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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 842)

**ANNOUNCEMENT OF INTERIM RESULTS FOR
THE SIX MONTHS ENDED 30 JUNE 2020**

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Changes
	2020	2019	
	<i>RMB million</i>	<i>RMB million</i>	
Turnover	3,684.2	3,963.9	-7.1%
Gross profit	477.4	470.0	1.6%
Profit for the Period	13.3	78.7	-83.1%
Profit attributable to owners of the parent	25.2	86.2	-70.8%
Basic earnings per share (<i>RMB</i>)	0.02	0.06	

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 2020 (the “**Period**”) with comparative figures for the corresponding period in the year 2019. 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 2020

	Notes	Six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
REVENUE	4	3,684,183	3,963,948
Cost of sales		<u>(3,206,830)</u>	<u>(3,493,926)</u>
Gross profit		477,353	470,022
Other income and gains	4	32,487	90,299
Selling and distribution expenses		(171,440)	(167,783)
Administrative expenses		(119,699)	(124,922)
Research and development costs		(71,633)	(48,115)
Impairment losses on financial assets		(12,125)	(2,594)
Other expenses	6	(26,446)	(10,566)
Finance costs	7	<u>(82,405)</u>	<u>(100,724)</u>
PROFIT BEFORE TAX	5	26,092	105,617
Income tax expense	8	<u>(12,764)</u>	<u>(26,924)</u>
PROFIT FOR THE PERIOD		<u>13,328</u>	<u>78,693</u>
Attributable to:			
Owners of the parent		25,158	86,183
Non-controlling interests		<u>(11,830)</u>	<u>(7,490)</u>
		<u>13,328</u>	<u>78,693</u>
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY			
HOLDERS OF THE PARENT	10		
Basic		<u>RMB0.02</u>	<u>RMB0.06</u>
Diluted		<u>RMB0.02</u>	<u>RMB0.06</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PROFIT FOR THE PERIOD	<u>13,328</u>	<u>78,693</u>
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Debt investments at fair value through other comprehensive income:		
Changes in fair value	76	827
Income tax effect	<u>(19)</u>	<u>(207)</u>
	57	620
Exchange differences on translation of foreign operations	<u>(4,342)</u>	<u>4,399</u>
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	<u>(4,285)</u>	<u>5,019</u>
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	(12,286)	27,128
Income tax effect	<u>7,944</u>	<u>(6,782)</u>
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods	<u>(4,342)</u>	<u>20,346</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	<u>(8,627)</u>	<u>25,365</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>4,701</u>	<u>104,058</u>
Attributable to:		
Owners of the parent	16,890	111,403
Non-controlling interests	<u>(12,189)</u>	<u>(7,345)</u>
	<u>4,701</u>	<u>104,058</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2020

	<i>Notes</i>	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,124,575	2,151,252
Investment properties		362	367
Right-of-use assets		184,987	190,973
Goodwill		10,636	10,636
Other intangible assets		692,636	670,983
Equity investments designated at fair value through other comprehensive income		140,453	164,709
Deposits paid for purchase of items of property, plant and equipment		149,389	140,204
Deferred tax assets		57,221	51,293
Total non-current assets		<u>3,360,259</u>	<u>3,380,417</u>
CURRENT ASSETS			
Inventories	<i>11</i>	1,923,999	1,816,966
Trade receivables	<i>12</i>	2,268,155	2,306,871
Debt investments at fair value through other comprehensive income		156,372	134,784
Prepayments, other receivables and other assets		189,033	162,043
Financial assets at fair value through profit or loss		63,529	65,603
Structured bank deposits	<i>13</i>	59,666	59,793
Pledged deposits	<i>14</i>	499,646	464,146
Cash and cash equivalents	<i>14</i>	245,859	280,903
Total current assets		<u>5,406,259</u>	<u>5,291,109</u>

