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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 ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS			
	2018	2017	
	<i>RMB million</i>	<i>RMB million</i>	Changes
Turnover	9,544.4	9,465.4	+0.8%
Gross profit	1,055.0	1,162.5	-9.2%
Profit for the year	127.1	271.5	-53.2%
Profit attributable to owners of the parent	106.4	242.9	-56.2%
Basic earnings per share (<i>RMB</i>)	0.08	0.18	
Proposed final dividend per share (<i>HK cents</i>)	2.0	Nil	

ANNUAL RESULTS

The board of directors (the “**Board**”) of the Leoch International Technology Limited (“**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2018 together with the comparative figures for the previous year. 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 2018 prior to recommending them to the Board for approval.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	<i>Notes</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
REVENUE	4	9,544,418	9,465,444
Cost of sales		(8,489,396)	(8,302,904)
Gross profit		1,055,022	1,162,540
Other income and gains	4	118,326	94,031
Selling and distribution expenses		(408,667)	(367,199)
Administrative expenses		(269,719)	(260,742)
Research and development costs	5	(111,025)	(143,084)
(Impairment losses)/reversal of impairment on financial assets	5	(3,266)	7,713
Other expenses		(35,329)	(34,639)
Finance costs	6	(202,356)	(151,788)
PROFIT BEFORE TAX	5	142,986	306,832
Income tax expense	7	(15,846)	(35,352)
PROFIT FOR THE YEAR		127,140	271,480
Attributable to:			
Owners of the parent		106,418	242,885
Non-controlling interests		20,722	28,595
		127,140	271,480
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		RMB0.08	RMB0.18
Diluted		RMB0.08	RMB0.18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
PROFIT FOR THE YEAR	<u>127,140</u>	<u>271,480</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	–	3,703
Income tax effect	–	(926)
	–	<u>2,777</u>
Debt investments at fair value through other comprehensive income:		
Changes in fair value	(2,768)	–
Income tax effect	692	–
	(2,076)	–
Exchange differences on translation of foreign operations	<u>9,727</u>	<u>(14,193)</u>
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	<u>7,651</u>	<u>(11,416)</u>
Other comprehensive loss 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	(19,659)	–
Income tax effect	4,915	–
	(14,744)	–
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	<u>(14,744)</u>	–
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	<u>(7,093)</u>	<u>(11,416)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>120,047</u>	<u>260,064</u>
Attributable to:		
Owners of the parent	98,973	235,650
Non-controlling interests	21,074	24,414
	<u>120,047</u>	<u>260,064</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	<i>Notes</i>	2018 RMB'000	2017 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		2,061,137	2,046,177
Investment properties		14,239	48,392
Properties under development		57,863	40,869
Prepaid land lease payments		181,989	154,819
Goodwill		10,636	8,699
Other intangible assets		615,443	484,215
Equity investments designated at fair value through other comprehensive income		137,148	–
Available-for-sale investments		–	132,576
Deposits paid for purchase of items of property, plant and equipment and land lease payments		145,841	85,016
Deferred tax assets		53,001	48,888
Total non-current assets		3,277,297	3,049,651
CURRENT ASSETS			
Inventories	<i>10</i>	1,962,966	1,872,285
Completed properties held for sale		15,856	44,205
Trade receivables	<i>11</i>	2,424,654	2,313,438
Bills receivables	<i>12</i>	–	213,159
Debt investments at fair value through other comprehensive income	<i>12</i>	164,625	–
Prepayments, other receivables and other assets	<i>13</i>	186,676	174,423
Derivative financial instruments		–	4,418
Equity investments at fair value through profit or loss		12,588	12,545
Structured bank deposits	<i>14</i>	109,866	–
Pledged deposits	<i>15</i>	452,216	540,116
Cash and cash equivalents	<i>15</i>	425,311	401,042
Total current assets		5,754,758	5,575,631

		2018	2017
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
CURRENT LIABILITIES			
Trade and bills payables	<i>16</i>	2,001,708	1,665,247
Other payables and accruals	<i>17</i>	777,368	706,537
Interest-bearing bank borrowings	<i>18</i>	2,171,301	2,904,553
Income tax payable		86,099	89,406
		<u>5,036,476</u>	<u>5,365,743</u>
NET CURRENT ASSETS		<u>718,282</u>	<u>209,888</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,995,579</u>	<u>3,259,539</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		47,681	54,554
Interest-bearing bank borrowings	<i>18</i>	712,807	109,338
Deferred government grants		61,187	48,959
		<u>821,675</u>	<u>212,851</u>
Total non-current liabilities		<u>821,675</u>	<u>212,851</u>
Net assets		<u>3,173,904</u>	<u>3,046,688</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital		116,213	116,192
Reserves		2,860,714	2,760,418
		<u>2,976,927</u>	<u>2,876,610</u>
Non-controlling interests		<u>196,977</u>	<u>170,078</u>
Total equity		<u>3,173,904</u>	<u>3,046,688</u>

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 equity investments designated at fair value through other comprehensive income, debt investments at fair value through other comprehensive income, structured bank deposits and equity investments at fair value through profit or loss 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:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Lead-acid batteries	8,069,088	7,661,343
Recycled lead products	1,419,052	1,754,834
Others	<u>56,278</u>	<u>49,267</u>
	<u><u>9,544,418</u></u>	<u><u>9,465,444</u></u>

Geographical information

(a) Revenue from external customers

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
PRC*	6,170,748	6,389,915
European Union	1,087,103	902,930
The United States of America (“USA”)	960,332	895,555
Other Asian countries/areas	796,309	887,497
Other countries	<u>529,926</u>	<u>389,547</u>
	<u><u>9,544,418</u></u>	<u><u>9,465,444</u></u>

* 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.

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

(b) *Non-current assets*

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
PRC	2,859,909	2,709,583
Other countries/areas	<u>227,239</u>	<u>158,604</u>
	<u><u>3,087,148</u></u>	<u><u>2,868,187</u></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

Revenue from each major customer, including 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 2018 and 2017, is set out below:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	1,033,825	1,269,150
Customer B	<u>342,935</u>	<u>1,099,791</u>
	<u><u>1,376,760</u></u>	<u><u>2,368,941</u></u>

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

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Revenue from contracts with customers	9,544,418	–
Sale of goods	–	9,465,444
	9,544,418	9,465,444

Revenue from contracts with customers

(i) *Disaggregated revenue information*

For the year ended 31 December 2018

	Total <i>RMB'000</i>
Type of goods	
Sale of industrial products	9,488,140
Others	56,278
	9,544,418
Timing of revenue recognition	
Goods transferred at a point in time	9,544,418

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 <i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods	133,257

(ii) **Performance obligations**

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation for sale of industrial products is satisfied upon delivery and payment is generally due within 60 to 90 days from delivery, except for new customers, where payment in advance is normally required. The performance obligation for others is satisfied when control of the ownership of properties is transferred to the buyer.

	2018	2017
	RMB'000	RMB'000
<u>Other income and gains</u>		
Bank interest income	12,034	13,374
Government grants*	66,610	24,096
Dividend income from available-for-sale investments	–	1,301
Sale of scrap materials	5,552	6,685
Foreign exchange gains, net	–	37,121
Rental income	2,350	4,765
Gain on bargain purchase	–	880
Fair value gains, net:		
Derivative financial instruments	–	1,166
Equity investments at fair value through profit or loss	43	–
Structured bank deposits	866	–
Others^	30,871	4,643
	118,326	94,031

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

^ Others include an insurance claim received from the insurance company for losses in inventories and property, plant and equipment in relation to the fire of an assembly plant of the Group in Malaysia in December 2017, the amount of which was RMB23,339,000 during the year.

