理士電池
Leoch Battery

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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

	2017	2016	
	RMB million	*RMB million*	**Changes**
Turnover	**9,465.4**	6,262.9	**+51.1%**
Gross profit	**1,162.5**	1,025.6	**+13.4%**
Profit for the year	**271.5**	231.8	**+17.1%**
Profit attributable to owners of the parent	**242.9**	241.9	**+0.4%**
Basic earnings per share *(RMB)*	**0.18**	0.18	

To reserve fund for acceleration of production capacity expansion, the board of directors (the "**Board**") of Leoch International Technology Limited (the "**Company**") does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: 5.50 HK cents).

ANNUAL RESULTS

The Board of the Company is pleased to announce the consolidated results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2017. The Company's audit committee (the "**Audit Committee**") has reviewed the results and the financial statements of the Group for the year ended 31 December 2017 prior to recommending them to the Board for approval.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	**2017** *RMB'000*	2016 *RMB'000*
REVENUE	*4*	**9,465,444**	6,262,870
Cost of sales		**(8,302,904)**	(5,237,286)
Gross profit		**1,162,540**	1,025,584
Other income and gains	*4*	**101,744**	65,752
Selling and distribution expenses		**(367,199)**	(296,682)
Administrative expenses		**(260,742)**	(224,567)
Research and development costs	*5*	**(143,084)**	(101,865)
Other expenses		**(34,639)**	(75,824)
Finance costs	*6*	**(151,788)**	(108,931)
Share of profits and losses of a joint venture and an associate		**–**	(2,931)
PROFIT BEFORE TAX	*5*	**306,832**	280,536
Income tax expense	*7*	**(35,352)**	(48,749)
PROFIT FOR THE YEAR		**271,480**	231,787
Attributable to:			
Owners of the parent		**242,885**	241,898
Non-controlling interests		**28,595**	(10,111)
		271,480	231,787
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic		**RMB0.18**	RMB0.18
Diluted		**RMB0.18**	RMB0.18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017	2016
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**271,480**	231,787
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**3,703**	35,083
Income tax effect	**(926)**	(11,771)
	2,777	23,312
Exchange differences on translation of foreign operations	**(14,193)**	25,679
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(11,416)**	48,991
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(11,416)**	48,991
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**260,064**	280,778
Attributable to:		
Owners of the parent	**235,650**	286,380
Non-controlling interests	**24,414**	(5,602)
	260,064	280,778

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	**2017**	2016
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,046,177**	1,877,677
Investment properties		**48,392**	31,663
Properties under development		**40,869**	40,869
Prepaid land lease payments		**154,819**	120,600
Goodwill		**8,699**	8,660
Other intangible assets		**484,215**	285,030
Investment in an associate		**–**	4,127
Available-for-sale investments		**132,576**	123,967
Deposits paid for purchase of items of property, plant and equipment and land lease payments		**85,016**	14,615
Deferred tax assets		**48,888**	54,715
Total non-current assets		**3,049,651**	2,561,923
CURRENT ASSETS			
Inventories	*10*	**1,872,285**	1,127,126
Completed properties held for sale		**44,205**	61,702
Trade and bills receivables	*11*	**2,526,597**	2,264,377
Prepayments, deposits and other receivables	*12*	**174,423**	134,725
Derivative financial instruments		**4,418**	4,625
Equity investments at fair value through profit or loss		**12,545**	13,595
Pledged deposits	*13*	**540,116**	490,885
Cash and cash equivalents	*13*	**401,042**	214,344
Total current assets		**5,575,631**	4,311,379

	Notes	**2017** *RMB'000*	2016 *RMB'000*
CURRENT LIABILITIES			
Trade and bills payables	*14*	**1,665,247**	1,631,484
Other payables and accruals	*15*	**706,537**	542,867
Interest-bearing bank borrowings	*16*	**2,904,553**	1,275,014
Derivative financial instruments		**–**	13,636
Income tax payable		**89,406**	89,212
Total current liabilities		**5,365,743**	3,552,213
NET CURRENT ASSETS		**209,888**	759,166
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,259,539**	3,321,089
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**54,554**	31,448
Interest-bearing bank borrowings	*16*	**109,338**	488,463
Deferred government grants		**48,959**	43,249
Total non-current liabilities		**212,851**	563,160
Net assets		**3,046,688**	2,757,929
EQUITY			
Equity attributable to owners of the parent			
Share capital		**116,192**	115,846
Reserves		**2,760,418**	2,582,042
		2,876,610	2,697,888
Non-controlling interests		**170,078**	60,041
Total equity		**3,046,688**	2,757,929

Notes:

1. CORPORATE AND GROUP 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 other related items.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") which comprise standards and interpretations approved by the International Accounting Standards Board (the "**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, equity investments at fair value through profit or loss and certain available-for-sale investments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture, development 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 IFRSs. 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:

	2017	2016
	RMB'000	*RMB'000*
Lead-acid batteries	**7,661,343**	6,262,870
Recycled lead products	**1,754,834**	–
Others	**49,267**	–
	9,465,444	6,262,870

Geographical information

(a) Revenue from external customers

The People's Republic of China ("PRC"), for the purpose of this announcement, excludes the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan.

	2017	2016
	RMB'000	*RMB'000*
PRC	**6,389,915**	3,773,107
European Union	**902,930**	761,715
The United States of America ("USA")	**895,555**	762,237
Other Asian countries/areas	**887,497**	685,775
Other countries	**389,547**	280,036
	9,465,444	6,262,870

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

(b) Non-current assets

	2017	2016
	RMB'000	*RMB'000*
PRC	**2,709,583**	2,195,708
Other countries/areas	**158,604**	187,533
	2,868,187	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 years ended 31 December 2017 and 2016, is set out below:

	2017	2016
	RMB'000	*RMB'000*
Customer A	**1,269,150**	–
Customer B	**1,099,791**	1,589,080
	2,368,941	1,589,080

Except for the aforesaid, no 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:

	2017	2016
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**9,465,444**	6,262,870
Other income and gains		
Rental income	**4,765**	3,563
Bank interest income	**13,374**	8,717
Government grants*	**24,096**	15,655
Sale of scrap materials	**6,685**	3,577
Foreign exchange gains, net	**37,121**	–
Reversal of impairment of trade receivables	**7,713**	–
Gains on disposal of items of property, plant and equipment	**–**	956
Fair value gain from derivative financial instruments, net	**1,166**	3,551
Dividend income from available-for-sale investments	**1,301**	15,728
Gain on remeasurement of the previously held interest in a joint venture	**–**	10,502
Gain on bargain purchase *(note 17)*	**880**	–
Others	**4,643**	3,503
	101,744	65,752

* 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 grants.

