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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 842)

**ANNOUNCEMENT OF INTERIM RESULTS FOR
THE SIX MONTHS ENDED 30 JUNE 2019**

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Changes
	2019	2018	
	<i>RMB million</i>	<i>RMB million</i>	
Turnover	3,963.9	4,986.5	-20.5%
Gross profit	470.0	562.7	-16.5%
Profit for the Period	78.7	93.8	-16.1%
Profit attributable to owners of the parent	86.2	68.5	+25.8%
Basic earnings per share (<i>RMB</i>)	0.06	0.05	

INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of Leoch International Technology Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (together the “Group”) for the six months ended 30 June 2019 (the “Period”) with comparative figures for the corresponding period in the year 2018. The unaudited interim condensed consolidated financial statements have been reviewed by the auditors of the Company, Ernst & Young, and the audit committee of the Company (the “Audit Committee”).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
REVENUE	4	3,963,948	4,986,546
Cost of sales		<u>(3,493,926)</u>	<u>(4,423,819)</u>
Gross profit		470,022	562,727
Other income and gains	4	90,299	58,230
Selling and distribution expenses		(167,783)	(198,289)
Administrative expenses		(124,922)	(138,042)
Research and development costs	5	(48,115)	(63,190)
Impairment losses on financial assets		(2,594)	(6,021)
Other expenses		(10,566)	(3,250)
Finance costs	6	<u>(100,724)</u>	<u>(100,037)</u>
PROFIT BEFORE TAX	5	105,617	112,128
Income tax expense	7	<u>(26,924)</u>	<u>(18,287)</u>
PROFIT FOR THE PERIOD		<u>78,693</u>	<u>93,841</u>
Attributable to:			
Owners of the parent		86,183	68,497
Non-controlling interests		<u>(7,490)</u>	<u>25,344</u>
		<u>78,693</u>	<u>93,841</u>
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY			
HOLDERS OF THE PARENT	9		
Basic		<u>RMB0.06</u>	<u>RMB0.05</u>
Diluted		<u>RMB0.06</u>	<u>RMB0.05</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PROFIT FOR THE PERIOD	78,693	93,841
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Debt investments at fair value through other comprehensive income:		
Changes in fair value	827	–
Income tax effect	(207)	–
	620	–
Exchange differences on translation of foreign operations	4,399	2,920
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	5,019	2,920
Other comprehensive income/(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	27,128	(13,655)
Income tax effect	(6,782)	3,414
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	20,346	(10,241)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	25,365	(7,321)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	104,058	86,520
Attributable to:		
Owners of the parent	111,403	60,943
Non-controlling interests	(7,345)	25,577
	104,058	86,520

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

		30 June 2019	31 December 2018
		(Unaudited)	
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		2,094,202	2,061,137
Investment properties		372	14,239
Properties under development		–	57,863
Right-of-use assets		186,594	–
Prepaid land lease payments		–	181,989
Goodwill		10,636	10,636
Other intangible assets		643,540	615,443
Equity investments designated at fair value through other comprehensive income		164,334	137,148
Deposits paid for purchase of items of property, plant and equipment and land lease payments		144,447	145,841
Deferred tax assets		51,537	53,001
		<hr/>	<hr/>
Total non-current assets		3,295,662	3,277,297
CURRENT ASSETS			
Inventories	<i>10</i>	2,008,820	1,962,966
Completed properties held for sale		–	15,856
Trade receivables	<i>11</i>	2,166,767	2,424,654
Debt investments at fair value through other comprehensive income		156,632	164,625
Prepayments, other receivables and other assets		184,249	186,676
Financial assets at fair value through profit or loss	<i>16</i>	49,504	–
Equity investments at fair value through profit or loss		8,736	12,588
Structured bank deposits	<i>12</i>	61,551	109,866
Pledged deposits	<i>13</i>	397,134	452,216
Cash and cash equivalents	<i>13</i>	420,104	425,311
		<hr/>	<hr/>
Total current assets		5,453,497	5,754,758

		30 June 2019 (Unaudited) RMB'000	31 December 2018 RMB'000
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade and bills payables	<i>14</i>	2,124,613	2,001,708
Other payables and accruals		696,397	777,368
Interest-bearing bank borrowings	<i>15</i>	2,443,776	2,171,301
Income tax payable		90,442	86,099
Total current liabilities		<u>5,355,228</u>	<u>5,036,476</u>
NET CURRENT ASSETS		<u>98,269</u>	<u>718,282</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,393,931</u>	<u>3,995,579</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		64,560	47,681
Interest-bearing bank borrowings	<i>15</i>	44,947	712,807
Deferred government grants		58,168	61,187
Other long term payables		7,420	–
Total non-current liabilities		<u>175,095</u>	<u>821,675</u>
Net assets		<u><u>3,218,836</u></u>	<u><u>3,173,904</u></u>
EQUITY			
Equity attributable to owners of the parent			
Share capital		116,213	116,213
Reserves		<u>2,949,255</u>	<u>2,860,714</u>
		3,065,468	2,976,927
Non-controlling interests		<u>153,368</u>	<u>196,977</u>
Total equity		<u><u>3,218,836</u></u>	<u><u>3,173,904</u></u>

Notes:

1. CORPORATE INFORMATION

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

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

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and International Accounting Standards ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board (the "IASB").

