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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 2011

FINANCIAL HIGHLIGHTS

- Revenue increased by 49.5% to RMB3,164.1 million.
- Gross profit increased by 24.4% to RMB653.7 million.
- Profit attributable to owners of the Company increased by 10.1% to RMB283.6 million.
- Basic earnings per share was RMB0.21 (the year ended 31 December 2010: RMB 0.25), the calculation of such basic earnings per share amount is based on the profit attributable to ordinary equity holders of the Company, and the weighted average number of shares of 1,333,334,000 (2010: 1,041,666,750) in issue during the year.
- The Board proposed a final dividend of 1.6 HK cents per share and full year dividend amounted to 4.9 HK cents per share.

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 2011. 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 2011 prior to recommending them to the Board for approval.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	4	3,164,056	2,116,871
Cost of sales		<u>(2,510,311)</u>	<u>(1,591,254)</u>
Gross profit		653,745	525,617
Other income and gains	4	70,878	22,375
Selling and distribution costs		(114,048)	(76,495)
Administrative expenses		(179,758)	(119,261)
Other expenses		(73,545)	(30,311)
Finance costs	6	(29,128)	(22,205)
Share of profits of associates		<u>122</u>	<u>–</u>
PROFIT BEFORE TAX	5	328,266	299,720
Income tax expense	7	<u>(44,646)</u>	<u>(42,210)</u>
PROFIT FOR THE YEAR		<u>283,620</u>	<u>257,510</u>
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		<u>(8,773)</u>	<u>(1,027)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR		<u>(8,773)</u>	<u>(1,027)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>274,847</u></u>	<u><u>256,483</u></u>
Profit attributable to:			
Owners of the Company		<u>283,620</u>	<u>257,510</u>
		<u><u>283,620</u></u>	<u><u>257,510</u></u>
Total comprehensive income attributable to:			
Owners of the Company		<u><u>274,847</u></u>	<u><u>256,483</u></u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic			
– For profit for the year		<u><u>RMB0.21</u></u>	<u><u>RMB0.25</u></u>
Diluted			
– For profit for the year		<u><u>RMB0.21</u></u>	<u><u>RMB0.24</u></u>

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	<i>Notes</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,229,681	520,929
Prepaid land lease payments		75,069	57,907
Intangible assets		29,131	3,401
Non-current portion of trade receivables		14,115	11,335
Deposits paid for purchase of items of property, plant and equipment		90,787	42,584
Deferred tax assets		8,615	1,801
Interest in associates		5,442	–
Time deposits	<i>13</i>	28,500	–
Non-current portion of pledged deposits	<i>13</i>	365,650	–
Total non-current assets		1,846,990	637,957
CURRENT ASSETS			
Inventories	<i>10</i>	990,962	687,654
Trade and bills receivables	<i>11</i>	804,119	585,140
Prepayments, deposits and other receivables	<i>12</i>	159,434	175,008
Tax recoverable		87,422	24,997
Amounts due from related companies		13,150	4,806
Equity investments at fair value through profit or loss		1,262	1,480
Time deposits with terms over 3 months	<i>13</i>	–	721,075
Pledged deposits	<i>13</i>	274,841	67,311
Cash and cash equivalents	<i>13</i>	73,371	178,647
Total current assets		2,404,561	2,446,118
CURRENT LIABILITIES			
Trade and bills payables	<i>14</i>	547,859	345,450
Other payables and accruals	<i>15</i>	246,644	161,320
Interest-bearing bank borrowings	<i>16</i>	740,935	416,629
Amounts due to related companies		5,933	48,135
Income tax payable		45,066	32,556
Total current liabilities		1,586,437	1,004,090
NET CURRENT ASSETS		818,124	1,442,028
TOTAL ASSETS LESS CURRENT LIABILITIES		2,665,114	2,079,985

	<i>Notes</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		<u>4,209</u>	<u>211</u>
Interest-bearing bank borrowings	<i>16</i>	<u>330,691</u>	<u>–</u>
Total non-current liabilities		<u>334,900</u>	<u>211</u>
Net assets		<u>2,330,214</u>	<u>2,079,774</u>
EQUITY			
Issued capital		114,267	114,267
Reserves		<u>2,215,947</u>	<u>1,965,507</u>
Total equity		<u>2,330,214</u>	<u>2,079,774</u>

Notes:

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 27 April 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and the Company's shares (the "Shares") have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 November 2010 (the "Listing"). 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, development and sale of lead-acid batteries.

2.1 BASIS OF PREPARATION

The financial statements have 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.

