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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 842)

ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018	
	<i>RMB million</i>	<i>RMB million</i>	Changes
Turnover	8,362.7	9,544.4	-12.4%
Gross profit	1,015.4	1,055.0	-3.8%
Profit for the year	127.5	127.1	+0.3%
Profit attributable to owners of the parent	132.6	106.4	+24.6%
Basic earnings per share (<i>RMB</i>)	0.10	0.08	+25.0%
Proposed final dividend per share (<i>HK cents</i>)	2.0	2.0	0.0%

ANNUAL RESULTS

The board of directors (the “**Board**”) of the Leoch International Technology Limited (“**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2019 together with the comparative figures for the previous year. The Company’s audit committee (the “**Audit Committee**”) has reviewed the results and the financial statements of the Group for the year ended 31 December 2019 prior to recommending them to the Board for approval.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	<i>Notes</i>	2019 <i>RMB’000</i>	2018 <i>RMB’000</i>
REVENUE	4	8,362,722	9,544,418
Cost of sales		<u>(7,347,336)</u>	<u>(8,489,396)</u>
Gross profit		1,015,386	1,055,022
Other income and gains	4	173,784	118,326
Selling and distribution expenses		(392,029)	(408,667)
Administrative expenses		(273,530)	(269,719)
Research and development costs	5	(119,347)	(111,025)
Impairment losses on financial assets	5	(6,013)	(3,266)
Other expenses		(41,717)	(35,329)
Finance costs	6	<u>(197,772)</u>	<u>(202,356)</u>
PROFIT BEFORE TAX	5	158,762	142,986
Income tax expense	7	<u>(31,229)</u>	<u>(15,846)</u>
PROFIT FOR THE YEAR		<u>127,533</u>	<u>127,140</u>
Attributable to:			
Owners of the parent		132,586	106,418
Non-controlling interests		<u>(5,053)</u>	<u>20,722</u>
		<u>127,533</u>	<u>127,140</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		<u>RMB0.10</u>	<u>RMB0.08</u>
Diluted		<u>RMB0.10</u>	<u>RMB0.08</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
PROFIT FOR THE YEAR	<u>127,533</u>	<u>127,140</u>
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	1,357	(2,768)
Income tax effect	<u>(339)</u>	<u>692</u>
	1,018	(2,076)
Exchange differences on translation of foreign operations	<u>2,173</u>	<u>9,727</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	<u>3,191</u>	<u>7,651</u>
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	34,513	(19,659)
Income tax effect	<u>(7,505)</u>	<u>4,915</u>
	27,008	(14,744)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	<u>27,008</u>	<u>(14,744)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	<u>30,199</u>	<u>(7,093)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>157,732</u>	<u>120,047</u>
Attributable to:		
Owners of the parent	162,002	98,973
Non-controlling interests	<u>(4,270)</u>	<u>21,074</u>
	<u>157,732</u>	<u>120,047</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	<i>Notes</i>	2019 RMB'000	2018 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		2,151,252	2,061,137
Investment properties		367	14,239
Properties under development		–	57,863
Right-of-use assets		190,973	–
Prepaid land lease payments		–	181,989
Goodwill		10,636	10,636
Other intangible assets		670,983	615,443
Equity investments designated at fair value through other comprehensive income		164,709	137,148
Deposits paid for purchase of items of property, plant and equipment		140,204	145,841
Deferred tax assets		51,293	53,001
		<hr/>	<hr/>
Total non-current assets		3,380,417	3,277,297
CURRENT ASSETS			
Inventories	<i>10</i>	1,816,966	1,962,966
Completed properties held for sale		–	15,856
Trade receivables	<i>11</i>	2,306,871	2,424,654
Debt investments at fair value through other comprehensive income	<i>12</i>	134,784	164,625
Prepayments, other receivables and other assets	<i>13</i>	162,043	186,676
Financial assets at fair value through profit or loss		65,603	12,588
Structured bank deposits	<i>14</i>	59,793	109,866
Pledged deposits	<i>15</i>	464,146	452,216
Cash and cash equivalents	<i>15</i>	280,903	425,311
		<hr/>	<hr/>
Total current assets		5,291,109	5,754,758

		2019	2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
CURRENT LIABILITIES			
Trade and bills payables	<i>16</i>	2,009,701	2,001,708
Other payables and accruals	<i>17</i>	854,809	777,368
Financial liabilities at fair value through profit or loss		5,457	–
Interest-bearing bank borrowings	<i>18</i>	2,269,996	2,171,301
Income tax payable		85,627	86,099
Total current liabilities		<u>5,225,590</u>	<u>5,036,476</u>
NET CURRENT ASSETS		<u>65,519</u>	<u>718,282</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,445,936</u>	<u>3,995,579</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	<i>18</i>	36,190	712,807
Deferred tax liabilities		64,238	47,681
Deferred government grants		59,770	61,187
Other liabilities		11,549	–
Total non-current liabilities		<u>171,747</u>	<u>821,675</u>
Net assets		<u><u>3,274,189</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>3,001,533</u>	<u>2,860,714</u>
		3,117,746	2,976,927
Non-controlling interests		<u>156,443</u>	<u>196,977</u>
Total equity		<u><u>3,274,189</u></u>	<u><u>3,173,904</u></u>

Notes:

1. CORPORATE AND GROUP INFORMATION

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations issued by the International Accounting Standards Board (the "IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income, debt investments at fair value through other comprehensive income, financial assets at fair value through profit or loss, structured bank deposits and financial liabilities at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

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 to IFRSs 2015-2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9, IAS 19 and IAS 28, and *Annual Improvements to IFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRS s are described below:

- (a) 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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

IFRS 16 did not have any significant impact on leases where the Group is the lessor.

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

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.

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, plant and 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 leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact 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 liabilities. 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:

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

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) RMB'000
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 liabilities	<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:

	RMB'000
Operating lease commitments as at 31 December 2018	16,797
<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>
Weighted average incremental borrowing rate as at 1 January 2019	<u>4.75%</u>
Discounted operating lease commitments as at 1 January 2019	<u>14,886</u>
Lease liabilities as at 1 January 2019	<u><u>14,886</u></u>

- (b) IFRIC-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group’s tax compliance and transfer pricing study, the Group determined that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	<i>Definition of a Business¹</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform¹</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
IFRS 17	<i>Insurance Contracts²</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material¹</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current³</i>

¹ *Effective for annual periods beginning on or after 1 January 2020*

² *Effective for annual periods beginning on or after 1 January 2021*

³ *Effective for annual periods beginning on or after 1 January 2022*

⁴ *No mandatory effective date yet determined but available for adoption*

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

3. OPERATING SEGMENT INFORMATION

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

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

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

Information about products

An analysis of revenue by products is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Lead-acid batteries	7,386,506	8,069,088
Recycled lead products	971,227	1,419,052
Others	4,989	56,278
	<u>8,362,722</u>	<u>9,544,418</u>

Geographical information

(a) Revenue from external customers

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
PRC*	5,151,752	6,170,748
Europe, the Middle East and Africa	1,425,098	1,363,606
Americas	1,013,657	1,105,705
Asia-Pacific (other than PRC)	772,215	904,359
	<u>8,362,722</u>	<u>9,544,418</u>

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

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

(b) Non-current assets

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
PRC	2,774,521	2,859,909
Other countries/areas	389,894	227,239
	<u>3,164,415</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

During the year ended 31 December 2019, no revenue from sales to a single customer amounted to 10% or more of the Group's revenue. During the year ended 31 December 2018, revenue of approximately RMB1,033,825,000 was derived from sales to a single customer, including sales to a group of entities which are known to be under common control with that customer, which accounted for 10.8% of the Group's total revenue.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue from contracts with customers	<u>8,362,722</u>	<u>9,544,418</u>