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") effective as of 1 January 2019.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised IFRSs are described below:

IFRS 16 replaces IAS 17 *Leases*, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases – Incentives* and SIC-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC-Int 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, machinery and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in other payables and accruals and other long term payables.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) <i>RMB'000</i> (Unaudited)
Assets	
Increase in right-of-use assets	201,505
Decrease in prepaid land lease payments	(181,989)
Decrease in prepayments, other receivables and other assets	<u>(4,630)</u>
Increase in total assets	<u><u>14,886</u></u>
Liabilities	
Increase in other payables and accruals	3,040
Increase in other long term payables	<u>11,846</u>
Increase in total liabilities	<u><u>14,886</u></u>

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	<i>RMB'000</i> (Unaudited)
Operating lease commitments as at 31 December 2018	16,797
Weighted average incremental borrowing rate as at 1 January 2019	<u>4.75%</u>
Discounted operating lease commitments as at 1 January 2019	15,732
<i>Less:</i> Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	<u>(846)</u>
Lease liabilities as at 1 January 2019	<u><u>14,886</u></u>

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for investment properties.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within "other payables and accruals" and "other long term payables"), and the movement during the Period are as follow:

	Right-of-use assets			Sub-total	Lease liabilities
	Land	Property	Plant and machinery		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2019	186,339	14,972	194	201,505	14,886
Additions	1,480	435	–	1,915	435
Disposal of a subsidiary (note 16)	(6,076)	(143)	–	(6,219)	(155)
Acquisition of non-controlling interests	(6,561)	–	–	(6,561)	–
Depreciation charge	(1,596)	(2,543)	(43)	(4,182)	–
Interest expense	–	–	–	–	318
Exchange realignment	101	35	–	136	35
Payments	–	–	–	–	(2,822)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 June 2019	<u>173,687</u>	<u>12,756</u>	<u>151</u>	<u>186,594</u>	<u>12,697</u>

3. OPERATING SEGMENT INFORMATION

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

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

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

Information about products

An analysis of revenue by products is as follows:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Power Solutions	3,389,946	4,015,652
Recycled Lead	569,019	935,361
Others	4,983	35,533
	<u>3,963,948</u>	<u>4,986,546</u>

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China*	2,377,879	3,326,340
Europe	557,847	528,060
United States of America (the "USA")	436,440	470,014
Other Asian countries/areas	319,989	412,744
Other countries	271,793	249,388
	<u>3,963,948</u>	<u>4,986,546</u>

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

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

(b) *Non-current assets*

	30 June 2019 (Unaudited) RMB'000	31 December 2018 RMB'000
Mainland China	2,760,742	2,859,909
Others	<u>319,049</u>	<u>227,239</u>
	<u>3,079,791</u>	<u>3,087,148</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 sales to a group of entities which are known to be under common control with that customer, which accounted for 10% or more of the Group's revenue for the six months ended 30 June 2019 and 2018, is set out below:

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Customer A	<u>409,270</u>	<u>723,832</u>

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

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Revenue from contracts with customers	<u>3,963,948</u>	<u>4,986,546</u>

Disaggregated revenue information for revenue from contracts with customers

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Type of goods		
Sale of industrial products	3,958,965	4,951,013
Others	4,983	35,533
	<u>3,963,948</u>	<u>4,986,546</u>
Timing of revenue recognition		
Goods transferred at a point in time	<u>3,963,948</u>	<u>4,986,546</u>
	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Other income and gains		
Bank interest income	10,929	4,165
Government grants*	11,540	25,536
Sale of scrap materials	2,262	5,014
Dividend income from equity investments designated at fair value through other comprehensive income	2,807	–
Fair value gain from structured bank deposits	1,756	–
Rental income	1,424	571
Gain on disposal of a subsidiary (<i>note 16</i>)	56,101	–
Others	3,480	22,944
	<u>90,299</u>	<u>58,230</u>

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

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	2,965,526	3,809,362
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	349,672	374,060
Equity-settled share option expenses	1,022	3,377
Pension scheme contributions	24,635	36,233
	<u>375,329</u>	<u>413,670</u>
Amortisation of other intangible assets except for deferred development costs	8,706	9,161
Research and development costs:		
Deferred development costs amortised*	51,270	46,184
Current period expenditure	48,115	63,190
	<u>99,385</u>	<u>109,374</u>
Structured bank deposits:		
Unrealised gain	<u>(1,756)</u>	<u>–</u>
Equity investments at fair value through profit or loss:		
Unrealised loss [#]	<u>3,852</u>	<u>151</u>

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation of property, plant and equipment	116,119	124,124
Depreciation of investment properties	77	477
Depreciation of right-of-use assets/amortisation of prepaid land lease payments	4,182	2,080
Impairment of inventories*	2,771	2,627
Loss on disposal of items of property, plant and equipment, net [#]	1,156	343
Foreign exchange loss, net [#]	1,806	1,001
	<u>116,119</u>	<u>124,124</u>