	<i>Notes</i>	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
CURRENT LIABILITIES			
Trade and bills payables	15	2,077,286	2,009,701
Other payables and accruals		909,239	846,932
Lease liabilities		8,014	7,877
Financial liabilities at fair value through profit or loss		3,090	5,457
Interest-bearing bank borrowings	16	1,648,445	2,269,996
Income tax payable		<u>105,069</u>	<u>85,627</u>
Total current liabilities		<u>4,751,143</u>	<u>5,225,590</u>
NET CURRENT ASSETS		<u>655,116</u>	<u>65,519</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,015,375</u>	<u>3,445,936</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		53,588	64,238
Interest-bearing bank borrowings	16	635,049	36,190
Deferred government grants		63,662	59,770
Lease liabilities		<u>7,676</u>	<u>11,549</u>
Total non-current liabilities		<u>759,975</u>	<u>171,747</u>
Net assets		<u>3,255,400</u>	<u>3,274,189</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital		116,224	116,213
Reserves		<u>3,004,980</u>	<u>3,001,533</u>
		3,121,204	3,117,746
Non-controlling interests		<u>134,196</u>	<u>156,443</u>
Total equity		<u>3,255,400</u>	<u>3,274,189</u>

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 Group is principally engaged in the manufacture, development and sale of lead-acid batteries and recycled lead business.

In the opinion of the directors of the Company (the "**Directors**"), the immediate holding company and the ultimate holding company is Master Alliance Investment Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Dong Li.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and International Accounting Standards ("**IAS**") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board (the "**IASB**").

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

The interim condensed consolidated financial information is unaudited, but has been reviewed by the Audit Committee of the Company.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period's financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to IFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The nature and impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments did not have any impact on the financial position and performance of the Group.

- (d) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

The Group is engaged in the manufacture and sale of lead-acid batteries and recycled lead business.

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 CODM 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	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Lead-acid batteries	3,405,425	3,389,946
Recycled lead products	278,758	569,019
Others	—	4,983
	<u>3,684,183</u>	<u>3,963,948</u>

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Mainland China*	2,284,686	2,377,879
Europe, the Middle East and Africa	658,547	701,638
Americas	431,737	526,192
Asia-Pacific (other than Mainland China)	309,213	358,239
	<u>3,684,183</u>	<u>3,963,948</u>

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

The revenue information above is based on the locations of the customers. All of the revenue is from sale of goods, which is recognised when the goods are transferred at a point in time.

(b) Non-current assets

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
	Mainland China	2,747,642
Others	414,943	389,894
	<u>3,162,585</u>	<u>3,164,415</u>

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

During the period ended 30 June 2020, no revenue from sales to a single customer amounted to 10% or more of the Group's revenue. During the period ended 30 June 2019, revenue of approximately RMB409,270,000 was derived from sales to a single customer, including sales to a group of entities which are known to be under common control with that customer, which accounted for 10.3% of the Group's total revenue.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers	<u>3,684,183</u>	<u>3,963,948</u>

Disaggregated revenue information for revenue from contracts with customers

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Type of goods		
Sale of industrial products	3,684,183	3,958,965
Others	<u>–</u>	<u>4,983</u>
	<u>3,684,183</u>	<u>3,963,948</u>

Timing of revenue recognition		
Goods transferred at a point in time	<u>3,684,183</u>	<u>3,963,948</u>

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Other income and gains		
Bank interest income	6,479	10,929
Government grants*	17,008	11,540
Sale of scrap materials	2,627	2,262
Dividend income from equity investments designated at fair value through other comprehensive income	672	2,807
Fair value gain from structured bank deposits	–	1,756
Rental income	1,882	1,424
Gain on disposal of a subsidiary	–	56,101
Others	<u>3,819</u>	<u>3,480</u>
	<u>32,487</u>	<u>90,299</u>

