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 2018

FINANCIAL HIGHLIGHTS

	2018	2017	
	RMB million	*RMB million*	**Changes**
Turnover	**4,986.5**	4,062.0	**+22.8%**
Gross profit	**562.7**	498.4	**+12.9%**
Profit for the Period	**93.8**	106.4	**–11.8%**
Profit attributable to owners of the parent	**68.5**	92.2	**–25.7%**
Basic earnings per share *(RMB)*	**0.05**	0.07	

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Leoch International Technology Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2018 with comparative figures for the corresponding period in the year 2017. 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 2018

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4*	**4,986,546**	4,062,029
Cost of sales		**(4,423,819)**	(3,563,666)
Gross profit		**562,727**	498,363
Other income and gains	*4*	**58,230**	48,522
Selling and distribution expenses		**(198,289)**	(166,847)
Administrative expenses		**(138,042)**	(117,301)
Research and development costs	*5*	**(63,190)**	(63,728)
Other expenses		**(9,271)**	(3,630)
Finance costs	*6*	**(100,037)**	(68,768)
PROFIT BEFORE TAX	*5*	**112,128**	126,611
Income tax expense	*7*	**(18,287)**	(20,232)
PROFIT FOR THE PERIOD		**93,841**	106,379
Attributable to:			
Owners of the parent		**68,497**	92,216
Non-controlling interests		**25,344**	14,163
		93,841	106,379
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic		**RMB0.05**	RMB0.07
Diluted		**RMB0.05**	RMB0.07

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
PROFIT FOR THE PERIOD	**93,841**	106,379
OTHER COMPREHENSIVE LOSS		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**–**	(10,163)
Income tax effect	**–**	2,541
	–	(7,622)
Exchange differences on translation of foreign operations	**2,920**	(1,879)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**2,920**	(9,501)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Equity instruments at fair value through other comprehensive income:		
Changes in fair value	**(13,655)**	–
Income tax effect	**3,414**	–
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	**(10,241)**	–
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(7,321)**	(9,501)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**86,520**	96,878
Attributable to:		
Owners of the parent	**60,943**	81,531
Non-controlling interests	**25,577**	15,347
	86,520	96,878

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

	Notes	**30 June 2018 (Unaudited) *RMB'000***	31 December 2017 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,089,729**	2,046,177
Investment properties		**6,029**	48,392
Properties under development		**45,504**	40,869
Prepaid land lease payments		**182,861**	154,819
Goodwill		**10,636**	8,699
Intangible assets		**531,066**	484,215
Available-for-sale investments		**–**	132,576
Equity instruments at fair value through other comprehensive income		**132,369**	–
Deposits paid for purchase of items of property, plant and equipment and land lease payments		**135,694**	85,016
Deferred tax assets		**45,639**	48,888
Total non-current assets		**3,179,527**	3,049,651
CURRENT ASSETS			
Inventories	*10*	**1,809,649**	1,872,285
Completed properties held for sale		**35,323**	44,205
Trade and bills receivables	*11*	**2,374,984**	2,526,597
Prepayments, deposits and other receivables		**171,946**	174,423
Derivative financial instruments		**–**	4,418
Equity investments at fair value through profit or loss		**12,394**	12,545
Structured bank deposits		**17,000**	–
Pledged deposits	*12*	**638,897**	540,116
Cash and cash equivalents	*12*	**553,778**	401,042
Total current assets		**5,613,971**	5,575,631

	Notes	**30 June 2018 (Unaudited)** *RMB'000*	31 December 2017 *RMB'000*
CURRENT LIABILITIES			
Trade and bills payables	*13*	**1,724,740**	1,665,247
Other payables and accruals		**643,218**	706,537
Interest-bearing bank borrowings	*14*	**2,129,267**	2,904,553
Income tax payable		**85,980**	89,406
Total current liabilities		**4,583,205**	5,365,743
NET CURRENT ASSETS		**1,030,766**	209,888
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,210,293**	3,259,539
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**51,701**	54,554
Interest-bearing bank borrowings	*14*	**967,669**	109,338
Deferred government grants		**52,180**	48,959
Total non-current liabilities		**1,071,550**	212,851
Net assets		**3,138,743**	3,046,688
EQUITY			
Equity attributable to owners of the parent			
Share capital		**116,213**	116,192
Reserves		**2,821,050**	2,760,418
		2,937,263	2,876,610
Non-controlling interests		**201,480**	170,078
Total equity		**3,138,743**	3,046,688

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

On 21 March 2018, Jingle Bells Group Limited, the immediate holding company of Master Alliance Investment Limited which is in turn wholly owned by DB International Trust (Singapore) Limited, transferred the whole ownership of Master Alliance Investment Limited to Mr. Dong Li at nil consideration. Upon completion of the ownership transfer, in the opinion of the Directors, the immediate holding company and the ultimate holding company is Master Alliance Investment Limited, which is wholly owned by Mr. Dong Li.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and International Accounting Standards ("IAS") 34 "*Interim Financial Reporting*" issued by the International Accounting Standards Board (the "IASB").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017.