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

[#] *Net fair value loss from equity investments at fair value through profit or loss, net loss on disposal of items of property, plant and equipment and net foreign exchange loss are included in "Other expenses" in the interim condensed consolidated statement of profit or loss.*

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank borrowings	75,291	73,878
Interest arising from discounted bills	25,115	26,159
Interest on lease liabilities	318	–
	<u>100,724</u>	<u>100,037</u>

7. INCOME TAX

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

	Six months ended 30 June	
	2019 (Unaudited) <i>RMB'000</i>	2018 (Unaudited) <i>RMB'000</i>
Current:		
Mainland China	6,198	9,202
Hong Kong	(3,938)	2,258
Singapore	11,980	3,648
USA	1,595	2,035
Deferred	11,089	1,144
	<hr/>	<hr/>
Total tax charged for the period	26,924	18,287
	<hr/> <hr/>	<hr/> <hr/>

8. DIVIDENDS

At the board meeting held on 22 March 2019, the Directors proposed a final dividend of HK\$2.0 cents per share for the year ended 31 December 2018 (31 December 2017: nil). Such proposed dividend totalling HK\$27,150,000 (equivalent to RMB23,884,000), was approved by the shareholders of the Company on 24 May 2019 and paid on 5 July 2019.

No dividend is proposed by the Directors for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

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

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,357,521,666 (six months ended 30 June 2018: 1,357,340,591) in issue during the Period.

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

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	<u>86,183</u>	<u>68,497</u>
	Number of shares	
	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculations	1,357,521,666	1,357,340,591
Effect of dilution – weighted average number of ordinary shares: Share options	<u>175,782</u>	<u>3,163,171</u>
	<u>1,357,697,448</u>	<u>1,360,503,762</u>

10. INVENTORIES

	30 June	31 December
	2019	2018
	(Unaudited)	
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	681,099	632,446
Work in progress	827,346	795,069
Finished goods	<u>500,375</u>	<u>535,451</u>
	<u>2,008,820</u>	<u>1,962,966</u>

11. TRADE RECEIVABLES

	30 June 2019 (Unaudited) <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
Trade receivables	2,195,382	2,450,675
Less: Impairment provision	(28,615)	(26,021)
	<u>2,166,767</u>	<u>2,424,654</u>

The Group grants different credit periods to customers. The credit period of individual customers is considered on a case-by-case basis. Certain customers are required to make partial payment before or upon delivery. The Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables of RMB257,495,000 (31 December 2018: RMB233,914,000) were under short term credit insurance and RMB20,350,000 (31 December 2018: RMB63,713,000) were under letters of credit. Trade receivables are non-interest-bearing.

As at 30 June 2019, the Group had pledged certain trade receivables amounting to RMB53,397,000 (31 December 2018: RMB31,592,000) to banks with recourse in exchange for cash. The proceeds from pledging the trade receivables of RMB45,949,000 (31 December 2018: RMB20,759,000) were accounted for as collateralised bank advances until the trade receivables were collected or the Group made good of any losses incurred by the banks (*note 15(iii)*).

An aged analysis of the trade receivables as at 30 June 2019 and 31 December 2018 based on the invoice date, net of provisions, is as follows:

	30 June 2019 (Unaudited) <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
Within 3 months	1,528,819	1,735,538
3 to 6 months	271,426	403,444
6 to 12 months	228,633	214,842
1 to 2 years	115,145	57,500
Over 2 years	22,744	13,330
	<u>2,166,767</u>	<u>2,424,654</u>

12. STRUCTURED BANK DEPOSITS

	30 June 2019 (Unaudited) RMB'000	31 December 2018 RMB'000
Structured bank deposits, in licensed banks in Mainland China:		
With floating rate, at fair value	<u>61,551</u>	<u>109,866</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 RMB1,756,000 was recognised in the interim condensed consolidated statement of profit or loss during the Period.

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2019 (Unaudited) RMB'000	31 December 2018 RMB'000
Cash and bank balances	420,104	425,311
Time deposits	<u>397,134</u>	<u>452,216</u>
	817,238	877,527
<i>Less: Pledged for interest-bearing bank borrowings (note 15(iv))</i>	(29,585)	(104,561)
Pledged for bills payable (note 14)	(313,790)	(303,714)
Pledged for letters of credit	<u>(53,759)</u>	<u>(43,941)</u>
	<u>(397,134)</u>	<u>(452,216)</u>
Cash and cash equivalents	<u>420,104</u>	<u>425,311</u>
Denominated in RMB	646,818	706,693
Denominated in US\$	137,748	134,619
Denominated in HK\$	15,287	19,511
Denominated in Malaysian Ringgit	3,451	1,597
Denominated in Indian Rupee	7,724	11,482
Denominated in Singapore Dollar	833	1,209
Denominated in Euro	4,069	1,149
Denominated in Sri Lankan Rupee	798	366
Denominated in Australia Dollar	<u>510</u>	<u>901</u>
	<u>817,238</u>	<u>877,527</u>

