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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 2010

FINANCIAL HIGHLIGHTS

- Revenue increased by 52.1% to RMB2,116.9 million.
- Gross profit increased by 81.6% to RMB525.6 million.
- Profit attributable to owners of the Company increased by 77.3% to RMB257.5 million.
- Basic earnings per share was RMB0.25.

ANNUAL RESULTS

The board of directors (the “**Board**”) of Leoch International Technology Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2010. 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 2010 prior to recommending them to the Board for approval.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

		2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
	<i>Notes</i>		
REVENUE	4	2,116,871	1,391,533
Cost of sales		(1,591,254)	(1,102,083)
Gross profit		525,617	289,450
Other income and gains	4	22,375	20,561
Selling and distribution costs		(76,495)	(57,292)
Administrative expenses		(119,261)	(70,084)
Other expenses		(30,311)	(13,220)
Finance costs	6	(22,205)	(9,614)
PROFIT BEFORE TAX	5	299,720	159,801
Income tax expense	7	(42,210)	(14,523)
PROFIT FOR THE YEAR		257,510	145,278
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		(1,027)	(56)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		(1,027)	(56)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		256,483	145,222
Profit attributable to:			
Owners of the Company		257,510	145,273
Non-controlling interests		—	5
		257,510	145,278
Total comprehensive income attributable to:			
Owners of the Company		256,483	145,218
Non-controlling interests		—	4
		256,483	145,222
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic			
— For profit for the year		RMB0.25	NA
Diluted			
— For profit for the year		RMB0.24	NA

Details of the dividends payable and proposed for the year are disclosed in Note 8 below.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	<i>Notes</i>	2010 RMB'000	2009 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		520,929	367,587
Prepaid land lease payments		57,907	42,440
Intangible assets		3,401	2,719
Long term portion of trade receivables		11,335	19,346
Deposits paid for purchase of items of property, plant and equipment		42,584	11,371
Deferred tax assets		1,801	1,628
Total non-current assets		637,957	445,091
CURRENT ASSETS			
Inventories	10	687,654	180,659
Trade and bills receivables	11	585,140	340,393
Prepayments, deposits and other receivables	12	175,008	28,526
Tax recoverable		24,997	335
Amounts due from related companies		4,806	34,245
Equity investments at fair value through profit or loss		1,480	—
Pledged deposits	13	67,311	18,754
Time deposit with terms over 3 months		721,075	—
Cash and cash equivalents	13	178,647	43,189
Total current assets		2,446,118	646,101
CURRENT LIABILITIES			
Trade and bills payables	14	345,450	163,106
Other payables and accruals	15	161,320	130,550
Interest-bearing bank borrowings	16	416,629	173,331
Amount due to a director		—	58,476
Amounts due to related companies		48,135	54,383
Income tax payable		32,556	13,428
Total current liabilities		1,004,090	593,274
NET CURRENT ASSETS		1,442,028	52,827
TOTAL ASSETS LESS CURRENT LIABILITIES		2,079,985	497,918

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)**31 December 2010*

	<i>Notes</i>	2010 RMB'000	2,009 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		211	754
Total non-current liabilities		211	754
Net assets		2,079,774	497,164
EQUITY			
Equity			
Issued capital		114,267	—
Reserves		1,965,507	497,164
Total equity		2,079,774	497,164

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 27 April 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and the Company's shares (the "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 Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Group is principally engaged in the manufacture and development of lead-acid batteries.

2.1 BASIS OF PREPARATION

The financial statements has been prepared in accordance with IFRSs which comprise standards and interpretations approved by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. The Group has early adopted all IFRSs, which are effective for the accounting period beginning on 1 January 2010, that are relevant to the Group's operations throughout the presented periods, except for IFRS 3 (Revised), which has been applied for business combination for which the acquisition date is on or after 1 January 2010, and IAS 27 (Revised) which has been applied for accounting period beginning on 1 January 2010.

2.2 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.

IFRS 1 Amendment	Amendment to IFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i> ²
IFRS 1 Amendment	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ⁴
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures — Transfers of Financial Assets</i> ⁴
IFRS 9	<i>Financial Instruments</i> ⁵
IAS 12 Amendments	Amendments to IAS 12 <i>Income Taxes — Deferred Tax: Recovery of Underlying Assets</i> ⁶
IAS 24 (Revised)	<i>Related Party Disclosures</i> ³
IAS 32 Amendment	Amendment to IAS 32 <i>Financial Instruments: Presentation — Classification of Rights Issues</i> ¹
IFRIC 14 Amendments	Amendments to IFRIC 14 <i>Prepayments of a Minimum Funding Requirement</i> ³
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ²

Apart from the above, the IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

¹ Effective for annual periods beginning on or after 1 February 2010

² Effective for annual periods beginning on or after 1 July 2010

³ Effective for annual periods beginning on or after 1 January 2011

⁴ Effective for annual periods beginning on or after 1 July 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

⁶ Effective for annual periods beginning on or after 1 January 2012

Further information about those changes that are expected to significantly affect the Group is as follows:

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In November 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2013.