Revenue from contracts with customers

(i) *Disaggregated revenue information*

For the year ended 31 December 2019

	Total <i>RMB'000</i>
Type of goods	
Sale of industrial products	8,357,733
Others	<u>4,989</u>
	<u>8,362,722</u>
Timing of revenue recognition	
Goods transferred at a point in time	<u>8,362,722</u>

For the year ended 31 December 2018

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

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of industrial products	<u><u>178,188</u></u>	<u><u>133,257</u></u>

(ii) Performance obligations

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

Sale of industrial products

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

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
<u>Other income and gains</u>		
Bank interest income	13,655	12,034
Government grants*	80,794	66,610
Dividend income from equity investments designated at fair value through other comprehensive income	225	–
Sale of scrap materials	4,942	5,552
Gross rental income from investment property operating leases:		
Other lease payments, including fixed payments	2,232	2,350
Fair value gains, net:		
Financial assets at fair value through profit or loss	3,511	43
The Structured bank deposits	4,901	866
Gain on disposal of a subsidiary (<i>note 19</i>)	56,101	–
Others#	7,423	30,871
	<u>173,784</u>	<u>118,326</u>

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

Others in 2018 include an insurance claim received in the amount of RMB23,339,000 from the insurance company for losses in inventories and property, plant and equipment in relation to the fire incident 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):

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold	6,184,270	7,286,798
Employee benefit expense (including directors' remuneration):		
Wages and salaries	748,522	758,701
Equity-settled share option expenses	2,701	5,011
Pension scheme contributions	54,054	74,856
	<u>805,277</u>	<u>838,568</u>
Amortisation of other intangible assets except for deferred development costs	20,673	20,483
Research and development costs:		
Deferred development costs amortised*	130,957	82,847
Current year expenditure	119,347	111,025
	<u>250,304</u>	<u>193,872</u>
Auditor's remuneration	2,800	2,700
Financial liabilities at fair value through profit or loss:		
Unrealised loss	5,457	–
Realised loss	–	145
	<u>5,457</u>	<u>145</u>
Fair value loss from financial liabilities at fair value through profit or loss, net [#]	<u>5,457</u>	<u>145</u>

	<i>Notes</i>	2019 RMB'000	2018 <i>RMB'000</i>
Financial assets at fair value through profit or loss:			
Unrealised gain		(3,511)	(43)
Structured bank deposits:			
Unrealised gain		(73)	(866)
Realised gain		(4,828)	–
Fair value gain from structured bank deposits, net		(4,901)	(866)
Depreciation of property, plant and equipment		250,109	285,062
Depreciation of investment properties		11	219
Depreciation of right-of-use assets			
(2018: amortisation of prepaid land lease payments)		11,632	3,862
Impairment of trade receivables	<i>11</i>	6,013	3,266
Impairment of inventories*	<i>10</i>	6,166	2,460
Loss on disposal of items of property, plant and equipment, net [#]		22,653	831
Foreign exchange differences, net [#]		6,092	28,001
Lease payment not included in the measurement of lease liabilities		6,856	–
Minimum lease payments under operating leases		–	13,590
Insurance claim received from the insurance company for loss on a fire incident		–	(23,339)
		–	–

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

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

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Interest on bank borrowings	153,991	157,117
Interest arising from discounted bills	42,434	45,239
Interest on lease liabilities	1,347	–
	<u>197,772</u>	<u>202,356</u>

7. INCOME TAX

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

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

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

Leoch Battery Corporation, incorporated in the United States, is subject to corporate income tax in the United States. The applicable federal corporate income tax rate is 21% (2018: 21%) on taxable income.

The provision for Hong Kong profits tax is based on the statutory rate of 16.5% (2018: 16.5%) of the assessable profits of subsidiaries incorporated in Hong Kong, i.e., Leoch Power Supply (H.K.) Limited (“**Leoch Power Supply**”) and Leoch International Sales Limited (“**Leoch International Sales**”). No provision for Hong Kong profits tax has been made by Leoch Battery Company Limited (“**Leoch Battery Company**”) and Big Help Group Limited as they did not carry on any business in Hong Kong or had no assessable profits arising in or derived from Hong Kong during the year.

The Singapore authority approved Leoch Battery Pte. Ltd's ("Leoch Battery Pte.") application for the Global Trader Programme on 24 May 2014 and it was renewed on 30 August 2019. The provision for Leoch Battery Pte.'s current income tax is based on the tax rate of 10% (2018: 10%).

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

Jiangsu Leoch Battery Technology Co., Ltd, Anhui Leoch Power Supply Corp. and Anhui Uplus Energy Technology Co., Ltd were designated as high-tech enterprises by the PRC tax authorities and were entitled to a preferential tax rate of 15% for the year 2019.

Taihe Dahua Energy Technology Co., Ltd, which engages in qualified recycling businesses, is entitled to a 10% deduction of revenue for manufacturing qualified products with main qualified raw materials.

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

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Current – PRC	9,712	18,069
Current – Hong Kong	(6,575)	(3,881)
Current – Singapore	16,381	7,571
Current – USA	1,430	2,139
Deferred tax	10,281	(8,052)
	<hr/>	<hr/>
Total tax charge for the year	31,229	15,846
	<hr/> <hr/>	<hr/> <hr/>

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

	2019		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before tax	<u>158,762</u>		<u>142,986</u>	
Tax at the applicable tax rates	46,071	29.0	42,705	29.9
Tax concession for certain subsidiaries	(18,083)	(11.4)	(27,763)	(19.5)
Additional deductible research and development expenses	(10,541)	(6.6)	(6,463)	(4.5)
Expenses not deductible for tax	871	0.5	1,971	1.4
Tax losses not recognised	14,244	9.0	8,225	5.8
Tax losses utilised from previous periods	<u>(1,333)</u>	<u>(0.8)</u>	<u>(2,829)</u>	<u>(2.0)</u>
Tax charge at the Group's effective rate	<u><u>31,229</u></u>	<u><u>19.7</u></u>	<u><u>15,846</u></u>	<u><u>11.1</u></u>

8. DIVIDENDS

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Final – HK2.0 cents (2018: HK2.0 cents) per share	<u><u>24,321</u></u>	<u><u>23,164</u></u>

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,357,521,666 (2018: 1,357,431,128) in issue during the year.

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

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

	2019	2018
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	<u>132,586</u>	<u>106,418</u>
	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,357,521,666	1,357,431,128
Effect of dilution – weighted average number of ordinary shares: Share options	<u>168,257</u>	<u>1,160,164</u>
	<u>1,357,689,923</u>	<u>1,358,591,292</u>

10. INVENTORIES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Raw materials	344,180	632,446
Work in progress	816,658	795,069
Finished goods	<u>656,128</u>	<u>535,451</u>
	<u>1,816,966</u>	<u>1,962,966</u>

As at 31 December 2019, inventories with the amount of RMB6,166,000 (2018: RMB2,460,000) were written down to their net realisable value as disclosed in note 5.

11. TRADE RECEIVABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade receivables	2,338,905	2,450,675
<i>Less: Impairment provision</i>	<u>(32,034)</u>	<u>(26,021)</u>
	<u>2,306,871</u>	<u>2,424,654</u>

The Group grants different credit periods to its customers. Credit periods for individual customers are considered on a case-by-case basis. Certain customers are required to make partial payments before or upon delivery. The Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables of RMB205,917,000 (2018: RMB233,914,000) were under short term credit insurance and RMB57,357,000 (2018: RMB63,713,000) were under letters of credit. In addition, the Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

As at 31 December 2019, the Group pledged certain trade receivables amounting to RMB96,149,000 (2018: RMB31,592,000) to banks with recourse in exchange for cash (*note 20*). The proceeds from pledging the trade receivables of RMB81,582,000 (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.