5. PROFIT BEFORE TAX

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

	2017	2016
	RMB'000	*RMB'000*
Cost of inventories sold	**7,219,119**	4,323,388
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**731,043**	598,075
Performance-related bonuses	**–**	1,645
Equity-settled share option expenses	**4,643**	1,376
Pension scheme contributions	**63,283**	45,144
	798,969	646,240
Amortisation of other intangible assets except for deferred development costs	**15,040**	2,586
Research and development costs:		
Deferred development costs amortised*	**73,809**	57,041
Current year expenditure	**143,084**	101,865
	216,893	158,906
Auditor's remuneration	**2,600**	2,500
Derivative financial instruments:		
Unrealised loss	**207**	6,946
Realised gain	**(1,373)**	(10,497)
Fair value gain from derivative financial instruments, net	**(1,166)**	(3,551)
Equity investments at fair value through profit or loss:		
Unrealised loss/(gain)	**1,050**	(648)
Realised loss	**–**	4,014
Fair value loss from equity investments at fair value through profit or loss, net#	**1,050**	3,366

	Note	2017 RMB'000	2016 RMB'000
Depreciation of property, plant and equipment		**218,888**	196,478
Depreciation of investment properties		**1,321**	1,188
Amortisation of prepaid land lease payments		**3,656**	2,844
(Reversal of impairment)/impairment of trade receivables#	*11*	**(7,713)**	21,910
Impairment of inventories*		**3,957**	14,491
Loss/(gain) on disposal of items of property, plant and equipment, net#		**611**	(956)
Loss on remeasurement of the previously held interest in an associate# *(note 17)*		**2,064**	–
Foreign exchange (gain)/loss, net#		**(37,121)**	49,191
Minimum lease payments under operating leases		**9,717**	9,260
Loss on a fire incident#^		**28,153**	–

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

The 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, net foreign exchange loss and loss on a fire incident are included in "Other expenses" in the consolidated statement of profit or loss.

^ On 13 December 2017, one of the battery assembly plants of the Group's production factory in Malaysia, caught fire, resulting in losses on inventories and property, plant and equipment of RMB17,879,000 and RMB10,274,000, respectively. A net loss of RMB28,153,000 was recognised in the consolidated statement of profit or loss in the current year.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 RMB'000	2016 RMB'000
Interest on bank borrowings	**114,274**	74,645
Interest arising from discounted bills	**37,514**	34,286
	151,788	108,931

7. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in this jurisdiction.

The subsidiaries, namely Honour Label Investments Limited, Peak Year Investments Limited, Shieldon International Limited, and Catherine Holdings International Company Limited, which were incorporated in the British Virgin Islands, are not subject to income tax as these subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the British Virgin Islands.

Leoch Battery Corporation, incorporated in the United States, is subject to corporate income tax in the United States. The applicable federal corporate income tax rate is in the range of 15% to 35% (2016: 15% to 35%) on taxable income.

The provision for Hong Kong profits tax is based on the statutory rate of 16.5% (2016: 16.5%) of the assessable profits of the subsidiary incorporated in Hong Kong, i.e., Leoch Power Supply (H.K) Limited. No provision for Hong Kong profits tax has been made by Leoch Battery Company Limited and Big Help Group Limited as they did not carry on any business in Hong Kong or had no assessable profits arising in or derived from Hong Kong during the year.

The Singapore authority approved Leoch Battery Pte. Ltd.'s application for the Global Trader Programme status on 24 May 2014. The provision for Leoch Battery Pte. Ltd.'s current income tax is based on the tax rate of 10% (2016: 10%).

The provision for PRC current income tax is based on the statutory rate of 25% of the assessable profits of the Group's subsidiaries in the PRC as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in the PRC which are taxed at preferential rates.

Leoch Battery (Jiangsu) Corp., Anhui Leoch Power Supply Corp. and Anhui Uplus Energy Technology Co., Ltd. were designated as high-tech enterprises by the PRC tax authorities in 2015 and were entitled to a preferential tax rate of 15% for the year 2017.

Taihe Dahua Energy Technology Co., Ltd. ("**Taihe Dahua**") with respect to qualified recycling businesses is entitled to claim 10% deduction of revenue for manufacturing qualified products with main qualified raw materials.

The major components of income tax charge for the year are as follows:

	2017	2016
	RMB'000	*RMB'000*
Current – PRC	**18,036**	39,031
Current – Hong Kong	**5,248**	3,819
Current – Singapore	**7,202**	5,958
Current – USA	**3,884**	891
Deferred tax	**982**	(950)
Total tax charge for the year	**35,352**	48,749

A reconciliation of the income tax expense applicable to profit before tax at the statutory rate for the country in which the majority of the companies of the Group are domiciled (i.e., the PRC) to the tax expense at effective tax rate is as follows:

	2017		2016	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	**306,832**		280,536	
Tax at the applicable tax rate	**86,092**	**28.0**	52,866	18.9
Tax concession for certain subsidiaries	**(46,827)**	**(15.3)**	(32,478)	(11.6)
Additional deductible research and development expenses	**(8,059)**	**(2.6)**	(7,832)	(2.8)
Income not subject to tax	**(9,459)**	**(3.1)**	(2,520)	(0.9)
Expenses not deductible for tax	**4,649**	**1.5**	23,513	8.4
Tax losses not recognised	**11,509**	**3.8**	15,200	5.4
Tax losses utilised from previous periods	**(2,553)**	**(0.8)**	–	–
Tax charge at the Group's effective rate	**35,352**	**11.5**	48,749	17.4

8. DIVIDENDS

	2017	2016
	RMB'000	*RMB'000*
Final – Nil (2016: 5.50 HK cents) per share	**–**	66,582

The Company does not intend to declare the payment of any final dividend in respect of the year ended 31 December 2017.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,355,932,999 (2016: 1,353,330,795) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year 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 year, 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 of all dilutive potential ordinary shares into ordinary shares.

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

	2017	2016
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**242,885**	241,898

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,355,932,999**	1,353,330,795
Effect of dilution – weighted average number of ordinary shares:		
Share options	**6,579,244**	784,213
	1,362,512,243	1,354,115,008

10. INVENTORIES

	2017	2016
	RMB'000	*RMB'000*
Raw materials	**445,494**	155,153
Work in progress	**1,008,957**	699,257
Finished goods	**417,834**	272,716
	1,872,285	1,127,126

11. TRADE AND BILLS RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**2,343,791**	2,226,964
Bills receivable	**213,159**	75,479
Impairment	**(30,353)**	(38,066)
	2,526,597	2,264,377

The Group grants different credit periods to its customers. Credit periods for individual customers are considered on a case-by-case basis. Certain customers are required to make partial payments 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 RMB261,715,000 (2016: RMB271,596,000) were under short term credit insurance and RMB71,912,000 (2016: RMB48,688,000) were under letters of credit. In addition, the Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

As at 31 December 2017, the Group pledged certain trade receivables amounting to RMB61,467,000 (2016: RMB86,651,000) to banks with recourse in exchange for cash *(note 18)*. The proceeds from pledging the trade receivables of RMB37,279,000 (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.