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt IAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

Improvements to IFRSs 2010 issued in May 2010 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

Those amendments that are expected to have a significant impact on the Group's policies are as follows:

- (a) *IFRS 3 Business Combinations*: Clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- (b) *IAS 1 Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- (c) *IAS 27 Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

3. OPERATING SEGMENT INFORMATION

The Group is engaged in the manufacture and sale of lead-acid batteries. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the manufacture and sale of lead-acid batteries.

No operating segments have been aggregated to form the above reportable operating segment.

Geographical information

(a) Revenue from external customers

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
PRC	878,176	625,398
European Union	409,179	248,439
United States of America	343,894	256,199
Other Asian countries/areas	399,417	202,198
Other countries	86,205	59,299
	<u>2,116,871</u>	<u>1,391,533</u>

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

(b) Non-current assets

All significant operating assets of the Group are located in mainland China. Accordingly, no geographical information of segment assets is presented.

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold. An analysis of revenue, other income and gains is as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Revenue		
Sales of goods	<u>2,116,871</u>	<u>1,391,533</u>
Other income and gains		
Rental income	20	186
Bank interest income	2,706	610
Government grants	14,506	17,145
Sale of scrap materials	2,812	1,096
Fair value gains from equity investments carried at fair value through profit or loss	275	—
Others	<u>2,056</u>	<u>1,524</u>
	<u>22,375</u>	<u>20,561</u>

Various government grants represented cash payments and subsidies by the local finance bureau to the Group as an encouragement to its investment and technological innovation. There are no unfulfilled conditions or contingencies relating to such subsidies.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Cost of inventories sold	<u>1,440,799</u>	<u>1,102,083</u>
Employee benefit expense (including directors' remuneration):		
Wages and salaries	182,450	108,482
Performance related bonuses	586	321
Equity-settled share option expenses	6,830	—
Retirement benefit scheme contributions	<u>7,652</u>	<u>5,658</u>
	<u>197,518</u>	<u>114,461</u>
Research and development costs	16,501	10,853
Auditors' remuneration	1,445	135
Transaction expenses for offering and listing of shares	16,871	—
Depreciation of property, plant and equipment	42,100	32,044
Amortisation of prepaid land lease payments	1,573	919
Amortisation of intangible assets	372	324
Impairment of trade receivables	3,786	688
Minimum lease payments under operating leases	4,832	5,839
Exchange loss, net	7,493	780
(Gain)/Loss on disposal of items of property, plant and equipment	<u>(33)</u>	<u>11</u>

6. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Interest on bank borrowings	17,293	6,549
Interest arising from discounted bills	4,912	3,065
	<u>22,205</u>	<u>9,614</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.

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

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Group:		
Current — PRC	42,133	13,920
Current — Hong Kong	793	18
Deferred tax	(716)	585
Total tax charge for the year	<u>42,210</u>	<u>14,523</u>

A reconciliation of the income tax expense applicable to profit before tax multiplied by the applicable statutory rate for the country in which the Company and the majority of its subsidiaries are domiciled (i.e. the PRC) to the tax expense at effective tax rate is as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Profit before tax	299,720	159,801
The applicable tax rate of the Group	25%	25%
Tax at the applicable tax rate	74,930	39,950
Tax concession for certain subsidiaries	(39,398)	(25,819)
Income not subject to tax	(934)	(478)
Expenses not deductible for tax	8,102	380
Others	(490)	490
Tax charge at the Group's effective rate	<u>42,210</u>	<u>14,523</u>

8. DIVIDENDS

No dividend has been paid or declared by the Company since the date of its incorporation.

The dividends paid or declared by the Company's subsidiaries to its then shareholders were as follows:

	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends paid	<u>147,655</u>	<u>10,142</u>

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,041,666,750 in issue during the year.