5. PROFIT BEFORE TAX

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

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold	7,286,798	7,219,119
Employee benefit expense (including directors' remuneration):		
Wages and salaries	758,701	731,043
Equity-settled share option expenses	5,011	4,643
Pension scheme contributions	74,856	63,283
	<u>838,568</u>	<u>798,969</u>
Amortisation of other intangible assets except for deferred development costs	20,483	15,040
Research and development costs:		
Deferred development costs amortised*	82,847	73,809
Current year expenditure	111,025	143,084
	<u>193,872</u>	<u>216,893</u>
Auditor's remuneration	2,700	2,600
Derivative financial instruments:		
Unrealised loss	–	207
Realised loss/(gain)	145	(1,373)
Fair value loss/(gain) from derivative financial instruments, net [#]	<u>145</u>	<u>(1,166)</u>
Equity investments at fair value through profit or loss:		
Unrealised (gain)/loss	<u>(43)</u>	<u>1,050</u>

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Fair value gain from structured bank deposits	(866)	–
Depreciation of property, plant and equipment	285,062	218,888
Depreciation of investment properties	219	1,321
Amortisation of prepaid land lease payments	3,862	3,656
Impairment/(reversal of impairment) of trade receivables	3,266	(7,713)
Impairment of inventories*	2,460	3,957
Loss on disposal of items of property, plant and equipment, net [#]	831	611
Loss on remeasurement of the previously held interest in an associate	–	2,064
Foreign exchange loss/(gain), net [#]	28,001	(37,121)
Minimum lease payments under operating leases	13,590	9,717
Insurance claim received from the insurance company for loss on a fire incident/loss on a fire incident	(23,339)	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.

[#] Net fair value loss from derivative financial instruments, net loss on disposal of items of property, plant and equipment and net foreign exchange loss are included in “Other expenses” in the consolidated statement of profit or loss.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank borrowings	157,117	114,274
Interest arising from discounted bills	45,239	37,514
	202,356	151,788

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, Honour Label Investments Limited, Peak Year Investments Limited, Sheldon International Limited, and Catherine Holdings International Company Limited (“**Catherine Holdings**”), 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 out 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 21% (2017: in the range of 15% to 39%) on taxable income.

The provision for Hong Kong profits tax is based on the statutory rate of 16.5% (2017: 16.5%) of the assessable profits of subsidiaries incorporated in Hong Kong, i.e., Leoch Power Supply (H.K.) Limited (“**Leoch Power Supply**”) and Leoch International Sales Ltd (“**Leoch International Sales**”). No provision for Hong Kong profits tax has been made by Leoch Battery Company Limited (“**Leoch Battery Company**”) 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. (“**Leoch Battery Pte**”)’s application for the Global Trader Programme on 24 May 2014. The provision for Leoch Battery Pte.’s current income tax is based on the tax rate of 10% (2017: 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 and were entitled to a preferential tax rate of 15% for the year 2018.

Taihe Dahua Energy Technology Co., Ltd., which engages in qualified recycling businesses, is entitled to a 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:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Current – PRC	18,069	18,036
Current – Hong Kong	(3,881)	5,248
Current – Singapore	7,571	7,202
Current – USA	2,139	3,884
Deferred tax	(8,052)	982
	<u>15,846</u>	<u>35,352</u>
Total tax charge for the year	<u>15,846</u>	<u>35,352</u>

A reconciliation of the income tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the majority of the companies of the Group are domiciled to the tax expense at effective tax rate is as follows:

	2018		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before tax	<u>142,986</u>		<u>306,832</u>	
Tax at the applicable tax rates	42,705	29.9	86,092	28.0
Tax concession for certain subsidiaries	(27,763)	(19.5)	(46,827)	(15.3)
Additional deductible research and development expenses	(6,463)	(4.5)	(8,059)	(2.6)
Income not subject to tax	–	–	(9,459)	(3.1)
Expenses not deductible for tax	1,971	1.4	4,649	1.5
Tax losses not recognised	8,225	5.8	11,509	3.8
Tax losses utilised from previous periods	<u>(2,829)</u>	<u>(2.0)</u>	<u>(2,553)</u>	<u>(0.8)</u>
Tax charge at the Group's effective rate	<u>15,846</u>	<u>11.1</u>	<u>35,352</u>	<u>11.5</u>

8. DIVIDENDS

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Final – 2.0 HK cents (2017: Nil HK cents) per share	<u>23,164</u>	<u>–</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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 1,357,431,128 (2017: 1,355,932,999) 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:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	<u>106,418</u>	<u>242,885</u>
	Number of shares	
	2018	2017
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,357,431,128	1,355,932,999
Effect of dilution – weighted average number of ordinary shares: Share options	<u>1,160,164</u>	<u>6,579,244</u>
	<u>1,358,591,292</u>	<u>1,362,512,243</u>

10. INVENTORIES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Raw materials	632,446	445,494
Work in progress	795,069	1,008,957
Finished goods	<u>535,451</u>	<u>417,834</u>
	<u>1,962,966</u>	<u>1,872,285</u>

As at 31 December 2018, inventories with the amount of RMB2,460,000 (2017: RMB3,957,000) were written down to their net realisable value as disclosed in note 5.

11. TRADE RECEIVABLES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Trade receivables	2,450,675	2,343,791
<i>Less:</i> Impairment provision	<u>(26,021)</u>	<u>(30,353)</u>
	<u>2,424,654</u>	<u>2,313,438</u>

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 RMB233,914,000 (2017: RMB261,715,000) were under short term credit insurance and RMB63,713,000 (2017: RMB71,912,000) 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 2018, the Group pledged certain trade receivables amounting to RMB31,592,000 (2017: RMB61,467,000) to banks with recourse in exchange for cash (*note 20*). The proceeds from pledging the trade receivables of RMB20,759,000 (2017: RMB37,279,000) 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 ageing analysis of the trade receivables as at 31 December 2018 and 2017 based on the invoice date, net of loss allowance, is as follows:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	1,735,538	1,813,243
3 to 6 months	403,444	302,226
6 to 12 months	214,842	141,573
1 to 2 years	57,500	53,181
Over 2 years	13,330	3,215
	<u>2,424,654</u>	<u>2,313,438</u>

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

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	30,353	38,066
Effect of adoption of IFRS 9	1,686	–
At 1 January (restated)	32,039	38,066
Impairment/(reversal of impairment) of trade receivables (<i>note 5</i>)	3,266	(7,713)
Amount written off as uncollectible	(9,284)	–
At 31 December	<u>26,021</u>	<u>30,353</u>

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Current		Past due		Total
	Customers with credit enhancement	Ordinary customers	Customers with credit enhancement	Ordinary customers	
Expected credit loss rate	0.02%	0.68%	0.36%	100.00%	1.06%
Gross carrying amount (<i>RMB'000</i>)	1,971,630	385,276	71,083	22,686	2,450,675
Expected credit losses (<i>RMB'000</i>)	463	2,619	253	22,686	26,021

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017, was a provision for individually impaired trade receivables of RMB30,353,000 with a carrying amount before provision of RMB30,353,000.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties.

The ageing analysis of trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 <i>RMB'000</i>
Neither past due nor impaired	2,257,042
Past due but not impaired	<u>56,396</u>
	<u><u>2,313,438</u></u>

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

Receivables that were past due but not impaired related to a number of independent customers that had a good payment track record with the Group. Based on past experience, the directors were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality of the customers and the balances were still considered fully recoverable.