* The government grants represent various cash payments and subsidies provided by the local government authorities to the Group as an 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	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	2,628,195	2,965,526
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	364,695	349,672
Equity-settled share option expenses	1,291	1,022
Pension scheme contributions	19,298	24,635
	385,284	375,329
Amortisation of other intangible assets except for deferred development costs	6,769	8,706
Research and development costs:		
Deferred development costs amortised*	84,488	51,270
Current period expenditure	71,633	48,115
	156,121	99,385
Financial liabilities at fair value through profit or loss		
Unrealised loss	3,090	–
Realised loss	440	–
Fair value loss from financial liabilities at fair value through profit or loss, net	3,530	–
Structured bank deposits:		
Unrealised loss/(gain)	127	(1,756)
Financial assets at fair value through profit or loss:		
Unrealised loss	2,074	3,852
Depreciation of property, plant and equipment	130,608	116,119
Depreciation of investment properties	5	77
Depreciation of right-of-use assets	5,925	4,182
Impairment of trade receivables	12,125	2,594
Impairment of inventories*	637	2,771
Loss on disposal of items of property, plant and equipment, net	1,551	1,156
Foreign exchange loss, net	17,615	1,806
Lease payment not included in the measurement of lease liabilities	4,094	4,884

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

6. OTHER EXPENSES

An analysis of other expenses is as follows:

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Foreign exchange loss	17,615	1,806
Loss on disposal of items of property, plant and equipment	1,551	1,156
Fair value loss from financial assets at fair value through profit or loss	2,074	3,852
Fair value loss from financial liabilities at fair value through profit or loss	3,530	–
Fair value loss from structured bank deposits	127	–
Others	1,549	3,752
	<u>26,446</u>	<u>10,566</u>

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Interest on bank borrowings	61,352	75,310
Interest arising from discounted bills	20,507	25,096
Interest on lease liabilities	546	318
	<u>82,405</u>	<u>100,724</u>

8. 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 consolidated statement of profit or loss are:

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Current:		
Mainland China	15,786	6,198
Hong Kong	(5,813)	(3,938)
Singapore	10,133	11,980
United States of America	1,189	1,595
Deferred	(8,531)	11,089
	<u>12,764</u>	<u>26,924</u>

11. INVENTORIES

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Raw materials	567,265	344,180
Work in progress	779,864	816,658
Finished goods	<u>576,870</u>	<u>656,128</u>
	<u>1,923,999</u>	<u>1,816,966</u>

At 30 June 2020, certain of the Group's inventories with a net carrying amount of approximately RMB111,964,000 (31 December 2019: RMB111,964,000) were pledged to secure general banking facilities granted to the Group (note 16(v)).

12. TRADE RECEIVABLES

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Trade receivables	2,309,079	2,338,905
Less: Impairment provision	<u>(40,924)</u>	<u>(32,034)</u>
	<u>2,268,155</u>	<u>2,306,871</u>

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 RMB209,295,000 (31 December 2019: RMB205,917,000) were under short term credit insurance and RMB40,431,000 (31 December 2019: RMB57,357,000) were under letters of credit. Trade receivables are non-interest-bearing.

As at 30 June 2020, the Group had pledged certain trade receivables amounting to RMB186,956,000 (31 December 2019: RMB96,149,000) to banks with recourse in exchange for cash. The proceeds from pledging the trade receivables of RMB168,193,000 (31 December 2019: RMB81,582,000) 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 16(iii)).

An aged analysis of the trade receivables as at 30 June 2020 and 31 December 2019 based on the invoice date, net of provisions, is as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 3 months	1,635,370	1,713,636
3 to 6 months	232,008	303,817
6 to 12 months	221,469	147,672
1 to 2 years	112,730	110,159
Over 2 years	66,578	31,587
	<u>2,268,155</u>	<u>2,306,871</u>

13. STRUCTURED BANK DEPOSITS

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Structured bank deposits, in licensed banks in Mainland China:		
With floating rate, at fair value	<u>59,666</u>	<u>59,793</u>

The structured bank deposits are classified at initial recognition as fair value through profit or loss. The net loss on changes in the fair value of the structured bank deposits amounting to RMB127,000 was recognised in the interim condensed consolidated statement of profit or loss during the period.