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

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**1,862,076**	1,641,807
3 to 6 months	**405,764**	386,401
6 to 12 months	**202,361**	176,558
1 to 2 years	**53,181**	49,930
Over 2 years	**3,215**	9,681
	2,526,597	2,264,377

Movements in the provision for impairment of trade receivables are as follows:

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**38,066**	16,156
Impairment losses (reversed)/recognised *(note 5)*	**(7,713)**	21,910
At 31 December	**30,353**	38,066

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB30,353,000 (2016: RMB38,066,000) with a carrying amount before provision of RMB30,353,000 (2016: RMB38,066,000).

The above provision for impairment of trade receivables relates to individual customers that were in financial difficulties.

The bills receivable will mature within one year from 31 December 2017.

The aging analysis of trade and bills receivables that were not individually nor collectively considered to be impaired is as follows:

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**2,470,201**	2,204,766
Past due but not impaired	**56,396**	59,611
	2,526,597	2,264,377

Receivables that were neither past due nor impaired relate to a large number of diversified customers that have not had a history of default recently.

Receivables that were past due but not impaired relate to a number of independent customers that have a good payment track record with the Group. Based on past experience, the directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality of the customers and the balances are still considered fully recoverable.

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Prepayments	**130,365**	94,525
Deposits and other receivables	**32,926**	30,561
Loans to employees	**7,130**	6,765
Interest receivables	**114**	34
Current portion of prepaid land lease payments	**3,888**	2,840
	174,423	134,725

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

13. CASH AND BANK BALANCES AND TIME DEPOSITS

	2017	2016
	RMB'000	*RMB'000*
Cash and bank balances	**401,042**	214,344
Time deposits	**540,116**	490,885
	941,158	705,229
Less: Pledged for interest-bearing bank borrowings	**(179,899)**	(9,020)
Pledged for bills payable	**(260,099)**	(404,771)
Pledged for letters of credit	**(100,118)**	(77,094)
	(540,116)	(490,885)
Cash and cash equivalents	**401,042**	214,344
Denominated in RMB	**755,673**	606,720
Denominated in US$	**155,742**	67,282
Denominated in HK$	**19,201**	25,156
Denominated in Malaysian Dollar ("**MYR**")	**4,146**	2,354
Denominated in Indian Rupee	**3,207**	335
Denominated in Australian Dollar ("**AUD**")	**2,417**	179
Denominated in Singapore Dollar ("**SG$**")	**618**	2,709
Denominated in Sri Lankan Rupee	**88**	189
Denominated in Euro ("**EUR**")	**66**	305
	941,158	705,229

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposit are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

14. TRADE AND BILLS PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**803,985**	641,357
Bills payable	**861,262**	990,127
	1,665,247	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:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**702,362**	754,551
3 to 6 months	**364,800**	575,338
6 to 12 months	**582,439**	291,347
1 to 2 years	**12,266**	3,563
2 to 3 years	**898**	662
Over 3 years	**2,482**	6,023
	1,665,247	1,631,484

The trade payables are non-interest-bearing and are normally settled on 90-day terms. All the bills payable have maturity dates within 365 days. As at 31 December 2017, bills payable amounting to RMB745,450,000 (2016: RMB860,452,000) were issued on intercompany sales transactions within the Group and these bills were discounted to banks for short term financing.

As at 31 December 2017, certain of the Group's bills payable were secured by the pledge of certain of the Group's time deposits amounting to RMB260,099,000 (2016: RMB404,771,000) *(note 18)*.

15. OTHER PAYABLES AND ACCRUALS

	2017	2016
	RMB'000	*RMB'000*
Provision for social insurance and retirement benefits	**141,570**	130,577
Advances from customers	**133,257**	146,716
Accrued expenses	**90,041**	73,450
Accrued payroll	**53,027**	45,523
Payables for purchase of items of property, plant and equipment	**17,677**	12,464
Provision for product warranties	**13,239**	10,583
Tax payables other than current income tax liabilities	**161,632**	103,554
Payables to non-controlling shareholders	**76,238**	–
Others	**19,856**	20,000
	706,537	542,867

16. INTEREST-BEARING BANK BORROWINGS

	31 December 2017			31 December 2016		
	Effective interest rate (%)	***Maturity***	***RMB'000***	*Effective interest rate (%)*	*Maturity*	*RMB'000*
Current						
Interest-bearing bank borrowings, secured	**1.50 to 7.53**	**2018**	**1,175,362**	1.50 to 6.77	2017	1,103,711
Collateralised bank advances, secured	**2.00 to 2.40**	**2018**	**37,279**	2.00 to 3.50	2017	54,222
Interest-bearing bank borrowings, guaranteed	**2.87 to 5.22**	**2018**	**405,401**	–	–	–
Interest-bearing bank borrowings, guaranteed	**LIBOR +2.50**	**on demand***	**1,286,511**	LIBOR +3.00	2017	117,081
			2,904,553			1,275,014
Non-current						
Interest-bearing bank borrowings, secured	**1.50 to 7.53**	**2019-2028**	**81,338**	1.50 to 7.53	2018-2028	78,680
Interest-bearing bank borrowings, guaranteed	**4.89**	**2019**	**28,000**	LIBOR +3.00	2018	409,783
			109,338			488,463
			3,013,891			1,763,477
Denominated in RMB			**1,038,680**			634,970
Denominated in US$			**1,438,764**			674,702
Denominated in HK$			**471,434**			412,809
Denominated in SG$			**14,135**			18,214
Denominated in MYR			**30,815**			22,782
Denominated in AUD			**20,063**			–
			3,013,891			1,763,477

Analysed into:

	2017	2016
	RMB'000	*RMB'000*
Bank loans and advances repayable:		
On demand*	**1,286,511**	–
Within one year	**1,618,042**	1,275,014
In the second year	**71,687**	429,342
In the third to fifth years, inclusive	**28,371**	49,225
Beyond five years	**9,280**	9,896
	3,013,891	1,763,477

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

(i) pledge of the Group's assets with a total value of RMB1,039,238,000 (2016: RMB817,606,000) for the bank borrowings as disclosed in note 18.

(ii) 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 on Mr. Dong Li, the controlling shareholder of the Company, to not 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. Further, Mr. Dong Li shall not cease to have management control over the Company or cease to be the Chairman of the board of directors of the Company. At the date of this announcement, 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. Limited 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 31 December 2017, the Group had fully utilised the amount of US$200,000,000 under the Facility Agreement. As at 31 December 2017, the outstanding term loan balance amounted to RMB1,286,511,000, of which RMB257,302,000 and RMB1,029,209,000 are repayable within one year and in the second to third years inclusive, respectively, under the terms of Facility Agreement. The term loan bears interest at LIBOR+2.5% per annum.

As at 31 December 2017, one of the financial covenants under the Facility Agreement was not satisfied. According to the relevant accounting standard, the long term portion of RMB1,029,209,000 of the term loan under the Facility Agreement was classified as a current liability as at 31 December 2017.

Prior to the date of this announcement, the Group had applied for and the Lenders of the Facility Agreement had granted to the Group waivers from strict compliance with the said financial covenant.