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

	Group	
	2011	2010
	RMB'000	RMB'000
Mainland China	1,552,594	878,176
European Union	522,283	409,179
United States of America	489,453	343,894
Other Asian countries/areas	486,044	399,417
Other countries	113,682	86,205
	<u>3,164,056</u>	<u>2,116,871</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:

	Group	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Sale of goods	<u>3,164,056</u>	<u>2,116,871</u>
Other income and gains		
Rental income	58	20
Bank interest income	17,976	2,706
Government grants*	36,239	14,506
Sale of scrap materials	4,159	2,812
Fair value gains from equity investments carried at fair value through profit or loss	–	275
Exchange gain, net	7,642	–
Others	<u>4,804</u>	<u>2,056</u>
	<u>70,878</u>	<u>22,375</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:

	Group	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold	<u>2,232,196</u>	<u>1,440,799</u>
Employee benefit expense (including directors' remuneration):		
Wages and salaries	381,192	182,450
Performance related bonuses	1,689	586
Equity-settled share option expenses	11,546	6,830
Retirement benefit scheme contributions	<u>39,759</u>	<u>7,652</u>
	<u>434,186</u>	<u>197,518</u>
Research and development costs	66,730	16,501
Fair value loss from equity investments carried at fair value through profit or loss*	218	–
Auditors' remuneration	2,092	1,445
Transaction expenses for offering and listing of shares	–	16,871
Depreciation of property, plant and equipment	61,887	42,100
Amortisation of prepaid land lease payments	1,425	1,573
Amortisation of intangible assets**	469	372
(Reversal of impairment)/Impairment of trade receivables	(1,386)	3,786
Minimum lease payments under operating leases	7,007	4,832
Exchange (gains)/losses, net	(7,642)	7,493
Loss/(Gain) on disposal of items of property, plant and equipment	<u>5,611</u>	<u>(33)</u>

* The fair value loss from equity investment carried at fair value through profit or loss is included in "Other expenses" in the consolidated statement of comprehensive income.

** The amortisation of intangible assets is included in "Administrative expenses" in the consolidated statement of comprehensive income.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank borrowings	41,872	17,293
Interest arising from discounted bills	<u>4,090</u>	<u>4,912</u>
	45,962	22,205
Less: Interest capitalised	<u>(16,834)</u>	–
	<u>29,128</u>	<u>22,205</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:

	Group	
	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Group:		
Current – PRC	37,872	42,133
Current – Hong Kong	5,396	793
Current – Singapore	3,784	–
Current – US	410	–
Deferred tax	<u>(2,816)</u>	<u>(716)</u>
Total tax charge for the year	<u>44,646</u>	<u>42,210</u>

A reconciliation of the income tax expense applicable to profit before tax at the statutory rates 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 rates is as follows:

	Group	
	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Profit before tax	<u>328,266</u>	<u>299,720</u>
Applicable tax rate of the Group	25%	25%
Tax at the applicable tax rate	82,067	74,930
Tax concession for certain subsidiaries	(45,898)	(39,398)
Income not subject to tax	(4,188)	(934)
Expenses not deductible for tax	9,979	8,102
Tax losses not recognised	2,686	–
Others	<u>–</u>	<u>(490)</u>
Tax charge at the Group's effective rate	<u>44,646</u>	<u>42,210</u>

8. DIVIDENDS

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Interim – 3.3 HK cents (2010: Nil) per share	35,953	–
Final –1.6 HK cents (2010: Nil) per share	<u>21,332</u>	<u>–</u>
	<u>57,285</u>	<u>–</u>

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

The dividends paid by the Company's subsidiaries to its then shareholders during the year ended 31 December 2010 were approximately RMB147,655,000.

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,333,334,000 (2010: 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 Company. 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	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share	<u>283,620</u>	<u>257,510</u>
	Number of shares	
	2011	2010
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,333,334,000	1,041,666,750
Effect of dilution – weighted average number of ordinary shares: Share options	<u>24,899,484</u>	<u>15,942,500</u>
	<u>1,358,233,484</u>	<u>1,057,609,250</u>

10. INVENTORIES

	Group	
	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Raw materials	129,895	175,940
Work in progress	633,800	285,789
Finished goods	<u>227,267</u>	<u>225,925</u>
	<u>990,962</u>	<u>687,654</u>

11. TRADE AND BILLS RECEIVABLES

	Group	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	789,445	572,561
Bills receivables	36,569	33,264
Less: Impairment provision	<u>(7,780)</u>	<u>(9,350)</u>
	818,234	596,475
Less: Non-current portion	<u>(14,115)</u>	<u>(11,335)</u>
	<u>804,119</u>	<u>585,140</u>