14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Cash and bank balances	245,859	280,903
Time deposits	<u>499,646</u>	<u>464,146</u>
	745,505	745,049
Less: Pledged for interest-bearing bank borrowings (<i>note 16(iv)</i>)	(4,769)	(4,675)
Pledged for bills payable (<i>note 15</i>)	(441,673)	(427,684)
Pledged for letters of credit	<u>(53,204)</u>	<u>(31,787)</u>
	<u>(499,646)</u>	<u>(464,146)</u>
Cash and cash equivalents	<u><u>245,859</u></u>	<u><u>280,903</u></u>
Denominated in RMB	623,537	638,484
Denominated in US\$	65,433	49,838
Denominated in Indian Rupee	27,214	7,041
Denominated in HK\$	11,763	37,808
Denominated in Euro	5,866	4,863
Denominated in Vietnam Dollar	4,582	–
Denominated in Malaysian Ringgit	4,272	4,113
Denominated in Sri Lankan Rupee	1,417	1,418
Denominated in Singapore Dollar	1,104	603
Denominated in Australia Dollar	<u>317</u>	<u>881</u>
	<u><u>745,505</u></u>	<u><u>745,049</u></u>

15. TRADE AND BILLS PAYABLES

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Trade payables	836,694	805,666
Bills payable	<u>1,240,592</u>	<u>1,204,035</u>
	<u><u>2,077,286</u></u>	<u><u>2,009,701</u></u>

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 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 3 months	915,481	989,445
3 to 6 months	282,716	348,314
6 to 12 months	861,598	655,414
1 to 2 years	9,780	11,630
2 to 3 years	3,012	604
Over 3 years	<u>4,699</u>	<u>4,294</u>
	<u><u>2,077,286</u></u>	<u><u>2,009,701</u></u>

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 2020, bills payable amounting to RMB686,080,000 (31 December 2019: RMB722,500,000) were issued on intercompany sales transactions within Group companies and such bills were discounted to banks for short term financing.

As at 30 June 2020, certain bills payable of the Group were secured by pledge of certain time deposits of the Group amounting to RMB441,673,000 (31 December 2019: RMB427,684,000) (note 14).

16. INTEREST-BEARING BANK BORROWINGS

	30 June 2020 (unaudited)			31 December 2019 (audited)		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Interest-bearing bank borrowings, secured	3.18 to 8.65	2020–2021	833,453	1.50 to 8.65	2020	1,050,581
Collateralised bank advances, secured	0.79 to 3.95	2020–2021	168,193	2.00 to 2.40	2020	81,582
Interest-bearing bank borrowings, guaranteed	3.05 to 5.35	2020–2021	542,863	2.56 to 8.70	2020	443,314
Current portion of long term bank borrowings, guaranteed	LIBOR+2.70	2020–2021	<u>103,936</u>	LIBOR +2.50	2020	<u>694,519</u>
			<u>1,648,445</u>			<u>2,269,996</u>
Non-current						
Interest-bearing bank borrowings, secured	3.38 to 8.65	2021–2028	46,079	1.50 to 7.53	2021–2028	36,190
Interest-bearing bank borrowings, guaranteed	LIBOR+2.70	2021–2023	<u>588,970</u>	–	–	<u>–</u>
			<u>635,049</u>			<u>36,190</u>
			<u>2,283,494</u>			<u>2,306,186</u>

Analysed into:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Bank loans and advances repayable:		
Within one year	1,648,445	2,269,996
In the second year	226,013	22,771
In the third to fifth years, inclusive	403,751	5,630
Beyond five years	<u>5,285</u>	<u>7,789</u>
	<u>2,283,494</u>	<u>2,306,186</u>

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

- (i) a charge over certain property, plant and equipment of the Group with a net carrying amount of approximately RMB627,888,000 (31 December 2019: RMB637,385,000) as at the end of the reporting period.
- (ii) a charge over certain leasehold lands of the Group with a net carrying amount of approximately RMB56,242,000 (31 December 2019: RMB60,356,000) as at the end of the reporting period.
- (iii) the pledge of certain trade receivables of the Group with a carrying amount of approximately RMB186,956,000 (31 December 2019: RMB96,149,000) as at the end of the reporting period (note 12).
- (iv) the pledge of certain time deposits of the Group amounting to approximately RMB4,769,000 (31 December 2019: RMB4,675,000) as at the end of the reporting period (note 14).
- (v) the pledge of inventories of the Group with a carrying amount of approximately RMB111,964,000 (31 December 2019: RMB111,964,000) as at the end of the reporting period (note 11).
- (vi) cross guarantees executed by companies within the Group.