An ageing analysis of the trade receivables as at 31 December 2019 and 2018 based on the invoice date, net of loss allowance, is as follows:

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	1,713,636	1,735,538
3 to 6 months	303,817	403,444
6 to 12 months	147,672	214,842
1 to 2 years	110,159	57,500
Over 2 years	31,587	13,330
	<u>2,306,871</u>	<u>2,424,654</u>

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

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	26,021	32,039
Impairment losses (<i>note 5</i>)	6,013	3,266
Amount written off as uncollectible	–	(9,284)
At end of year	<u>32,034</u>	<u>26,021</u>

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

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

As at 31 December 2019

	Current		Past due		Total
	Customers with credit enhancement	Ordinary customers	Customers with credit enhancement	Ordinary customers	
Expected credit loss rate	0.04%	0.78%	0.57%	100.00%	1.37%
Gross carrying amount (RMB'000)	1,855,815	312,449	142,558	28,083	2,338,905
Expected credit losses (RMB'000)	710	2,429	812	28,083	32,034

As at 31 December 2018

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

12. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The balances as at 31 December 2019 and 31 December 2018 represent bills receivable held by the Group which were measured at fair value through other comprehensive income, since the bills receivable were held within the business model whose objective was achieved by both collecting contractual cash flows and selling the financial assets, and the contractual cash flows were solely payments of principal and interest on the principal amount outstanding.

The ageing analysis of bills receivable presented based on the issue date at 31 December 2019 and 31 December 2018 is as follows:

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	16,614	44,126
3 to 6 months	102,891	97,210
6 to 12 months	15,279	23,289
	<u>134,784</u>	<u>164,625</u>

The net gain on changes in the fair value of the debt investments at fair value through other comprehensive income amounting to RMB1,357,000 (2018: net loss of RMB2,768,000) was recognised in the consolidated statement of other comprehensive income during the year.

13. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	115,789	139,671
Deposits and other receivables	37,973	35,233
Loans to employees	8,211	7,422
Interest receivables	70	–
Current portion of prepaid land lease payments	–	4,350
	<u>162,043</u>	<u>186,676</u>

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

14. STRUCTURED BANK DEPOSITS

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Structured bank deposits, in licensed banks in Mainland China:		
With floating rate, at fair value	<u>59,793</u>	<u>109,866</u>

The structured bank deposits were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. The net gain on changes in the fair value of the structured bank deposits amounting to RMB4,901,000 (2018: RMB866,000) was recognised in the consolidated statement of profit or loss during the year.

15. CASH AND BANK BALANCES AND TIME DEPOSITS

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances	280,903	425,311
Time deposits	464,146	452,216
	745,049	877,527
<i>Less:</i> Pledged for interest-bearing bank borrowings	(4,675)	(104,561)
Pledged for bills payable	(427,684)	(303,714)
Pledged for letters of credit	(31,787)	(43,941)
	(464,146)	(452,216)
Cash and cash equivalents	280,903	425,311
Denominated in RMB	638,484	706,693
Denominated in US\$	49,838	134,619
Denominated in HK\$	37,808	19,511
Denominated in Indian Rupee	7,041	11,482
Denominated in Malaysian Dollar (“MYR”)	4,113	1,597
Denominated in Singapore Dollar (“SG\$”)	603	1,209
Denominated in Euro (“EUR”)	4,863	1,149
Denominated in Australian Dollar (“AU\$”)	881	901
Denominated in Sri Lankan Rupee	1,418	366
	745,049	877,527

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

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

16. TRADE AND BILLS PAYABLES

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	805,666	980,460
Bills payable	1,204,035	1,021,248
	<u>2,009,701</u>	<u>2,001,708</u>

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

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	989,445	937,623
3 to 6 months	348,314	390,884
6 to 12 months	655,414	632,798
1 to 2 years	11,630	36,028
2 to 3 years	604	1,483
Over 3 years	4,294	2,892
	<u>2,009,701</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 have maturity dates within 365 days. As at 31 December 2019, bills payable amounting to RMB722,500,000 (2018: RMB432,967,000) were issued on intercompany sales transactions within the Group and these bills were discounted to banks for short term financing.

As at 31 December 2019, certain of the Group's bills payable were secured by the pledge of certain of the Group's time deposits amounting to RMB427,684,000 (2018: RMB303,714,000) (*note 20*).

17. OTHER PAYABLES AND ACCRUALS

	<i>Notes</i>	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Provision for social insurance and retirement benefits		158,565	159,011	159,011
Contract liabilities	<i>(a)</i>	143,635	178,188	178,188
Accrued expenses		107,008	99,534	99,534
Accrued payroll		104,991	105,592	105,592
Lease liabilities		7,877	3,040	–
Payables for purchase of items of property, plant and equipment		60,616	24,312	24,312
Provision for product warranties		15,869	13,010	13,010
Tax payables other than current income tax liabilities		176,029	135,305	135,305
Payables to non-controlling shareholders		55,158	43,418	43,418
Others	<i>(b)</i>	25,061	18,998	18,998
		854,809	780,408	777,368

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
<i>Short-term advances received from customers</i>			
Sale of goods	143,635	178,188	133,257

Contract liabilities are short-term advances received to deliver industrial products.

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

18. INTEREST-BEARING BANK BORROWINGS

	31 December 2019			31 December 2018		
	<i>Effective</i>	<i>Maturity</i>	<i>RMB'000</i>	<i>Effective</i>	<i>Maturity</i>	<i>RMB'000</i>
	<i>interest rate</i>			<i>interest rate</i>		
	<i>(%)</i>		<i>(%)</i>			
Current						
Interest-bearing bank borrowings, secured	1.50 to 8.65	2020	1,050,581	1.50 to 7.53	2019	1,077,598
Collateralised bank advances, secured	2.00 to 2.40	2020	81,582	2.00 to 2.40	2019	20,759
Interest-bearing bank borrowings, guaranteed	2.56 to 8.70	2020	443,314	2.56 to 8.32	2019	665,727
Current portion of long term bank borrowings, guaranteed	LIBOR +2.50	2020	694,519	LIBOR +2.50	2019	407,217
			<u>2,269,996</u>			<u>2,171,301</u>
Non-current						
Interest-bearing bank borrowings, secured	1.50 to 7.53	2021-2028	36,190	1.50 to 7.53	2020-2028	34,113
Interest-bearing bank borrowings, guaranteed	-	-	-	LIBOR +2.50	2020	678,694
			<u>36,190</u>			<u>712,807</u>
			<u>2,306,186</u>			<u>2,884,108</u>
Denominated in RMB			892,414			1,063,699
Denominated in US\$			831,612			1,218,810
Denominated in HK\$			537,878			556,440
Denominated in SG\$			14,465			15,502
Denominated in MYR			22,171			24,043
Denominated in EUR			943			-
Denominated in GBP			6,703			5,614
			<u>2,306,186</u>			<u>2,884,108</u>

Analysed into:

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans and advances repayable:		
Within one year	2,269,996	2,171,301
In the second year	22,771	699,650
In the third to fifth years, inclusive	5,630	5,944
Beyond five years	7,789	7,213
	<u>2,306,186</u>	<u>2,884,108</u>

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

- (i) pledge of the Group's assets with a total value of RMB910,529,000 (2018: RMB858,718,000) for the bank borrowings as disclosed in note 20.
- (ii) cross guarantees executed by companies within the Group.