17. ACQUISITION OF SUBSIDIARIES

Taihe Dahua

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 (the "**Vendors**") in relation to the proposed acquisition of 60% of the registered capital of 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 became a subsidiary of the Company. On 12 January 2017 and 12 July 2017, Anhui Uplus New Energy paid an amount of RMB23,040,000 and RMB57,600,000 of the consideration, respectively. The remaining amount of RMB34,560,000 of the consideration was paid on 30 January 2018.

The Group has elected to measure the non-controlling interests in Taihe Dahua based on 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		80,640
Cash considerations payable to the Vendors as at 31 December 2017		34,560
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 ended 31 December 2017, 2018 and 2019 (the "**Relevant Financial Year**"). In the event that the Net Profit of Taihe Dahua for any 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 31 December 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, i.e. whether the actual profit for 2018 and 2019 is the same as the Profit Guarantee, more than the Profit Guarantee by 15% or less than the Profit Guarantee by 15%. A discount rate of 18% 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 consolidated statement of profit or loss.

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

An analysis of the cash flows for the year ended 31 December 2017 in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(80,640)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(80,640)
Transaction costs of the acquisition included in cash flows from operating activities	(115)
	(80,755)

Since the acquisition, Taihe Dahua contributed RMB1,754,834,000 to the Group's turnover and RMB66,937,000 to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been RMB9,465,444,000 and RMB271,480,000, respectively.

Tele Power Sdn. Bnd.

As at 31 December 2016, Leoch International Holding Pte. Limited ("**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. ("**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 then 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, 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 consolidated statement of profit or loss during the year ended 31 December 2017.

The Group has elected to measure the non-controlling interests in Tele Power based on 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

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 RMB26,760,000 to the Group's turnover and RMB961,000 to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been RMB9,465,473,000 and RMB271,480,000, respectively.

18. PLEDGE OF ASSETS

	Prepaid land lease payments	**Property, plant and equipment**	**Pledged deposits**	**Trade receivables**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(note 13)	*(note 11)*	
31 December 2017					
Interest-bearing bank borrowings *(note 16)*	**50,094**	**747,778**	**179,899**	**61,467**	**1,039,238**
Bills payable *(note 14)*	**–**	**–**	**260,099**	**–**	**260,099**
Issue of letters of credit	**–**	**–**	**100,118**	**–**	**100,118**
	50,094	**747,778**	**540,116**	**61,467**	**1,399,455**
31 December 2016					
Interest-bearing bank borrowings *(note 16)*	78,520	643,415	9,020	86,651	817,606
Bills payable *(note 14)*	–	–	404,771	–	404,771
Issue of letters of credit	–	–	77,094	–	77,094
	78,520	643,415	490,885	86,651	1,299,471

19. 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 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017	2016
	RMB'000	*RMB'000*
Within one year	**979**	2,786
In the second to fifth years, inclusive	**1,491**	11,277
After five years	**1,493**	8,757
	3,963	22,820

(b) As lessee

The Group leases certain of its office properties from its related companies and independent third parties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to four years.

As at 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017	2016
	RMB'000	*RMB'000*
Within one year	**4,847**	5,341
In the second to fifth years, inclusive	**995**	4,968
	5,842	10,309

20. COMMITMENTS

In addition to the operating lease commitments detailed in note 19(b) above, the Group had the following capital commitments at the end of the reporting period:

	Notes	**2017**	2016
		RMB'000	*RMB'000*
Contracted, but not provided for:			
Land and buildings		**17,727**	13,191
Construction of a property	*(i)*	**442,174**	–
Plant and machinery		**2,827**	18,145
Capital contribution payable to available-for-sale investments		**39,034**	36,937
Acquisition of a subsidiary	*(ii)*	**18,524**	115,200
		520,286	183,473

Notes:

(i) On 26 July 2017, Shenzhen Leoch Battery Technology Co., Ltd. ("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 at 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 for 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 RMB491,304,000. As at 31 December 2017, Shenzhen Leoch Battery had paid an amount of RMB49,130,400 of the consideration. On 2 January 2018, Shenzhen Leoch Battery had paid an amount of RMB49,130,400 of the consideration. An amount of RMB147,391,200 will be payable by 15 June 2018 and the remaining amount of RMB245,652,000 will be payable by 30 August 2018.

(ii) On 22 December 2017, Leoch International Holding, entered into an agreement with an independent third party in relation to the proposed acquisition of 60% of the enlarged registered capital of BS 003 Limited, an investment holding company in the United Kingdom ("U.K.") and wholly holding DBS Energy Limited, a company in the U.K. principally engaged in importing and selling batteries in the U.K., at a cash consideration of US$2,835,000 (equivalent to RMB18,524,000). As at 31 December 2017, Leoch International Holding has not yet paid the consideration. As at the date of this announcement, Leoch International Holding has paid up all the consideration.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is a vertically integrated enterprise primarily engaged in the development, sale and manufacture of lead-acid batteries and other related items. It is one of the leading manufacturers and exporters of lead-acid batteries in the PRC. The Group sells over 2,000 models of lead-acid battery products, with a capacity ranging from 0.251 Ah to 4,055 Ah. Among the battery manufacturers in the PRC, the Group offers one of the broadest lines of lead-acid battery products. It further expanded 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 year ended 31 December 2017 (the "Period"), the Group's revenue amounted to RMB9,465.4 million, representing an increase of 51.1% from RMB6,262.9 million for the corresponding period in 2016.

During the Period, revenue from recycled lead products amounted to RMB1,754.8 million (2016: Nil) while revenue from batteries and related items amounted to RMB7,661.3 million, representing an increase of 22.3% from RMB6,262.9 million for the corresponding period in 2016. Since the price linkage mechanism will pass raw material price fluctuation to customers, the growth in revenue was driven partly by the increase in average lead price as compared with the corresponding period in 2016. The growth rate of volume delivered in terms of ton was above 10% as compared to the corresponding period last year.

Lead-acid batteries are generally classified into three major 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:

Reserve power batteries

Reserve power batteries category is one of the major revenue contributors of the Group. The Group's sales of reserve power batteries during the Period amounted to RMB4,674.2 million, representing an increase of 8.2% from 2016.

The increment in sales revenue of reserve power batteries amounted to RMB354.6 million (2016: RMB1,159.2 million) during the Period as compared to last year. Reserve power batteries accounted for approximately 61.0% of batteries revenue as compared to 69.0% in the corresponding period of 2016. Turnover has increased approximately 0.5 time since 2015 from RMB3,160.4 million to RMB4,674.2 million.

After rapid growth in sale of telecommunication application batteries in 2016, a decline in volume delivered in terms of ton was anticipated after the strategic restructuring of the major telecommunication providers was completed in the PRC. The significant drop in volume delivered in telecommunication application batteries in China was partially overcome by increased export business and further mitigated by the increased revenue and volume delivered in all other application areas, namely UPS, other customer products and renewable energy. This was contributed by our sales and marketing efforts to expand our market share in these application areas. Volume delivered in terms of ton decreased by less than 5.0% during the Period as compared to the corresponding period in 2016.