14. TRADE AND BILLS PAYABLES

	30 June 2019 (Unaudited) RMB'000	31 December 2018 RMB'000
Trade payables	864,084	980,460
Bills payable	<u>1,260,529</u>	<u>1,021,248</u>
	<u>2,124,613</u>	<u>2,001,708</u>

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

	30 June 2019 (Unaudited) RMB'000	31 December 2018 RMB'000
Within 3 months	976,746	937,623
3 to 6 months	580,852	390,884
6 to 12 months	541,843	632,798
1 to 2 years	20,177	36,028
2 to 3 years	2,071	1,483
Over 3 years	<u>2,924</u>	<u>2,892</u>
	<u>2,124,613</u>	<u>2,001,708</u>

The trade payables are non-interest-bearing and are normally settled on 90-day terms. All the bills payable bear maturity dates within 360 days. As at 30 June 2019, bills payable amounting to RMB530,430,000 (31 December 2018: RMB432,967,000) were issued on intercompany sales transactions within Group companies and such bills were discounted to banks for short term financing.

As at 30 June 2019, certain bills payable of the Group were secured by pledge of certain time deposits of the Group amounting to RMB313,790,000 (31 December 2018: RMB303,714,000) (*note 13*).

15. INTEREST-BEARING BANK BORROWINGS

	30 June 2019 (unaudited)			31 December 2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Interest-bearing bank borrowings, secured	1.50 to 8.65	2019-2020	925,552	1.50 to 7.53	2019	1,077,598
Collateralised bank advances, secured	2.00 to 2.40	2019-2020	45,949	2.00 to 2.40	2019	20,759
Interest-bearing bank borrowings, guaranteed	2.56 to 8.70	2019-2020	517,456	2.56 to 8.32	2019	665,727
Current portion of long term bank borrowings, guaranteed	LIBOR +2.50	2019-2020	954,819	LIBOR +2.50	2019	407,217
			2,443,776			2,171,301
Non-current						
Interest-bearing bank borrowings, secured	4.30 to 7.35	2020-2028	44,947	1.50 to 7.53	2020-2028	34,113
Interest-bearing bank borrowings, guaranteed	-	-	-	LIBOR + 2.50	2020	678,694
			44,947			712,807
			2,488,723			2,884,108

Analysed into:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 RMB'000
Bank loans and advances repayable:		
Within one year	2,443,776	2,171,301
In the second year	25,402	699,650
In the third to fifth years, inclusive	12,319	5,944
Beyond five years	7,226	7,213
	2,488,723	2,884,108

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

- (i) a charge over certain property, plant and equipment of the Group with a net carrying amount of approximately RMB763,786,000 (31 December 2018: RMB858,718,000) as at the end of the reporting period.
- (ii) a charge over certain leasehold lands of the Group with a net carrying amount of approximately RMB49,839,000 (31 December 2018: RMB50,297,000) as at the end of the reporting period.
- (iii) the pledge of certain trade receivables of the Group with a carrying amount of approximately RMB53,397,000 (31 December 2018: RMB31,592,000) as at the end of the reporting period (note 11).
- (iv) the pledge of certain time deposits of the Group amounting to approximately RMB29,585,000 (31 December 2018: RMB104,561,000) as at the end of the reporting period (note 13).
- (v) cross guarantees executed by companies within the Group.

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

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

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

As at 30 June 2019, the outstanding term loan balance under the Facility Agreement amounted to US\$140,000,000 (equivalent to RMB954,819,000), and is repayable within one year. The term loan bears interest at LIBOR+2.5% per annum.

16. DISPOSAL OF A SUBSIDIARY

Jiangsu Siting Real Estate Co., Ltd. (the “Jiangsu Siting”)

In 2014, Jiangsu Siting, a subsidiary of the Company, entered into an arrangement (the “Arrangement”) with a constructor (the “Constructor”), an independent third party, to develop a residential property project for, among others, staff quarters (the “Project”). The Constructor is responsible for the management and funding of the Project and sale of the properties after they are completed. There are certain profit sharing arrangements between Jiangsu Siting and the Constructor in accordance with the Arrangement, including that Jiangsu Siting will retain certain units of the properties (the “Properties”) upon completion of construction. The performance of the obligations of the Constructor under the Arrangement was guaranteed by an independent third party.

On 13 May 2019, Leoch Battery Technology Co., Ltd., the immediate holding company of Jiangsu Siting, entered into a share transfer agreement with the Constructor to dispose of its 100% equity interest in Jiangsu Siting for a cash consideration of RMB20,000,000 and the proceeds from future sale of the Properties. The consideration was determined by reference to the fair value of the equity interest of Jiangsu Siting disposed of as at 30 April 2019.