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

2.2 ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective method of adoption.

(a) Sale of goods

The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

(b) Presentation and disclosure requirements

The application of IFRS 15 in the current interim period has had no material impact on the amounts and/or disclosures reported in these condensed consolidated financial statements.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment and hedge accounting.

The Group adopted IFRS 9 retrospectively with the initial application date of 1 January 2018. The Group selected not to adjust the comparative information for the period beginning 1 January 2017.

(a) Classification and measurement

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's financial assets are as follows:

Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and bills receivables, financial assets included in prepayments, deposits and other receivables and structured bank deposits with fixed interest rate.

Other financial assets are classified and subsequently measured, as follows:

Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's unquoted equity instruments were classified as available-for-sale (AFS) investments. Under IAS 39, the Group's unquoted equity investments with a carrying amount of RMB9,748,000 were measured at cost as at 31 December 2017, and the Group's unquoted equity investments with a carrying amount of RMB122,828,000 were measured at fair value as at 31 December 2017. These equity investments are classified as equity instruments at FVOCI under IFRS 9 by the Group as at 1 January 2018, resulting in an increase in equity instruments at FVOCI amounting to RMB132,576,000.

Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI.

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and bills receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are one year past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to retained profits.

The statement of financial position as at 1 January 2018 was restated, resulting in decreases in trade and bills receivables, deferred tax assets and retained profits amounting to RMB1,686,000, RMB422,000, and RMB1,264,000, respectively.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 *Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 28 *Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

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

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

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

Information about products

An analysis of revenue by products is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Lead-acid batteries	**4,015,652**	3,339,858
Recycled lead products	**970,894**	722,171
	4,986,546	4,062,029

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China*	**3,326,340**	2,601,751
European Union	**528,060**	420,068
United States of America (the "USA")	**470,014**	422,775
Other Asian countries/areas	**412,744**	359,646
Other countries	**249,388**	257,789
	4,986,546	4,062,029

* *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 are from sale of goods, which is recognised when the goods are transferred at a point in time.

(b) Non-current assets

	30 June	31 December
	2018	2017
	(Unaudited)	
	RMB'000	*RMB'000*
Mainland China	**2,785,819**	2,709,583
Others	**215,700**	158,604
	3,001,519	2,868,187

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 2018 and 2017, is set out below:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Customer A	**723,832**	445,554
Customer B	**187,451**	488,466
	911,283	934,020

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

4. REVENUE, OTHER INCOME AND GAINS

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**4,986,546**	4,062,029

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Other income and gains		
Bank interest income	**4,165**	6,795
Government grants*	**25,536**	5,618
Dividend income from an available-for-sale investment	**–**	1,301
Sale of scrap materials	**5,014**	3,813
Foreign exchange gain, net	**–**	15,060
Reversal of impairment of trade receivables	**–**	10,035
Fair value gain from derivative financial instruments, net	**–**	1,283
Rental income	**571**	2,051
Gain on bargain purchase	**–**	880
Others^	**22,944**	1,686
	58,230	48,522

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

^ *Others include insurance claim received and receivable 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.*

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cost of inventories sold	**3,809,362**	3,063,224
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	**374,060**	331,378
Equity-settled share option expenses	**3,377**	2,874
Pension scheme contributions	**36,233**	33,163
	413,670	367,415
Amortisation of other intangible assets except for deferred development costs	**9,161**	7,528
Research and development costs:		
Deferred development costs amortised*	**46,184**	33,633
Current period expenditure	**63,190**	63,728
	109,374	97,361
Derivative financial instruments:		
Unrealised loss	**–**	90
Realised loss/(gain)	**145**	(1,373)
Fair value loss/(gain) from derivative financial instruments, net#	**145**	(1,283)
Equity investments at fair value through profit or loss:		
Unrealised loss#	**151**	550

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**124,124**	111,129
Depreciation of investment properties	**477**	685
Amortisation of prepaid land lease payments	**2,080**	1,687
Impairment/(reversal of impairment) of trade receivables#	**6,021**	(10,035)
Impairment/(reversal of impairment) of inventories*	**2,627**	(2,308)
Loss on disposal of items of property, plant and equipment, net#	**343**	31
Loss on remeasurement of the previously held interest in an associate	**–**	2,064
Foreign exchange loss/(gain), net#	**1,001**	(15,060)
Minimum lease payments under operating leases	**6,696**	5,034