12. BILL RECEIVABLES/DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The balance as at 31 December 2018 represents bills receivable held by the Group which was measured at fair value through other comprehensive income, since the bills receivable were held within the business model whose objective was achieved by both collecting contractual cash flows and selling the financial assets, and the contractual cash flows were solely payments of principal and interest on the principal amount outstanding.

The ageing analysis of bills receivable presented based on issue date at 31 December 2018 and 31 December 2017 is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Within 3 months	44,126	48,833
3 to 6 months	97,210	103,538
6 to 12 months	<u>23,289</u>	<u>60,788</u>
	<u>164,625</u>	<u>213,159</u>

The net loss on changes in the fair value of the debt investments at fair value through other comprehensive income amounting to RMB2,768,000 was recognised in the consolidated statement of comprehensive income during the year.

13. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Prepayments	139,671	130,365
Deposits and other receivables	35,233	32,926
Loans to employees	7,422	7,130
Interest receivables	–	114
Current portion of prepaid land lease payments	<u>4,350</u>	<u>3,888</u>
	<u>186,676</u>	<u>174,423</u>

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. The Group estimated the expected credit loss rate is minimal.

14. STRUCTURED BANK DEPOSITS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Structured bank deposits, in licensed banks in Mainland China:		
With floating rate, at fair value	<u><u>109,866</u></u>	<u><u>–</u></u>

The structured bank deposits have terms of one year and are classified at initial recognition as fair value through profit or loss. The net gain on changes in the fair value of the structured bank deposits amounting to RMB866,000 was recognised in the consolidated statement of profit or loss during the year.

15. CASH AND BANK BALANCES AND TIME DEPOSITS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Cash and bank balances	425,311	401,042
Time deposits	<u>452,216</u>	<u>540,116</u>
	<u>877,527</u>	<u>941,158</u>
<i>Less:</i> Pledged for interest-bearing bank borrowings	(104,561)	(179,899)
Pledged for bills payable	(303,714)	(260,099)
Pledged for letters of credit	<u>(43,941)</u>	<u>(100,118)</u>
	<u>(452,216)</u>	<u>(540,116)</u>
Cash and cash equivalents	<u><u>425,311</u></u>	<u><u>401,042</u></u>
Denominated in RMB	706,693	755,673
Denominated in US\$	134,619	155,742
Denominated in HK\$	19,511	19,201
Denominated in Indian Rupee	11,482	3,207
Denominated in Malaysian Dollar (“MYR”)	1,597	4,146
Denominated in Singapore Dollar (“SG\$”)	1,209	618
Denominated in Euro (“EUR”)	1,149	66
Denominated in Australian Dollar (“AU\$”)	901	2,417
Denominated in Sri Lankan Rupee	<u>366</u>	<u>88</u>
	<u><u>877,527</u></u>	<u><u>941,158</u></u>

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 deposits 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.

16. TRADE AND BILLS PAYABLES

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	980,460	803,985
Bills payable	1,021,248	861,262
	<u>2,001,708</u>	<u>1,665,247</u>

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

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	937,623	702,362
3 to 6 months	390,884	364,800
6 to 12 months	632,798	582,439
1 to 2 years	36,028	12,266
2 to 3 years	1,483	898
Over 3 years	2,892	2,482
	<u>2,001,708</u>	<u>1,665,247</u>

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 2018, bills payable amounting to RMB432,967,000 (2017: RMB745,450,000) were issued on intercompany sales transactions within the Group and these bills were discounted to banks for short term financing.

As at 31 December 2018, certain of the Group's bills payable were secured by the pledge of certain of the Group's time deposits amounting to RMB303,714,000 (2017: RMB260,099,000) (note 20).

17. OTHER PAYABLES AND ACCRUALS

	<i>Notes</i>	2018 RMB'000	2017 RMB'000
Provision for social insurance and retirement benefits		159,011	141,570
Receipt in advance		–	133,257
Contract liabilities	<i>(a)</i>	178,188	–
Accrued expenses		99,534	90,041
Accrued payroll		105,592	53,027
Payables for purchase of items of property, plant and equipment		24,312	17,677
Provision for product warranties		13,010	13,239
Tax payables other than current income tax liabilities		135,305	161,632
Payables to non-controlling shareholders		43,418	76,238
Others	<i>(b)</i>	18,998	19,856
		777,368	706,537

Notes:

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 <i>RMB'000</i>	1 January 2018 <i>RMB'000</i>
Short-term advances received from customers		
Sale of goods	178,188	133,257

Contract liabilities are short-term advances received to deliver industrial products. The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances received from customers in relation to sale of goods at the end of the year

(b) Other payables are non-interest-bearing and have no fixed terms of repayment.

18. INTEREST-BEARING BANK BORROWINGS

	31 December 2018			31 December 2017		
	<i>Effective interest rate (%)</i>	<i>Maturity</i>	<i>RMB'000</i>	<i>Effective interest rate (%)</i>	<i>Maturity</i>	<i>RMB'000</i>
Current						
Interest-bearing bank borrowings, secured	1.50 to 7.53	2019	1,077,598	1.50 to 7.53	2018	1,175,362
Collateralised bank advances, secured	2.00 to 2.40	2019	20,759	2.00 to 2.40	2018	37,279
Interest-bearing bank borrowings, guaranteed	2.56 to 8.32	2019	665,727	2.87 to 5.22	2018	405,401
Current portion of long term bank borrowings, guaranteed	LIBOR +2.50	2019	407,217	LIBOR +2.50	on demand	1,286,511
			<u>2,171,301</u>			<u>2,904,553</u>
Non-current						
Interest-bearing bank borrowings, secured	1.50 to 7.53	2020-2028	34,113	1.50 to 7.53	2019-2028	81,338
Interest-bearing bank borrowings, guaranteed	LIBOR +2.50	2020	678,694	4.89	2019	28,000
			<u>712,807</u>			<u>109,338</u>
			<u>2,884,108</u>			<u>3,013,891</u>
Denominated in RMB			1,063,699			1,038,680
Denominated in US\$			1,218,810			1,438,764
Denominated in HK\$			556,440			471,434
Denominated in SG\$			15,502			14,135
Denominated in MYR			24,043			30,815
Denominated in AUD			-			20,063
Denominated in GBP			5,614			-
			<u>2,884,108</u>			<u>3,013,891</u>

Analysed into:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans and advances repayable:		
On demand	–	1,286,511
Within one year	2,171,301	1,618,042
In the second year	699,650	71,687
In the third to fifth years, inclusive	5,944	28,371
Beyond five years	7,213	9,280
	<u>2,884,108</u>	<u>3,013,891</u>

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 RMB858,718,000 (2017: RMB1,039,238,000) for the bank borrowings as disclosed in note 20.
- (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, Leoch Power Supply, Leoch Battery Company, Leoch Battery Pte. and Leoch International Sales, were parties who act as guarantors to guarantee punctual performance of the Group's obligations under the Facility Agreement.

As at 31 December 2018, the outstanding term loan balance under the Facility Agreement amounted to US\$160,000,000 (equivalent to RMB1,085,911,000), of which RMB407,217,000 and RMB678,694,000 are repayable within one year and in the second year, respectively. The term loan bears interest at LIBOR+2.5% per annum.