The carrying values of the assets and liabilities of Jiangsu Siting on the date of disposal were as follows:

	<i>RMB'000</i>
Net assets disposed of:	
Property, plant and equipment	16,823
Properties under development	66,645
Right-of-use assets	6,219
Completed properties held for sale	11,670
Prepayments, other receivables and other assets	11,061
Cash and cash equivalents	17,954
Trade and bills payables	(63,241)
Other payables and accruals	(53,045)
Income tax payable	(683)
Gain on disposal of a subsidiary	<u>56,101</u>
	<u><u>69,504</u></u>
Satisfied by:	
Cash	15,200
Other payables and accruals*	4,800
Financial assets at fair value through profit or loss [#]	<u>49,504</u>
	<u><u>69,504</u></u>

* *Out of the cash consideration of RMB20,000,000, there was an amount of RMB4,800,000 included in other payables and accruals, which was due to the Constructor by Leoch Battery Technology Co., Ltd. as at the disposal date and used to settle part of the cash consideration.*

Financial assets at fair value through profit or loss represents the right to receive the proceeds from future sale of the Properties, which was classified at initial recognition as fair value through profit or loss.

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	<i>RMB'000</i>
Cash consideration	15,200
Cash and cash equivalents disposed of	<u>(17,954)</u>
Net outflow of cash and cash equivalents in respect of disposal of a subsidiary	<u><u>(2,754)</u></u>

17. OPERATING LEASE ARRANGEMENTS

As lessor

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

As at 30 June 2019, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2019 (Unaudited) <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
Within one year	2,393	3,535
In the second to fifth years, inclusive	4,559	4,941
After five years	<u>11,423</u>	<u>11,960</u>
	<u><u>18,375</u></u>	<u><u>20,436</u></u>

18. COMMITMENTS

The Group had the following capital commitments:

		30 June 2019 (Unaudited) RMB'000	31 December 2018 RMB'000
	<i>Note</i>		
Contracted, but not provided for:			
Land and buildings		1,365	1,340
Construction of a property	<i>(i)</i>	393,044	393,044
Plant and machinery		90	814
Capital contribution for investments in equity investments designated at fair value through other comprehensive income		15,937	15,932
		410,436	411,130

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 completion of the property, it 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 or cancellation of the contract. Up to the date hereof, no agreement has been reached by the parties. As at 30 June 2019, Shenzhen Leoch Battery Technology Co., Ltd. has paid RMB98,280,000 as a deposit and partial consideration.

19. EVENT AFTER THE REPORTING PERIOD

On 19 July 2019, the Company offered to grant share options to various eligible participants under the share option scheme of the Company adopted on 14 October 2010, to subscribe for a total of 25,650,000 ordinary shares of HK\$0.1 each in the capital of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

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

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

The Group serves customers in more than 100 countries through its over 50 sales offices and centers around the world, together with its nine manufacturing facilities in China, Malaysia, Sri Lanka, India and Vietnam.

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

- **Telecom and Data Center:** Backup power solutions are used for telecommunications and data center industries.
- **Automotive:** Power solutions are used for the starting, lightening and ignition (SLI) of automobiles and motorcycles.
- **Others:** Power solutions are used for electric vehicles, electric forklifts, renewable energy storage systems, and other consumer and industrial products.

BUSINESS REVIEW

The first half of 2019 was characterized by numerous macroeconomic uncertainties including intensified US-China trade and technology tensions as well as prolonged uncertainty on Brexit. These uncertainties greatly impacted business and market confidence, weakening the global demand.

Despite soft market sentiment and demand, the Group still achieved solid performance in its Power Solutions business in the first half of 2019, with an improvement of gross profit margin which rose to 13.7% from 12.8% in the corresponding period last year.

For the six months ended 30 June 2019 (the “Period”), the Group’s revenue amounted to RMB3,963.9 million, representing a decrease of 20.5% from RMB4,986.5 million for the corresponding period in 2018.

During the Period, revenue from Power Solutions business amounted to RMB3,389.9 million, representing a decrease of 15.6% from RMB4,015.7 million for the corresponding period in 2018 while revenue from Recycled Lead business amounted to RMB569.0 million, representing a decrease of 39.2% from RMB935.4 million for the corresponding period in 2018.

Power Solutions Business

Telecom and Data Center

As the major revenue contributor to the Group, the Telecom and Data Center business accounted for 42.8% of total sales during the Period. Sales revenue of the Telecom and Data Center business in the Period was RMB1,695.9 million (six months ended 30 June 2018: RMB1,990.1 million), representing a decrease of 14.8% compared to the corresponding period last year. The decrease was mainly due to weak demand from the PRC and overseas markets during the Period.

However, the Group is encouraged to see that the growth momentum for the Telecom and Data Center business has picked up since June thanks to increasing client demands from the PRC and overseas markets.

Automotive

Automotive business, is the second largest revenue contributor to the Group. It contributed 25.9% of total sales in the Period. Sales revenue of automotive business during the Period amounted to RMB1,025.3 million (six months ended 30 June 2018: RMB1,229.0 million), representing a decrease of 16.6% compared to the corresponding period last year. The decline was attributable to the slowdown of global automotive market amid unfavorable economic conditions. According to the China Association of Automobile Manufacturers, the car sales in China fell 3.9% year on year in July for the 13th consecutive month.

Others

The revenue of this category is mainly generated from power solutions that are used for electric vehicles, electric forklifts, renewable energy storage systems, and other consumer and industrial products. During the Period, the Group recorded sales revenue of RMB668.7 million (six months ended 30 June 2018: RMB796.5 million), representing a decrease of 16.0% compared to the corresponding period last year. The decrease was mainly due to soft demand from the PRC and overseas markets during the Period.