SLI batteries

SLI batteries are used mainly in starting up automobiles and motorcycles. The Group's sales of SLI batteries during the Period amounted to RMB2,164.7 million, representing an increase of 50.0% from 2016.

The increment in sales revenue of SLI batteries amounted to RMB721.8 million (2016: RMB591.1 million) during the Period as compared to last year. Volume delivered in terms of ton increased by approximately 37.0% during the Period as compared to the corresponding period in 2016. SLI batteries accounted for approximately 28.3% of batteries revenue as compared to 23.0% in the corresponding period of 2016. Turnover has increased approximately 1.5 times since 2015 from RMB851.7 million to RMB2,164.7 million. SLI batteries category became one of the major revenue contributors of the Group. This was contributed by our sales and marketing efforts in enlarging customer bases and building solid distribution networks.

Motive power batteries

Motive power batteries revenue are mainly generated from batteries used to provide power for electric vehicles and electric forklifts. During the Period, the Group recorded sales revenue of RMB497.0 million, representing an increase of 76.4% from 2016.

The increment in sales revenue of motive power batteries amounted to RMB215.2 million (2016: RMB145.0 million) during the Period as compared to last year. Volume delivered in terms of ton increased by approximately 48.0% during the Period as compared to the corresponding period in 2016. Motive power batteries accounted for approximately 6.5% of batteries revenue as compared to 4.5% in the corresponding period of 2016. Turnover has increased approximately 2.6 times since 2015 from RMB136.8 million to RMB497.0 million. With continuing investment in areas like research and development, production, product quality, sales and marketing including distribution networks, motive power batteries category has become a major business of the Group.

Recycled lead

In November 2016, Leoch acquired a 60% stake in Taihe Dahua Energy Technology Co. Ltd., a company in the PRC principally engaged in the recycling and remanufacturing of lead from disposed batteries. Revenue from the sale of recycled lead products was consolidated to the Group upon the completion of the acquisition and amounted to RMB1,754.8 million (2016: Nil) during the Period. The synergy effect created allow battery factories to act as a constant source of supply of disposed batteries to the refining plant and the refining plant can effectively utilise its product capacity and maintain a relatively high level sales during the year with battery factories in support by absorbing more recycled products especially during low seasons. The Group believes the payback period of the acquisition cost will be less than two years.

Sales network

The Group distributes its products to more than 100 countries and regions across the world. 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, Malaysia and Australia, together with 39 domestic sales centres across the PRC. As at the date of this announcement, the Group has over 730 dedicated sales and after-sales employees. The Group will continue expanding its sales teams and marketing network in the PRC and overseas to support the sales, distribution, and after-sales services for all categories of battery products of the Group. In view of accelerating the business development in Europe, on 22 December 2017, the Group has entered into an agreement to acquire 60% stake in DBS Energy Limited, a UK batteries distributor and on 23 November 2017, Leoch France SAS, a wholly owned trading company of the Company, was established in France.

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 the PRC. The Group's battery R&D team consists of more than 400 researchers and technicians. 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 has obtained 287 patents and there are 68 proprietary technologies in the process of patent applications as at the date of this announcement.

The Group has grasped and applied most of the 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 among the few 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. As at the date of this announcement, the Group has developed more than 2,000 different types of battery products employing various application technologies, making the Group one of the battery enterprises with the broadest range of lead-acid batteries. During the Period, the Group continued to provide sufficient resource in R&D on all categories of product in order to secure growth in the future.

To sustain business growth and development, the Group continues to explore advanced battery technologies. After completion of the investment in series B preferred stock of Gridtential Energy, Inc. ("**Gridtential**") on 12 January 2017, additional shares of the same class has been subscripted for a consideration of US$499,999.54 on 31 August 2017 at price per share same as the original investment.

Gridtential's Alpha program has been started and in 2017 the Group was involved in testing the prototype and providing feedback for refining. Moving forward, the Group will continue to participate in different phases until products can be commercialized which is targeted as early as 2020. The Group will work closely with Gridtential to apply the technology from lab to commercial production.

Production bases

During the Period, the Group operated eight well-built 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, and one recycling lead factory in the PRC with a total site area of approximately 968,000 square meters ("**sq.m.**") As at the end of 2017, the Group had battery capacity of 21.6 million KVAh (2016: 20.7 million KVAh). To cope with potential business expansion, the Group is going to further expand its production and manufacturing capacities in the PRC and overseas.

In May 2017, principle lease agreements for a total land area of approximately 69,000 sq.m. in Vietnam with lease period until August 2065 were signed. The Group will establish two factories in Vietnam, one is for reserve power batteries and the other is for automotive batteries (SLI batteries). Both factories will start construction in April 2018 after the environment permits are granted by the local government. The Group has acquired land area of approximately 623,000 sq.m. in Guizhou and Jiangsu in the PRC and is going to acquire more land in Chongqing for our future battery production and recycling lead refining expansion purposes in the PRC.

Trend of lead price

Lead is the main raw material of lead-acid batteries and accounts for a major product cost for the Group's battery production. According to Shanghai Metals Market ("**SMM**"), 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 RMB20,354 during the Period, changed within the range of -18.6% to 4.0% as compared with December 2016 monthly average ("**Dec 2016 average**") of RMB19,563 per ton.

As compared to December 2016 SMM monthly average, lead price dropped 7.7% in Q1 2017 then dropped heavily by 15.5% and 18.6% in April and May before rebounding in June during the Period and the last six month was changed by –9.2%, –1.9%, 4.1%, 3.8%, –4.6% and –3.0% respectively. Lead price fluctuated up and down during the Period.

To cope with potential fluctuation risks 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

In 2017, the Group continues to drive business growth in the PRC and overseas. Among the RMB1,398.5 million (2016: RMB1,932.0 million) increment in sales revenue of batteries, 58.1% (2016: 84.3%) was contributed from the PRC. Together with the revenue contributed from recycled lead amounted to RMB1,754.8 million (2016: nil), the PRC share of the Group's 2017 annual turnover increased to 67.5% (2016: 60.2%). The Group believes that the turnover will continue to be grown faster in the PRC than overseas in next few years.

Although selling and distribution expenses and R&D costs were higher during the Period, the costs invested in building distribution networks and new products development including lithium batteries for telecommunication application would be beneficial to our growth in coming years.

The Group anticipates that business will sustain the growth momentum in most of the application areas of battery in the PRC and overseas market as well as recycled lead business. Below is our view and strategic plans:

Reserve power batteries

In 2017, reserve power batteries contributed 25.4% of total growth in revenue of batteries. In the PRC, volume delivered to UPS market increased by more than 20%, of which sales through distribution channel increased by more than 80%.

The continuing rapid development of IT technologies such as cloud computing, mass data, e-commerce and various types of data centers and servers will be one of the major growth drivers for the UPS market. The Group as a major supplier of UPS batteries in the market has well prepared and determined to grasp this opportunity and expand our market shares in the PRC in 2018.

