotional expenses as a result of increased business activities.

Administrative Expenses

The Group's administrative expenses increased by 29.0% from RMB91.0 million for the six months ended 30 June 2016 to RMB117.3 million for the six months ended 30 June 2017, mainly due to i) the increased salaries of administrative staff; ii) the acquisitions of new business; and iii) the increased professional fees related to new businesses during the Period.

Fair Value Gain/(Loss) from Financial Assets and Financial Liabilities at Fair Value through Profit or Loss, net

The Group recognized fair value gain on foreign exchange forward contracts of RMB1.3 million and fair value loss on equity investment of RMB0.6 million in the statement of profit or loss for the six months ended 30 June 2017. The fair value gain and fair value loss were included in other incomes and other expenses, respectively.

(i) The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are measured at fair value through profit or loss. The net gain, including realised and unrealised, on changes in the fair value of the forward currency contracts amounting to RMB1.3 million (six months ended 30 June 2016: net loss of RMB15.3 million) was recognised in the statement of profit or loss during the Period. The maturity dates of the derivative financial instruments are within one year.

(ii) The Group had listed equity investments in Hong Kong. The fair values of the listed securities were determined by reference to their quoted market bid prices available on the Hong Kong stock exchange at the end of the Period. The unrealised loss on change in fair value of RMB0.6 million (six months ended 30 June 2016: RMB1.5 million) was recognised in the statement of profit or loss during the Period.

Other Expenses

The Group's other expenses decreased by 90.2% from RMB37.2 million for the six months ended 30 June 2016 to RMB3.6 million for the six months ended 30 June 2017, which was mainly due to recognition of fair value loss on foreign exchange forward contracts of RMB15.3 million and recognition of exchange loss of RMB16.2 million for the corresponding period in 2016.

Research and Development Costs

The research and development expenditure of the Group increased by 59.3% from RMB40.0 million for the six months ended 30 June 2016 to RMB63.7 million for the six months ended 30 June 2017. The increase in expenditure was mainly used for performance enhancement in all categories, particularly in EV battery products and development of new telecommunication battery products in preparation for launding 5G technology during the Period.

Finance Costs

The Group's finance costs increased by 33.6% from RMB51.5 million for the six months ended 30 June 2016 to RMB68.8 million for the six months ended 30 June 2017, mainly due to the increased bank borrowings during the Period.

Profit before Tax

As a result of the foregoing factors, the Group recorded profit before tax of RMB126.6 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB143.9 million).

Income Tax Expenses

Income tax expenses decreased by 36.4% from RMB31.8 million for the six months ended 30 June 2016 to RMB20.2 million for the six months ended 30 June 2017, mainly due to the decrease in profit which was subject to tax of the Group during the Period.

Profit for the Period

As a result of the foregoing factors, the Group recorded consolidated net profit of RMB106.4 million (six months ended 30 June 2016: RMB112.1 million) for the six months ended 30 June 2017, of which the Group recorded profit attributable to owners of the parent of RMB92.2 million (six months ended 30 June 2016: RMB112.6 million) for the same period.

Liquidity and Financial Resources

As at 30 June 2017, the Group's net current assets amounted to RMB1,399.7 million (31 December 2016: RMB759.2 million), among which cash and bank deposit amounted to RMB1,214.2 million (31 December 2016: RMB705.2 million).

As at 30 June 2017, the Group had bank borrowings of RMB2,488.8 million (31 December 2016: RMB1,763.5 million), all of which are interest-bearing. Except for borrowings of RMB1,298.3 million which have a maturity of over 1 year, all of the Group's bank borrowings are repayable within one year. The Group's borrowings are denominated in RMB, US dollars, HK dollars and other currencies, and the effective interest rates of which as of 30 June 2017 were in the range of 1.5% to 7.53% (31 December 2016: 1.5% to 7.53%).

Most of the Group's bank borrowings are secured by pledges of certain assets of the Group including property, plant and equipment, leasehold lands, deposits and trade and bills receivables.

As at 30 June 2017, the Group's gearing ratio was 31.0% (31 December 2016: 25.7%), which was calculated by dividing total borrowings by total assets as at the end of each respective period, multiplied by 100%.

