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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 842)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

FINANCIAL HIGHLIGHTS

- Revenue increased by 63.9% to RMB1,547.6 million.
- Gross profit increased by 47.5% to RMB361.2 million.
- Profit attributable to owners of the Company increased by 43.7% to RMB182.5 million.
- Basic earnings per share was RMB0.14. (For the six months ended 30 June 2010: RMB0.13, without taking account of the shares of the company issued upon the listing on the Stock Exchange in November 2010.)
- Interim dividend is 3.3 HK cents per share.

INTERIM RESULTS

The Board of Directors (the “**Board**”) of Leoch International Technology Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2011 with comparative figures for the corresponding period in the year 2010. The unaudited consolidated interim results have been reviewed by the auditors of the Company, Ernst & Young, and the audit committee of the Company (the “**Audit Committee**”).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|------------------------------|
| | | 2011 (Unaudited) RMB'000 | 2010 (Audited) RMB'000 |
| REVENUE | 4 | 1,547,642 | 944,380 |
| Cost of sales | | (1,186,467) | (699,521) |
| Gross profit | | 361,175 | 244,859 |
| Other income and gains | 4 | 27,071 | 5,460 |
| Selling and distribution costs | | (42,578) | (27,269) |
| Administrative expenses | | (79,312) | (54,591) |
| Other expenses | | (33,002) | (8,896) |
| Finance costs | 5 | (19,523) | (9,598) |
| Share of profit of an associate | | 59 | — |
| PROFIT BEFORE TAX | 6 | 213,890 | 149,965 |
| Income tax expense | 7 | (31,406) | (22,983) |
| PROFIT FOR THE PERIOD | | <u>182,484</u> | <u>126,982</u> |
| OTHER COMPREHENSIVE INCOME | | | |
| Exchange differences on translation of foreign operations | | (1,914) | (193) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | <u>180,570</u> | <u>126,789</u> |
| Profit attributable to: | | | |
| Owners of the Company | | <u>182,484</u> | <u>126,982</u> |
| | | <u>182,484</u> | <u>126,982</u> |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | <u>180,570</u> | <u>126,789</u> |
| | | <u>180,570</u> | <u>126,789</u> |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic | 9 | <u>RMB0.14</u> | <u>RMB0.13</u> |
| Diluted | 9 | <u>RMB0.13</u> | <u>RMB0.13</u> |

Details of the dividends proposed for the period are disclosed in Note 8 below.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2011

| | | 30 June 2011 (Unaudited) RMB'000 | 31 December 2010 (Audited) RMB'000 |
|--|--------------|---|---|
| | <i>Notes</i> | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | 807,779 | 520,929 |
| Prepaid land lease payments | | 79,635 | 57,907 |
| Intangible assets | | 3,707 | 3,401 |
| Long term portion of trade receivables | 12 | 27,837 | 11,335 |
| Deposits paid for purchase of items of property, plant and equipment | | 307,202 | 42,584 |
| Deferred tax assets | | 3,850 | 1,801 |
| Interest in an associate | | 1,480 | — |
| Long term portion of pledged deposits | 13 | 90,000 | — |
| Total non-current assets | | <u>1,321,490</u> | <u>637,957</u> |
| CURRENT ASSETS | | | |
| Inventories | 11 | 663,028 | 687,654 |
| Trade and bills receivables | 12 | 915,551 | 585,140 |
| Prepayments, deposits and other receivables | | 219,618 | 175,008 |
| Tax recoverable | | 8,330 | 24,997 |
| Amounts due from related companies | | 15,764 | 4,806 |
| Equity investments at fair value through profit or loss | | 1,527 | 1,480 |
| Time deposits with terms over 3 months | 13 | 14,970 | 721,075 |
| Pledged deposits | 13 | 566,954 | 67,311 |
| Cash and cash equivalents | 13 | 239,351 | 178,647 |
| Total current assets | | <u>2,645,093</u> | <u>2,446,118</u> |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 14 | 364,991 | 345,450 |
| Other payables and accruals | | 204,014 | 161,320 |
| Interest-bearing bank borrowings | 15 | 590,093 | 416,629 |
| Amounts due to related companies | | 13,350 | 48,135 |
| Income tax payable | | 48,846 | 32,556 |
| Total current liabilities | | <u>1,221,294</u> | <u>1,004,090</u> |
| NET CURRENT ASSETS | | <u>1,423,799</u> | <u>1,442,028</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>2,745,289</u> | <u>2,079,985</u> |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | | 156 | 211 |
| Interest-bearing bank borrowings | 15 | 478,544 | — |
| Net assets | | <u>2,266,589</u> | <u>2,079,774</u> |
| EQUITY | | | |
| Issued capital | | 114,267 | 114,267 |
| Reserves | | 2,152,322 | 1,965,507 |
| Total equity | | <u>2,266,589</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 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 interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and International Accounting Standards ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "IASB").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