The Group entered into a three-year term loan facility agreement amounting to US\$100,000,000 on 7 May 2020 (the “**Facility Agreement**”) with certain financial institutions.

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

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

As at 30 June 2020, the outstanding term loan balance amounted to US\$100,000,000 (equivalent to RMB692,906,000), of which RMB103,936,000 and RMB588,970,000 are repayable within one year and in the second to third years inclusive, respectively under the terms of the Facility Agreement. The term loan bears interest at LIBOR+2.7% per annum.

17. COMMITMENTS

The Group had the following capital commitments:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Contracted, but not provided for:		
Land and buildings	–	208
Plant and machinery	2,682	589
Capital contribution for investments in equity investments designated at fair value through other comprehensive income	<u>2,500</u>	<u>15,988</u>
	<u>5,182</u>	<u>16,785</u>

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is a global supplier of power solutions for telecommunications and data center industries. It provides highly reliable and innovative backup power solutions to the world's leading telecommunications operators, infrastructure service providers and equipment manufacturers, as well as major international data center solution providers.

Additionally, the Group provides customers worldwide with a broad range of power solutions in various applications, including automobile, motorcycles and electric vehicles, renewable energy storage systems, and other consumer and industrial products. Also, the Group is engaged in recycled lead business in China.

The Group serves battery customers in more than 100 countries through its over 80 sales offices and centers around the World, together with its eleven manufacturing facilities in China, Vietnam, Malaysia, India and Sri Lanka.

The Group has two primary businesses: Power Solutions and Recycled Lead. The Power Solutions business is classified into three major categories based on applications, defined as follows:

- Reserve power batteries: including Telecom and UPS batteries which are widely used in communication networks and data centers at all levels to provide a key guarantee for the normal operation of communication networks and other reserve power batteries.
- SLI batteries: used for the starting, lightening and ignition (SLI) of automobiles, motorcycles and ships.
- Motive power batteries: mainly used in electric bicycles, electric tricycles, low-speed electric cars, golf carts and sightseeing carts.

BUSINESS REVIEW

The outbreak of novel coronarvirus (COVID-19) impacted the global industrial supply chain in the first half of 2020 and greatly disrupted the global economy. The Group faced with business activities lockdown in the PRC at the beginning of the year affecting its production and shipment but was quickly resumed in March 2020. This helped the Group to provide full support for its global requirement when the COVID-19 epidemic spread globally in the second quarter of 2020 causing different degree of disruption to our overseas production facilities.

For the six months ended 30 June 2020 (the “**Period**”), the Group’s revenue amounted to RMB3,684.2 million, representing a decrease of 7.1% from RMB3,963.9 million for the corresponding period in 2019.

Despite the COVID-19 epidemic led to global recession and weak overseas market demand, the Group still achieved solid performance in its Power Solutions business in the first half of 2020. Shipment (tons) to the PRC customers improved by more than 35% but shipment (tons) to overseas market decreased by 5% as compared to the corresponding period of last year. The volume of shipment increased by more than 15% in total during the Period was contributed by the PRC stable recovery of the overall national economy.

During the Period, revenue from Power Solutions business amounted to RMB3,405.4 million, representing an increase of 0.5% from RMB3,389.9 million for the corresponding period in 2019 while revenue from Recycled Lead business amounted to RMB278.8 million, representing a decrease of 51.0% from RMB569.0 million for the corresponding period in 2019. Since SMM lead price in average during the Period dropped more than 13% as compared to 2019 yearly average, the price-linked pricing mechanism caused average selling price of battery to adjust downward resulting in a volume but not revenue growth.

Power Solutions Business

Reserve Power Battery

As the major revenue contributor to the Group, the reserve power battery business accounted for 50.0% of total sales during the Period. Sales revenue during the period amounted to RMB1,842.3 million (six months ended 30 June 2019: RMB1,967.5 million), representing a decrease of 6.4% compared to the corresponding period last year. The decrease was mainly due to disruption in PRC shipment for overseas markets in the first quarter followed by the weak overseas demand when the COVID-19 epidemic spread all over the world.