Recycled Lead Business

Sales revenue of recycled lead products amounted to RMB569.0million (six months ended 30 June 2018: RMB935.4 million) during the Period, representing a decrease of 39.2% compared to the corresponding period last year. The recycled lead business was still affected by the production disruption of its lead recycling facility amid the expansion project which was kicked off in the third quarter of 2018. The lead recycling facility is expected to resume full operation in the fourth quarter of 2019.

FUTURE PROSPECTS

The economic and political environment remains uncertain as we enter into the second half of 2019. However, the accelerated development of 5G in China, with the issuance of 5G licenses for commercial use by China's Ministry of Industry and Information Technology (MIIT) on June 6, is expected to trigger early investment in the telecommunications sector which would definitely bring the Group new growth opportunities in the near to medium term.

Benefitting from Strong Demand of 5G Power Solutions

As a major ancillary equipment supplier of backup power solutions in the telecommunications tower infrastructure industry, the Group partners with its telecommunications customers, including operators, infrastructure service providers and equipment manufacturers, to support uninterrupted and stable operations of telecommunications equipment.

A new investment cycle for wireless infrastructure will be kicked off as China has officially entered the 5G era. It is expected to see China's total investment on 5G networks reaching USD411 billion in the period from 2020 to 2030. As 5G requires far more base stations to deliver service and connect billions of mobile and Internet of Things devices, it is expected to deploy 4.9 million 5G base stations, which is 1.3 times that of 4G, and 12 million small cells in China by 2030. In addition, the power consumption of 5G increases greatly compared to that of 4G, with a 5G base station expecting to consume approximately three times as much power as a 4G base station. Against this backdrop, the Group believes that the new 5G investment cycle will drive the growth in the size of the telecommunications backup power solution market in China, where it has a long-established leading position.

According to GSMA, 52 markets will have launched 5G networks by 2020. In addition to 5G opportunities in China, the Group is also well-positioned to benefit from the global roll-out of 5G mobile networks thanks to its extensive global sales and service network.

Eyeing a New Wave of Growth Opportunities in Data Center Market

In addition to the new 5G investment cycle in the telecommunications industry, the Group will also enjoy another solid growth driver in the data center industry, in which it has a well-established position in both Chinese and international markets. Apart from providing backup power solutions to data centers of its major Chinese telecommunications customers, the Group also helps maintain uninterrupted power supply for data centers of a broad range of industries such as Internet and Finance. Additionally, the Group serves the third party data center providers through partnerships with major international data center solution providers.

Compared with 4G, 5G has faster data speeds, lower latency, wider available spectrum, and higher connection density. It is expected that 5G will help accelerate the development of Internet of Things, big data, artificial intelligence and other technologies, driving the growth of the global data center market at an exponential rate. By 2020, the global and Chinese data center markets are expected to reach revenue of USD90 billion and USD30 billion respectively, with a 28% compound annual growth rate (“CAGR”) over the next three years. Therefore, it is expected that the backup power solutions for data centers will usher in a new wave of development opportunities. The Group believes that the increasing demands for backup power solutions in the data center market will help drive its revenue growth in the near future.

Expanding Manufacturing Capacity to Meet Ever-Increasing Worldwide Demand

To capture tremendous opportunities arising from the 5G era and meet growing demands for compelling power solutions for the current and future market needs, the Group has further expanded its manufacturing capacity both locally and overseas, with a new lithium-ion plant in China and two new lead-acid plants in Vietnam.

In view of the growing demands for lithium-ion applications in the telecommunications power solutions market in the 5G era, the Group has embarked on an investment of RMB1.2 billion in the construction of a new lithium-ion battery manufacturing facility in Anhui, China. With its designed annual production capacity of 4GWh, the new lithium-ion facility is expected to potentially contribute up to RMB5 billion annual revenue to the Group upon completion of the construction. The new facility, expected to commence operation in October 2019, will allow the Group to accelerate the development of a series of innovative 5G power solutions to meet the ongoing customer demands, seizing opportunities arising from the fast evolving telecommunications market.

As part of its global growth strategy, the Group started the construction of two new lead-acid battery manufacturing facilities in Vietnam in the fourth quarter of 2018. The new facilities are set to increase the Group’s annual production capacity by 2.4GWh, representing more than double of its current overseas production capacity. As the construction has been making good progress, the first manufacturing facility for industrial power solutions became operational in July 2019, and the second manufacturing facility for automotive power solutions is expected to commence operation in October 2019. The Group expects that the commencement of operations in Vietnam will not only reduce production costs, but also provide a hedge against various market uncertainties such as intensified US-China trade tensions and fluctuations of raw material prices in China.

In addition to expanding its manufacturing facilities for power solutions business, the Group has also invested in upgrading its lead recycling facility, increasing the annual production capacity of recycling lead from 100,000 to 200,000 tons. The operation of the lead recycling facility has been disrupted since the expansion project started in the third quarter of 2018. The facility is expected to return to full operation in October 2019, potentially contributing up to RMB4 billion annual sales of recycled lead products to the Group.