Basis of consolidation

The acquisitions of the subsidiaries pursuant to the Reorganisation were regarded as a business combination under common control. Accordingly, the interim condensed consolidated financial statements have been prepared in accordance with the principles of merger accounting. On this basis, the Company has been treated as the holding company of its subsidiaries since the beginning of the financial periods presented rather than from their respective dates of acquisition. Accordingly, the interim consolidated results for the six months ended 30 June 2010 include the results of the Company and its subsidiaries with effect from 1 January 2010 or since their respective dates of incorporation or establishment, whichever is shorter.

In the opinion of the Directors, the interim condensed consolidated financial statements prepared on the above basis present fairly the results and state of affairs of the Group as a whole.

All material intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

These interim condensed consolidated financial statements are unaudited, but have been reviewed by the Audit Committee of the Company and the Company's external auditors, Ernst & Young.

2.2 ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the annual financial statements for the financial year ended 31 December 2010, except for the adoption of the standards, amendments and interpretations issued by the IASB mandatory for annual periods beginning 1 January 2011. The effect of the adoption of these standards, amendments and interpretations was not material to the Group's results of operations or financial position.

3. SEGMENT INFORMATION

The Group is engaged in the manufacture, development 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, development 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*

| | Six months ended 30 June | |
|-----------------------------|--------------------------------|------------------------------|
| | 2011 (Unaudited) RMB'000 | 2010 (Audited) RMB'000 |
| PRC | 719,505 | 361,831 |
| European Union | 292,827 | 192,885 |
| United States of America | 214,801 | 167,210 |
| Other Asian countries/areas | 258,987 | 182,676 |
| Other countries | 61,522 | 39,778 |
| | <u>1,547,642</u> | <u>944,380</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 the mainland China. Accordingly, no geographical information of segment assets is presented.

(c) *Information about major customers*

During the six months ended 30 June 2011, the Group made sales to a customer of RMB180.2 million (six months ended 30 June 2010: two customers of RMB148.6 million and RMB128.2 million, respectively), which individually exceeded 10% of the Group's total revenue for that period.

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:

| | Six months ended 30 June | |
|--|--------------------------------|------------------------------|
| | 2011 (Unaudited) RMB'000 | 2010 (Audited) RMB'000 |
| Revenue | | |
| Sale of goods | <u>1,547,642</u> | <u>944,380</u> |
| Other income and gains | | |
| Rental income | 18 | 20 |
| Bank interest income | 7,340 | 157 |
| Government grants* | 15,853 | 3,836 |
| Sale of scrap materials | 1,338 | 143 |
| Fair value gains from equity investments carried at fair value through profit or loss | 81 | — |
| Others | <u>2,441</u> | <u>1,304</u> |
| | <u>27,071</u> | <u>5,460</u> |

* The government grants represented subsidies granted by the local finance bureaus to certain subsidiaries of the Company as an encouragement for their investment and development. There are no unfulfilled conditions or contingencies relating to such subsidies.

5. FINANCE COSTS

| | Six months ended 30 June | |
|--|--------------------------------|------------------------------|
| | 2011 (Unaudited) RMB'000 | 2010 (Audited) RMB'000 |
| Interest on bank borrowings | 17,575 | 8,687 |
| Interest arising from discounted bills | <u>1,948</u> | <u>911</u> |
| | <u>19,523</u> | <u>9,598</u> |