19. ACQUISITION OF A SUBSIDIARY

DBSL

On 22 December 2017, Leoch International Holding Pte. Ltd. (“**Leoch International Holding**”), a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party to incorporate a company called BS 003 Limited in the United Kingdom, the name of which was changed to Leoch DBS Limited (“**LDBS**”) on 24 January 2018. The independent third party transferred its 100% equity interest in DBS Energy Limited (the name of which was changed to DBS Leoch Limited (“**DBSL**”) on 18 January 2018) in exchange for a 40% equity interest in LDBS. Leoch International Holding subscribed for 60% of the equity interest in LDBS at a cash consideration of US\$847,000 (equivalent to RMB5,458,000) together with a waiver of trade receivables due from DBSL of US\$1,988,000 (equivalent to RMB12,805,000). DBSL is a trading company which imports and sells batteries under the Leoch brand name in the United Kingdom. As a result of the above transactions, Leoch International Holding obtained control over DBSL, which then became a subsidiary of the Company on 16 January 2018.

The Group has elected to measure the non-controlling interests in DBSL at the non-controlling interests’ proportionate share of DBSL’s identifiable net assets.

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

	Fair value recognised on acquisition <i>RMB'000</i>
Property, plant and equipment	693
Other intangible assets	132
Customer relationship	16,246
Inventories	4,549
Trade receivables	13,180
Prepayments, other receivables and other assets	722
Cash and cash equivalents	171
Trade and bills payables	(23,411)
Other payables and accruals	(249)
Deferred tax liabilities	<u>(3,087)</u>
Total identifiable net assets at fair value	8,946
Non-controlling interests	<u>(3,578)</u>
	5,368
Goodwill on acquisition	<u>1,937</u>
	<u><u>7,305</u></u>
Satisfied by:	
Fair value of 40% equity interest in LDBS	<u><u>7,305</u></u>

An analysis of the cash flows for the year ended 31 December 2018 in respect of the acquisition of a subsidiary is as follows:

	<i>RMB'000</i>
Cash consideration	–
Cash and bank balances acquired	<u>171</u>
Net inflow of cash and cash equivalents included in cash flows from investing activities	<u><u>171</u></u>

Since the acquisition, DBSL contributed RMB65,219,000 to the Group's turnover and caused a net loss of RMB2,803,000 to the consolidated profit for the year ended 31 December 2018.

20. PLEDGE OF ASSETS

	Prepaid land lease payments <i>RMB'000</i>	Property, plant and equipment <i>RMB'000</i>	Pledged deposits <i>RMB'000</i> <i>(note 15)</i>	Trade receivables <i>RMB'000</i> <i>(note 11)</i>	Total <i>RMB'000</i>
31 December 2018					
Interest-bearing bank borrowings <i>(note 18)</i>	50,297	672,268	104,561	31,592	858,718
Bills payable <i>(note 16)</i>	–	–	303,714	–	303,714
Issue of letters of credit	–	–	<u>43,941</u>	–	<u>43,941</u>
	<u>50,297</u>	<u>672,268</u>	<u>452,216</u>	<u>31,592</u>	<u>1,206,373</u>
31 December 2017					
Interest-bearing bank borrowings <i>(note 18)</i>	50,094	747,778	179,899	61,467	1,039,238
Bills payable <i>(note 16)</i>	–	–	260,099	–	260,099
Issue of letters of credit	–	–	<u>100,118</u>	–	<u>100,118</u>
	<u>50,094</u>	<u>747,778</u>	<u>540,116</u>	<u>61,467</u>	<u>1,399,455</u>

21. 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 seventeen 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 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	3,535	1,161
In the second to fifth years, inclusive	4,941	2,220
After five years	11,960	3,774
	<u>20,436</u>	<u>7,155</u>

(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 three years.

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	6,313	4,847
In the second to fifth years, inclusive	10,484	995
	<u>16,797</u>	<u>5,842</u>

22. COMMITMENTS

In addition to the operating lease commitments detailed in note 21(b) above, the Group had the following capital commitments at the end of the reporting period:

	<i>Note</i>	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:			
Land and buildings		1,340	17,727
Construction of a property	<i>(i)</i>	393,044	442,174
Plant and machinery		814	2,827
Capital contribution for investments in available-for-sale investments		–	39,034
Capital contribution for investments in equity instruments at fair value through other comprehensive income		15,932	–
Acquisition of a subsidiary		–	18,524
		411,130	520,286

Note:

- (i) On 26 July 2017, Shenzhen Leoch Battery Technology Co., Ltd., 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. It was originally agreed that the property shall be delivered to the Group on or before 30 August 2018. However, due to delay in the construction of the property, completion did not take place as scheduled and the Group has withheld payment for the consideration. The parties have been negotiating for an alternative payment schedule while at the same time looking at various different options with regards to the property including but not limited to the possible disposal of the property to a third party. Up to the date hereof, no agreement has been reached by the parties. As at 31 December 2018, Shenzhen Leoch Battery had paid RMB98,260,000 of the consideration.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is a vertically integrated enterprise principally engaged in the development, sale and manufacture of lead acid batteries and the lead recycling and remanufacturing business. It is one of the leading manufacturers and the top exporter of lead-acid batteries in the People's Republic of China (the "PRC"). The Group sells over 2,000 models of lead-acid battery products which are widely used in different business applications such as telecommunication, UPS, energy storage, vehicle, motorcycle, golf cart, forklift truck, electric vehicle etc. Among the lead-acid battery manufacturers in the PRC, the Group offers the broadest lines of lead-acid battery product.

For the year ended 31 December 2018 (the "Period"), the Group's revenue amounted to RMB9,544.4 million, representing an increase of 0.8% from RMB9,465.4 million for the corresponding period in 2017.

During the Period, revenue from batteries and related items amounted to RMB8,069.1 million, representing an increase of 5.3% from RMB7,661.3 million for the corresponding period in 2017. In normal circumstance, the price linkage mechanism will pass raw material price fluctuation to customers, the growth in revenue was driven mainly by the increase in average lead price as compared to the corresponding period in 2017. The growth rate in terms of volume delivered in terms of ton was around 1.0% as compared to the corresponding period last year. Revenue from recycled lead products amounted to RMB1,419.1 million representing a decrease of 19.1% from RMB1,754.8 million for the corresponding period in 2017.

Various adverse factors affected the performance of global and the PRC economy, as well as the lead-acid battery industry and the Group in 2018. The US-China trade war suppressed the Group's business growth in the US market while the abnormal hike of the PRC lead price further increased the suppression pressure to all categories of product at overseas markets. The Group's gross profit margin was affected since the abnormal lead price hike occurred in the last 8 months in the PRC was not fully transferrable to the customers and losses occurred from those overseas orders temporarily required to be produced in the PRC with higher material costs during the re-construction period of the JV factory. Nevertheless, the Group continued to drive business growth in the PRC and overseas. Among the RMB407.7 million (2017: RMB1,398.5 million) increment in sales revenue of battery, 26.9% (2017: 58.1%) was contributed from the PRC while 73.1% (2017: 41.9%) was from overseas in 2018. There was a decrement in sales of recycled lead amounted to RMB335.8 million (2017: RMB1,754.8 million, first year of record), together with other income, the PRC share of the Group's turnover for the Period accounted for 64.7% (2017: 67.5%).

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

The Group's sales of reserve power batteries during the Period amounted to RMB4,436.9 million (2017: RMB4,674.2 million), representing a decrease of 5.1% as compared to the same period of last year. The decrement in sales revenue of reserve power batteries amounted to RMB237.3 million (2017: RMB354.6 million increment) during the Period. Reserve power batteries accounted for approximately 55.0% of batteries revenue as compared to 61.0% in the corresponding period of 2017.