According to IDC Association prediction, the compound average growth rate ("**CAGR**") of global data centers will be 17% from 2012 to 2017, while the PRC will achieve CAGR of 40% in the same periods, much higher than the global average. Moreover, other research indicated that the IDC market size of the PRC will reach RMB139 billion in 2018 as compared to 100 billion in 2017, a year-on-year growth of 39%. The growth in overall size of the IDC market will push the demand for UPS batteries in a high growth rate direction.

Although the other consumer product application only provided a high single digit volume growth in 2017, the Group always has a solid and strong position in this area and we are confident that the growth momentum will continue. The renewable energy application is another application area that the Group estimated that could obtain an above average growth rate in 2018.

In the medium term, further upgrade and development of the 5G network will provide additional boost to the demand for telecommunications batteries. The Group will continue solidifying our leading position in this area aiming to benefit from the growth in telecommunication application area in the PRC. To cope with product diversification, the Group had put in large amount of resources in the last few years on the development of lithium batteries to cover all application areas in reserve and motive power with priority on telecommunication area. In fact, construction of the first phase of lithium batteries factory will start as early as in April 2018 and be targeted to have pilot production at the end of 2018. The total site area is 150 mu (equivalent to around 100,000 square meters) with designed maximum production capacity of 1.65 GWh and phase one will achieve 20% of it.

To deal with the intense competition and trade barrier in overseas markets, the Group has started our overseas production capacity expansion plan in Vietnam to fulfill part of the demand from other countries and enhance our cost competitiveness in the future.

SLI batteries

In 2017, SLI batteries contributed 51.6% of total growth in revenue of batteries. In the PRC, volume delivered to auto makers and aftermarket distributors increased approximately 45% and 87%, respectively. Although selling and distribution expenses were higher due to investment in distribution network, the Group enjoyed a fast expansion in the aftermarket and maintain high growth rate of sales to auto makers. The Group believes that this category will continue enjoying high growth rate mainly due to the prevailing favorable business environment for SLI batteries in the PRC. Sufficient resources will be put in to continue enlarging our customer bases and penetrate the market. Areas like R&D, production, product quality, sales and marketing including distribution network will be enhanced. The Group is determined and working towards becoming one of the top suppliers of SLI batteries in the PRC.

To cope with the expected growth, the Group has started the production capacity expansion plans in the PRC and Vietnam. The future additional production capacity for SLI batteries is critical for the Group to become one of the leading suppliers of SLI batteries in the PRC and fulfill part of the future demand from other countries. These new production plants will be equipped with the most automatic production machinery and process which will further enhance our cost efficiency and competitive power.

According to various researches and analyses, the PRC will be the largest market for SLI batteries by 2020. The majority of the growth will come from the aftermarket segment mainly due to ageing of the vehicle fleet in the country which accelerates car owners' need to replace the existing batteries. By 2020, about 77% of the vehicles in the PRC will be over 3 years old, the average age at which the battery needs to be replaced as compared to 66% in 2015. With more than 90 million new vehicles expected to be added over the next three years, the demand for SLI batteries will remain robust.

Motive power batteries

In 2017, motive power batteries contributed 15.4% of total growth in revenue of batteries. In the PRC, volume delivered to low-speed electric vehicles and electric forklifts markets increased by approximately 45% and 53%, respectively. In terms of total revenue and volume delivered, motive power batteries maintain the highest growth rate when we add back the export business. The Group is confident that this category will continue growing at high speed.

In 2018, like other categories, areas like R&D, production, product quality, sales and marketing including distribution network will continue to be enhanced. The Group has started the production capacity expansion plan in existing factories in the PRC in view of the future fast volume growth.

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 low-speed electric vehicles and electric forklifts.

Low-speed electric vehicles as commuter tools to solve the transportation demand between county and township is the most favorable solution nowadays. The current low-speed electric vehicle market has 5 million vehicles and is expected to reach 10 million by 2020 with battery market size reaching RMB8.4 billion.

In the PRC, the proportion of electrical forklifts increased year-on-year from 38.4% in 2016 to 40.3% in 2017. The market share of electric forklift in the European Union, the United States and Japan is more than 70% and continues growing. The gap is bound to be further narrowed in the PRC at a faster pace. Furthermore, driven by the combination factors of tighter environmental requirements, the rapid development of e-commence logistics and the competitive advantage of construction machinery export, electric forklift market is expected to enter a new period of rapid growth.

Overseas Market

The Group is the top exporter in the PRC for lead-acid battery. In 2016, the Group has around RMB2,489.8 million overseas sales and mostly exported from the PRC. In 2017, overseas sales reached RMB3,075.5 million, a growth rate of 23.5% as compared to 2016 figure. Leoch is a reputable brand in overseas market especially in the reserve power segment. More resources will be put in to sustain or enlarge the growth rate in 2018.

The Group has concluded that more resources should be put in to further develop the business in Europe for the next few years to accelerate the business growth.

On 22 December 2017, the Group signed a joint venture and shareholders' agreement with DBSG (UK) Limited to acquire 60% stake in DBS Energy Limited (the "**DBSE**"), a trading company in the United Kingdom which imports and sells batteries to the domestic market, in order to strengthen business in the United Kingdom and it is ready for further expansion.

In the last quarter of 2017, the Group has established a wholly owned trading company in France. There are plans to establish other sales operations in Italy and Germany in 2018.

Recycled Lead

The acquisition of 60% stake in Taihe Dahua Energy Technology Co. Ltd. provides the Group with a tremendous opportunity to enter the lead recycling industry and the 2017 financial results were better than expected. Moving forward, expansion to further increase the production capacity has been planned for 2018 and 2019. We believe the size of our recycling business will continue to grow at high CAGR in the next 2-3 years.

Due to environment protection policy, the Chinese recycling lead industry became an important component of the Chinese lead industry. The newly implemented "Environmental Protection Law of the People's Republic of China" eliminated those unqualified capacity because of higher environmental protection standards in place. New policies and regulations promote the regulatory development of recycling lead industry. The rectification of the industry has created a good opportunity for lead-acid battery manufacturing enterprises to enter upstream resource processing.

Compared with other developed countries like the United States and the European Union in which proportion of recycled lead accounted for total annual lead consumption of 90% and 60% respectively, the Chinese recycling lead industry with only around 40% recycled lead in the market has a lot of room to grow.

Financial Review

For the year ended 31 December 2017, the Group's revenue amounted to RMB9,465.4 million, representing an increase of 51.1% compared to the year ended 31 December 2016. The profit for the year amounted to RMB271.5 million for the year ended 2017 as compared to RMB231.8 million for the year ended 2016, of which the profit attributable to the owners of the parent amounted to RMB242.9 million as compared to RMB241.9 million for the corresponding period in 2016. Basic profit per share for the year ended 31 December 2017 was RMB0.18.