However, it is encouraging to see that the growth momentum for the Telecom and Data Center business in the PRC market continues although overseas client demands are suppressed resulting in an overall temporary decline in sales during the Period.

SLI Battery

SLI battery business is the second largest revenue contributor to the Group. It contributed 28.5% of total sales in the Period. Sales revenue during the Period amounted to RMB1,050.7 million (six months ended 30 June 2019: RMB1,025.3 million), representing an increase of 2.5% compared to the corresponding period last year.

During the Period, the demand of SLI batteries in the PRC market was gradually recovering especially in the aftermarket. However, overseas markets were suffering from low demands when strict epidemic control measures were implemented. Although the Group captured the growth momentum in the PRC which was offset by the suppressed overseas demand resulting in a low growing number.

Motive Power Battery

Motive power battery contributed to 13.1% of total sales in the Period. Sales revenue during the Period amounted to RMB481.7 million (six months ended 30 June 2019: RMB343.5 million), representing an increase of 40.2% compared to the corresponding period last year. The increase was mainly due to high demand from the PRC market when economic activities were resumed quickly nationwide.

Recycled Lead Business

Sales revenue of recycled lead products amounted to RMB278.8million (six months ended 30 June 2019: RMB569.0 million) during the Period, representing a decrease of 51.0% compared to the corresponding period last year. The recycling lead business was affected by the PRC business activities lockdown in the first quarter of 2020, causing the delay in final test run of facility in which production could not resume full operation until late May of 2020.

FUTURE PROSPECTS

The COVID-19 pandemic continues spreading globally, infecting millions of people and interrupting economic activities. Some countries show no sign of subsiding and others are suffering from rebounding infected numbers. Healthcare experts are worrying that situation will further worsen in winter. According to the article, June 2020 Global Economic Prospects, issued by The World Bank, the baseline forecast envisions a 5.2% contraction in global GDP in 2020. On the other hand, for China, it is generally agreed that the pandemic has largely been put under control at the current stage. With operation and production resumption speeding up nationwide, the PRC economy grew by 3.2% year-on-year in the second quarter of 2020 after a record 6.8% contraction in the first quarter. Article from International Monetary Fund, World Economic Outlook Update, June 2020 predicted that China 2020 real GDP growth can reach 1% while global growth is projected at negative 4.9% in 2020.

Although the economic and political environment remains uncertain as we enter into the second half of 2020, the speedy recovery in the PRC provides a strong backup to prevent overall decline in the Group's battery business. July 2020 shipment in terms of ton in the PRC shows that the growth momentum continues but overseas demands are still sluggish. The Group believes this trend will continue if current situation remains unchanged.

Besides, the accelerated development of 5G in China continues after the lockdown. The Group believes that the new 5G investment cycle will drive the growth in the size of the telecommunications backup power solution market in China and would definitely bring the Group new growth opportunities in the near to medium term.

In addition, the Group's delivery to data center industry customers in China enjoyed solid recovery and growth during the Period and the trend continues in July, 2020. It is expected that 5G will help accelerate the development of Internet of Things, big data, artificial intelligence and other technologies, driving the growth of the global data center market at an exponential rate. The Group believes that the increasing demands for backup power solutions in the data center market will help drive its revenue growth in the near future.

During the Period, the Group's expansion plans for its two new lead-acid plants in Vietnam have been completed as well as the phase one of the new lithium-ion plant in China. In view of the growing demands for lithium-ion applications in the telecommunications power solutions market in the 5G era, the Group is accelerating the development of a series of innovative 5G power solutions to meet the ongoing customer demands, seizing opportunities arising from the fast evolving telecommunications market.

Moreover, the upgrading of its lead recycling facility was completed in May 2020. The operation of the lead recycling facility is gradually back to normal and monthly production output is increasing continuously. The facility is expected to provide promising return in the second half of 2020.