The increase in volume delivered for Uninterruptible Power Supplies ("UPS") and renewable energy application batteries both in China and overseas partially overcome the reduction in other application batteries in the PRC. This was contributed by our sales and marketing efforts to expand our market share in UPS and renewable energy application areas. However, the trade war between the US and the PRC and the abnormal high lead price in China during the last 8 months in 2018 suppressed overseas demand and hindered the Group's overseas growth in 2018. Accordingly, this business category resulted in negative growth rate in terms of sales and products delivery as compared to last year.

SLI batteries

SLI batteries category are used mainly in starting up automobiles and motorcycles. The Group's sales of SLI batteries during the Period amounted to RMB2,542.1 million (2017: RMB2,164.7 million), representing an increase of 17.4% as compared to the same period of last year. The increment in sales revenue of SLI batteries amounted to RMB377.4 million (2017: RMB721.8 million) during the Period. SLI batteries accounted for approximately 31.5% of batteries revenue as compared to 28.3% in the corresponding period of 2017.

Vehicle production in China suffered the first drop since 1990. Vehicle production in December 2018 was estimated down by 14.9% year-on-year, the sixth consecutive month of negative growth. On the other hand, estimated car ownership in China has reached 240 million units by the end of 2018, more than 10% increase as compared to the 2017 figure, indicating that demand for automotive batteries replacement remained high. During the Period, our PRC SLI business continued to grow at average of above 30% in sales to the vehicle manufacturers and the after-market. However, due to abnormal high lead price in China in the last 8 months in 2018, the Group's growth in export sales on this category was hindered, resulting in a negative growth rate in terms of product delivery and lower profit margin. Nevertheless, the Group managed to keep overall growth rate of our SLI business within a healthy range.

Motive power batteries

Motive power batteries revenue mainly generated from batteries used to provide power for electric vehicles, electric forklifts and other applications. During the Period, the Group's motive power batteries business recorded sales revenue of RMB871.6 million (2017: RMB497.0 million), representing an increase of 75.4% as compared to the same period of last year. The increment in sales revenue of motive power batteries amounted to RMB374.6 million (2017: RMB215.2 million) during the Period. Motive power batteries accounted for approximately 10.8% of batteries revenue as compared to 6.5% in the corresponding period of 2017.

This remarkable result was contributed by the substantial increase in sales of batteries on various applications including batteries used by electric vehicles and forklifts. The Group will continue to invest in this category to sustain the rapid growth momentum.

Recycled lead

Revenue from the sale of recycled lead products amounted to RMB1,419.1 million (2017: RMB1,754.8 million) during the Period, representing a decrease of 19.1% as compared to the same period of last year. To coordinate with the PRC Government lead-related heavy metal discharging enterprises structural reform, the Group decided to commence production capacity expansion plan of the Group's recycled lead production facilities and enhance the factory's environment protection facilities in the third quarter of 2018. Accordingly, production was temporary interrupted and the revenue in the second half year of 2018 decreased by 53.8% to RMB448.2 million as compared to RMB970.9 million in the first half of 2018, resulting in reduction of sales and profit contribution from the lead recycling business.

Sales network

The Group distributes its products to more than 100 countries and regions across the world. The Group established regional sales offices in Beijing, Shenzhen, Zhaoqing, Nanjing, Hong Kong, Singapore, Malaysia, Australia and other ASEAN countries, India, Sri Lanka, the United States and the European Union including the United Kingdom. Together with domestic sales centres across the PRC, the Group has more than 50 sales offices and centres around the world. As at 31 December 2018, the Group has over 850 dedicated sales and marketing and related supporting employees. The Group will continue expanding its sales and marketing teams and business network in the PRC and overseas to support the sales and marketing, distribution, and after sales services for all categories of battery products of the Group.

The acquisition of 60% stake in DBS Energy Limited, a UK battery distributor, was completed on 16 January 2018. In 2018, two wholly owned trading company, Leoch Nordeuropa GmbH in Germany and Leoch Italia S.R.L. in Italy, were established on 22 February 2018 and 24 October 2018, respectively. The Group believed that the above setups will further strengthen our position in Europe and pave a solid path for our business to accelerate growth in European countries in 2019 and onward.

Research and development (“R&D”) of new products

The Group is a leader in R&D and application of lead-acid battery technologies in China. To support its R&D efforts, the Group works closely with international and domestic battery experts and research institutions to develop new technologies. The Group’s battery research and development team consists of more than 400 researchers and technicians. Currently, the Group holds 372 patents and there are 133 proprietary technologies in the process of patent applications as at the date of this announcement.

The Group has grasped and applied most of lead-acid battery technologies in the world. The Group’s strong R&D capabilities enable it to produce a broad range of battery products deploying most of the key lead-acid battery technologies. Currently, the Group has developed more than 2,000 models of battery products of different types employing various application technologies, making the Group one of the battery enterprises with the broadest range of lead-acid batteries. Close to 100 production lines and related testing equipments together with three dedicated battery research and development centers located in Guangdong, Anhui and Jiangsu constituted a strong and advance manufacturing and research and development capabilities of the enterprise. Leoch mainly produces reserve power batteries, SLI batteries and motive power batteries and they include series of product such as AGM VRLA batteries, VRLA-GEL battery, pure lead batteries, UPS high rate batteries, marine batteries, railway batteries, start-stop batteries, automotive batteries, motorcycle batteries, OPzV, OPzS, PzS, PzV and PzB tubular plate batteries, golf cart batteries, scrubber sweeper batteries and electric vehicle batteries etc.. Our forward-looking research and development team and high production quality make Leoch possess influential international competitive power.

Being hardworking and enterprising, through practice, Leoch keeps on developing and blazing new trails constantly. For quality control, professional quality management centres have been set up and successfully acquired the recognition of various standards such as ISO9001, TS16949, ISO14001 and OHSAS18001. In the area of technological innovation, we have carried out technical cooperation with renowned overseas battery manufacturers, introduced advance equipment and instruments from domestic and overseas suppliers and obtained a number of patent technologies. Our production capability has reached international advanced level. To enhance Leoch independent innovation ability, we continuously perform technical exchanges and cooperation with famous universities in the PRC and established research bases with them. For Leoch to become a globalized competitive leading battery manufacturer soon, we have laid a solid foundation.

Lead-acid battery is under another stage of revolution since its invention in 1860. Innovative companies like Gridtential Energy, Inc. has been working on solution that bring lead-acid batteries, which already are the most cost-effective, safest form of energy storage and more recyclable, by using its new technology to perform up to 5 times greater power density, lighter weight and more than double the current lifespan. The Group will continue working closely with Gridtential Energy, Inc. to explore this advanced battery technologies.

To cope with product diversification and satisfy customers' need, the Group had put in large amount of resources in the last few years on the development of lithium batteies to cover all application areas in reserve and motive power with priority on telecommunication area. With the construction of the first phase of lithium batteries factory starting in 2018, more lithium products will be designed and ready for mass production.

Production bases

During the Period, the Group operated eight well-built battery production bases, including four wholly-owned production bases in the PRC, two wholly-owned production bases (one in Sri Lanka and the other one in India), two joint venture production bases in Malaysia and one joint venture recycling lead factory in the PRC with a total site area of approximately 970,000 square meters (“sq.m.”). As at 31 December 2018, the Group had battery capacity of 21.7 million KVAh (2017: 21.6 million KVAh). To cope with potential business expansion and needs, the Group will expand its manufacturing capacities in the PRC and overseas in a prudent manner.