Revenue

The Group's revenue from battery business increased by 22.3% from RMB6,262.9 million for the year ended 31 December 2016 to RMB7,661.3 million for the year ended 31 December 2017.

The Group's revenue from recycled lead products amounted to RMB1,754.8 million (2016: Nil).

The revenue of reserve power batteries slightly increased by 8.2% from RMB4,319.6 million for the year ended 31 December 2016 to RMB4,674.2 million for the year ended 31 December 2017, as a result of strong market demand of UPS and other consumer product batteries compensating for a plunge in market demand for telecommunication batteries. The revenue of SLI batteries increased by 50.0% from RMB1,442.8 million for the year ended 31 December 2016 to RMB2,164.7 million for the year ended 31 December 2017, which was primarily due 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 76.4% from RMB281.8 million for the year ended 31 December 2016 to RMB497.0 million for the year ended 31 December 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 years ended 31 December 2017 and 2016 by category of batteries are set out below:

	2017			2016	
Product category	**Revenue**	**Percentage share**	**Percentage increase**	**Revenue**	**Percentage share**
	RMB'000			*RMB'000*	
Reserve power batteries	4,674,185	49.4%	8.2%	4,319,624	69.0%
SLI batteries	2,164,669	22.9%	50.0%	1,442,831	23.0%
Motive power batteries	497,012	5.3%	76.4%	281,793	4.5%
Others	325,477	3.4%	48.9%	218,622	3.5%
Sub-total	7,661,343	81.0%	22.3%	6,262,870	100%
Recycling lead products	1,754,834	18.5%	N/A	–	–
Others	49,267	0.5%	N/A	–	–
Total	9,465,444	100%	51.1%	6,262,870	100%

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

The Group's sales revenue in the PRC increased by 69.4% from RMB3,773.1 million for the year ended 31 December 2016 to RMB6,389.9 million for the year ended 31 December 2017, representing 67.5% of the Group's total revenue (2016: 60.2%). The significant increase was mainly due to the contribution from the lead recycling and remanufacturing business, which was acquired on 9 January 2017, and comparatively strong market demand of lead-acid battery in the PRC during the Period.

The Group's sales revenue in the European Union and United States increased by 18.5% and17.5% from RMB761.7 million and RMB762.2 million for the year ended 31 December 2016 to RMB902.9 million and RMB895.6 million for the year ended 31 December 2017, respectively, which was mainly due to the Group's increased marketing efforts in developing the European Union and United States. The Group's sales revenue in other Asian countries/areas and other countries increased by 29.4% and 39.1% from RMB685.8 million and RMB280.0 million for the year ended 31 December 2016 to RMB887.5 million and RMB389.5 million for the year ended 31 December 2017, respectively, which was mainly due to the increase in sales to existing customers during the Period.

The following revenue information is based on the location of the customers for the years ended 31 December 2017 and 2016:

	2017			**2016**	
	Revenue *RMB'000*	**Percentage share**	**Percentage increase**	**Revenue** *RMB'000*	**Percentage share**
PRC	6,389,915	67.5%	69.4%	3,773,107	60.2%
European Union	902,930	9.5%	18.5%	761,715	12.2%
United States of America	895,555	9.5%	17.5%	762,237	12.2%
Other Asian countries/areas	887,497	9.4%	29.4%	685,775	10.9%
Other countries	389,547	4.1%	39.1%	280,036	4.5%
Total	9,465,444	100%	51.1%	6,262,870	100%

Cost of Sales

The Group's cost of sales increased by 58.5% from RMB5,237.3 million for the year ended 31 December 2016 to RMB8,302.9 million for the year ended 31 December 2017, mainly because of the increased lead price and addition of lead recycling and manufacturing business.

Gross Profit

The Group's gross profit increased by 13.4% from RMB1,025.6 million for the year ended 31 December 2016 to RMB1,162.5 million for the year ended 31 December 2017, mainly attributable to the addition of lead recycling and manufacturing business during the Period. The overall gross profit margin decreased from 16.4% for the year ended 31 December 2016 to 12.3% for the year ended 31 December 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 54.7% from RMB65.8 million for the year ended 31 December 2016 to RMB101.7 million for the year ended 31 December 2017, which was primarily due to the recognition of foreign exchange gains and increased government grants during the Period.

Selling and Distribution Expenses

The Group's selling and distribution costs increased by 23.8% from RMB296.7 million for the year ended 31 December 2016 to RMB367.2 million for the year ended 31 December 2017, primarily due to the increased salaries of sale personnel as a result of sale force expansion and distribution network building and freight charges, which was in line with the increased sales during the Period.

Administrative Expenses

The Group's administrative expenses increased by 16.1% from RMB224.6 million for the year ended 31 December 2016 to RMB260.7 million for the year ended 31 December 2017, mainly due to the acquisitions of new business during the period.

R&D Expenses

The development expenditure of the Group increased by 40.5% from RMB101.9 million for the year ended 31 December 2016 to RMB143.1 million for the year ended 31 December 2017. The increase in 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 decreased from RMB75.8 million for the year ended 31 December 2016 to RMB34.6 million for the year ended 31 December 2017, which mainly comprised losses caused by a fire accident on inventories and property, plant and equipment of RMB28.2 million (Please see note 5 of the financial statement for details.) and loss on remeasurement of the previously held interest in an associate of RMB2.1 million for the year ended 31 December 2017, as compared to the impairment of trade receivables of RMB21.9 million and foreign exchange loss of RMB49.2 million for the year ended 31 December 2016. Supplementary to the fire loss above, the Group had sufficient insurance policies in place and most of the loss can be recovered.

Finance Costs

The Group's finance costs increased by 39.3% from RMB108.9 million for the year ended 31 December 2016 to RMB151.8 million for the year ended 31 December 2017, mainly due to the increased bank borrowings and interest hike during the Period.

Profit before Tax

As a result of the foregoing factors, the Group recorded profit before tax of RMB306.8 million for the year ended 31 December 2017 as compared to RMB280.5 million for the year ended 31 December 2016.

Income Tax Expense

Income tax expense decreased by 27.5% from RMB48.7 million for the year ended 31 December 2016 to RMB35.4 million for the year ended 31 December 2017, mainly because assessable profits from the lead-acid battery business decreased while no profit from the lead recycling and remanufacturing business was subject to tax during the Period.

Profit for the Year

As a result of the foregoing factors, the Group recorded consolidated net profit of RMB271.5 million (2016: RMB231.8 million) for the year ended 31 December 2017, of which the Group recorded profit attributable to the owners of the parent of RMB242.9 million (2016: RMB241.9 million) for the same period.

Net Current Assets

As at 31 December 2017, the Group had net current assets of RMB209.9 million (2016: RMB759.2 million). The Group's current assets mainly consist of inventories, trade and bills receivables, cash and bank balances, prepayments, deposits and other receivables. The Group's current liabilities mainly consist of trade and bills payables, other payables and accruals, and interest-bearing bank borrowings.