Risks of Exchange Rate Fluctuation

The Group primarily operates in the PRC and its principal activities are transacted in RMB. For other companies outside of the PRC, their principal activities are transacted in US dollars. However, as a result of the Group's revenue being denominated in RMB, the conversion of the revenue into foreign currencies in connection with expense payments is subject to PRC regulatory restrictions on currency conversion. The value of the RMB against the US dollar and other currencies may fluctuate and is affected by, among other things, changes in PRC's political and economic conditions. The Group adopted price linkage mechanism for product sales by which the risk of currency fluctuation is basically transferred to the customers. However, the Group's foreign currency trade receivables may still be exposed to risk in the credit period. The Group has commenced using forward currency contracts since the year 2012 to eliminate the foreign currency exposures arising from sales denominated in US dollars. The forward currency contracts have been in the same currency as the hedged item, i.e. US dollars.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2017 (31 December 2016: Nil).

Pledge of Assets

Please refer to Notes 11, 12, 13 and 14 to this announcement for details.

Capital Commitments

Please refer to Note 18 to this announcement for details.

Material Acquisition and Disposal

On 18 November 2016, Anhui Uplus New Energy Material Technology Co., Ltd., a subsidiary of the Company, entered into an agreement with independent third parties in relation to the proposed acquisition of 60% of the registered capital of Taihe Dahua Energy Technology Co., Ltd., a company in the PRC principally engaged in the recycle and remanufacture of lead from disposed batteries at a cash consideration of RMB115,200,000. The acquisition was completed on 9 January 2017 and total amount of RMB80,640,000, accounting for 70% of the consideration, has been paid to the vendors as at the date of this announcement.

On 23 January 2017, the Group obtained control over Tele Power Sdn. Bhd. ("Tele Power") which then became a subsidiary of the Company by acquiring an additional 11% equity interests in Tele Power at a cash consideration of MYR366,000 (equivalent to RMB567,000).

Save as disclosed above, there was no other material acquisition or disposal of subsidiary or associated company by the Group during the Period.

EMPLOYEES

As at 30 June 2017, the Group had 13,288 employees. Employee benefit expenses (including directors' remuneration), which comprise wages and salaries, bonuses, equity-settled share option expenses and pension scheme contributions, totalled RMB367.4 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB340.4 million).

The Group has a share option scheme in place for selected participants as incentive and reward for their contribution to the Group. A mandatory provident fund scheme and local retirement benefit schemes are also in effect. The Group encourages employees to seek training to strengthen their work skills and for personal development. The Group also provides workshops for staff at different levels to enhance their knowledge of work safety and to build team spirit. Staff are rewarded based on performance of the Group as well as on individual performance and contribution.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the information of the Directors subsequent to the publication of the annual report of the Company for the year ended 31 December 2016 are set out below:

Dr. Gong Fangxiong ("Dr. Gong") has resigned as Independent Non-executive Director, a member of the audit committee, a member of the remuneration committee and a member of the nomination committee of the Company with effect from 16 June 2017.

Save as disclosed above, the Company has not been notified of other changes in the Directors' information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interests of shareholders and enhancing corporate value. The Board is of the view that the Company has met the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the Period.

AUDIT COMMITTEE

The Audit Committee, which comprises the three independent non-executive Directors, namely, Mr. CAO Yixiong Alan (chairman of the Audit Committee), Mr. LIU Yangsheng and Mr. LAU Chi kit, has reviewed the unaudited financial statements of the Company for the six months ended 30 June 2017 and discussed with the management and the auditors of the Company on the accounting principles and practices adopted by the Group and internal controls, risk management and financial reporting matters.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

APPRECIATION

The Board would like to express its sincere appreciation to the shareholders, customers, suppliers and staff for their continued support to the Group.

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

Hong Kong, 24 August 2017

As of the date of this announcement, the executive Directors are Mr. DONG Li, Ms. ZHAO Huan, the non-executive Director is Mr. Philip Armstrong NOZNESKY and the independent non-executive Directors are Mr. LIU Yangsheng, Mr. CAO Yixiong Alan and Mr. LAU Chi Kit.