The calculation of diluted earnings per share amounts 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:

Earnings	2010
	<i>RMB'000</i>
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share	<u>257,510</u>
Shares	Number of shares
	2010
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,041,666,750
Effect of dilution — weighted average number of ordinary shares:	
Share options	<u>15,942,500</u>
	<u>1,057,609,250</u>

10. INVENTORIES

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Raw materials	175,940	34,897
Work in progress	285,789	80,321
Finished goods	225,925	65,441
	<u>687,654</u>	<u>180,659</u>

11. TRADE AND BILLS RECEIVABLES

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Trade receivables	572,561	365,570
Bills receivables	33,264	949
Less: Impairment provision	<u>(9,350)</u>	<u>(6,780)</u>
	596,475	359,739
Less: Non-current portion	<u>(11,335)</u>	<u>(19,346)</u>
	<u>585,140</u>	<u>340,393</u>

An aged analysis of the trade and bills receivables as at 31 December 2009 and 31 December 2010 based on the invoice date, net of provisions, is as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Within 90 days	444,047	268,565
91 to 180 days	88,472	42,245
181 to 365 days	44,545	41,019
1 to 2 years	17,992	6,830
Over 2 years	<u>1,419</u>	<u>1,080</u>
	<u>596,475</u>	<u>359,739</u>

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

	2010 RMB'000	2009 <i>RMB'000</i>
At 1 January 2010	6,780	6,092
Impairment losses recognised	4,737	688
Amount written off as uncollectible	(1,216)	—
Impairment losses reversed	(951)	—
At end of year	9,350	6,780

The above provision for impairment of trade receivables relate to individual customers that were in financial difficulties and the receivables that are not expected to be recoverable. These balances were fully provided for. The Group does not hold any collateral or other credit enhancements over these balances. The bills receivables are due to mature within 180 days from 31 December 2010.

The analysis of trade and bills receivables that were not considered to be impaired is as follows:

	2010 RMB'000	2009 <i>RMB'000</i>
Neither past due nor impaired	595,056	358,659
Past due over 1 year but not impaired	1,419	1,080
	596,475	359,739

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

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

The carrying amounts of the trade and bills receivables pledged as security for interest-bearing bank loans granted to the Group was RMB2.5 million as at 31 December 2010 (31 December 2009: RMB1.0 million).

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Prepayments	162,700	23,526
Prepaid land lease payment	925	946
Deposits and other receivables	11,383	4,054
	<u>175,008</u>	<u>28,526</u>

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

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group 2010 <i>RMB'000</i>	2009 <i>RMB'000</i>	Company 2010 <i>RMB'000</i>
Cash and bank balances	200,948	61,943	118
Time deposits	766,085	—	766,085
	<u>967,033</u>	<u>61,943</u>	<u>766,203</u>
Less: Pledged for interest-bearing bank borrowings	(1,178)	(1,000)	—
Pledged for bills payables	(59,063)	(15,799)	—
Pledged for letters of credit	(7,070)	(1,955)	—
Time deposits with terms over 3 months	(721,075)	—	(721,075)
	(788,386)	(18,754)	(721,075)
Cash and cash equivalents	<u>178,647</u>	<u>43,189</u>	<u>45,128</u>
Denominated in RMB	909,368	57,024	766,115
Denominated in US\$	30,344	4,419	—
Denominated in HK\$	19,843	492	88
Denominated in EUR	6,496	8	—
Denominated in SGD	982	—	—
	<u>967,033</u>	<u>61,943</u>	<u>766,203</u>

14. TRADE AND BILLS PAYABLES

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Trade payables	100,378	74,211
Bills payables	245,072	88,895
	<u>345,450</u>	<u>163,106</u>

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

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Within 90 days	196,091	65,671
91 to 180 days	83,092	83,888
181 to 365 days	58,868	3,243
1 to 2 years	1,734	4,104
2 to 3 years	923	750
Over 3 years	4,742	5,450
	<u>345,450</u>	<u>163,106</u>

15. OTHER PAYABLES AND ACCRUALS

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Payables for purchase of items of property, plant and equipment	11,597	20,332
Advances from customers	25,387	19,406
Accrued expenses	29,489	18,251
Accrued payroll	16,681	9,621
Value-added tax payable	—	4,963
Deferred government grants	43,493	30,436
Provision for social insurance and retirement benefits	27,203	20,807
Others	7,470	6,734
	<u>161,320</u>	<u>130,550</u>

16. INTEREST-BEARING BANK BORROWINGS

	2010 RMB'000	2009 <i>RMB'000</i>
Interest-bearing bank borrowings, secured	336,296	172,362
Interest-bearing bank borrowings, unsecured	77,878	—
Collateralised bank advances, secured	2,455	969
Total	416,629	173,331
Dominated in RMB	396,146	166,900
Dominated in USD	20,483	6,431
	416,629	173,331
Interest rates per annum:	3.46% to 5.89%	2.28% to 5.31%