The Group grants different credit periods to customers. The credit period of individual customers is considered on a case-by-case basis. Certain customers are required to make partial payment before or upon delivery. The Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade and bills receivables as at 31 December 2010 and 31 December 2011 based on the invoice date, net of provisions, is as follows:

	Group	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	625,468	444,047
91 to 180 days	147,822	88,472
181 to 365 days	29,441	44,545
1 to 2 years	11,148	17,992
Over 2 years	<u>4,355</u>	<u>1,419</u>
	<u>818,234</u>	<u>596,475</u>

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

	Group	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2011	9,350	6,780
Impairment losses recognised	3,305	4,737
Amount written off as uncollectible	(184)	(1,216)
Impairment losses reversed	<u>(4,691)</u>	<u>(951)</u>
At end of year	<u>7,780</u>	<u>9,350</u>

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 bills receivables are due to mature within 180 days from 31 December 2011.

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

	Group	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	813,879	595,056
Past due over 1 year but not impaired	4,355	1,419
	<u>818,234</u>	<u>596,475</u>

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 carrying amounts of the trade and bills receivables pledged as security for interest-bearing bank loans granted to the Group amounted to RMB75.6 million as at 31 December 2011 (31 December 2010: RMB2.5 million).

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	130,419	162,700	–	–
Prepaid land lease payment	1,338	925	–	–
Interest receivables	9,094	1,629	9,094	–
Deposits and other receivables	18,583	9,754	–	1,629
	<u>159,434</u>	<u>175,008</u>	<u>9,094</u>	<u>1,629</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		Company	
	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Cash and bank balances	120,185	200,948	249	118
Time deposits	622,177	766,085	622,177	766,085
	<u>742,362</u>	<u>967,033</u>	<u>622,426</u>	<u>766,203</u>
Less: Pledged for interest-bearing bank borrowings	(591,377)	(1,178)	(591,377)	–
Pledged for bills payables	(16,608)	(59,063)	–	–
Pledged for letters of credit	(32,506)	(7,070)	–	–
Time deposits with terms over 3 months	(28,500)	(721,075)	(28,500)	(721,075)
	<u>(668,991)</u>	<u>(788,386)</u>	<u>(619,877)</u>	<u>(721,075)</u>
Cash and cash equivalents	<u>73,371</u>	<u>178,647</u>	<u>2,549</u>	<u>45,128</u>
Denominated in RMB	726,065	909,368	622,230	766,115
Denominated in US\$	10,833	30,344	13	–
Denominated in HK\$	1,778	19,843	183	88
Denominated in EUR	3,104	6,496	–	–
Denominated in SG\$	582	982	–	–
	<u>742,362</u>	<u>967,033</u>	<u>622,426</u>	<u>766,203</u>

14. TRADE AND BILLS PAYABLES

	Group	
	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Trade payables	216,174	100,378
Bills payables	331,685	245,072
	<u>547,859</u>	<u>345,450</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:

	Group	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	329,703	196,091
91 to 180 days	195,765	83,092
181 to 365 days	14,247	58,868
1 to 2 years	1,893	1,734
2 to 3 years	955	923
Over 3 years	5,296	4,742
	<u>547,859</u>	<u>345,450</u>

15. OTHER PAYABLES AND ACCRUALS

	Group	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Payables for purchase of items of property, plant and equipment	46,508	11,597
Advances from customers	63,156	25,387
Accrued expenses	23,640	29,489
Accrued payroll	25,696	16,681
Deferred government grants	28,787	43,493
Provision for social insurance and retirement benefits	48,242	27,203
Others	10,615	7,470
	<u>246,644</u>	<u>161,320</u>

16. INTEREST-BEARING BANK BORROWINGS

	Group			
	2011		2010	
	Maturity	<i>RMB'000</i>	Maturity	<i>RMB'000</i>
Current				
Interest-bearing bank borrowings, secured	2012	689,932	2011	336,296
Interest-bearing bank borrowings, unsecured		–	2011	77,878
Collateralised bank advances, secured	2012	<u>51,003</u>	2011	<u>2,455</u>
		<u>740,935</u>		<u>416,629</u>
Non-current				
Interest-bearing bank borrowings, secured	2013	<u>330,691</u>		–
		<u>330,691</u>		–
Total		<u><u>1,071,626</u></u>		<u><u>416,629</u></u>
Denominated in RMB		512,878		396,146
Denominated in US\$		371,498		20,483
Denominated in HK\$		<u>187,250</u>		–
		<u><u>1,071,626</u></u>		<u><u>416,629</u></u>
Interest rates per annum:		1.00% to 7.90%		3.46% to 5.89%
	Company			
	2011		2010	
	Maturity	<i>RMB'000</i>	Maturity	<i>RMB'000</i>
Current				
Interest-bearing bank borrowings, secured	2012	<u>203,441</u>		–
Non-current				
Interest-bearing bank borrowings, secured	2013	<u>330,691</u>		–
Total		<u><u>534,132</u></u>		<u><u>–</u></u>
Denominated in US\$		354,178		–
Denominated in HK\$		<u>179,954</u>		–
		<u><u>534,132</u></u>		<u><u>–</u></u>
Interest rates per annum:		1.00% to 1.75%		N/A