The construction of the two factories in Vietnam is in full gear after we signed the construction agreement in November 2018. It is expected that the factory for reserve power batteries will start to deliver products before the end of second quarter in 2019. The factory for automotive batteries (SLI batteries) is expected to deliver products by the end of third quarter in 2019. The designed production capacity of these two factories will be more than double of current total overseas production capacity with opportunity for future expansion. The Group is committed to expand our overseas production capacity to satisfy at least 50% overseas demand by the end of 2020.

The plan to expand the manufacturing capability and capacity of India factory in the second half year of 2018 had been delayed due to longer than expected time to conclude the leasing contract and various production and environment license applications are still under process. The Group estimates that implementation of the expansion plan can be started within 2019.

The construction of a lithium batteries factory has been started in December 2018 at Huaibei Development Zone of Anhui. Site area of nearly 150,000 square meters will eventually provide at least 4GWh design production capacity to produce various Li-ion batteries products used for business application in reserve power and motive power market categories. More than one-third of the designed production capacity is expected to commence operation by the last quarter of 2019.

To coordinate with the Taihe County People's Government lead-related heavy metal discharging enterprises structural reform and to realize annual production capacity of 200,000 tons of recycling lead, the Group decided to commence the production capacity expansion plan of the Group's recycled lead production facilities and enhance the factory's environment protection facilities in the third quarter of 2018. It is expected that the factory will resume full production after these construction being completed and checked by County People's Government in the second quarter of 2019. Based on the allowed production volume which has been increased from 100,000 tons annually in 2017 to 200,000 tons in 2018; potential annual sales of recycled lead products can reach RMB4 billion under full production.

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 fluctuated within the range of RMB18,192 to RMB20,514 during the Period, representing a change within the range of -4.1% to 8.1% as compared with December 2017 SMM monthly average of RMB18,973 per ton.

The monthly average of SMM lead price in each of the first six months of 2018 was RMB19,339, RMB19,310, RMB18,659, RMB18,520, RMB19,534 and RMB20,514 respectively. SMM lead price start surging after April 2018 when the supply of recycling lead was significantly reduced at the PRC market. Lead import started to surge in May 2018 and reached the highest point in December of 2018. In 2018, the PRC lead import reached 128 kt, a 64% growth compared to 2017. These arbitrage actions partially adjusted the abnormal hike of the PRC lead price during the second half of the Period.

The monthly average of SMM lead price in each of the last six months of 2018 was RMB19,818, RMB18,192, RMB18,966, RMB18,559, RMB18,651 and RMB18,649 respectively. SMM lead price continue to adjust downward for two consecutive months before it rebounded back to similar average price in December 2017 mainly due to a decrease in the demand in the PRC with the slowing down of the economy. Thereafter, the average lead price remained quite stable for the rest of 2018 when more lead were imported to cover for the shortage of local supply.

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

Future Prospects

The Group anticipates that our business will sustain the growth momentum in the PRC and overseas markets in light of the US-China trade war might soon be ended and the abnormal price hike of the PRC lead price will not be as severe as that in 2018. Concentration will be twisted towards margin improvement than market growth. However, there are always challenges ahead and below are our view and action plans:

Reserve power batteries

During the Period, reserve power batteries suffered a negative growth rate of 5.1% in revenue with RMB237.3 million sales decrement. This was mainly contributed by the reduction in demand of lead-acid batteries from the telecommunication market in the PRC. The PRC government imposed policy to utilize retired lithium batteries from electric vehicle and the trend will continue at the telecommunication market.

On the other hand, besides solidifying the position in the PRC UPS market, the Group achieved preliminary breakthrough in the sales of renewable energy application where sales increment was close to RMB100 million. Renewable energy storage and grid energy storage are now the hottest topics on future development besides 5G.

Part of the Group's core business ability is varietal diversity in product with reasonable price, reliable quality and timely delivery. We are a customer centric company working restlessly to become a world class, competitive and technology leading manufacturer of rechargeable battery. Being as a major supplier of reserve power batteries in the market, we are well prepared and determined to expand our market shares by satisfying the need of customers. With our first lithium factory mass production on the way in the second half year of 2019, Leoch is ready to open another new page. We are confident that our reserve power batteries will resume growth momentum in the near future.

The threat to levy 10-25% tariff was crystallized in September 2018 by the US government, a 10% tariff was implemented to the Group's products shipped to the US market. Besides, the abnormal lead price hike also affected overseas demand of the Group's products in the second half year of 2018. With the schedule for the Vietnam reserve power factory to complete its construction and commenced to deliver products within a few months, the Group's overseas competitive strength will rapidly increase and can tackle overseas trade barrier better. Furthermore, the PRC lead price has been back to normal since January of 2019, which attracts more demand from overseas customers. Although the Group encountered a very tough business condition in 2018, we managed to grow our reserve power business in all overseas regions. The reduction of sales in Asian countries was due to underperformance of SLI batteries because of abnormal lead price hike in the PRC where these products were produced.

SLI batteries

In 2018, SLI batteries continue to be one of the major growth contributors in revenue of batteries with around RMB377.4 million sales increment. Despite China's vehicle production suffered the first fall since 1990, products delivered to auto makers and aftermarket distributors continued to enjoy around 30% growth in each area.

In January 2019, automobile sales in the PRC market estimated to drop another 15.8%, making the seventh straight month of decline in the world's largest automobile market. However, with car ownership reached 240 million units by the end of 2018 and it is widely anticipated that this will continue to rise, the PRC is set to become 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 its battery needs to be replaced as compared to 66% in 2015. The demand for SLI batteries will remain robust at the PRC market.

The Group believes that this category will continue to enjoy healthy growth in the PRC market 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 to 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.

The abnormal lead price in the PRC during the Period reduced the export demand in SLI batteries since the gap between SMM and LME lead price was widened significantly due to supply chain disruption caused by the structural reform in the PRC recycling lead industry. Unfortunately this sudden increase in the price of lead in the PRC was not able to pass to overseas customers where LME lead price is always the guiding reference for overseas selling price formation. Since January of 2019, the gap is back to normal and more or less reflect the import tax and value added tax imposed by the PRC government after taking into account conversion cost and transportation cost. However, the supply disruption of recycling lead may not be over and the price drop in the first quarter of 2019 in the PRC may only be the result of weak demand. To cope with this uncertainty, the Group's SLI factory located in Vietnam is planned to start production in the third quarter of 2019. The designed production capacity with potential expansion opportunity allows the Group to support overseas SLI business and enhance our cost efficiency and competitive power. It also benefits to release production capacity in our PRC plants for expected growth in the local market. We are confident that the overseas SLI business will be back on growing track in short term.

Motive power batteries

During the Period, the sales of motive power batteries recorded around RMB374.6 million increment and continued to be one of the major growth contributors of the Group. Batteries for electric transportation and equipment such as low-speed electric vehicles and electric forklifts continued to have the highest growth rate among the battery categories.

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 in the PRC. 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.

The proportion of forklifts sold in the PRC which is powered by electricity 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 to grow. Given the trend towards shifting to electrical powered forklifts in the rest of the World, the proportion of electrical forklifts in the PRC is bound to further increase in the PRC at a faster pace. Furthermore, driven by the combination factors of tighter environmental requirements, the rapid development of e-commerce logistics and the competitive advantage of construction machinery export, electric forklift market is expected to enter a new period of rapid growth.