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

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

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest on bank borrowings	**73,878**	53,034
Interest arising from discounted bills	**26,159**	15,734
	100,037	68,768

7. INCOME TAX

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current:		
Mainland China	**9,164**	11,372
Hong Kong	**2,258**	1,976
Singapore	**3,648**	5,847
USA	**2,035**	664
Others	**38**	–
Deferred	**1,144**	373
Total tax charged for the period	**18,287**	20,232

8. DIVIDENDS

No dividend is proposed by the directors of the Company for the six months ended 30 June 2018 (six months ended 30 June 2017: 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 1,357,340,591 (six months ended 30 June 2017: 1,354,746,120) 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	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**68,497**	92,216

	Number of shares	
	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculations	**1,357,340,591**	1,354,746,120
Effect of dilution – weighted average number of ordinary shares:		
Share options	**3,163,171**	5,394,400
	1,360,503,762	1,360,140,520

10. INVENTORIES

	30 June	31 December
	2018	2017
	(Unaudited)	
	RMB'000	*RMB'000*
Raw materials	**449,578**	445,494
Work in progress	**684,608**	1,008,957
Finished goods	**675,463**	417,834
	1,809,649	1,872,285

11. TRADE AND BILLS RECEIVABLES

	30 June 2018 (Unaudited) *RMB'000*	31 December 2017 *RMB'000*
Trade receivables	**2,217,598**	2,343,791
Bills receivable	**195,446**	213,159
Less: Impairment provision	**(38,060)**	(30,353)
	2,374,984	2,526,597

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 RMB258,038,000 (31 December 2017: RMB261,715,000) were under short term credit insurance and RMB29,826,000 (31 December 2017: RMB71,912,000) were under letters of credit. Trade receivables are non-interest-bearing.

As at 30 June 2018, the Group had pledged certain trade receivables amounting to RMB67,404,000 (31 December 2017: RMB61,467,000) to banks with recourse in exchange for cash. The proceeds from pledging the trade receivables of RMB22,681,000 (31 December 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 *(note 14(iii))*.

An aged analysis of the trade and bills receivables as at 30 June 2018 and 31 December 2017 based on the invoice date, net of provisions, is as follows:

	30 June 2018 (Unaudited) *RMB'000*	31 December 2017 *RMB'000*
Within 3 months	**1,716,168**	1,862,076
3 to 6 months	**351,410**	405,764
6 to 12 months	**261,591**	202,361
1 to 2 years	**40,482**	53,181
Over 2 years	**5,333**	3,215
	2,374,984	2,526,597

12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2018 (Unaudited) *RMB'000*	31 December 2017 *RMB'000*
Cash and bank balances	**553,778**	401,042
Time deposits	**638,897**	540,116
	1,192,675	941,158
Less: Pledged for interest-bearing bank borrowings *(note 14(iv))*	**(208,997)**	(179,899)
Pledged for bills payable *(note 13)*	**(336,397)**	(260,099)
Pledged for letters of credit	**(93,503)**	(100,118)
	(638,897)	(540,116)
Cash and cash equivalents	**553,778**	401,042
Denominated in RMB	**990,602**	755,673
Denominated in US$	**159,768**	155,742
Denominated in Swiss Franc	**19,348**	–
Denominated in HK$	**10,511**	19,201
Denominated in Malaysian Ringgit	**8,547**	4,146
Denominated in Indian Rupee	**2,611**	3,207
Denominated in Singapore Dollar	**338**	618
Denominated in Euro	**334**	66
Denominated in Great Britain Pound	**273**	–
Denominated in Sri Lankan Rupee	**202**	88
Denominated in Australia Dollar	**141**	2,417
	1,192,675	941,158

13. TRADE AND BILLS PAYABLES

	30 June 2018 (Unaudited) *RMB'000*	31 December 2017 *RMB'000*
Trade payables	**812,958**	803,985
Bills payable	**911,782**	861,262
	1,724,740	1,665,247

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 2018 (Unaudited) *RMB'000*	31 December 2017 *RMB'000*
Within 3 months	**843,157**	702,362
3 to 6 months	**264,829**	364,800
6 to 12 months	**593,916**	582,439
1 to 2 years	**19,926**	12,266
2 to 3 years	**921**	898
Over 3 years	**1,991**	2,482
	1,724,740	1,665,247

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 2018, bills payable amounting to RMB646,677,000 (31 December 2017: RMB745,450,000) were issued on intercompany sales transactions within Group companies and such bills were discounted to banks for short term financing.

As at 30 June 2018, certain of the Group's bills payable were secured by pledge of certain of the Group's time deposits amounting to RMB336,397,000 (31 December 2017: RMB260,099,000) *(note 12)*.