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

- (i) pledge of the Group's assets with a total value of RMB970.4 million (31 December 2010: RMB265.3 million) for the bank borrowings as disclosed in note 18.
- (ii) cross guarantees executed by companies within the Group.

The balance is analysed as follows:

	Group		Company	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans and advances repayable:				
Within one year	740,935	416,629	203,441	–
In the second year	330,691	–	330,691	–
	<u>1,071,626</u>	<u>416,629</u>	<u>534,132</u>	<u>–</u>

17. SHARE OPTION SCHEME

Pursuant to the resolutions in writing passed by all shareholders of the Company on 25 May 2010, the Company approved and adopted a share option scheme (the "Pre-IPO Share Option Scheme") for the purpose of providing incentives and rewards to selected participants for their contribution to, and continuing efforts to promote the interests of the Company and enabling the Group to recruit and retain high-calibre employees. As at 31 December 2011, the Company had conditionally granted options to subscribe for an aggregate of 39,180,000 Shares (representing approximately 2.9% of the Company's total issued share capital assuming that the options granted under the Pre-IPO Share Option Scheme and any options which may be granted under the Share Option Scheme are not exercised) to 147 participants in consideration of an option price of RMB1.00 for each acceptance of an offer of options under the Pre-IPO Share Option Scheme. The subscription price in respect of each Share under the Pre-IPO Share Option Scheme ranges from HK\$0.2 to HK\$5.0. No further options will be granted under the Pre-IPO Share Option Scheme.

Pursuant to the resolutions in writing passed by all shareholders of the Company on 14 October 2010, the Company approved and adopted another share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to selected participants for their contribution to, and continuing efforts to promote the interests of the Company and for such other purposes as the Board may approve from time to time. During the year ended to 31 December 2011, an aggregate of 15,200,000 share options had been granted under the Share Option Scheme.

18. PLEDGE OF ASSETS

31 December 2011	Prepaid land lease payments RMB'000	Property, plant and equipment RMB'000	Pledged deposits RMB'000	Trade and bills receivables RMB'000	Total RMB'000
Interest-bearing bank borrowings	10,696	292,762	591,377	75,582	970,417
Trade and bills payables	-	-	16,608	-	16,608
Deposits for issue of letters of credit	-	-	32,506	-	32,506
Total	<u>10,696</u>	<u>292,762</u>	<u>640,491</u>	<u>75,582</u>	<u>1,019,531</u>
31 December 2010	Prepaid land lease payments RMB'000	Property, plant and equipment RMB'000	Pledged deposits RMB'000	Trade and bills receivables RMB'000	Total RMB'000
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	<u>6,508</u>	<u>258,260</u>	<u>67,311</u>	<u>2,455</u>	<u>334,534</u>

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 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2011 RMB'000	2010 RMB'000
Within one year	43	43
In the second to fifth years, inclusive	146	123
After five years	58	80
	<u>265</u>	<u>246</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 2011, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within one year	5,913	5,607
In the second to fifth years, inclusive	1,086	8,365
After five years	—	—
	<u>6,999</u>	<u>13,972</u>

20. COMMITMENTS

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

	Group	
	2011	2010
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings	74,582	104,486
Plant and machinery	70,678	41,507
	<u>145,260</u>	<u>145,993</u>
Capital contribution payable for:		
Investments in associates	17,712	1,433
Investments in a subsidiary	—	20,000
	<u>17,712</u>	<u>21,433</u>
	<u>162,972</u>	<u>167,426</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is a leading lead-acid battery enterprise in the PRC primarily engaged in manufacture, development and sale of lead-acid batteries. The Group sells over 2,000 models of lead-acid battery products, ranging in capacity from 0.251 Ah to 4,055 Ah. Among the PRC battery manufacturers, the Group offers one of the broadest lines of lead-acid batteries. Despite the impact on world economy from the earthquake in Japan and the European debt crisis, the Group was well positioned in the accelerating urbanisation and industrial automation progresses in the PRC and obtained increasing orders from abroad, and continued to witness a fast growth in demand for lead-acid batteries in 2011, leading to increasing sales throughout the PRC, the United States, the European Union and other Asian regions. As such, the Group suffered no impact from macro economy on demand for its lead-acid batteries.