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

Under the Facility Agreement, there are specific performance obligations on Mr. Dong Li, the controlling shareholder of the Company, to not cease to own, directly or indirectly, at least 51% of the beneficial interest in the Company, carrying at least 51% of the voting right, free from any security. Further, Mr. Dong Li shall not cease to have management control over the Company or cease to be the Chairman of the board of directors of the Company. At the date of approval of these audited consolidated financial statements for the year ended 31 December 2019, such obligations have been complied with.

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

As at 31 December 2019, the outstanding term loan balance under the Facility Agreement amounting to US\$100,000,000 (equivalent to RMB697,620,000) is repayable within one year. The term loan bears interest at LIBOR+2.5% per annum.

19. DISPOSAL OF A SUBSIDIARY

Jiangsu Siting Real Estate Co., Ltd. ("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**"). The performance of the Constructor under the Arrangement will be 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 sales 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:

	2019
	RMB'000
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 sales 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 the disposal of a subsidiary	<u><u>(2,754)</u></u>

20. PLEDGE OF ASSETS

	Prepaid land lease payments <i>RMB'000</i>	Property, plant and equipment <i>RMB'000</i>	Pledged deposits <i>RMB'000</i> <i>(note 15)</i>	Trade receivables <i>RMB'000</i> <i>(note 11)</i>	Total <i>RMB'000</i>
31 December 2019					
Interest-bearing bank borrowings <i>(note 18)</i>	60,356	749,349	4,675	96,149	910,529
Bills payable <i>(note 16)</i>	–	–	427,684	–	427,684
Issue of letters of credit	–	–	31,787	–	31,787
	<u>60,356</u>	<u>749,349</u>	<u>464,146</u>	<u>96,149</u>	<u>1,370,000</u>
31 December 2018					
Interest-bearing bank borrowings <i>(note 18)</i>	50,297	672,268	104,561	31,592	858,718
Bills payable <i>(note 16)</i>	–	–	303,714	–	303,714
Issue of letters of credit	–	–	43,941	–	43,941
	<u>50,297</u>	<u>672,268</u>	<u>452,216</u>	<u>31,592</u>	<u>1,206,373</u>

21. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	<i>Note</i>	2019 RMB'000	2018 <i>RMB'000</i>
Contracted, but not provided for:			
Land and buildings		208	1,340
Construction of a property	(i)	–	393,044
Plant and machinery		589	814
Capital contribution for investments in equity investments designated at fair value through other comprehensive income		15,988	15,932
		16,785	411,130

Note:

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 (the “**Construction Contract**”) with Shenzhen Shekou Costal Realty Company Limited (the “**Developer**”) in relation to the construction of a property. Due to delay in the construction, the Group and the Developer reached a mutual agreement to terminate the Construction Contract with the Developer. All the deposits and payments paid by the Group under the Construction Contract have been refunded to the Group in full in 2019.

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its properties, machinery and other equipment from its related companies and independent third parties under operating lease arrangements. Leases for properties were negotiated for terms ranging from one to three years.

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

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

22. EVENTS AFTER THE REPORTING PERIOD

On 2 January 2020, the Company offered to grant share options to various eligible participants under the share option scheme of the Company adopted on 14 October 2010 and amended at the Annual General Meeting held on 18 May 2018, to subscribe for a total of 900,000 ordinary shares of HK\$0.1 each in the capital of the Company.

The outbreak of novel coronavirus (COVID-19) continues to spread across the world. The COVID-19 has certain impact on the business operations of the Group. All trading offices and factories except in Singapore and Vietnam have been disrupting. However, factories in the PRC and trading office in Hong Kong have resumed operation gradually. In the opinion of the management, the disruption is temporary, but the degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic.

The Group will closely monitor the situation and make timely response and adjustments in the future, assess and react actively to its impacts on the financial position and operating results of the Group.

WORDS FROM THE CHAIRMAN

On behalf of the board of directors (the “**Board**”) of Leoch International Technology Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”), I hereby present the Group’s report on its annual results for the year ended 31 December 2019 (the “**Period**”) for shareholders’ review.

CHALLENGES IN 2019

2019 has been a challenging year to the Group. During the year, the Group experienced challenges from various fronts including the overall global deceleration in growth which afflicted global business performance as a whole, the slowdown and/or delay in 5G network construction caused by the global economic downturn, and the decline in sales of automobile among the global auto market, especially in the two major markets, China and the US. In addition, the unusual surge in the PRC lead price brought forward from 2018 and the Sino-US trade war have brought additional colors to these challenges.

Looking back at 2019, the global economy slumped to merely 2.3% of growth, the lowest level in the past 10 years as a result of protracted trade disputes and a slowdown in the PRC investment. Among advanced economies, the weakening has been broad based, affecting major economies and smaller Asian advanced economies, even more pronounced across emerging markets. The US continued to impose tariff on China during the year, striking market demand of afflicted industries to a further extent.

The recession in macro economy weighted much pressure on telecommunication operators internationally and caused deceleration in the overall progress of global 5G network development, which affected the demand in power supply solutions for the purposes of 5G network construction.

During the period, the global auto market was sluggish with sales in major auto markets such as China, US and Japan simultaneously declined, representing a year-on year decrease of 8.2%, 2% and 1% respectively, posting a threat to auto parts and accessories players across the board including the Group.

The unusual surge in the PRC lead price since 2018 had prolonged its negative effect to the Group during the first half of 2019 but a more stabilized pricing trend prevailed during the second half of 2019.

During the period, the lithium-ion battery industry continued to consolidate with many sizeable players collapsed and liquidated during the course of 2019, demonstrating the growing competitive landscape of the industry. However, the Group saw chances and opportunities out of this trend as it is the right time to bottom fish and absorb valuable resources to the Group.

DEVELOPMENT IN 2019

Consistently over the past ten years, Leoch has remained the largest network lead-acid battery supplier in China covering the world with a well-balanced local and overseas sales ratio, and we expect to continue to be so by and through our international offices and warehouses all across the globe from South Africa to North America, and from East Asia to West Europe & EMEA.

To cope with increasing international product enquiries and quality demand, the group has streamlined its business, marketing & sales, production, R&D and logistic functions to arrive at a slimmer, more integrated and linear internal value chain with higher efficiency in overall turnaround time and accuracy in shooting market demand, while delivering in a more cost effective manner. For instance, the catalog shelf was slimmed down to carry around 1800 most up to date and cutting edge best-selling models to boost per model yield.

The new lithium-ion battery business infrastructure has been fully constructed during the year under review with test run successfully undergone. This has equipped the group to get set for the upcoming 5G orders which are expected to start crystallizing in 2020.

Also delivered on schedule is the new production facility in Vietnam which has topped up the overall production capacity of the group by nearly 5%.

In order to measure up with top international standards in all aspects, the Group has installed a few additional functional divisions internally during the year. The Risk Control & Prosecution Division was set up to safeguard the general interests of the Group covering all tangible and intangible assets from IP to working capital, and even personal security during this very season of COVID-19.

It is our belief that only when each and every of our over 13, 000 employees, whereas each of them is an important cluster of the bigger us, continue to upgrade himself with cutting-edge industrial knowledge and relevant skills of his trade with well balanced personal development, will the bigger us – the Group, continue to leap forward from time to time. As such, a compulsory continuous training system is set in place to encourage and monitor the learning progress of each of us.

PROSPECT

As the COVID-19 pandemic spirals upward, disruptions to the global economy are increasing. Goldman Sachs has cut its global GDP growth forecast to 1.25 per cent for the year as the world officially marches into recession, though the depth and magnitude are currently expected to be less severe than the deep recessions of 1981-82 and 2008-09, but worse than the mild recessions of 1991 and 2001. The Group, along with many other players in the industry and other industries, will expect unprecedented head on challenges.