14. INTEREST-BEARING BANK BORROWINGS

	30 June 2018 (unaudited)			31 December 2017		
	Effective interest rate *(%)*	**Maturity**	***RMB'000***	Effective interest rate *(%)*	Maturity	*RMB'000*
Current						
Interest-bearing bank borrowings, secured	**1.50 to 7.53**	**2018-2019**	**1,313,935**	1.50 to 7.53	2018	1,175,362
Collateralised bank advances, secured	**2.40 to 3.50**	**2018-2019**	**22,681**	2.00 to 2.40	2018	37,279
Interest-bearing bank borrowings, guaranteed	**3.55 to 5.66**	**2018-2019**	**531,581**	2.87 to 5.22	2018	405,401
Current portion of long term bank borrowings, guaranteed	**LIBOR +2.50**	**2019**	**261,070**	LIBOR +2.50	on demand	1,286,511
			2,129,267			2,904,553
Non-current						
Interest-bearing bank borrowings, secured	**1.50 to 7.53**	**2019-2028**	**53,925**	1.50 to 7.53	2019-2028	81,338
Interest-bearing bank borrowings, guaranteed	**LIBOR +2.50**	**2019-2020**	**913,744**	4.89	2019	28,000
			967,669			109,338
			3,096,936			3,013,891

Analysed into:

	30 June 2018 (Unaudited) *RMB'000*	31 December 2017 *RMB'000*
Bank loans and advances repayable:		
On demand	**–**	1,286,511
Within one year	**2,129,267**	1,618,042
In the second year	**950,544**	71,687
In the third to fifth years, inclusive	**7,338**	28,371
Beyond five years	**9,787**	9,280
	3,096,936	3,013,891

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

(i) a charge over certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB786,347,000 (31 December 2017: RMB747,778,000) as at the end of the reporting period.

(ii) a charge over certain of the Group's leasehold lands with a net carrying amount of approximately RMB50,744,000 (31 December 2017: RMB50,094,000) as at the end of the reporting period.

(iii) the pledge of certain of the Group's trade receivables with a carrying amount of approximately RMB67,404,000 (31 December 2017: RMB61,467,000) as at the end of the reporting period *(note 11)*.

(iv) the pledge of certain of the Group's time deposits amounting to approximately RMB208,997,000 (31 December 2017: RMB179,899,000) as at the end of the reporting period *(note 12)*.

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

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

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

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

As at 30 June 2018, the outstanding term loan balance under the Facility Agreement amounted to US$180,000,000 (equivalent to RMB1,174,814,000), of which, RMB261,070,000 and RMB913,744,000 are repayable within 1 year and in the second year, respectively. The term loan bears interest at LIBOR+2.5% per annum.

15. ACQUISITION OF A SUBSIDIARY

DBS Leoch Limited

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 40% of the 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 interest's 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 *RMB'000*
Property, plant and equipment	693
Other intangible assets except for customer relationship	132
Customer relationship	16,246
Inventories	4,549
Trade and bills receivables	13,180
Prepayments, deposits and other receivables	722
Cash and cash equivalents	171
Trade and bills payables	(23,411)
Other payables and accruals	(249)
Deferred tax liabilities	(3,087)

	Fair value recognised on acquisition
	RMB'000
Total identifiable net assets at fair value	8,946
Non-controlling interests	(3,578)
	5,368
Goodwill on acquisition	1,937
	7,305
Satisfied by:	
Fair value of 40% equity interests in LDBS	7,305

An analysis of the cash flows for the year ended 30 June 2018 in respect of the acquisition of a subsidiary is as follows:

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

Since the acquisition, DBSL contributed RMB32,057,000 to the Group's turnover and net loss of RMB2,757,000 to the consolidated profit for the period ended 30 June 2018.

Had the combination taken place at the beginning of the period, the revenue and the profit of the Group for the period would have been RMB4,989,395,000 and RMB93,763,000, respectively.

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

	30 June 2018 (Unaudited)	31 December 2017
	RMB'000	*RMB'000*
Within one year	**1,344**	1,161
In the second to fifth years, inclusive	**2,104**	2,220
After five years	**3,738**	3,774
	7,186	7,155

(b) As lessee

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

As at 30 June 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 (Unaudited)	31 December 2017
	RMB'000	*RMB'000*
Within one year	**3,026**	4,847
In the second to fifth years, inclusive	**585**	995
	3,611	5,842

17. COMMITMENTS

In addition to the operating lease commitments as set out in note 16 (b) above, the Group had the following capital commitments:

	Note	**30 June 2018 (Unaudited) *RMB'000***	31 December 2017 *RMB'000*
Contracted, but not provided for:			
Land and buildings		**4,420**	17,727
Construction of a property	*(i)*	**393,044**	442,174
Plant and machinery		**3,135**	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		**25,808**	–
Acquisition of a subsidiary		**–**	18,524
		426,407	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. As at 30 June 2018, Shenzhen Leoch Battery had paid an amount of RMB98,260,000 of the consideration.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a vertically integrated enterprise primarily engaged in the development, sale and manufacture of lead-acid batteries and other related items. It is one of the leading manufacturers and exporters of lead-acid batteries in the PRC. The Group sells over 2,000 models of lead-acid battery products, with a capacity ranging from 0.251 Ah to 4,055 Ah. Among the battery manufacturers in the PRC, the Group offers one of the broadest lines of lead-acid battery products. It further expanded to lead recycling and remanufacturing business upon the completion of the acquisition 60% of the registered capital of Taihe Dahua Energy Technology Co., Ltd on 9 January 2017.

For the six months ended 30 June 2018 (the "Period"), the Group's revenue amounted to RMB4,986.5 million, representing an increase of 22.8% from RMB4,062.0 million for the corresponding period in 2017.

During the Period, revenue from batteries and related items amounted to RMB4,015.7 million, representing an increase of 20.2% from RMB3,339.9 million for the corresponding period in 2017 while revenue from recycled lead products amounted to RMB970.9 million, representing an increase of 34.4% from RMB722.2 million for the corresponding period in 2017. Since the price linkage mechanism will pass raw material price fluctuation to customers, the growth in revenue was driven partly by the increase in average lead price as compared with the corresponding period in 2017. The growth rate of battery volume delivered in terms of ton was slightly above 14.0% as compared to the corresponding period last year.

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

Reserve power batteries

Reserve power batteries category is one of the major revenue contributors of the Group. The Group's sales of reserve power batteries during the Period amounted to RMB2,261.9 million (six months ended 30 June 2017: RMB2,115.9 million), representing an increase of 6.9% as compared to the same period of last year. Delivery records revealed that goods being delivered for this category in terms of ton were flat as compared to the same period of last year.

The increase in volume delivered in Uninterruptible Power Supplies ("UPS") application batteries in China and export business overcome the reduction in other application batteries in the PRC. This was contributed by our sales and marketing efforts to expand our PRC market share in the UPS application areas, the expansion of sales companies in the European countries and a satisfactory growth in the Asian and the American regions. The Group will put in more resources in the European region and continue penetrate the PRC UPS market.

SLI batteries

SLI batteries category has became one of the major revenue contributors of the Group since 2017 and used mainly in starting up automobiles and motorcycles. The Group's sales of SLI batteries during the Period amounted to RMB1,229.0 million (six months ended 30 June 2017: RMB912.3 million), representing an increase of 34.7% as compared to the same period of last year.

Delivery record revealed that goods being delivered in terms of ton for automobiles and motorcycles applications increased by around 37.1% and 3.4% respectively during the Period as compared to the same period of last year. This category enjoys a healthy growth rate mainly due to the prevailing favorable business environment for SLI batteries and our sales and marketing continuously efforts in enlarging customer bases and building solid distribution networks in the PRC. The Group will continue putting in sufficient resources in areas like research and development ("R&D"), production, product quality, sales and marketing to further penetrate the PRC market.

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 recorded sales revenue of RMB429.2 million (six months ended 30 June 2017: RMB221.3 million), representing an increase of 93.9% as compared to the same period of last year.

Delivery record revealed that goods being delivered for this category in terms of ton increased by around 74.9% during the Period as compared to the same period of last year. This remarkable result was contributed by the substantial increase in sales of batteries 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 RMB970.9 million (six months ended 30 June 2017: RMB722.2 million) during the Period, representing an increase of 34.4% as compared to the same period of last year. The synergy effect created allow battery factories to act as a constant source of supply of disposed batteries to the refining plant and the refining plant can effectively utilise its product capacity and maintain a relatively high level sales during the Period with battery factories in support by absorbing more recycled products especially during low seasons.

Sales network

The Group distributes its products to more than 100 countries and regions across the world. The Group's regional sales centres are located in Beijing, Shenzhen, Zhaoqing, Nanjing, Hong Kong, Singapore and other ASEAN countries, India, Sri Lanka, Malaysia, Australia, the United States and the European Union including the United Kingdom and together with 39 domestic sales centres across the PRC. As at 30 June 2018, the Group has over 750 dedicated sales and after-sales employees. The Group will continue expanding its sales teams and marketing network in the PRC and overseas to support the sales, distribution, and after-sales services for all categories of battery products of the Group.