The above interest-bearing bank borrowings were all repayable within one year. The Group's secured bank borrowings are secured by the following pledge or guarantees:

- (i) pledge of the Group's assets with total value of RMB265.3 million (31 December 2009: RMB210.2 million).
- (ii) guarantees executed by one of the directors and a related company to the extent of:

	2010 RMB'000	2009 <i>RMB'000</i>
Personal guarantee by Mr. Dong Li	—	5,463
Corporate guarantee by a related company: Dongguan Leoch Power Supply Co., Ltd.	—	30,000
	—	35,463

The above guarantees were released in current year.

- (iii) cross guarantees executed by companies within the Group.

17. SHARE OPTION SCHEME

The Company operates a pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) for the purpose of providing incentives and rewards to eligible persons who contribute to the success of the Group’s operations. Eligible persons of the Pre-IPO Share Option Scheme include the Company’s directors and other employees of the Group. Details of the Pre-IPO Share Option Scheme were disclosed in Appendix VII to the prospectus of the Company dated 3 November 2010 under the sub-section headed “Pre-IPO Share Option Scheme”.

18. PLEDGE OF ASSETS

31 December 2010	Prepaid land lease payments <i>RMB'000</i>	Property, plant and equipment <i>RMB'000</i>	Pledged deposits <i>RMB'000</i>	Trade and bills receivables <i>RMB'000</i>	Total <i>RMB'000</i>
Interest-bearing bank borrowings	3,421	258,260	1,178	2,455	265,314
Trade and bills payables	3,087	—	59,063	—	62,150
Deposits for issue of letters of credit	—	—	7,070	—	7,070
Total	6,508	258,260	67,311	2,455	334,534
31 December 2009	Prepaid land lease payments <i>RMB'000</i>	Property, plant and equipment <i>RMB'000</i>	Pledged deposits <i>RMB'000</i>	Trade and bills receivables <i>RMB'000</i>	Total <i>RMB'000</i>
Interest-bearing bank borrowings	27,944	180,249	1,000	969	210,162
Trade and bills payables	10,584	—	15,779	—	26,363
Deposits for issue of letter of credits	—	—	1,975	—	1,975
Total	38,528	180,249	18,754	969	238,500

19. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

As at 31 December 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Within one year	43	60
In the second to fifth years, inclusive	123	214
After five years	80	755
	<u>246</u>	<u>1,029</u>

(b) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from three to five years, and those for office equipment are for terms ranging between two and five years.

As at 31 December 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Within one year	5,607	3,531
In the second to fifth years, inclusive	8,365	10,107
After five years	—	28,473
	<u>13,972</u>	<u>42,111</u>

20. COMMITMENTS

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

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Contracted, but not provided for:		
Land and buildings	104,486	937
Plant and machinery	41,507	15,098
Capital contributions payable to:		
Acquisition of an associate	1,433	—
Subsidiary	20,000	—
	<u>167,426</u>	<u>16,035</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

China is the fastest growing lead-acid battery market in the world. According to Asia Battery Association, China's lead-acid battery market has grown from 54.0 million KVAh in 2005 to 166.5 million KVAh in 2010, representing a compound annual growth rate ("CAGR") of 25.26%.

The Group is a leading manufacturer and developer of lead-acid batteries in China. According to Asia Battery Association, the Group was the largest lead-acid battery exporter and the third largest reserve power lead-acid battery manufacturer in China based on export revenue in 2009. Lead-acid market is divided into three sectors: reserve power batteries, SLI batteries and motive power batteries. The Group manufactured over 1,500 models of lead-acid battery products including reserve power batteries, SLI batteries and motive power batteries, ranging in capacity from 0.251 Ah to 4,025 Ah. Among Chinese battery manufacturers, the Group offers one of the broadest lines of lead-acid batteries.

Reserve power batteries:

Reserve power batteries are the major source of the Group's revenue and it recorded a significant growth in sales during the year ended 31 December 2010 (the "Period"). According to Asia Battery Association, the market size of reserve power batteries is approximately 46.6 million KVAh in 2010. The Group recorded a sales volume of 3.7 million KVAh which amounted to RMB1,881.4 million, representing an increase of 50.9%, for the Period. Reserve power batteries products are mainly applied to four segments, namely uninterrupted power supply system (UPS), telecommunications, other consumer products, and renewable energy. The Group's sales in UPS segment increased remarkably, which is mainly attributable to the fact that the Group has started to replace foreign battery manufacturers and supply products to the major worldwide UPS manufacturers. The sales in telecommunication segment also increase significantly. The market share of the Group in telecommunications segment continued expanding. Therefore, the Group still obtained considerable growth even the telecommunications operators did not increase investment. As the global economy recovered, the sales of electronic consumer products rebounded driving the demand for batteries. The sales in consumer segment rose significantly during the Period. The sales in renewable energy batteries was increased significantly due to the application of new energy sources such as solar and wind energy power generation increased and the Group predicts this trend will continue.