Since the outbreak of the pandemic in China, usage for online data & services have substantially reduced, as China Mobile reviewed recently that the average revenue per user, sales, online usage and voice usage including international roaming have dropped materially. It has scaled back capital expenditure in 5G base station infrastructure, and so have China Unicom and China Telecom. The Group will take this as a motivational challenge and continue to improve both its product quality and customer service to stay afloat these revised 5G capex plans.

To capture timely opportunities by diversification, the Group has commenced the production of lithium-ion battery in Anhui. It is expected that the lithium-ion battery capacity will increase to 1.8GWh during the year and from that to 4GWh gradually over the next few years.

On the matter of production base, the Group will leverage on the newly developed production base in Vietnam to fully counter the US tariff effect for US export. Products for the US market will be produced in Vietnam this year onwards. This will save considerable amount of tariffs while running at a comparatively lower level of production cost and overhead than the domestic plants in China, thereby bringing two dimensional benefits to the Group.

In accordance with the new environmental compliance requirements put forward by the Chinese government in 2018, the Group has updated its facilities and reopened its lead recycling business for test run at the beginning of 2020, with the production capacity to be increased to twofold of the original size in due course. The Group will continue to seek opportunities to further develop the lead recycling business.

Backed by 20 years of experience in providing reliable and innovation battery solutions for a broad range of industries around the world and with our growth strategy in both the mainland and overseas markets in place, we are prudently positive and confident on our future performance in the foreseeable future.

COMMITMENT & ACKNOWLEDGEMENT

2019 kicked off the 10th year that the Company has obtained its listing status on the Stock Exchange of Hong Kong Limited. As I have previously pointed out in our first Chairman Statement, our aim is to provide customers with products of competitive prices, reliable quality, timely delivery and comprehensive services. Efforts have been recognized and reflected in our sales growth over the last decade. As usual and consistent with before, we will continue to promote our corporate image, and to increase our customer's satisfactory level to further enhance and solidify our world-class status.

In the coming years, we will continue to focus and invest in relevant technology and products while increasing production capacity and flexibility to cater for the ever-changing and upgrading of client's demand from time to time, from east to west and from north to south.

The history of the group was written by each and every of our loyal and diligent management and employees. On behalf of the Board of Directors, I am sincerely grateful for the contributions of all of them, as well as the continuous support and trust of our shareholders and other key stakeholders.

I have said it in 2010, and I am saying it again quoting Dr. Sun Yatsen: "I will pursue my ambitions without any hesitation, and will work towards the goal unyieldingly". We will continue to work diligently with dedicated efforts in the international battery platform; in hay days as in challenging moments.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the year ended 31 December 2019 (the “**Period**”), the Group’s revenue amounted to RMB8,362.7 million, representing a decrease of 12.4% from RMB9,544.4 million for the corresponding period in 2018.

During the Period, revenue from batteries (and related items) business amounted to RMB7,386.5 million, representing a decrease of 8.5% from RMB8,069.1 million for the corresponding period in 2018. The drop in revenue was partially contributed by the decrease in average lead price of 2019 which resulted in lower average selling price per ton as compared to that of 2018. The volume delivered in terms of tons was similar as compared to the corresponding period last year. Revenue from recycled lead business amounted to RMB971.2 million, representing a decrease of approximately 31.6% from RMB1,419.1 million for the corresponding period in 2018.

Several macro and micro factors collectively afflicted the continuous growth of the overall revenue and margins of the Group during the year. The US-China trade war continued to afflict China domestic and exports in general as well as the overseas business of the Group in the US. The improvement of gross profit margin in batteries business was diluted by low profit margin recycling business resulted in slightly more than 1% improvement.

Reserve power batteries

The Group’s sales of reserve power batteries during the Period amounted to RMB3,913.1 million (2018: RMB4,436.9 million), representing an decrease of 11.8% as compared to the same period of last year. This accounted for approximately 53.0% of the total revenue from batteries sales as compared to 55.0% in 2018. The decrement in sales revenue of reserve power batteries amounted to RMB523.8 million (2018: RMB237.3 million decrement) during the Period.

The decrease was attributable mainly to the fall back in demand of lead-acid batteries from the telecommunication market in the PRC. 2019 has been a year of preparation and transition for the Group following the 4G/5G transition roadmap. While the PRC government imposed policy to utilize retired lithium batteries from electric vehicle and the trend will continue at the telecommunication market, the Ministry of Industry and Information Technology (“MIIT”) announced the 5G licensing decision not at the beginning of the year, but in June, 2019, leaving not much room of real business for the Group to capture during the year due to product development lead time in response to the announcement.

Despite the overall telecom market challenges in 2019, we have managed to further diversify and conquer new clients from other sub-sectors of the network power market. In getting ready to capture the most of the opportunities from the rising 5G life cycle, the Group has, during the year, headhunted various industrial veterans from the telecom and relevant industry sector to pave way for the 5G boom as telecom operators roll out their plans of capital expenditure.

SLI batteries

Sales of SLI batteries for the Group during the year amounted to RMB2,470.5 million (2018: RMB2,542.1 million), representing a decrease of 2.8% as compared to the same period last year. This accounted for approximately 33.4% of the total revenue from batteries sales as compared to 31.5% in 2018. The decrement in sales revenue of SLI batteries amounted to RMB71.6 million (2018: RMB377.4 million increment) during the Period.

Fitch Ratings economics team expected global car sales to fall by over 3 million in 2019. Sales in China fell 11% during the first 10 months of 2019 alone. Weak credit growth, a rise in used car sales and new emissions standards depressed new car sales in China. Likewise, environmental concerns about diesel cars, anticipated regulatory responses and the growth of ride-hailing and car-pooling practices are weighing on demand in the U.S. as GM, Ford and Honda have all cut back on production. Our SLI export business fell back during the year along the trend.

To counter these negative effects brought by the surrounding economic and business environment and the change of consumer car using and purchasing habits & preferences, the Group paid heavy attention on its advertising mix internationally which included various important online and off-line media coverages, conferences & training, and regular meetings with over 400 agents across China.

Despite the drop in global demand across the industry in 2019, we managed to expand our list of reputable clients/projects internationally by securing orders from new names such as China Greatwall/BMW, BYD, Nio, Mitsubishi, Volvo and Shanghai Automobile/Ford.

During the year, the Group continued to upkeep its standard in quality and has received various recognition from clients. Among them are “2019 Excellent Supplier Award” from Dongfeng Peugeot Citroen Automobile Company Ltd., “Golden Wing Award of China Auto Parts Industry – Top Five National Famous Brands of Reserve Power Battery”, “2019 Carsf Annual Award on Auto Parts Brand: Distributors Preferred Brand Award”, and “2019 Excellent Supplier Award” from SAIC-GM, just to name a few.

Motive power batteries

During the Period, motive power batteries business (which includes but not limited to applications in electric vehicles, electric forklifts and other battery-driven products) of the Group recorded sales revenue of RMB833.9 million (2018: RMB871.6 million), representing a decrease of 4.3% as compared to last year. This accounted for approximately 11.3% of the total revenue from batteries sales as compared to 10.8% in 2018. The decrement in sales revenue of motive power batteries amounted to RMB37.7 million (2018: RMB374.6 million increment) during the Period.

To improve sales channel efficiency, the Group partnered with various local agents and distributors in over 261 cities in China via over 50,000 end client points of sales during the year and will continue to do so in 2020.