Although the unpredictable overseas economy performance could neutralize the positive result in the PRC market in 2020, the Group is confident in its future prospects. Our long-term business relationship with global renowned customers in the 5G, automobile, electric car and equipment industries as well as related aftermarket distribution network business partners all provide a strong and solid base for the Group's long term growth. With its clear vision to drive sustainable, profitable growth, the Group is committed to generating greater long-term value for our shareholders.

FINANCIAL REVIEW

During the Period, the Group's revenue amounted to RMB3,684.2 million, representing a decrease of 7.1% compared to the corresponding period in 2019. The profit for the Period amounted to RMB13.3 million, representing a decrease of 83.1% compared to the corresponding period in 2019, of which the profit attributable to owners of the parent amounted to RMB25.2 million, representing a decrease of 70.8% compared to the corresponding period in 2019. Basic and diluted earnings per share for the Period was RMB0.02.

Revenue

The Group's revenue decreased by 7.1% from RMB3,963.9 million for the six months ended 30 June 2019 to RMB3,684.2 million for the Period, of which the Group's revenue from the battery business slightly increased by 0.5% from RMB3,389.9 million for the six months ended 30 June 2019 to RMB3,405.4 million for the Period, while the Group's revenue from the Recycled Lead business decreased by 51.0% from RMB569.0 million to RMB278.8 million.

Details of the Group's revenue for the six months ended 30 June 2020 and 2019 by product are set out below:

Product	Six months ended 30 June				
	2020		Percentage increase/ (decrease)	2019	
Revenue RMB'000	%	Revenue RMB'000		%	
Reserve power batteries	1,842,266	50.0%	(6.4)%	1,967,475	49.6%
SLI batteries	1,050,656	28.5%	2.5%	1,025,336	25.9%
Motive power batteries	481,711	13.1%	40.2%	343,477	8.7%
Others	30,792	0.8%	(42.6)%	53,658	1.4%
Sub-total	3,405,425	92.4%	0.5%	3,389,946	85.6%
Recycled lead products	278,758	7.6%	(51.0)%	569,019	14.3%
Others	–	–	(100.0)%	4,983	0.1%
Total	<u>3,684,183</u>	<u>100%</u>	<u>(7.1)%</u>	<u>3,963,948</u>	<u>100%</u>

Geographically, the Group's customers are principally located in Mainland China, Europe, Middle East and Africa ("EMEA"), Americas and Asia-Pacific (other than Mainland China). The Group's sales revenue in Mainland China decreased by 3.9% from RMB2,377.9 million for the six months ended 30 June 2019 to RMB2,284.7 million for the Period. The decrease was mainly due to the decreased production output from the recycled lead products. As a result of impact by the COVID-19 pandemic, the Group's sales revenue at overseas markets recorded different degree of decline.

The following table sets forth details of the Group's revenue during the six months ended 30 June 2020 and 2019 based on customer location:

Customer location	Six months ended 30 June				
	2020		2019		
	Revenue	Percentage		Revenue	
	RMB'000	%	decrease	RMB'000	%
Mainland China	2,284,686	62.0%	(3.9)%	2,377,879	60.0%
EMEA	658,547	17.9%	(6.1)%	701,638	17.7%
Americas	431,737	11.7%	(18.0)%	526,192	13.3%
Asia-Pacific (other than Mainland China)	<u>309,213</u>	<u>8.4%</u>	<u>(13.7)%</u>	<u>358,239</u>	<u>9.0%</u>
Total	<u><u>3,684,183</u></u>	<u><u>100%</u></u>	<u><u>(7.1)%</u></u>	<u><u>3,963,948</u></u>	<u><u>100%</u></u>

Cost of Sales

The Group's cost of sales decreased by 8.2% from RMB3,493.9 million for the six months ended 30 June 2019 to RMB3,206.8 million for the Period. The decrease was mainly caused by the decline in recycled lead product sales.