SLI batteries:

SLI batteries are used in starting automobiles and motorcycles. The Group recorded a substantial growth in sales of SLI batteries during the Period. According to Asia Battery Association, the market size of SLI batteries is approximately 58.4 million KVAh in 2010. The Group recorded a sales volume of 0.3 million KVAh which amounted to RMB146.8 million, representing an increase of 61.5%, for the Period. This is mainly benefited from the cooperation with foreign manufacturers of automobiles and motorcycles in the past few years. The quality and value of the Group's products have been recognised and therefore foreign manufacturers speed up transferring orders to the Group. The Group predicts this trend will continue.

Motive power batteries:

Motive power batteries are mainly used in providing power for electric vehicles (such as forklifts and golf cars), power tools and other portable equipment. We recorded a large growth in sales of motive power batteries during the Period. According to Asia Battery Association, the market size of motive power batteries is approximately 61.6 million KVAh in 2010. The Group recorded a sales volume of 0.1 million KVAh which amounted to RMB26.5 million, representing an increase of 863.4%, for the Period. After trial run, the Group commenced production of motive power batteries in 2010. Meanwhile, the increasing investment in green energies by different countries greatly raises demands for these kinds of motive power batteries. The Group predicts this trend will continue.

Sales network

The Group's China sales headquarter was located in Beijing and the Group has 31 sales representative offices in major provinces and municipalities nationwide. The Group's international sales headquarter was located in Shenzhen. The Group also has five international sales offices and warehouses in the United States, the European Union and Singapore. The Group's products are sold to more than 100 countries and regions worldwide. Currently, the Group has over 250 sales personnel and after-sales personnel and has established business relationships with distributors in 14 countries. The Group will continue expanding its sales teams and sales network.

Production base

As at 31 December 2010, the Group had five production bases and operated 53 production lines with plant area of 240,000 square metres. The installed annual production capacity was approximately 5.9 million KVAh in aggregate. The Group will actively seek and construct new production base in order to further strengthen the production capacity of the Group.

Research and development and development of new products

The Group is a leader in developing and deploying lead acid battery technologies in China. The Group's growing research and development team consists of more than 300 researchers and technicians, and works closely with domestic and international battery experts and battery research institutions to develop new technologies. To support its research and development effort, the Group has established two high-tech research centers with advanced equipment to complement its research and development human resources. The Group's strong research and development capabilities have enabled it to produce a broad range of battery products employing most of the key lead-acid battery technologies and enhanced its ability to deliver customised products in a short period of time. The Group continuously pursues technological advancement and innovation of its products. Currently, the Group has registered 48 patents in China and one patent in Hong Kong and other 145 proprietary technologies are under application for patent registration.

With the endeavors of the Group's researchers and technicians for two years, the Group's pure lead batteries production line started trial production at the end of 2010. A number of customers have placed orders for the Group's pure lead batteries for product testing. The Group anticipates pure lead batteries will provide positive effect towards enhancing its profits. The Group will continuously develop and place resources in new high technologies so as to maintain its leadership in technological aspect.

Raw materials

Lead constitutes the largest share of raw material of the Group, which represented approximately 64.1% to the cost of raw materials for the Period. Pursuant to the contracts with lead supplier, the price of each shipment is based on the lead price published on by the Shanghai Metals Market. To protect itself from the risk of price fluctuation, sales contracts with the Group's customers have similar pricing mechanism, where prices of the Group's products are adjusted if the lead price on the Shanghai Metals Market rises or falls beyond a certain range.