Recycled lead

Revenue from the sales of recycled lead products amounted to RMB971.2 million (2018: RMB1,419.1 million) during the year under review, representing a decrease of 31.6% as compared to last year. To comply with the lead-related heavy metal discharging enterprises structural reform set forth by the PRC Government, the Group decided to expand and upgrade its production infrastructure as well as to improve the environment protection measures concerned starting from the third quarter of 2018 which was subsequently completed in the fourth quarter of 2019. Accordingly, production was temporary put on hold. Revenue from recycle lead products being recorded for the year were from trading of recycle lead with very low gross profit margin.

Sales network

The Group maintained to distribute its products to more than 100 countries and regions across the world and has established regional sales offices in Beijing, Shenzhen, Zhaoqing, Nanjing, Hong Kong, Singapore, Malaysia, Australia and other ASEAN countries, India, Sri Lanka, USA and the EU, and United Kingdom. Together with the domestic sales centers in the PRC, the Group has more than 80 sales offices and centers around the world. As at 31 December 2019, the Group has over 750 dedicated sales and marketing and related supporting employees.

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

During the year under review, the Group continued to work closely with international and domestic battery experts and research institutions to perform research on new technologies and develop new products. These products include product series such as AGM VRLA batteries, VRLA-GEL battery, pure lead batteries, UPS high rate batteries, marine batteries, railway batteries, start-stop batteries, automotive batteries, motorcycle batteries, OPzV, OPzS, PzS, PzV and PzB tubular plate batteries, golf cart batteries, scrubber sweeper batteries and electric vehicle batteries etc. In an attempt to boost model yield, to increase overall running efficiency, and to save unnecessary cost of maintenance of carrying a bulky catalog, the catalog shelf was slimmed down to carry around 1800 most up to date and cutting edge best-selling models.

A new lithium-ion battery R&D team is now in full gear, rolling out new lithium-ion products tailor-made for applications in each of the network power and motive market segment, while setting itself ready for the 5G momentum.

During the year, we collaborated with Gridtential Energy Inc. with an objective to develop a new series of greener, saver and more cost effective models of the latest generation of advanced lead-acid battery with density of five times of that of prevailing traditional lead-acid battery. New models are expected to rollout for test run purpose during the year 2020.

As at December 31, 2019, our battery R&D team of the Group consists of more than 350 researchers and related development & sampling technicians. The Group also owns 433 patents, with another 114 pieces in the process of patent application as at the date of this announcement.

Production Base Along the One-Belt-One-Road Trajectory

During the year, the Group finished constructing two new plants in Vietnam and has completed the pre-bulk production test run for both the network power plant with motorcycle battery production line and the automotive battery plant. The designed production capacity of these two factories will be more than double of the current total overseas production capacity with rooms for future expansion.

Also happened during the year is the expansion of production capacity in the India plant of the Group. As India is considered a promised land for regional and global market growth for many industries especially during the last decade, our India plant has been upgraded to provide rooms to deliver more than twice the quantity of batteries per annum to clients in the region, as compared to 3,000 tons of limited capacity at the end of 2018.

Back in China, the construction of the lithium-ion batteries plant has been completed in December 2019 at Huaibei Development Zone of Anhui. The total site area is approximately 150,000 square meters, 30% of which is currently in use to provide an annual capacity of 1.8GWh of lithium-ion battery products which will be expanded into 4GWh gradually in due course. The remaining 70% area provides room for future expansion in next phase.

As mentioned earlier under the paragraph “Recycle Lead”, the Group has completed upgrading and enlarging the production infrastructure for recycle lead products during the year to produce greener products with higher quantity. Maximum production quantity is limited to 200,000 tons according to the approved quota assigned by the government.

Trend of lead price

Lead is the main raw material of lead-acid batteries and accounts for a major party of the product cost for the Group’s battery production. According to Shanghai Metals Market (“SMM”), the monthly average lead price per ton fluctuated within the range of RMB15,270 to RMB17,958 during the year under review, representing a change within the range of -18.1% to -3.7% as compared with December 2018 SMM monthly average of RMB18,649 per ton.

The monthly average of SMM lead price in each of the last six months of 2019 was RMB16,235, RMB16,698, RMB17,085, RMB16,822, RMB15,936 and RMB15,270 respectively and shows a downward trend at the last quarter of the Period.

To cope with the potential pricing risk associated with the fluctuation in future lead price, the Group has adopted a price-linked pricing mechanism to minimize lead price exposure. In addition, a hedging function group has been set up during the fourth quarter of the year with professional veterans joining from the area of commodities trading to plan and execute future raw materials purchasing and pricing hedging for the Group.

Future Prospects

Following the outbreak of COVID-19 during the first quarter of 2020, the pandemic has widely spread across the ocean from China, crossing both the Atlantic and Pacific Ocean reaching North America and Europe. According to the former IMF chief economists, the world economy has fallen into recession, suffering from a “wicked cocktail” of COVID-19 and the dramatic action to limit its spread. Negative effects are predicted to eat into both the first half and second half of 2020. Among the big three economies, US and Europe will see negative growth, while Chinese growth is expected to come in at a paltry 1.5 per cent according to Bank of America BofA. Goldman Sachs research team has cut global GDP forecast for 2020 down to 1.25%. Morgan Stanley is seeing a global growth slipping to 0.9%, while Deutsche Bank has predicted the most severe quarterly GDP decline in the first two quarters of 2020 since WWII, with the GDP of China going down for more than 30% in each of these quarters.

The virus outbreak has put a halt in production for us in China for one whole month during the first quarter of 2020, while overall factory activity in China dropped 13.5 percent year-on-year last month from February 2019. Since resuming full operation in March, we have been able to orderly catch up with production. Considering the objective economic environment, with facts such as the ploughing of over USD 10 billion into China’s government bond by offshore investors, cascaded redemption at the equity market, and the worst expected drop in history since the 1929 Great Depression of S&P 500 since its all time high in February this year, we will waltz along soberly paying extra attention to the changing macro and micro situations and revise our strategies as and when situation calls for.

5G & Reserve Power Products

The MIIT announced the issuance of 5G licenses and allocated spectrum in China back in June of 2019, which points to the direction of the adoption of both SA macro base stations as well as micro-base stations. It is estimated that capital expenditure in 5G infrastructure will climb gradually from 2020 and peak at around 2022-2024. According to the consensus of various analysts covering the telecom sector before the outbreak of the pandemic earlier this year, China would put in a total between 600,000 to 800,000 stand-alone (SA) macro base stations during 2020, possibly with the combination of various micro-cells, Pico, Femto and large scale antennas systems (LSAS) which collectively weight a much heavier loading on the demand on back-up power system and creates a promising outlook for the battery sector players. Such estimation was scaled down to 500,000-600,000 recently after telecom operators in China substantially reduced their 2020 capital expenditure on 5G infrastructure after the outbreak of COVID-19.

Along with the 5G official launch is the announcement by MIIT of its decision to have both 4G and 5G running parallel concurrently for at least ten years. With this backdrop in mind, telecom operators are expected to further increase its capital spending in 4G system enhancement in due course.

According to Mr. Yu Qingjiao of Secretary General of Zhongguancun New Battery Technology Innovation Alliance (中關村新型電池技術創新聯盟秘書長), lithium-iron-phosphate (LFP) battery is considered to be the most suitable type among all types of batteries for the deployment in 5G base station environment, whereas LFP is a well-researched and developed product of the Group. It is also understood that in 2019 alone, China Tower has procured to purchase a substantial amount of batteries, paving way for a continuous path of spending of all operators and infrastructure providers within the sector over the next few years. Having positioned itself on the right product path, the Group will stand a chance along the trajectory of the 5G roadmap in the long run.