The acquisition of 60% stake in DBS Energy Limited, a UK batteries distributor, was completed on 16 January 2018. On 22 February 2018, Leoch Nordeuropa GmbH, a wholly owned trading company of the Group, was established in Germany. In the third quarter of 2018 or later, a wholly owned trading company will be established in Italy and registration is in process. The Group believes that above setups will further strengthen our position in Europe and pave a solid path for our business plan to accelerate growth in those European countries in the near future.

Research and development 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 343 patents and 134 other proprietary technologies are in the process of patent applications.

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

Production bases

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 recycling lead factory in the PRC with a total site area of approximately 968,000 square meters ("sq.m."). As at 30 June 2018, the Group had battery capacity of 21.6 million KVAh (30 June 2017: 20.7 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.

On 4 April 2018, the Group signed a share purchase agreement to acquire the 49% stake in Leoch Trontek Battery Private Limited (the "LTB"), a joint venture production base in India, from the joint venture partner. Such acquisition did not constitute a notifiable or connected transaction of the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). On 10 April 2018, the transaction was completed and LTB became a 100% wholly owned subsidiary of the Group. The Group is planning to expand the manufacturing capability and capacity of LTB in the second half year of 2018. The construction of the two factories in Vietnam will be started the earliest in October 2018 in order to bypass the rainy season.

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 RMB18,520 to RMB20,514 during the Period, representing a change within the range of -2.4% 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 remained high during the Period due to reduction in supply of recycling lead in the PRC market but the trend shows sign of reverse starting in July 2018.

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

Future Prospects

During the Period, the Group continues to drive business growth in the PRC and overseas. Among the RMB675.8 million (six months ended 30 June 2017: RMB513.5 million) increment in sales revenue of batteries, 70.3% (six months ended 30 June 2017: 36.0%) was contributed from the PRC. Together with the increment in sales of recycled lead amounted to RMB248.7 million (six months ended 30 June 2017: RMB722.1 million), the PRC share of the Group's turnover for the Period increased to 66.7% (six months ended 30 June 2017: 64.1%). The Group believes that the turnover will continue to be higher in the PRC than overseas in next few years.

The Group anticipates that our business will sustain the growth momentum in the PRC and overseas markets. However, there are also challenges ahead and below is our view and action plans:

Reserve power batteries

During the Period, reserve power batteries contributed 21.6% of total growth in revenue of batteries. In the PRC, volume delivered to UPS market increased by more than two times.

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

Due to the possible threat to levy 10-25% tariff in September 2018 by the US government, US sales ramp up faster during the Period. To deal with the intense competition and trade barrier in overseas markets, the Group has started our overseas production capacity expansion plan in Vietnam to fulfill part of the demand from other countries and enhance our cost competitiveness in the future. The Group has started to increase the production capacity of our current overseas factories till the end of 2018 to tackle the possible trade barriers imposed by the US government.

Although the other consumer product application does not perform very well during the Period, the Group always has a solid and strong position in this area and we are confident that we can restore the growth momentum in the near future.

In the medium term, further upgrade and development of the 5G network will provide additional boost to the demand for telecommunications batteries. The Group will continue solidifying our leading position in this area aiming to benefit from the growth in telecommunication application area in the PRC. To cope with product diversification, the Group had put in large amount of resources in the last few years on the development of lithium batteries to cover all application areas in reserve and motive power with priority on telecommunication area. Construction of the first phase of lithium batteries factory will start in the second half of 2018.

SLI batteries

During the Period, SLI batteries contributed 46.9% of total growth in revenue of batteries. In the PRC, volume delivered to auto makers and aftermarket distributors continue to enjoy satisfactory growth. The Group believes that this category will continue enjoying high growth rate mainly due to the prevailing favorable business environment for SLI batteries in the PRC. Sufficient resources will be put in to continue enlarging our customer bases and penetrate the market. Areas like R&D, production, product quality, sales and marketing including distribution network will be enhanced. The Group is determined and working towards becoming one of the top suppliers of SLI batteries in the PRC.

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

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

Motive power batteries

During the Period, motive power batteries contributed 30.8% of total growth in revenue of batteries and maintained the highest growth rate among the batteries categories. The Group is confident that this category will continue growing at high speed.

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

The demand for motive power batteries has been propelled by the extensive promotion and application of the batteries in electric transportation and equipment such as low-speed electric vehicles and electric forklifts.

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

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

Overseas Market

The Group is the top exporter in the PRC for lead-acid battery. During the Period, overseas sales reached RMB1,660.2 million (six months ended 30 June 2017: RMB1,460.3 million), a growth rate of 13.7% as compared to the corresponding period of last year. Leoch is a reputable brand in overseas markets especially in the reserve power segment. More resources will be put in to maintain the growth momentum in 2018.