Picking Up Earnings Growth Momentum in Near Future

Looking ahead, the Group is confident in its future. With the launch of its lithium-ion plant, Vietnam's lead-acid plants and expanded lead recycling plant in the second half of 2019, the Group believes its earnings growth momentum to pick up gradually from 2020 onwards. With its clear vision to drive sustainable, profitable growth, the Group is committed to generating greater long-term value for its shareholders.

FINANCIAL REVIEW

During the Period, the Group's revenue amounted to RMB3,963.9 million, representing a decrease of 20.5% compared to the corresponding period in 2018. The profit for the Period amounted to RMB78.7 million, representing a decrease of 16.1% compared to the corresponding period in 2018, of which the profit attributable to owners of the parent amounted to RMB86.2 million, representing an increase of 25.8%. Basic and diluted earnings per share for the Period was RMB0.06.

Revenue

The Group's revenue decreased by 20.5% from RMB4,986.5 million for the six months ended 30 June 2018 to RMB3,963.9 million for the Period, of which the Group's revenue from the Power Solutions business decreased by 15.6% from RMB4,015.7 million for the six months ended 30 June 2018 to RMB3,389.9 million for the Period, while the Group's revenue from the Recycled Lead business decreased by 39.2% from RMB935.4 million to RMB569.0 million.

The revenue from the Telecom and Data Center business decreased by 14.8% from RMB1,990.1 million for the six months ended 30 June 2018 to RMB1,695.9 million for the Period. The revenue from the Automotive business during the Period decreased by 16.6% from RMB1,229.0 million for the six months ended 30 June 2018 to RMB1,025.3 million for the Period. The revenue from the “Others” category of Power Solutions business decreased by 16.0% from RMB796.5 million for the six months ended 30 June 2018 to RMB668.7 million for the Period. Details of the Group’s revenue for the six months ended 30 June 2019 and 2018 by category of Business are set out below:

Business category	Six months ended 30 June				
	2019		2018		
	Revenue		Percentage	Revenue	
	<i>RMB'000</i>	%	decrease	<i>RMB'000</i>	%
Power Solutions					
Telecom and Data Center	1,695,885	42.8%	(14.8)%	1,990,138	39.9%
Automotive	1,025,336	25.9%	(16.6)%	1,228,998	24.6%
Others	668,725	16.9%	(16.0)%	796,516	16.0%
Sub-total	3,389,946	85.6%	(15.6)%	4,015,652	80.5%
Recycled Lead	569,019	14.3%	(39.2)%	935,361	18.8%
Others	4,983	0.1%	(86.0)%	35,533	0.7%
Total	<u>3,963,948</u>	<u>100%</u>	<u>(20.5)%</u>	<u>4,986,546</u>	<u>100%</u>

Geographically, the Group’s customers are principally located in the PRC, Europe, the United States and other Asian countries/areas. The Group recorded a growth in Europe while sales in other major markets decreased.

The Group’s sales revenue in the PRC decreased by 28.5% from RMB3,326.3 million for the six months ended 30 June 2018 to RMB2,377.9 million for the Period, representing 60.0% of the Group’s total revenue (six months ended 30 June 2018: 66.7%). The decrease was partly due to weakened demand from the Power Solutions business in the PRC during the Period and partly due to the decreased production output from the Recycled Lead business amid the planned expansion and enhancement of production facilities.

The Group's sales revenue in Europe increased by 5.6% from RMB528.1 million for the six months ended 30 June 2018 to RMB557.8 million for the Period, which was mainly due to the Group's continuous marketing efforts in developing the market. The Group's sales revenue in the United States decreased by 7.1% from RMB470.0 million for the six months ended 30 June 2018 to RMB436.4 million for the Period amid the US-China trade war. The Group's sales revenue in the other Asian countries/areas decreased by 22.5% from RMB412.7 million for the six months ended 30 June 2018 to RMB320.0 million for the Period, which was mainly due to weakened market demand from the region. The Group's sales revenue in other countries increased by 9.0% from RMB249.4 million for the six months ended 30 June 2018 to RMB271.8 million for the Period as a result of increased customer base.

The following table sets forth details of the Group's revenue during the six months ended 30 June 2019 and 2018 based on the geographic locations:

	Six months ended 30 June				
	2019		2018		
	Revenue <i>RMB'000</i>	%	Percentage increase/ (decrease)	Revenue <i>RMB'000</i>	%
Mainland China	2,377,879	60.0%	(28.5)%	3,326,340	66.7%
Europe	557,847	14.1%	5.6%	528,060	10.6%
United States of America (the "USA")	436,440	11.0%	(7.1)%	470,014	9.4%
Other Asian countries/areas	319,989	8.1%	(22.5)%	412,744	8.3%
Other countries	271,793	6.8%	9.0%	249,388	5.0%
Total	<u>3,963,948</u>	<u>100%</u>	<u>(20.5)%</u>	<u>4,986,546</u>	<u>100%</u>

Cost of Sales

The Group's cost of sales decreased by 21.0% from RMB4,423.8 million for the six months ended 30 June 2018 to RMB3,493.9 million for the Period. The decrease was caused by the decline in sales.