To get prepared for this opportunity, the Group has finished constructing its brand new lithium-ion battery plant in Anhui with a capacity of 4GWh altogether. Upon full installation of plant & equipment by the second or third quarter of 2020, it will provide ground for producing up to 1.8GWh of lithium-ion products, with more rounds of additions of plant and equipment for the remaining 2.2GWh to come during next phases of development.

SLI batteries

The global auto industry plunged deeper into recession in 2019, with sales dropping more than 4% as carmakers struggled to find buyers in China and India. The pain has already expanded into 2020 given the prevailing pandemic environment which has and will continue to cause disruption in both supply and demand side numbers. As Bloomberg reported, sales in China in February alone has dropped 80% month on month from January this year.

Switching to Vietnam, our newly set up plants along the One-Belt-One-Road pathway creates hope in darkness as the industry marches into a recessionary 2020. It offers a relatively lower cost base production environment than other production bases and as such, it offers rooms for further price slashing in times of recession as a lifeline buffer to enable the Group to stay afloat. Furthermore, exports from Vietnam to the US is tariff free, whereas such tariff has swallowed a large part of the profit margin of the Group for each of 2018 and 2019. Besides, with the full operation of the Vietnam plants in 2020, it is expected that margin loss as a result of SMM & LME lead price fluctuation will not resurface indefinitely.

Motive power batteries

The demand for motive power batteries has always been driven by extensive application in electric transportation and equipment such as low-speed electric vehicles and electric forklifts in the PRC. Low-speed electric vehicles as commuter tools to solve the transportation demand between county and township is the most favorable solution nowadays. The current low-speed electric vehicle market has 5 million vehicles and was expected to reach 10 million by 2020 with battery market size reaching RMB8.4 billion before the outbreak of the COVID-19. The Group will react with extra caution towards market change as a result, as well as the consequential changes in consumer behavior and pattern of purchase of clients.

International Market

Leveraging on the well-built international brand name of Leoch and the acquisition of a UK trading company together with the establishment of a trading subsidiary in each of France, Germany and Italia, the Group will continue to develop and expand its market share overseas to capture the 5G and energy storage system (ESS) market in the mid to long run.

Recycled Lead

The structural reform promulgated by the PRC government to provide a greener manufacturing environment with stricter environmental protection requirements had effectively squeezed out many below standard and smaller operators and resulted in an industry-wide consolidation in favour of the Group. Expanded capacity has basically been approved by the respective government bodies subject to due inspection by the Taihe County People's Government. Various compliance approvals will be obtained before the re-opening of the plant. Production has been test run at the beginning of 2020. Since the outbreak of the COVID-19 inspection has been rescheduled to April 2020 and full operation is expected to start in May 2020. Based on the new designed production capacity, maximum annual output can reach 200,000 tons with production running at full capacity.

Financial Review

For the Period, the Group's revenue amounted to RMB8,362.7 million, representing a decrease of 12.4% from RMB9,544.4 million for the corresponding period in 2018. The profit for the year amounted to RMB127.5 million for the Period as compared to RMB127.1 million for the year ended 2018, of which the profit attributable to the owners of the parent amounted to RMB132.6 million as compared to RMB106.4 million for the corresponding period in 2018. Basic earnings per share for the Period was RMB0.10 (2018: RMB0.08).

Revenue

The Group's revenue from battery business decreased by 8.5% from RMB8,069.1 million for the year ended 31 December 2018 to RMB7,386.5 million for the Period.

The Group's revenue from recycled lead products decreased by 31.6% from RMB1,419.1 million for the year ended 31 December 2018 to RMB971.2 million for the Period due to the delay in resumption of full operation.

Details of the Group's revenue for the years ended 31 December 2019 and 2018 by product category are set out below:

Product category	2019			2018	
	Revenue <i>RMB'000</i>	Percentage share	Percentage decrease	Revenue <i>RMB'000</i>	Percentage share
Reserve power batteries	3,913,062	46.8%	(11.8%)	4,436,853	46.5%
SLI batteries	2,470,539	29.5%	(2.8%)	2,542,113	26.6%
Motive power batteries	833,851	10.0%	(4.3%)	871,582	9.1%
Others	169,054	2.0%	(22.6%)	218,540	2.3%
Sub-total	<u>7,386,506</u>	<u>88.3%</u>	<u>(8.5%)</u>	<u>8,069,088</u>	<u>84.5%</u>
Recycled lead products	971,227	11.6%	(31.6%)	1,419,052	14.9%
Others	4,989	0.1%	(91.1%)	56,278	0.6%
Total	<u><u>8,362,722</u></u>	<u><u>100%</u></u>	<u><u>(12.4%)</u></u>	<u><u>9,544,418</u></u>	<u><u>100%</u></u>

Geographically, the Group's customers are principally located in the PRC, Europe, Middle East and Africa (“EMEA”), Americas and Asia-Pacific (other than PRC). The Group recorded a growth in EMEA while sales in other major markets decreased.

The Group's sales revenue in the PRC decreased by 16.5% from RMB6,170.7 million for the year ended 31 December 2018 to RMB5,151.8 million for the Period, representing 61.6% of the Group's total revenue (2018: 64.6%). The decrease was partly due to weakened demand from reserve power batteries in the PRC during the Period and partly due to the decreased production output from Recycled lead products.

The following revenue information is based on the customer location for the years ended 31 December 2019 and 2018:

	2019		Percentage increase/ (decrease)	2018	
	Revenue <i>RMB'000</i>	Percentage share		Revenue <i>RMB'000</i>	Percentage share
PRC	5,151,752	61.6%	(16.5%)	6,170,748	64.6%
EMEA	1,425,098	17.1%	4.5%	1,363,606	14.3%
Americas	1,013,657	12.1%	(8.3%)	1,105,705	11.6%
Asia-Pacific (other than PRC)	772,215	9.2%	(14.6%)	904,359	9.5%
Total	<u>8,362,722</u>	<u>100%</u>	<u>(12.4%)</u>	<u>9,544,418</u>	<u>100%</u>

Cost of Sales

The Group's cost of sales decreased by 13.5% from RMB8,489.4 million for the year ended 31 December 2018 to RMB7,347.3 million for the Period. The decrease of cost of sales in recycled lead products was caused by the decline in sales while the decrease in battery business was mainly due to the average lead price drop in 2019 compared to 2018.

Gross Profit

The Group's gross profit slightly decreased by 3.8% from RMB1,055.0 million for the year ended 31 December 2018 to RMB1,015.4 million for the Period, mainly due to the delay in resumption of full operation from recycled lead products. The gross profit margin increased for battery business while decreased for recycled lead products, resulting in the increase of overall gross profit margin from 11.1% for the year ended 31 December 2018 to 12.1% for the Period. The increase of gross profit margin for battery business was mainly due to the better control of production costs while the decrease for recycled lead products was primarily a result of manufacturing suspension.

Other Income and Gains

Other income and gains increased by 46.9% from RMB118.3 million for the year ended 31 December 2018 to RMB173.8 million for the Period. The increase was mainly due to the recognition of gain on disposal of a subsidiary and increased government grants during the Period.

Selling and Distribution Expenses

The Group's selling and distribution costs decreased by 4.1% from RMB408.7 million for the year ended 31 December 2018 to RMB392.0 million for the Period. The decrease was mainly caused by the decline in freight charges and sales commission.

Administrative Expenses

The Group's administrative expenses increased slightly by 1.4% from RMB269.7 million for the year ended 31 December 2018 to RMB273.5 million for the Period. The increase was mainly due to more training courses organised by the Leoch University, a training centre set up in 2019.