Prospects

The Company considers batteries as necessities of modern society and form an important part of renewable energy industry. The Company believes green energy is the main stream of energy industry development. Lead acid batteries is considered irreplaceable in the foreseeable future, due to its high cycling rate, low production cost and safety reliability. The Company, therefore, anticipates that due to the four aspects of technology and industry upgrade in China battery industry, consolidation of China battery industry, urbanisation and national income increase in China and renewable energy is supported by governments worldwide with increasing application in the future, the lead acid market in China will enjoy continuous increase. To grasp these market opportunities, the Company has the following strategic plans for the three sectors of lead acid batteries:

Reserve power batteries:

As the technologies keep improving and the PRC industries keep upgrading, and as a result of the migration from reliance on low-end techniques in the past to current high-end level, international users would speed up the transfer of their orders to PRC. The Company considers that the four segments of reserve power batteries, namely UPS, telecommunication, other consumer products, and renewable energy, will maintain their expansion trend. The products manufactured by the Group passed the trial of several quality UPS manufacturers in local and international markets; hence, it is expected that more orders from quality customers will be secured which will also generate substantial orders from the after-sales market accordingly. The Company believes that the Group's ability to provide quality services and products to telecommunication operators will enable itself to further increase its market share in the telecommunication battery market. The continued sales growth of electronic consumables driven by global economic growth and highlights of competitive strengths of products manufactured in China increase the demand for consumer product batteries. The Group will strive to satisfy the market of such products. The sales in renewable energy such as solar and wind energy batteries will also be increased significantly due to the promotion and application in green energy industry.

SLI batteries:

PRC economy is in a fast growing period and enjoys growing consumption demands, and urbanisation rate, which increase the demand for domestic vehicles. During the year 2010, China ranked first in vehicle production and sales in the world, which further power the demand for SLI batteries. The Group will further seize the market by producing more advanced products of high quality. In the coming years, the Group will enlarge its investment in SLI batteries, and it is expected that SLI batteries will contribute to the continuous growth of the Group's sales.

Motive power batteries:

Various countries, particularly the developed ones, have placed emphasis on green energy in recent years. China also increases its support to the green energy industry, and extensively promotes electric vehicles. The Chinese government has included the promotion of green energy vehicles into its national plan, which enhanced demand for motive power batteries. The Group will further develop its capacities in the level of research and development as well as in production and sales to provide competitive products in the market, in order to continuously satisfy the increasing market demand.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by 52.1% from RMB1,391.5 million for the year ended 31 December 2009 to RMB2,116.9 million for the year ended 31 December 2010, mainly because of an increase in sales volume for the Group's products.

In terms of battery types, revenue from reserve power batteries increased from RMB1,246.8 million for the year ended 31 December 2009 to RMB1,881.4 million for the year ended 31 December 2010, representing an increase of 50.9%. Revenue generated from SLI batteries raised by 61.5% from RMB90.8 million for the year ended 31 December 2009 to RMB146.8 million for the year ended 31 December 2010. Revenue from motive power batteries increased from RMB2.8 million for the year ended 31 December 2009 to RMB26.5 million for the year ended 31 December 2009, representing an increase of 863.4%. Details of the Group's revenue for the year ended 31 December 2009 and 2010 by product categories are set out below:

Product Category	2010			2009	
	Revenue RMB'000	Share	Percentage increase	Revenue RMB'000	Share
Reserve power batteries	1,881,424	88.9%	50.9%	1,246,768	89.6%
SLI batteries	146,750	6.9%	61.5%	90,845	6.5%
Motive power batteries	26,541	1.3%	863.4%	2,755	0.2%
Other	62,156	2.9%	21.5%	51,165	3.7%
Total	<u>2,116,871</u>	<u>100%</u>	<u>52.1%</u>	<u>1,391,533</u>	<u>100%</u>

Geographically, the Group's customers are principally located in China, the United States, the European Union and other Asian countries/regions. As at the year ended 31 December 2010, the Group's sales revenue in China increased significantly by 40.4% from RMB625.4 million for the year ended 31 December 2009 to RMB878.2 million, representing 41.5% of total revenue (31 December 2009: 44.9%). Although sales in China recorded substantial increase, the Group's revenue from other Asian countries/areas recorded proportionately greater increase during the Period, as the manufacturers of the region transferred larger number of orders to the Group. As the increase in sales in other Asian countries/areas is comparably higher than that of other regions, the proportion of sales from China and the United States decreased relatively. The following table sets forth details of the Group's revenue during the year ended 31 December 2009 and 2010 based on the geographic locations.

	2010			2009	
	RMB'000	Share (%)	Percentage increase	RMB'000	Share (%)
China	878,176	41.5%	40.4%	625,398	44.9%
United States	343,894	16.2%	34.2%	256,199	18.4%
European Union	409,179	19.3%	64.7%	248,439	17.9%
Other Asian Countries/Areas	399,417	18.9%	97.5%	202,198	14.5%
Other Countries	86,205	4.1%	45.4%	59,299	4.3%
Total	<u>2,116,871</u>	<u>100%</u>	<u>52.1%</u>	<u>1,391,533</u>	<u>100%</u>

Cost of Sales

The Group's cost of sales increased by 44.4% from RMB1,102.1 million for the year ended 31 December 2009 to RMB1,591.3 million for the year ended 31 December 2010, mainly because of the increased sales volume.