Lead-acid batteries are classified into three market segments, namely reserve power batteries, SLI batteries and motive power batteries. Leveraging on its leading market position, the Group continues to enhance its production and sale capabilities of all types of lead-acid batteries. Meanwhile, environmental authorities in China re-examined production facilities of lead-acid battery plants during the year and strengthened regulation on the lead-acid battery manufacturing industry which resulted in further industry consolidation and intensified the shortage in supply of lead-acid batteries. By virtue of its leading position in the market, the Group achieved rapidly increasing sales of lead-acid batteries during the year, thereby taking the lead in all three domestic market segments. Details of business operations of the Group in the three lead-acid battery segments, namely reserve power batteries, SLI batteries and motive power batteries, are as follows:

Reserve power batteries:

Reserve power battery products are further classified into four major application areas, namely uninterrupted power supply system (“UPS”), telecommunications, other consumer products and renewable energy. Reserve power batteries are the major source of the Group’s revenue. The Group’s sales of reserve power batteries during the year ended 31 December 2011 (the “Period”) amounted to RMB2,578.5 million, representing a significant growth of 37.1%. The Group’s sales in UPS segment increased remarkably, mainly attributable to the orders obtained which were previously placed to foreign battery manufacturers. Currently, the Group supplies its products to the major worldwide UPS manufacturers. The market share of the Group in telecommunications segment continued to expand, resulting in a considerable growth for the Group in absence of significant investment growth of telecommunications operators. The sales in other consumer products segment continued to grow during the Period, mainly attributable to the orders secured by the Group from domestic and overseas electronic consumer product manufacturers. The Group’s sales in renewable energy batteries also increased significantly due to the extensive application of new energy sources such as solar and wind power generation worldwide. The Group predicts this trend will continue.

SLI batteries:

SLI batteries are used mainly in starting automobiles and motorcycles. The Group's sales of SLI batteries during the Period amounted to RMB375.2 million, representing a substantial growth of 155.7%. Thanks to the recognition of quality and value of the Group's products, domestic and foreign manufacturers and distributors of automobiles and motorcycles transferred considerable orders to the Group. During the Period, the Group became the major supplier of SLI batteries for motorcycles in the PRC, and recorded a significant growth in sales of SLI batteries for automobiles. 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, golf cars and electric bicycles. The Group's sales of motive power batteries during the Period amounted to RMB178.0 million, representing a substantial growth of 570.6%. The Group commenced bulk production of motive power batteries in 2010. The demand for motive power batteries especially in application of forklifts, golf cars and electric bicycles increased significantly, as driven by the increasing investment in green energy by countries worldwide. The Group predicts this trend will continue.

Sales network

The Group has established a sales network covering over 100 countries and regions across the world to distribute its batteries. Under the PRC sales headquarter located in Beijing, the Group established 34 sales centres nationwide. The Group's international sales headquarter is located in Shenzhen, supported by 6 international sales and operation centres in the United States, the European Union and Singapore. Currently, the Group has over 500 sales and after-sales employees and maintains business relations with distributors in 16 other countries. The Group will continue expanding its sales teams and network to support sales, distribution, and after-sales services for its reserve power batteries, SLI batteries and motive power batteries.

Research and development of new products

The Group is a leader in developing lead-acid battery technologies in China. The Group's battery research and development team consists of more than 400 researchers and technicians, and works closely with domestic and international battery experts and research institutions to develop new technologies. To support its research and development effort, the Group has established two leading research centres with advanced equipment to support its research and development forces. Currently, the Group holds 172 patents and other 225 proprietary technologies are in patent applications. The Group has basically grasped and applied most of lead-acid battery technologies in the world. The Group's strong research and development capabilities enable it to produce a broad range of battery products employing most of the key lead-acid battery technologies. Currently, the Group has developed more than 2,000 models of battery products of different types employing various application technologies.