R&D Expenses

The research and development expenditure of the Group increased by 7.5% from RMB111.0 million for the year ended 31 December 2018 to RMB119.3 million for the Period. The increase in expenditure was mainly used for performance enhancement of existing products and development of new products in all categories during the Period.

Other Expenses

The Group's other expenses increased by 18.1% from RMB35.3 million for the year ended 31 December 2018 to RMB41.7 million for the Period, which was mainly due to the recognition of loss on disposal of fixed assets from recycled lead products during the Period.

Finance Costs

The Group's finance costs decreased by 2.3% from RMB202.4 million for the year ended 31 December 2018 to RMB197.8 million for the Period as a result of less borrowings offsetting average interest hike during the Period.

Profit before Tax

As a result of the foregoing factors, the Group recorded profit before tax of RMB158.8 million for the Period as compared to RMB143.0 million for the year ended 31 December 2018.

Income Tax Expense

Income tax expense increased by 97.1% from RMB15.8 million for the year ended 31 December 2018 to RMB31.2 million for the Period, mainly because assessable profits from the lead-acid battery business increased while profit from the recycled lead products was not subject to tax during the Period.

Profit for the Year

As a result of the foregoing factors, the Group recorded net profit of RMB127.5 million (2018: RMB127.1 million) for the Period, of which the Group recorded profit attributable to the owners of the parent of RMB132.6 million (2018: RMB106.4 million) for the same period.

Net Current Assets

As at 31 December 2019, the Group had net current assets of RMB65.5 million (2018: RMB718.3 million). The decrease was mainly due to reclassification of the term loan due in May of 2020 as a current liability as at 31 December 2019. The Group's current assets mainly consist of inventories, trade receivables, debt investments at fair value through other comprehensive income, cash and bank balances, prepayments, other receivables and other assets. The Group's current liabilities mainly consist of trade and bills payables, other payables and accruals, and interest-bearing bank borrowings.

Inventories

Inventories constituted one of the principal components of the Group's current assets. As at 31 December 2019, the Group had inventories of RMB1,817.0 million (2018: RMB1,963.0 million). Inventories decreased as a result of lower carrying cost in lead during the Period.

Trade receivables

The Group's trade receivables primarily related to receivables for goods sold to its customers and mainly comprised customers from the battery business. As at 31 December 2019, the Group had trade receivables of RMB2,306.9 million (2018: RMB2,424.7 million). The decrease in trade receivables was in line with the decrease in sales from battery business during the Period.

Prepayments, other receivables and other assets

The Group's prepayments mostly relate to the purchase of raw materials. As at 31 December 2019, the Group had prepayments, other receivables and other assets of RMB162.0 million (2018: RMB186.7 million), decreasing by 13.2%. The decrease was in line with the decrease in sales and production during the Period.

Trade and Bills Payables

The Group's trade and bills payables primarily relate to its purchase of raw materials for production. As at 31 December 2019, the Group had trade and bills payables of RMB2,009.7 million (2018: RMB2,001.7 million).

Other Payables and Accruals

The Group's other payables and accruals primarily consisted of provision for social insurance and retirement benefits, payments for its expenditures related to construction and renovation of its production facilities, payments in connection with transportation charges, contract liabilities, tax payables other than current income tax liabilities and accruals for payroll and benefits for its employees. As at 31 December 2019, the Group had other payables and accruals of RMB854.8 million (2018: RMB777.4 million), the increase was mainly due to increase in payables for purchase of fixed assets.

Capital Expenditures

During the Period, the Group invested RMB398.1 million (2018: RMB296.2 million) in property, plant and equipment for its new production facilities.

Liquidity and Financial Resources

As at 31 December 2019, the Group's net current assets amounted to RMB65.5 million (2018: RMB718.3 million), among which cash and bank deposits amounted to RMB804.8 million (2018: RMB987.4 million). As at 31 December 2019, the Group had bank borrowings of RMB2,306.2 million (2018: RMB2,884.1 million), all of which are interest-bearing. Except for borrowings of RMB36.2 million (2018: RMB712.8 million) which has a maturity over one year, all of the Group's bank borrowings were repayable within one year. The Group's borrowings were denominated in RMB, US dollars, HK dollars, Singapore dollars, Malaysian ringgits and Great Britain Pound, and the effective interest rates of which as of 31 December 2019 were 1.50% to 8.70% (2018: 1.50% to 8.32%).

A portion of the Group's bank borrowings was secured by pledges over certain assets of the Group including property, plant and equipment, leasehold lands, deposits and trade and bills receivables. As at 31 December 2019, the Group's gearing ratio was 26.6% (2018: 31.9%), which was calculated by dividing total borrowings by total assets as at the end of each respective period, multiplied by 100%.

Contingent Liabilities

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

Foreign Exchange Risk

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

Material Acquisition and Disposal

On 2 September 2019, Shenzhen Leoch New Energy Development Co. Ltd, an indirect wholly owned subsidiary of the Company, entered into nine unconditional sale and purchase agreements of identical terms and conditions with Shenzhen Zhaohua International Exhibition Development Co., Ltd. for the acquisition of Units 1401 to 1409, Block A, Tower 6, Zhong Gang Plaza, Expo Bay, Fuyong Airport New City South, Baoan District, Shenzhen, PRC for the aggregate cash consideration of RMB110,313,236.

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

EMPLOYEES

As at 31 December 2019, the Group had around 13,338 employees. Employee benefit expenses (including directors' remuneration), which comprised wages and salaries, performance-related bonuses, equity-settled share option expenses and retirement benefit scheme contributions, totaled RMB805.3 million for the Period (2018: RMB838.6 million).

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

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK2.0 cents cents per share for the year ended 31 December 2019 (2018: HK2.0 cents). The final dividend shall be payable to the shareholders of the Company (the “**Shareholders**”) whose names appear on the register of members of the Company as at the close of business on Wednesday, 3 June 2020. Subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company (the “**AGM**”), the final dividend will be paid to the Shareholders on or about Wednesday, 8 July 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed:

- (i) from Tuesday, 19 May 2020, to Friday, 22 May 2020, (both days inclusive (both days inclusive) for the purpose of determining Shareholders' entitlement to attend and vote at the AGM, during which period no transfer of Shares will be registered. In order to be eligible to attending and vote at the AGM, Shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Monday, 18 May 2020; and
- (ii) from Monday, 1 June 2020 to Wednesday, 3 June 2020 (both days inclusive), for the purpose of determining shareholders' entitlement to receive the final dividend, during which period no transfer of Shares will be registered. In order to qualify for receiving the final dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Friday, 29 May 2020.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as the code for dealing in securities of the Company by its directors. After making specific enquiries, all directors of the Company confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

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

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITORS

The figures in this announcement of the results of the Group for the year ended 31 December 2019 have been agreed to the amounts set out in the Group's draft consolidated financial statements for the year by the Group's auditor, Ernst & Young ("EY"). The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standard on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by EY on the preliminary announcement.

AUDIT COMMITTEE

The Audit Committee, which comprises three independent non-executive directors of the Company, namely, Mr. CAO Yixiong Alan (chairman of the Audit Committee), Mr. LAU Chi Kit and Dr. ZHU Ping, has reviewed the financial statements of the Group for the year ended 31 December 2019 and has discussed with the management and the external auditor of the Company on the accounting policies and practices adopted by the Group and the internal controls and financial reporting matters of the Group.

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

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

ANNUAL GENERAL MEETING

The AGM will be held on or about Friday, 22 May 2020. Notice of the AGM will be sent to the Shareholders in due course. The poll results of the AGM will be published shortly after the AGM.

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

APPRECIATION

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

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

Hong Kong, 27 March 2020

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