Gross profit

The Group's gross profit increased by 81.6% from RMB289.5 million for the year ended 31 December 2009 to RMB525.6 million for the year ended 31 December 2010. The overall gross profit margin increased from 20.8% for the year ended 31 December 2009 to 24.8% for the year ended 31 December 2010. This was mainly due to decreased unit fixed costs as the result of economic of scale caused by increased sales, and the improvement of existing production procedures, which also contributed to higher gross profit for the Group.

Other Income and Gains

Other income and gains increased by 8.8% from RMB20.6 million for the year ended 31 December 2009 to RMB22.4 million for the year ended 31 December 2010, which was primarily due to increases in bank interest income.

Selling and Distribution Costs

The Group's selling and distribution costs increased by 33.5% from RMB57.3 million for the year ended 31 December 2009 to RMB76.5 million for the year ended 31 December 2010, mainly because of the increase of freight and staff cost related to the expanding sales.

Administrative expenses

The Group's administrative expenses increased by 70.2% from RMB70.1 million for the year ended 31 December 2009 to RMB119.3 million for the year ended 31 December 2010, mainly because of the professional expenses relating to the global offering of the Company and the increase in staff cost to strengthen the Group's management.

Other Expenses

The Group's other operating expenses increased by 129.3% from RMB13.2 million for the year ended 31 December 2009 to RMB30.3 million for the year ended 31 December 2010, mainly because of the increased research and development cost.

Finance Costs

The Group's finance costs increased by 131.0% from RMB9.6 million for the year ended 31 December 2009 to RMB22.2 million for the year ended 31 December 2010, mainly because of an increase in bank borrowings.

Profit before Income Tax

As a result of the foregoing factors, the Group recorded profit before income taxes of RMB299.7 million in the year ended 31 December 2010 compared to RMB159.8 million in the year ended 31 December 2009, representing an increase of 87.6%.

Income Tax Expense

Income tax expense increased by 190.6% from RMB14.5 million for the year ended 31 December 2009 to RMB42.2 million for the year ended 31 December 2010, mainly because of the increase in the Group's profits and two of the Company's PRC subsidiaries no longer enjoy full exemption from income tax.

Profit for the Year

As a result of the foregoing factors, the Group's profit for the year increased by 77.3% from RMB145.3 million for the year ended 31 December 2009 to RMB257.5 million for the year ended 31 December 2010.

Net Current Assets

As at 31 December 2010, the Group had net current assets of RMB1,442.0 million (31 December 2009: RMB52.8 million). The Group's current assets mainly consist of inventories, trade and bills receivables, cash and bank balances, and prepayments, deposits and other receivables. The Group's current liabilities mainly consist of trade and bills payables, other payables and accruals, and interest-bearing bank borrowings.

Inventories

Inventories constituted one of the principal components of the Group's current assets. As at 31 December 2010, the Group had inventories of RMB687.7 million (31 December 2009: RMB180.7 million). The increase in inventories was primarily due to higher sales volume lead to high preparation inventory and increased purchases of raw materials associated with increased production volume.

Trade and Other Receivables Analysis

(a) Trade and bills receivables

The Group's trade and bills receivables primarily relate to receivables for goods sold to its customers. As at 31 December 2010, the Group had trade and bills receivables of RMB585.1 million (31 December 2009: RMB340.4 million). The increase in trade and bills receivables was primarily due to the increase in sales volume.

(b) Prepayments, deposits and other receivables

The Group principally makes prepayments and deposits in connection with its purchase of raw materials, the large majority of which relates to its purchase of lead. As at 31 December 2010, the Group had prepayments, deposits and other receivables of RMB175.0 million (31 December 2009: RMB28.5 million). The increase in prepayments, deposits and other receivables was primarily due to the increase in the Group's scale of operations and the related increase in the deposits paid to the Group's suppliers.

Trade and Bills Payables

The Group's trade and bills payables primarily relate to its purchase of raw materials that the Group requires for its production process. The largest component of trade and bills payables relates to the Group's purchase of lead. As at 31 December 2010, the Group had trade and bills payables of RMB345.5 million (31 December 2009: RMB163.1 million).