Production base

As at 31 December 2011, the Group operated five wholly-owned production bases in the PRC and one joint venture production and operation base in Malaysia occupying a total area of approximately 870,000 sq.m., of which 580,000 sq.m. were constructed after the Listing in November 2010. Currently, the infrastructure of these newly built production bases has been completed and production equipment is being installed according to schedule. A portion of the installation has been completed and has started trial production. The Group's annual production capacity has increased to 9.6 million KVAh from 5.1 million KVAh at the time of Listing. The number of the Group's production lines increased by 57 to 110 during the Period compared to 53 at the end of 2010. The Group will seek to build new production and operation bases in order to further expand its production and manufacturing capacity.

Trend of lead price

Lead is the main raw material of lead-acid batteries and accounts the major cost for the Group's battery production. According to Shanghai Metals Market, an information service provider of non-ferrous metal market, lead prices were stable during the year. Domestic average lead price slightly increased to RMB16,328 per ton in 2011 from RMB16,108 per ton in 2010, representing an increase of approximately 1.4%. To cope with potential risks of fluctuations in lead price, the Group adopts a price linkage mechanism, passing raw materials price fluctuations to customers to hedge relevant risks. The Group's centralised purchase of raw materials also enables it to trim down costs of raw materials through favourable negotiations on bulk purchase contracts.

Production suspension of certain plants

Shenzhen Leoch Battery Technology Co., Ltd. and Dongguan Leoch Battery Technology Co., Ltd., two subsidiaries of the Group engaged in assembly and production of lead-acid batteries, suspended production for self-examination, and Dongguan Leoch Battery Technology Co., Ltd. has duly resumed production since 18 January 2012.

Future Prospects

Batteries for power supply to equipment are necessary components for most of high-tech equipment including UPS in computer network data centres, automobiles, motorcycles, telecommunication base stations, train, subway, solar and wind power stations, substations, electric vehicles, elevators, backup lights and medical equipment, and thus are one of the necessities in modern society. The Group, therefore, anticipates that the lead-acid battery market in China will enjoy continuous growths as driven by domestic industry upgrading and industry shift from overseas, urbanisation and national income increase in China, consolidation of domestic battery industry and more extensive application of renewable energy supported by governments worldwide. In the meantime, given its superior performance-to-price ratio and reliable safety, the commercial value and application of lead-acid battery are irreplaceable in the foreseeable future. The Group predicts that lead-acid batteries will continue to grow significantly

in three segments, namely reserve power batteries, SLI batteries and motive power batteries. To grasp these market opportunities, the Group has laid out the following strategic plans for the three segments of lead-acid batteries:

Reserve power batteries:

Amid the industry upgrading in the PRC, consumer and high-tech industries are taking over low-end industries, leading to continuous demand expansions for reserve power batteries. Given its increasing production and sale capacities, the Group obtained numerous orders transferred from domestic and overseas customers, thereby reinforcing its leading position in the reserve power batteries market. The Company believes that reserve power batteries will maintain the growth momentum in all of four major application segments namely UPS, telecommunication, other consumer products and renewable energy. As the Group's products have passed assessments by a number of quality UPS manufacturers in the PRC and overseas, it is expected that more orders from quality customers will be secured which will in turn generate substantial after-sales orders. The Company will continue to provide quality products and services to telecommunication battery customers, aiming to further expand its market share in the telecommunication battery market. Meanwhile, the Group as a supplier to major global consumer battery producers is committed to catering for their increasing demand as driven by the competitive strength of consumer product batteries manufactured in the PRC. Sales of renewable energy batteries will also significantly grow due to more extensive application of solar, wind and other the green energy. The Group will strive to expand its share in such sectors to maintain its leading position in the reserve power batteries market.

SLI batteries:

China is in the process of urbanisation. Urban population in the PRC for the first time in history exceeded rural population in 2011. The urbanisation progress is expected to step up. The higher urbanisation rate increases the domestic transportation demand. The demand for SLI batteries will further escalate as China ranked first in vehicle production and sales in the world in 2011 and continues to grow by 2020. The Group has increased its investment in SLI batteries, aiming to become one of the domestically leading suppliers of SLI batteries for automobiles. It is expected that SLI batteries will contribute to continuous growths of the Group's results, making it into one of the market leaders in SLI batteries industry in the PRC.

Motive power batteries:

Motive power batteries have been highly valued and promoted in various countries. China also strengthens its support to the industry, and promotes extensive application of motive power batteries in electric vehicles including electric bicycles, low-speed electric car and forklifts. The PRC government has included the promotion of green energy vehicles into its national plan, which is to enhance demand for motive power batteries. The Group will further enhance its capacities in production and sales to provide more competitive products, aiming to continuously satisfy the increasing market demand.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by 49.5% from RMB2,116.9 million for the year ended 31 December 2010 to RMB3,164.1 million for the year ended 31 December 2011, mainly because of an increase in sales volume of the Group's products.