Lithium batteries continue enlarging its proportion in e-bike application and might increase more rapidly than expected over the next few years. Other motive power application markets the Group concentrating on is following the trend but in a slower pace due to cost sensitive nature. However, the result depends on the lead-acid batteries revolution whether more cost effective with greater power density, lighter weight and longer lifespan can successfully be commercialized. Nevertheless, the Group is well prepared in both directions. On one side, the first lithium factory is on the way for motive power applications. On the other side, we have invested and continued working with one of the revolutionary technology company to make the commercialization of this advance lead-acid production technology.

Overseas Market

The Group is the top exporter in the PRC for lead acid battery. During the Period, overseas sales reached RMB3,373.7 million (2017: RMB3,075.5 million), a growth rate of 9.7% as compared to the corresponding period of last year. Leoch is a reputable brand at overseas markets especially at the reserve power segment. Despite the fact that the US-China trade war affected the demand in the US market, the Group managed to achieve around 7.2% growth in the region of America. Among the RMB298.2 million increment sales, around 67.1% was contributed in the first half year of 2018 while only 22.9% was incurred in the second half year of the Period. The abnormal high lead price in the PRC hindered the growth momentum at the overseas markets since most of the batteries were produced in the PRC.

With a hope that the trade war could come to end in the second quarter of 2019 and the gap between SMM and LME lead price is back to normal, overseas demand will gradually rise. Production volume in all overseas factories has been back to normal since the start of 2019 and all overseas factories are working towards its maximum designed capacity. Within second and third quarter of 2019, the Group's two largest Vietnam factories might start to deliver reserve power and SLI products. Above factors will positively increase the Group's oversea competitive power and sustain our future growth at the overseas market.

The Group has concluded that more resources should be put in to accelerate the business development and growth in Europe for the next few years. The Group will continue looking for opportunities for any business acquisition(s) in the near future.

Recycled Lead

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

In 2018, the "structural reform" with stricter regulation and more frequent environmental and safety inspections has started to squeeze out smaller operators in favour of more modern, larger plants using new technology to comply with increasingly tough emissions standards. According to January 2019 edition commodity market report published by Wood Mackenzie, larger-scale smelters with annual capacities of 100k tones of recycling lead or more are now being built instead of smaller scale smelters. In Taihe county of Anhui province, smelter with 200k tones per annum capacity was under construction in December of 2018 while smaller scale smelters with a total of around 400K tones annum capacity were demolished in March of 2018 due to environmental problems and other province like Henan and Yunnan were also affected. The short-term disruption of recycling supply caused the abnormal price hike starting in May of 2018 and peaked in June of 2018 before it gradually narrowed and backed to normal in January of 2019. The reform process will provide structure to a previously fragmented industry.

In fact, our Group's recycling joint venture factory benefited from the "structural reform" and successfully increased the allowed production capacity from 100k tones per annum to 200k tones. The Group decided to commence with the expansion of the factory's production capacity and enhance the factory's environment protection facilities in the third quarter of 2018. Base on the new production capacity, potential annual sales can reach RMB4 billion under full production and the plant is scheduled to resume full production after the expansion being completed and checked by Taihe County People's Government in the second quarter of 2019. The Group believes recycling lead business will continue to be one of the major revenue contributors with satisfactory results.

Financial Review

For the year ended 31 December 2018, the Group's revenue amounted to RMB9,544.4 million, representing a slight increase of 0.8% compared to the year ended 31 December 2017. The profit for the year amounted to RMB127.1 million for the year ended 2018 as compared to RMB271.5 million for the year ended 2017, of which the profit attributable to the owners of the parent amounted to RMB106.4 million as compared to RMB242.9 million for the corresponding period in 2017. Basic profit per share for the year ended 31 December 2018 was RMB0.08.

Revenue

The Group's revenue from battery business increased by 5.3% from RMB7,661.3 million for the year ended 31 December 2017 to RMB8,069.1 million for the year ended 31 December 2018.

The Group's revenue from recycled lead products decreased by 19.1% from RMB1,754.8 million for the year ended 31 December 2017 to RMB1,419.1 million for the year ended 31 December 2018 due to planned expansion and enhancement of production facilities, resulting in the reduction of output.

The revenue of reserve power batteries slightly decreased by 5.1% from RMB4,674.2 million for the year ended 31 December 2017 to RMB4,436.9 million for the year ended 31 December 2018. The revenue of SLI batteries increased by 17.4% from RMB2,164.7 million for the year ended 31 December 2017 to RMB2,542.1 million for the year ended 31 December 2018. The revenue of motive power batteries increased by 75.4% from RMB497.0 million for the year ended 31 December 2017 to RMB871.6 million for the year ended 31 December 2018. Details of the Group's revenue for the years ended 31 December 2018 and 2017 by category of batteries are set out below:

Product category	2018			2017	
	Revenue <i>RMB'000</i>	Percentage share	Percentage increase/ (decrease)	Revenue <i>RMB'000</i>	Percentage share
Reserve power batteries	4,436,853	46.5%	(5.1%)	4,674,185	49.4%
SLI batteries	2,542,113	26.6%	17.4%	2,164,669	22.9%
Motive power batteries	871,582	9.1%	75.4%	497,012	5.3%
Others	218,540	2.3%	(32.9%)	325,477	3.4%
Sub-total	8,069,088	84.5%	5.3%	7,661,343	81.0%
Recycling lead products	1,419,052	14.9%	(19.1%)	1,754,834	18.5%
Others	56,278	0.6%	14.2%	49,267	0.5%
Total	<u>9,544,418</u>	<u>100%</u>	<u>0.8%</u>	<u>9,465,444</u>	<u>100%</u>

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 United States, the European Union, and other secondary market while sales in the PRC and other Asian countries/areas decreased.

The Group's sales revenue in the PRC decreased by 3.4% from RMB6,389.9 million for the year ended 31 December 2017 to RMB6,170.7 million for the year ended 31 December 2018, representing 64.6% of the Group's total revenue (2017: 67.5%). This is combined result of 2.4% increase in sales of battery from RMB4,585.8 million for the year ended 31 December 2017 to RMB4,695.4 million for the year ended 31 December 2018 and 19.1% decrease in sales of recycling lead.

The Group's sales revenue in the European Union and United States increased by 20.4% and 7.2% from RMB902.9 million and RMB895.6 million for the year ended 31 December 2017 to RMB1,087.1 million and RMB960.3 million for the year ended 31 December 2018, respectively. The Group's sales revenue in other Asian countries/areas decreased by 10.3% from RMB887.5 million for the year ended 31 December 2017 to RMB796.3 million for the year ended 31 December 2018. The Group's sales revenue in other countries increased by 36.0% from RMB389.5 million for the year ended 31 December 2017 to RMB530.0 million for the year ended 31 December 2018.

The following revenue information is based on the location of the customers for the years ended 31 December 2018 and 2017:

	2018			2017	
	Revenue <i>RMB'000</i>	Percentage share	Percentage increase/ (decrease)	Revenue <i>RMB'000</i>	Percentage share
PRC	6,170,748	64.6%	(3.4%)	6,389,915	67.5%
European Union	1,087,103	11.4%	20.4%	902,930	9.5%
United States of America	960,332	10.1%	7.2%	895,555	9.5%
Other Asian countries/areas	796,309	8.3%	(10.3%)	887,497	9.4%
Other countries	529,926	5.6%	36.0%	389,547	4.1%
Total	<u>9,544,418</u>	<u>100%</u>	<u>0.8%</u>	<u>9,465,444</u>	<u>100%</u>

Cost of Sales

The Group's cost of sales increased by 2.2% from RMB8,302.9 million for the year ended 31 December 2017 to RMB8,489.4 million for the year ended 31 December 2018, mainly because of the increased lead price.