Inventories

Inventories constituted one of the principal components of the Group's current assets. As at 31 December 2017, the Group had inventories of RMB1,872.3 million (2016: RMB1,127.1 million). Inventories increased significantly as a result of a surge of customer orders at the end of the Period which will be delivered in the first quarter of 2018. A surge of raw material prices compared to 2016 also contributed to the increase.

Trade and Other Receivables

(a) Trade and bills receivables

The Group's trade and bills receivables primarily related to receivables for goods sold to its customers. As at 31 December 2017, the Group had trade and bills receivables of RMB2,526.6 million (2016: RMB2,264.4 million). The increase in trade and bills receivables was primarily due to significant increase in shipments at the end of the Period.

(b) Prepayments, deposits and other receivables

The Group's prepayments and deposits mostly related to the purchase of raw materials. As at 31 December 2017, the Group had prepayments, deposits and other receivables of RMB174.4 million (2016: RMB134.7 million). The increase in prepayments, deposits and other receivables as compared to 2016 was primarily because the Group increased its prepayments for raw materials in order to meet the expected strong market demand of lead acid batteries in the early period of 2018.

Trade and Bills Payables

The Group's trade and bills payables primarily relate to its purchase of raw materials for production. As at 31 December 2017, the Group had trade and bills payables of RMB1,665.2 million (2016: RMB1,631.5 million). The trade and bills payables increased slightly because the increase in trade payables as a result of the Group's increased procurement for increased turnover was compensated by the decrease in bill payables as the Group less used the bill payables which were issued on intercompany sales transactions within the Group and discounted to banks for short term financing during the Period.

Other Payables and Accruals

The Group's other payables and accruals primarily consisted of provision for social insurance and retirement benefits, payments for its expenditures related to construction and renovation of its production facilities, payments in connection with transportation charges, advance payments from customers for shipments, tax payables other than current income tax liabilities and accruals for payroll and benefits for its employees. As at 31 December 2017, the Group had other payables and accruals of RMB706.5 million (2016: RMB542.9 million), the increase was mainly due to loan from non-controlling shareholders and remaining consideration payable to non-controlling shareholders as a result of acquisition of Taihe Dahua Energy technology Co., Ltd and the increased VAT payables and consumption tax payables.

Capital Expenditures

During the Period, the Group invested RMB314.2 million (2016: RMB207.8 million) in property, plant and equipment for its new production facilities.

Liquidity and Financial Resources

As at 31 December 2017, the Group's net current assets amounted to RMB209.9 million (2016: RMB759.2 million), among which cash and bank deposits amounted to RMB941.2 million (2016: RMB705.2 million). As at 31 December 2017, the Group had bank borrowings of RMB3,013.9 million (2016: RMB1,763.5 million), all of which are interest-bearing. Except for borrowings of RMB109.3 million (2016: RMB488.5 million) which has a maturity over one year, all of the Group's bank borrowings were repayable within one year. The Group's borrowings were denominated in RMB, US dollars, HK dollars, Singapore dollars, Malaysian ringgits and Australian dollars, and the effective interest rates of which as of 31 December 2017 were 1.50% to 7.53% (2016: 1.50% to 7.53%).

A portion of the Group's bank borrowings was secured by pledges over certain assets of the Group including property, plant and equipment, leasehold lands, deposits and trade and bills receivables. As at 31 December 2017, the Group's gearing ratio was 34.9% (2016: 25.7%), which was calculated by dividing total borrowings by total assets as at the end of each respective period, multiplied by 100%.

Contingent Liabilities

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

Foreign Exchange Risk

The Group operated primarily in the PRC. For the Group's companies in the PRC, their principal activities were transacted in RMB. For other companies outside of the PRC, their principal activities were transacted in US dollars. However, as a result of the Group's revenue being denominated in RMB, the conversion into foreign currencies in connection with payments is subject to regulatory restrictions on currency conversion in the PRC. The value of the RMB against the US dollars and other currencies may fluctuate and is affected by, among other things, change in the political and economic conditions in the PRC. The Group's product sales adopted a price mechanism by which the currency fluctuation is basically transferred to the customers, but the Group's foreign currency trade receivables may still be exposed to risk in the credit period. The Group will use forward currency contracts to eliminate the foreign currency exposures arising from sales denominated in US dollars if needed. The forward currency contracts must be in the same currency as the hedged item, i.e. US dollars.

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 a total amount of RMB115,200,000 has been paid to the vendors as at the date of this announcement.

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

EMPLOYEES

As at 31 December 2017, the Group had 13,958 employees. Employee benefit expenses (including directors' remuneration), which comprised wages and salaries, performance-related bonuses, equity-settled share option expenses and retirement benefit scheme contributions, totaled RMB799.0 million for the year ended 31 December 2017 (2016: RMB646.2 million).

The Group has a share option scheme 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 receive continuing education and 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 up team spirit. Staff are rewarded based on performance of the Group as well as on individual performance and contribution.

FINAL DIVIDEND

To reserve fund for acceleration of production capacity expansion, the Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: 5.50 HK cents).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement of the shareholders of the Company (the "**Shareholders**") annual general meeting of the Company (the "**AGM**") to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday 15 May 2018, to Friday 18 May 2018, (both days inclusive). During the closure period, no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the AGM, Shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar (see below) for registration by no later than 4:30 p.m. on Monday, 14 May 2018.

The details of the Company's branch share registrar are as follows:

Tricor Investor Services Limited
Address: Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as the code for dealing in securities of the Company by its directors. After making specific enquiries, all directors of the Company confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2017.

CORPORATE GOVERNANCE PRACTICES

Throughout the year, the Company was committed to maintaining a high standard of corporate governance with a view to safeguard the interests of its shareholders and enhance corporate value. The Board is of the view that the Company has complied with all applicable code provisions and certain recommended best practices set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITORS

The figures in this announcement of the results of the Group for the year ended 31 December 2017 have been agreed to the amounts set out in the Group's draft consolidated financial statements for the year by the Group's auditor, Ernst & Young ("**EY**"). The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standard on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by EY on the preliminary announcement.

AUDIT COMMITTEE

The Audit Committee, which comprises three independent non-executive directors of the Company, namely, Mr. CAO Yixiong Alan (chairman of the Audit Committee), Mr. LIU Yangsheng and Mr. LAU Chi Kit, has reviewed the financial statements of the Group for the year ended 31 December 2017 and has discussed with the management and the external auditor of the Company on the accounting policies and practices adopted by the Group and the internal controls and financial reporting matters of the Group.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

ANNUAL GENERAL MEETING

The AGM will be held on or about Friday, 18 May 2018. Notice of the AGM will be sent to the Shareholders in due course. The poll results of the AGM will be published on the above-mentioned websites shortly after the AGM.

All Shareholders are encouraged to attend the AGM and exercise their right to vote. Further, Shareholders are invited to ask questions related to the business of the meeting.

APPRECIATION

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

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

Hong Kong, 28 March 2018

As at the date of this announcement, the executive Directors are Mr. DONG Li and 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.