In terms of product types, revenue from reserve power batteries increased from RMB1,881.4 million for the year ended 31 December 2010 to RMB2,578.5 million for the year ended 31 December 2011, representing an increase of 37.1%. Revenue generated from SLI batteries increased by 155.7% from RMB146.8 million for the year ended 31 December 2010 to RMB375.2 million for the year ended 31 December 2011. Revenue from motive power batteries increased from RMB26.5 million for the year ended 31 December 2010 to RMB178.0 million for the year ended 31 December 2011, representing an increase of 570.6%. Details of the Group's revenue for the year ended 31 December 2010 and 2011 by product types are set out below:

	2011		2010		
	Share (%)	Percentage increase	Share (%)		
	<i>RMB'000</i>		<i>RMB'000</i>		
Reserve power batteries	2,578,549	81.5%	37.1%	1,881,424	88.9%
SLI batteries	375,190	11.9%	155.7%	146,750	6.9%
Motive power batteries	177,973	5.6%	570.6%	26,541	1.3%
Others	32,344	1.0%	(48.0%)	62,156	2.9%
Total	<u>3,164,056</u>	<u>100%</u>	<u>49.5%</u>	<u>2,116,871</u>	<u>100%</u>

Geographically, the Group's customers are principally located in Mainland China, the United States, the European Union and other Asian countries/regions. For the year ended 31 December 2011, the Group's sales revenue in Mainland China increased significantly by 76.8% from RMB878.2 million for the year ended 31 December 2010 to RMB1,552.6 million for the year ended 31 December 2011, accounting for 49.0% of total revenue (2010: 41.5%). The increase in the Group's sales in Mainland China increased the proportion of revenue from the market from 41.5% to 49.0%, while the proportion of revenue from the United States, the European Union and other Asian countries/regions declined accordingly. The following table sets forth details of the Group's revenue during the year ended 31 December 2010 and 2011 based on the geographic locations.

	2011			2010	
	<i>RMB'000</i>	<i>Share (%)</i>	<i>Percentage increase</i>	<i>RMB'000</i>	<i>Share (%)</i>
Mainland China	1,552,594	49.0%	76.8%	878,176	41.5%
United States of America	489,453	15.5%	42.3%	343,894	16.2%
European Union	522,283	16.5%	27.6%	409,179	19.3%
Other Asian countries/regions	486,044	15.4%	21.7%	399,417	18.9%
Other countries	113,682	3.6%	31.9%	86,205	4.1%
Total	<u>3,164,056</u>	<u>100%</u>	<u>49.5%</u>	<u>2,116,871</u>	<u>100%</u>

Cost of Sales

The Group's cost of sales increased by 57.8% from RMB1,591.3 million for the year ended 31 December 2010 to RMB2,510.3 million for the year ended 31 December 2011, mainly because of the increased sales volume.

Gross profit

The Group's gross profit increased by 24.4% from RMB525.6 million for the year ended 31 December 2010 to RMB653.7 million for the year ended 31 December 2011. The overall gross profit margin decreased from 24.8% for the year ended 31 December 2010 to 20.7% for the year ended 31 December 2011. This was mainly because the fixed costs of certain newly implemented production capacities which were in trial operation have not been diluted by sales, and no effect of scale could be utilised.

Other Income and Gains

Other income and gains increased by 216.5% from RMB22.4 million for the year ended 31 December 2010 to RMB70.9 million for the year ended 31 December 2011, which was primarily due to the increase in the incentives granted by local governments for the achievements in operating and research and development of the Group and the increase in interest income.

Selling and Distribution Costs

The Group's selling and distribution costs increased by 49.0% from RMB76.5 million for the year ended 31 December 2010 to RMB114.0 million for the year ended 31 December 2011, mainly because of the increase of freight and operation cost related to the expanding sales.

Administrative expenses

The Group's administrative expenses increased by 50.7% from RMB119.3 million for the year ended 31 December 2010 to RMB179.8 million for the year ended 31 December 2011, mainly because of the increase in operation cost to strengthen the Group's management.

Other Expenses

The Group's other operating expenses increased by 142.6% from RMB30.3 million for the year ended 31 December 2010 to RMB73.5 million for the year ended 31 December 2011, mainly because of the increased research and development cost.

Finance Costs

The Group's finance costs increased by 31.1% from RMB22.2 million for the year ended 31 December 2010 to RMB29.1 million for the year ended 31 December 2011, mainly because of an increase in bank borrowings and interests.