Gross Profit

The Group's gross profit decreased by 9.2% from RMB1,162.5 million for the year ended 31 December 2017 to RMB1,055.0 million for the year ended 31 December 2018. The overall gross profit margin decreased from 12.3% for the year ended 31 December 2017 to 11.1% for the year ended 31 December 2018. Both gross profit margins for battery business and lead recycling and manufacturing business decreased during the Period. The decrease in battery business was because the abnormal lead price hike in the PRC cannot be fully transferred to customers while the decrease in lead recycling and manufacturing business was mainly due to less production during the second half year of 2018.

Other Income and Gains

Other income and gains increased by 25.8% from RMB94.0 million for the year ended 31 December 2017 to RMB118.3 million for the year ended 31 December 2018 as a result of increased government grants and insurance claims received compensating the lack of exchange gains during the Period.

Selling and Distribution Expenses

The Group's selling and distribution costs increased by 11.3% from RMB367.2 million for the year ended 31 December 2017 to RMB408.7 million for the year ended 31 December 2018, primarily due to the increase in staff costs, freight charges and rental expenses as a result of the sale network expansion and an acquisition of subsidiary in the United Kingdom as well as increase in insurance expenses in order to reduce the overseas credit risks during the Period.

Administrative Expenses

The Group's administrative expenses increased slightly by 3.4% from RMB260.7 million for the year ended 31 December 2017 to RMB269.7 million for the year ended 31 December 2018, mainly due to better control over the administrative spending during the Period.

R&D Expenses

The development expenditure of the Group decreased by 22.4% from RMB143.1 million for the year ended 31 December 2017 to RMB111.0 million for the year ended 31 December 2018. The decrease in expenditure was mainly due to the fact that most of expenditure relating to development of new products carried out in 2017 were capitalized in 2018.

Other Expenses

The Group's other expenses increased from RMB34.6 million for the year ended 31 December 2017 to RMB35.3 million for the year ended 31 December 2018, which mainly comprised the foreign exchange loss of RMB28.0 million for the year ended 31 December 2018, as compared to losses caused by a fire accident on inventories and property, plant and equipment of RMB28.2 million for the year ended 31 December 2017.

Finance Costs

The Group's finance costs increased by 33.3% from RMB151.8 million for the year ended 31 December 2017 to RMB202.4 million for the year ended 31 December 2018, mainly due to the increased interest hike during the Period.

Profit before Tax

As a result of the foregoing factors, the Group recorded profit before tax of RMB143.0 million for the year ended 31 December 2018 as compared to RMB306.8 million for the year ended 31 December 2017.

Income Tax Expense

Income tax expense decreased by 55.2% from RMB35.4 million for the year ended 31 December 2017 to RMB15.8 million for the year ended 31 December 2018, mainly because assessable profits from the lead-acid battery business decreased while profit from the lead recycling and remanufacturing business was not subject to tax during the Period.

Profit for the Year

As a result of the foregoing factors, the Group recorded consolidated net profit of RMB127.1 million (2017: RMB271.5 million) for the year ended 31 December 2018, of which the Group recorded profit attributable to the owners of the parent of RMB106.4 million (2017: RMB242.9 million) for the same period.

Net Current Assets

As at 31 December 2018, the Group had net current assets of RMB718.3 million (2017: RMB209.9 million). The Group's current assets mainly consist of inventories, trade receivables, debt investments at fair value through other comprehensive income, cash and bank balances, prepayments, other receivables and other assets. 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 2018, the Group had inventories of RMB1,963.0 million (2017: RMB1,872.3 million). Inventories increased slightly as a result of strong shipments required in January of 2019.

Trade receivables

The Group's trade receivables primarily related to receivables for goods sold to its customers and mainly comprised customers from the battery business. As at 31 December 2018, the Group had trade receivables of RMB2,424.7 million (2017: RMB2,313.4 million). The slight increase in trade receivables was in line with the increase in sales from the battery business during the Period.

Prepayments, other receivables and other assets

The Group's prepayments mostly relate to the purchase of raw materials. As at 31 December 2018, the Group had prepayments, other receivables and other assets of RMB186.7 million (2017: RMB174.4 million). The slight increase in prepayments, other receivables and other assets as compared to 2017 was primarily because the Group increased its prepayments for raw materials in order to meet the expected strong production and shipment requirements in January of 2019.

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 2018, the Group had trade and bills payables of RMB2,001.7 million (2017: RMB1,665.2 million). The increase in trade and bills payables was mainly due to longer credit period granted by suppliers and more bills payables used for oversea procurement of raw material 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, contract liabilities, tax payables other than current income tax liabilities and accruals for payroll and benefits for its employees. As at 31 December 2018, the Group had other payables and accruals of RMB777.4 million (2017: RMB706.5 million), the increase was mainly due to increase in contract liabilities as a result of better credit control over oversea customers.

Capital Expenditures

During the Period, the Group invested RMB296.2 million (2017: RMB314.2 million) in property, plant and equipment for its new production facilities.

Liquidity and Financial Resources

As at 31 December 2018, the Group's net current assets amounted to RMB718.3 million (2017: RMB209.9 million), among which cash and bank deposits amounted to RMB987.4 million (2017: RMB941.2 million). As at 31 December 2018, the Group had bank borrowings of RMB2,884.1 million (2017: RMB3,013.9 million), all of which are interest-bearing. Except for borrowings of RMB712.8 million (2017: RMB109.3 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 Great Britain Pound, and the effective interest rates of which as of 31 December 2018 were 1.50% to 8.32% (2017: 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 2018, the Group's gearing ratio was 31.9% (2017: 34.9%), 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 2018 (2017: 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.

Material Acquisition and Disposal

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

EMPLOYEES

As at 31 December 2018, the Group had around 13,288 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 RMB838.6 million for the year ended 31 December 2018 (2017: RMB799.0 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

The Board recommends the payment of a final dividend of HK2.0 cents per share for the year ended 31 December 2018 (2017: Nil). The final dividend shall be payable to the shareholders of the Company (the “**Shareholders**”) whose names appear on the register of members of the Company as at the close of business on Wednesday 5 June 2019. Subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company (the “**AGM**”), the final dividend will be paid to the Shareholders on or about Friday 5 July 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed:

- (i) from Tuesday 21 May 2019, to Friday 24 May 2019, (both days inclusive (both days inclusive) for the purpose of determining Shareholders’ entitlement to attend and vote at the AGM, during which period no transfer of Shares will be registered. In order to be eligible to attending and vote 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, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration by no later than 4:30 p.m. on Monday, 20 May 2019; and

- (ii) from Monday, 3 June 2019 to Wednesday, 5 June 2019 (both days inclusive), for the purpose of determining shareholders' entitlement to receive the final dividend, during which period no transfer of Shares will be registered. In order to qualify for receiving the final dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Friday, 31 May 2019.

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 2018.

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 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 2018 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 2018 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 2018.

ANNUAL GENERAL MEETING

The AGM will be held on or about Friday, 24 May 2019. Notice of the AGM will be sent to the Shareholders in due course. The poll results of the AGM will be published 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, 22 March 2019

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