Gross Profit

The Group's gross profit decreased by 16.5% from RMB562.7 million for the six months ended 30 June 2018 to RMB470.0 million for the Period, mainly due to weakened demand in the Power Solutions industry and the decline in the production output from the Recycled Lead business amid the planned expansion and enhancement of production facilities during the Period. The gross profit margin increased for the Power Solutions business while decreased for the Recycled Lead business, resulting in the overall gross profit margin slight increase from 11.3% for the six months ended 30 June 2018 to 11.9% for the Period. The gross profit margin increase for the Power Solutions business was mainly due to the better control of production costs while the decrease for Recycled Lead business was a result of low production output.

Other Income and Gains

Other income and gains increased by 55.1% from RMB58.2 million for the six months ended 30 June 2018 to RMB90.3 million for the Period, which was attributable to the gain on disposal of a subsidiary recognised during the Period.

Selling and Distribution Expenses

The Group's selling and distribution expenses decreased by 15.4% from RMB198.3 million for the six months ended 30 June 2018 to RMB167.8 million for the Period. Most of selling and distribution expenses occurred for the Power Solutions business and the decrease was in line with the decline in sales from that business.

Administrative Expenses

The Group's administrative expenses decreased by 9.5% from RMB138.0 million for the six months ended 30 June 2018 to RMB124.9 million for the Period, mainly due to cost control on administrative spending during the Period.

Research and Development Costs

The research and development expenditure of the Group decreased by 23.9% from RMB63.2 million for the six months ended 30 June 2018 to RMB48.1 million for the Period. The decrease in the expenditure was mainly due to the fact that most of expenditure relating to the development of new products carried out in the second half of 2018 were capitalised during the Period.

Other Expenses

The Group's other expenses increased from RMB3.3 million for the six months ended 30 June 2018 to RMB10.6 million for the Period, which was mainly due to the recognition of the fair value loss of equity investments and loss on disposal of fixed assets during the Period.

Finance Costs

The Group's finance costs was flat as compared to the six months ended 30 June 2018 mainly because the effect of interest rate hike was offset by the decreased bank borrowings during the Period.

Profit before Tax

As a result of the foregoing factors, the Group recorded profit before tax of RMB105.6 million for the Period (six months ended 30 June 2018: RMB112.1 million).

Income Tax Expenses

Income tax expenses increased by 47.2% from RMB18.3 million for the six months ended 30 June 2018 to RMB26.9 million for the Period, mainly due to the increase in profit which was subject to tax of the Group during the Period.

Profit for the Period

As a result of the foregoing factors, the Group recorded profit for the period of RMB78.7 million (six months ended 30 June 2018: RMB93.8 million) for the six months ended 30 June 2019, of which the Group recorded profit attributable to owners of the parent of RMB86.2 million (six months ended 30 June 2018: RMB68.5 million).

Liquidity and Financial Resources

As at 30 June 2019, the Group's net current assets amounted to RMB98.3 million (31 December 2018: RMB718.3 million), among which cash and bank deposit amounted to RMB878.8 million (31 December 2018: RMB987.4 million).

As at 30 June 2019, the Group had bank borrowings of RMB2,488.7 million (31 December 2018: RMB2,884.1 million), all of which are interest-bearing. Except for borrowings of RMB44.9 million which have a maturity of over 1 year, all of the Group's bank borrowings are repayable within one year. The Group's borrowings are denominated in RMB, US dollars, HK dollars and other currencies, and the effective interest rates of which as of 30 June 2019 were in the range of 1.5% to 8.7% (31 December 2018: 1.5% to 7.53%).

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

As at 30 June 2019, the Group's gearing ratio was 28.4% (31 December 2018: 31.9%), which was calculated by dividing total borrowings by total assets as at the end of each respective period, multiplied by 100%.

Risks of Exchange Rate Fluctuation

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

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2019 (31 December 2018: Nil).

Pledge of Assets

Please refer to Notes 11, 13, 14 and 15 to this announcement for details.

Capital Commitments

Please refer to Note 18 to this announcement for details.

Material Acquisition and Disposal

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

EMPLOYEES

As at 30 June 2019, the Group had 11,774 employees. Employee benefit expenses (including directors' remuneration), which comprise wages and salaries, bonuses, equity-settled share option expenses and pension scheme contributions, totalled RMB375.3 million for the Period (six months ended 30 June 2018: RMB413.7 million).

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

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the Period (six months ended 30 June 2018: Nil).

CORPORATE GOVERNANCE CODE

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

AUDIT COMMITTEE

The Audit Committee, which comprises the two independent non-executive Directors, namely, Mr. CAO Yixiong Alan (chairman of the Audit Committee) and Mr. LAU Chi kit, has reviewed the unaudited financial statements of the Company for the six months ended 30 June 2019 and discussed with the management and the auditors of the Company on the accounting principles and practices adopted by the Group and internal control, risk management and financial reporting matters.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

APPRECIATION

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

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

Hong Kong, 23 August 2019

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