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. During the Period, a wholly owned trading company of the Group was established in Germany and another one will be established in Italy in the second half of 2018. The Group will look for opportunity for any business acquisition(s) in the near future.

Recycled Lead

The acquisition of 60% stake in Taihe Dahua Energy Technology Co. Ltd. provides the Group with a tremendous opportunity to enter the lead recycling industry and the results were growing during the Period as compared to corresponding period of last year. Moving forward, expansion to further increase the production capacity has been planned for 2018 and 2019. We believe the size of our recycling business will continue to grow at a high compound average growth rate in the next 2-3 years.

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

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

FINANCIAL REVIEW

During the Period, the Group's revenue amounted to RMB4,986.5 million, representing an increase of 22.8% compared to the same period in 2017. The profit for the Period amounted to RMB93.8 million, representing a decrease of 11.8% compared to the same period in 2017, of which the profit attributable to owners of the parent amounted to RMB68.5 million, representing a decrease of 25.7%. Basic and diluted earnings per share for the Period was RMB0.05.

Revenue

The Group's revenue increased by 22.8% from RMB4,062.0 million for the six months ended 30 June 2017 to RMB4,986.5 million for the Period, of which the Group's revenue from battery business increased by 20.2% from RMB3,339.9 million for the six months ended 30 June 2017 to RMB4,015.7 million for the Period, while the Group's revenue from the lead recycling and remanufacturing business increased by 34.4% from RMB722.2 million to RMB970.9 million as a result of high market demand.

The revenue of reserve power batteries slightly increased by 6.9% from RMB2,115.9 million for the six months ended 30 June 2017 to RMB2,261.9 million for the Period, as a result of strong market demand of UPS batteries compensating for a plunge in market demand of telecommunication batteries. The revenue of SLI batteries during the Period increased by 34.7% from RMB912.3 million for the six months ended 30 June 2017 to RMB1,229.0 million for the Period, which was primarily attributable to the strong market demand from the auto battery market in the PRC. The revenue of motive power batteries increased by 93.9% from RMB221.3 million for the six months ended 30 June 2017 to RMB429.2 million for the Period, which was mainly attributable to the continuing penetration into the market and increased sales of batteries used by electric vehicles and forklifts. Details of the Group's revenue for the six months ended 30 June 2018 and 2017 by category of batteries are set out below:

	Six months ended 30 June				
	2018			2017	
Product category	**Revenue**		**Percentage increase**	Revenue	
	RMB'000	*%*		*RMB'000*	*%*
Lead-acid batteries:					
Reserve power batteries	**2,261,871**	**45.4%**	**6.9%**	2,115,890	52.1%
SLI batteries	**1,228,998**	**24.6%**	**34.7%**	912,336	22.5%
Motive power batteries	**429,215**	**8.6%**	**93.9%**	221,322	5.4%
Others	**95,568**	**1.9%**	**5.8%**	90,310	2.2%
Sub-total	**4,015,652**	**80.5%**	**20.2%**	3,339,858	82.2%
Recycled lead products	**970,894**	**19.5%**	**34.4%**	722,171	17.8%
Total	**4,986,546**	**100%**	**22.8%**	4,062,029	100%

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

The Group’s sales revenue in the PRC increased by 27.9% from RMB2,601.8 million for the six months ended 30 June 2017 to RMB3,326.3 million for the Period, representing 66.7% of the Group’s total revenue (six months ended 30 June 2017: 64.1%). The increase was principally due to the strong market demand on SLI batteries from the auto battery market in the PRC, the penetration into the motive battery market and the high demand from the lead recycling and remanufacturing business in the PRC during the Period.

The Group’s sales revenue in the United States and European Union increased by 11.2% and 25.7% from RMB422.8 million and RMB420.1 million for the six months ended 30 June 2017 to RMB470.0 million and RMB528.1 million for the Period, respectively, which was mainly due to the Group’s continuously marketing efforts in developing the United States of America and European Union markets. The Group’s sales revenue in the other Asian countries/areas increased by 14.8% from RMB359.6 million for the six months ended 30 June 2017 to RMB412.7 million for the Period as the Group continuously built up the sale teams of southeast Asia and India and stepped up the sale effort in the region during the Period. The Group’s sales revenue in other countries slightly decreased by 3.3% from RMB257.8 million for the six months ended 30 June 2017 to RMB249.4 million for the six months ended 30 June 2018 as a result of unfavorable economic performance in the region during the Period.