Gross Profit

The Group's gross profit slightly increased by 1.6% from RMB470.0 million for the six months ended 30 June 2019 to RMB477.4 million for the Period. The gross profit margin increased for recycled lead products while remained stable for battery business, resulting in the overall gross profit margin increase from 11.9% for the six months ended 30 June 2019 to 13.0% for the Period. The gross profit margin increase for recycled lead products was a result of better profit contribution after the plant resumed full operation in May 2020.

Other Income and Gains

Other income and gains decreased by 64.0% from RMB90.3 million for the six months ended 30 June 2019 to RMB32.5 million for the Period mainly due to the lack of gain on disposal of a subsidiary of RMB56.1 million recognised for the six months ended 30 June 2019.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by 2.2% from RMB167.8 million for the six months ended 30 June 2019 to RMB171.4 million for the Period as a result of the increase in freight charges and export fees during the Period.

Administrative Expenses

The Group's administrative expenses decreased by 4.2% from RMB124.9 million for the six months ended 30 June 2019 to RMB119.7 million for the Period, mainly due to cost control during the Period.

Research and Development Costs

The research and development expenditure of the Group increased by 48.9% from RMB48.1 million for the six months ended 30 June 2019 to RMB71.6 million for the Period. The increase in the expenditure was mainly used for performance enhancement of existing products and development of new products in all categories during the Period.

Other Expenses

The Group's other expenses increased by 150.3% from RMB10.6 million for the six months ended 30 June 2019 to RMB26.4 million for the Period, which was mainly due to the increase of foreign exchange loss arising from the depreciation of RMB against US dollar during the Period.

Finance Costs

The Group's finance costs decreased by 18.2% from RMB100.7 million for the six months ended 30 June 2019 to RMB82.4 million for the Period as a result of lower average interest rate during the Period.

Profit before Tax

As a result of the foregoing factors, the Group recorded profit before tax of RMB26.1 million for the Period (six months ended 30 June 2019: RMB105.6 million).

Income Tax Expenses

Income tax expenses decreased by 52.6% from RMB26.9 million for the six months ended 30 June 2019 to RMB12.8 million for the Period, mainly due to the decrease in assessable profit of the Group during the Period.

Profit for the Period

As a result of the foregoing factors, the Group recorded profit for the Period of RMB13.3 million (six months ended 30 June 2019: RMB78.7 million), of which the Group recorded profit attributable to owners of the parent of RMB25.2 million (six months ended 30 June 2019: RMB86.2 million).

Liquidity and Financial Resources

As at 30 June 2020, the Group's net current assets amounted to RMB655.1 million (31 December 2019: RMB65.5 million), among which cash and bank deposit amounted to RMB805.2 million (31 December 2019: RMB804.8 million).

As at 30 June 2020, the Group had bank borrowings of RMB2,283.5 million (31 December 2019: RMB2,306.2 million), all of which are interest-bearing. Except for borrowings of RMB635.0 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 2020 were in the range of 0.8% to 8.7% (31 December 2019: 1.5% to 8.7%).

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

As at 30 June 2020, the Group's gearing ratio was 26.0% (31 December 2019: 26.6%), 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.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2020 (31 December 2019: Nil).

Pledge of Assets

Please refer to Notes 11, 12, 14, 15 and 16 to this announcement for details.

Capital Commitments

Please refer to Note 17 to this announcement for details.

Material Acquisition and Disposal

There was no material acquisition or disposal of subsidiary or associated company by the Group during the Period.

EMPLOYEES

As at 30 June 2020, the Group had 13,956 employees. Employee benefit expenses (including directors' remuneration), which comprise wages and salaries, bonuses, equity-settled share option expenses and pension scheme contributions, totaled RMB385.3 million for the Period (six months ended 30 June 2019: RMB375.3 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 the overall 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 Period (six months ended 30 June 2019: Nil).

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. LAU Chi Kit and Dr. ZHU Ping, has reviewed the unaudited financial statements of the Company for the Period 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 Period.

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, 21 August 2020

As of the date of this announcement, the executive Directors are Mr. DONG Li, Ms. YIN Haiyan, and the independent non-executive Directors are Mr. CAO Yixiong Alan, Mr. LAU Chi Kit and Dr. ZHU Ping.