Other Payables and Accruals

The Group's other payables and accruals primarily consist of payments for its expenditures related to construction and outfitting of its production facilities, payments it makes in connection with transportation charges, advance payments that some international customers make to it in advance of its shipments, and payroll and benefits for its employees and staff. Deferred government grants represent subsidies from PRC government in relation to prepaid land lease payment as encouragements to the Group's capital investments. As at 31 December 2010, the Group had other payables and accruals of RMB161.3 million (31 December 2009: RMB130.6 million).

Capital Expenditures

During the year ended 31 December 2010, the Group invested RMB197.7 million (31 December 2009: RMB100.6 million) in construction in progress and property, plant and equipment for its new production facilities.

Borrowings

As at 31 December 2010, the Group had bank borrowings of RMB416.6 million (31 December 2009: RMB173.3 million), all of which are interest-bearing and repayable within one year. The Group's borrowings are denominated in RMB and U.S. dollars, and the effective interest rates of which as of 31 December 2010 were 3.46% to 5.89% (31 December 2009: 2.28% to 5.31%).

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

As at 31 December 2010, the Group's gearing ratio was 13.5% (31 December 2009: 21.4%), which was calculated by dividing total borrowings by total assets as of the end of each respective period, multiplied by 100%.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2010 (31 December 2009: nil).

Foreign Exchange Risk

The Group operates primarily in the PRC. For the Group's companies in the PRC, their principal activities are transacted in RMB. For other companies outside of the PRC, their principal activities are transacted in U.S. dollars. The Group does not enter into any hedging transactions to manage the potential fluctuation in foreign currency as the Directors believe that the Group does not have significant foreign currency risk exposure. However, as a result of the Group's revenue being denominated in RMB, the conversion of the revenue into foreign currencies in connection with expense payments is subject to PRC regulatory restrictions on currency conversion. The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, change in PRC's political and economic conditions. The Group's product sales adopted price mechanism, 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. Due to the Directors' consideration of that the Group is not exposed to material currency exchange risk, the Group did not arrange any hedge transaction to manage potential fluctuation risk.

EMPLOYEES

As at 31 December 2010, the Group had 7,590 employees. Employee benefit expense (including directors' remuneration), which comprise wages and salaries, performance related bonuses, equity-settled share option expenses and retirement benefit scheme contributions, totalled RMB197.5 million for the year ended 31 December 2010 (the year ended 31 December 2009: RMB114.5 million).

The Group did not experience any significant labour disputes or substantial changes in the number of employees that lead to any disruption of its normal business operations.

DIVIDEND

The Board does not consider payment of any final dividend for the year ended 31 December 2010.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code for dealing in securities of the Company by its directors. After specific enquiry, all directors of the Company confirmed that they have complied with the required standard of dealings set out therein from the date of listing on 16 November 2010 to the date of this announcement.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interests of shareholders and enhancing corporate value. The Board is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules since the date of its listing on the Stock Exchange, except for the following deviations:

Code Provision A.2.1

This code provision stipulates that the roles of chairman (responsible for the management of the board of directors) and chief executive officer (responsible for the day-to-day management of the listed issuer's business) should be separate and should not be performed by the same individual. Currently, Mr. Dong Li is both the chairman and the chief executive officer of the Company. As Mr. Dong Li is the founder of the Group and has extensive experience in battery industry, the Board believes that it is in the best interest of the Group to have Mr. Dong Li taking up both roles for continuous effective management of the Board and business development of the Group.

AUDIT COMMITTEE

The Audit Committee, which comprises three independent non-executive directors of the Company, namely, Mr. Cao Yixiong Alan (chairman of the Audit Committee), Mr. Liu Yangsheng and Mr. An Wenbin, has reviewed the financial statements of the Group for the year ended 31 December 2010 and discussed with the management and the auditor of the Company on the accounting principles and practices adopted by the Group and internal controls and financial reporting matters.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on 16 November 2010, raising gross proceeds of HK\$1,783.3 million. As at 31 December 2010, HK\$656.0 million have been used to for expansion of production capacity, expansion of sales channels, and working capital and other general corporate purposes. The remaining net proceeds will be applied in the manner as stated in the prospectus of the Company dated 3 November 2010.

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 from its date of listing on 16 November 2010 to the date of this announcement.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2010, containing information required by the Listing Rules, will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.leoch.com) in due course.

APPRECIATION

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

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

Hong Kong, 15 March 2011

As of the date of this announcement, the executive Directors are Mr. Dong Li, Ms. Zhao Huan and Mr. Philip Armstrong Noznesky and the independent non-executive Directors are Mr. An Wenbin, Mr. Liu Yangsheng and Mr. Cao Yixiong Alan.