The following table sets forth details of the Group's revenue during the six months ended 30 June 2018 and 2017 based on the geographic locations:

	Six months ended 30 June				
	2018			2017	
	Revenue		**Percentage increase/ (decrease)**	Revenue	
	RMB'000	*%*		*RMB'000*	*%*
Mainland China	**3,326,340**	**66.7%**	**27.9%**	2,601,751	64.1%
European Union	**528,060**	**10.6%**	**25.7%**	420,068	10.3%
United States of America (the "USA")	**470,014**	**9.4%**	**11.2%**	422,775	10.4%
Other Asian countries/areas	**412,744**	**8.3%**	**14.8%**	359,646	8.9%
Other countries	**249,388**	**5.0%**	**(3.3)%**	257,789	6.3%
Total	**4,986,546**	**100%**	**22.8%**	4,062,029	100%

Cost of Sales

The Group's cost of sales increased by 24.1% from RMB3,563.7 million for the six months ended 30 June 2017 to RMB4,423.8 million for the Period, mainly because of the increased sales volume and lead price.

Gross Profit

The Group's gross profit increased by 12.9% from RMB498.4 million for the six months ended 30 June 2017 to RMB562.7 million for the Period, mainly attributable to the strong market demand on the SLI batteries and the contribution from the lead recycling and manufacturing business during the Period. Although the gross profit margin remained stable for the lead recycling and manufacturing business, the overall gross profit margin decreased from 12.3% for the six months ended 30 June 2017 to 11.3% for the Period. The decrease was partly because the lead price hike cannot be fully transferred to customers and partly due to the time lag of the quarterly price adjustment.

Other Income and Gains

Other income and gains increased by 20.0% from RMB48.5 million for the six months ended 30 June 2017 to RMB58.2 million for the Period, which was primarily due to the insurance coverage from the loss caused by a fire accident in a Malaysian factory at the end of 2017 and the significantly increased government grants during the Period.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by 18.9% from RMB166.8 million for the six months ended 30 June 2017 to RMB198.3 million for the Period, primarily due to the significantly increased freight charges as a result of the increased sales in the SLI and motive power battery.

Administrative Expenses

The Group's administrative expenses increased by 17.7% from RMB117.3 million for the six months ended 30 June 2017 to RMB138.0 million for the Period, mainly due to the increased staff costs during the Period.

Research and Development Costs

The research and development expenditure of the Group was flat as compared to the six months ended 30 June 2017. The Group has been committed to the performance enhancement of existing products and development of new products in all categories.

Other Expenses

The Group's other expenses increased from RMB3.6 million for the six months ended 30 June 2017 to RMB9.3 million for the Period, which was mainly due to the recognition of the impairment loss of trade receivables and the exchange loss during the Period.

Finance Costs

The Group's finance costs increased by 45.5% from RMB68.8 million for the six months ended 30 June 2017 to RMB100.0 million for the Period, mainly due to the increased bank borrowings and interest rates during the Period.

Profit before Tax

As a result of the foregoing factors, the Group recorded profit before tax of RMB112.1 million for the Period (six months ended 30 June 2017: RMB126.6 million).

Income Tax Expenses

Income tax expenses decreased by 9.6% from RMB20.2 million for the six months ended 30 June 2017 to RMB18.3 million for the Period, mainly due to the decrease in profit which was subject to tax of the Group during the Period.

Profit for the Period

As a result of the foregoing factors, the Group recorded consolidated net profit of RMB93.8 million (six months ended 30 June 2017: RMB106.4 million) for the six months ended 30 June 2018, of which the Group recorded profit attributable to owners of the parent of RMB68.5 million (six months ended 30 June 2017: RMB92.2 million) for the same period.

Liquidity and Financial Resources

As at 30 June 2018, the Group's net current assets amounted to RMB1,030.8 million (31 December 2017: RMB209.9 million), among which cash and bank deposit amounted to RMB1,192.7 million (31 December 2017: RMB941.2 million).

As at 30 June 2018, the Group had bank borrowings of RMB3,096.9 million (31 December 2017: RMB3,013.9 million), all of which are interest-bearing. Except for borrowings of RMB967.7 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 2018 were in the range of 1.5% to 7.53% (31 December 2017: 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 2018, the Group's gearing ratio was 35.2% (31 December 2017: 34.9%), 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 2018 (31 December 2017: Nil).

Pledge of Assets

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

Capital Commitments

Please refer to Note 17 to this announcement for details.

Material Acquisition and Disposal

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

EMPLOYEES

As at 30 June 2018, the Group had 12,484 employees. Employee benefit expenses (including directors' remuneration), which comprise wages and salaries, bonuses, equity-settled share option expenses and pension scheme contributions, totalled RMB413.7 million for the Period (six months ended 30 June 2017: RMB367.4 million).

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

INTERIM DIVIDEND

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

CORPORATE GOVERNANCE CODE

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

AUDIT COMMITTEE

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

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

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

APPRECIATION

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

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

Hong Kong, 24 August 2018

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