Profit before Tax

As a result of the foregoing factors, the Group recorded profit before tax of RMB328.3 million for the year ended 31 December 2011 compared to RMB299.7 million for the year ended 31 December 2010, representing an increase of 9.5%.

Income Tax Expense

Income tax expense increased by 5.7% from RMB42.2 million for the year ended 31 December 2010 to RMB44.6 million for the year ended 31 December 2011, mainly because of the increase in the Group's profits.

Profit for the Year

As a result of the foregoing factors, the Group's profit for the year increased by 10.1% from RMB257.5 million for the year ended 31 December 2010 to RMB283.6 million for the year ended 31 December 2011.

Net Current Assets

As at 31 December 2011, the Group had net current assets of RMB818.1 million (31 December 2010: RMB1,442.0 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 2011, the Group had inventories of RMB991.0 million (31 December 2010: RMB687.7 million). The increase in inventories was primarily due to increased goods in progress as a result of expanded production lines.

Trade and Other Receivables

(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 2011, the Group had trade and bills receivables of RMB804.1 million (31 December 2010: RMB585.1 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 new production equipment. As at 31 December 2011, the Group had prepayments, deposits and other receivables of RMB159.4 million (31 December 2010: RMB175.0 million). The decrease in prepayments, deposits and other receivables was primarily because the Group made a prepayment for a substantial purchase of equipments for the expansion of production capacity in 2010, while part of such equipments had been delivered in 2011, thus leading to a relatively smaller amount of prepayments.

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. As at 31 December 2011, the Group had trade and bills payables of RMB547.9 million (31 December 2010: RMB345.5 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, deferred government grants, and payroll and benefits for its employees and staff. As at 31 December 2011, the Group had other payables and accruals of RMB246.6 million (31 December 2010: RMB161.3 million).

Capital Expenditures

During the year ended 31 December 2011, the Group invested RMB777.6 million (31 December 2010: RMB197.7 million) in construction in progress and property, plant and equipment for its new production facilities.

Borrowings

As at 31 December 2011, the Group had bank borrowings of RMB1,071.6 million (31 December 2010: RMB416.6 million), of which RMB740.9 million is interest-bearing and repayable within one year and RMB330.7 million is interest-bearing and repayable over one year. The Group's borrowings are denominated in RMB, HK dollars and U.S. dollars.

The increase in the Group's bank borrowings was due to the Group's leveraging overseas facilities with lower interest rates to purchase assets in Mainland China.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2011 (31 December 2010: 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. 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 2011, the Group had 9,862 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 RMB434.2 million for the year ended 31 December 2011 (the year ended 31 December 2010: RMB197.5 million).

The Group did not experience any significant labour disputes that lead to any material impact on its normal business operations.

PROPOSED FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 28 May 2012 to 30 May 2012 (both days inclusive), for the purpose of determining shareholders' entitlement to attend the forthcoming annual general meeting of the Company (the "Annual General Meeting"), during which period no transfer of shares of the Company will be registered. In order to qualify for attending the Annual General Meeting, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on 25 May 2012.

The Board has resolved to recommend the payment of a final dividend of 1.6 HK cents per share for shareholders whose names appear on the Register of Members of the Company on 8 June 2012. The Register of Members will be closed from 6 June 2012 to 8 June 2012, both days inclusive, and the proposed final dividend is expected to be paid on 10 July 2012. The payment of dividends shall be subject to the approval of the shareholders at the Annual General Meeting of the Company expected to be held on 30 May 2012. In order to be qualified for the proposed dividend, shareholders should deliver share certificates together with transfer documents to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 5 June 2012.

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") 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 saved as disclosed below, they have complied with the required standard of dealings set out therein throughout the year ended 31 December 2011.

Due to inadvertence, on 23 August 2011 (being the publication date of the half-year results for the six months ended 30 June 2011), the Company granted share options to various eligible participants including the three independent non-executive Directors, namely Mr. An Wenbin, Mr. Cao Yixiong Alan and Mr. Liu Yangsheng, under the share option scheme of the Company adopted on 14 October 2010 which resulted in the breach of Rule A3(a)(ii) of Appendix 10 to the Listing Rules on the part of the three independent non-executive Directors. The grant of share options had been withdrawn on 12 September 2011. The Board will use its best endeavours to prevent similar incidents to happen again.

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 during the year ended 31 December 2011, 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.

Code Provision A.5.4

This code provision stipulates that directors must comply with their obligations under the Model Code set out in Appendix 10 to the Listing Rules. For the compliance with the Model Code, please refer to "Compliance with the Model Code of the Listing Rules" above.

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 2011 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.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2011, 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, 28 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.