6. PROFIT BEFORE TAX

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

| | Six months ended 30 June | |
|---|--------------------------------|------------------------------|
| | 2011 (Unaudited) RMB'000 | 2010 (Audited) RMB'000 |
| Cost of inventories sold | 1,186,467 | 699,521 |
| Employee benefit expense | 178,600 | 87,522 |
| Research and development costs | 36,379 | 8,035 |
| Depreciation of property, plant and equipment | 27,534 | 20,360 |
| Reversal of impairment of trade receivables | <u>(3,727)</u> | <u>(838)</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 periods are as follows:

| | Six months ended 30 June | |
|---------------------------------|--------------------------------|------------------------------|
| | 2011 (Unaudited) RMB'000 | 2010 (Audited) RMB'000 |
| Current tax — PRC | 31,437 | 21,195 |
| Current tax — Hong Kong | 2,073 | 446 |
| Deferred income tax | (2,104) | 1,342 |
| Total tax charge for the period | <u>31,406</u> | <u>22,983</u> |

8. DIVIDENDS

The Board has declared an interim dividend of 3.3 HK cents per share for the six months ended 30 June 2011 to shareholders whose names appear on the Company's Register of Members on Thursday, 15 September 2011. It is expected that the interim dividend will be paid around 18 October 2011.

The dividends paid by the Company's subsidiaries to its then shareholders during the six months ended 30 June 2010 were approximately RMB147.7 million.

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

The calculation of basic earnings per share amounts is based on the profit for the six months ended 30 June 2011 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,333,334,000 (six months ended 30 June 2010: 1,000,000,000) in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the six months ended 30 June 2011 attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

| | Six months ended 30 June 2011 (Unaudited) RMB'000 | Six months ended 30 June 2010 (Audited) RMB'000 |
|---|--|--|
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share | <u>182,484</u> | <u>126,982</u> |
| Number of shares | Six months ended 30 June 2011 | Six months ended 30 June 2010 |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation | 1,333,334,000 | 1,000,000,000 |
| Effect of dilution — weighted average number of ordinary shares: Share options | <u>25,989,915</u> | <u>—</u> |
| | <u>1,359,323,915</u> | <u>1,000,000,000</u> |

10. PROPERTY, PLANT AND EQUIPMENT

| | 30 June 2011 (Unaudited) RMB'000 | 31 December 2010 (Audited) RMB'000 |
|---|---|---|
| Carrying amount at 1 January | 520,929 | 367,587 |
| Additions | 314,848 | 197,749 |
| Disposals | (487) | (2,291) |
| Exchange realignment | 23 | (16) |
| Depreciation charge for the period/year | <u>(27,534)</u> | <u>(42,100)</u> |
| Carrying amount at 30 June/31 December | <u>807,779</u> | <u>520,929</u> |

At 30 June 2011, certain of the Group's buildings and machinery with a net carrying amount of approximately RMB306.1 million (31 December 2010: RMB258.3 million) were pledged to secure general banking facilities granted to the Group.

As at the date of this report, the Group has not obtained certificates of real estate ownership from the relevant PRC government authorities for certain buildings with a carrying amount of RMB8.0 million at 30 June 2011 (31 December 2010: RMB1.6 million). The Group is in the process of obtaining these certificates. Until obtaining the certificates, the Group has no right to assign or pledge these buildings.

11. INVENTORIES

| | 30 June 2011 (Unaudited) RMB'000 | 31 December 2010 (Audited) RMB'000 |
|------------------|---|---|
| Raw materials | 101,986 | 175,940 |
| Work in progress | 381,580 | 285,789 |
| Finished goods | 179,462 | 225,925 |
| | <u>663,028</u> | <u>687,654</u> |

12. TRADE AND BILLS RECEIVABLES

| | 30 June 2011 (Unaudited) RMB'000 | 31 December 2010 (Audited) RMB'000 |
|----------------------------|---|---|
| Trade receivables | 925,395 | 572,561 |
| Bills receivables | 23,616 | 33,264 |
| Less: Impairment provision | (5,623) | (9,350) |
| | <u>943,388</u> | <u>596,475</u> |
| Less: Non-current portion | <u>(27,837)</u> | <u>(11,335)</u> |
| | <u>915,551</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 minimize credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade and bills receivables as at 30 June 2011 and 31 December 2010 based on the invoice date, net of provisions, is as follows:

Outstanding balances with ages:

| | 30 June 2011 (Unaudited) RMB'000 | 31 December 2010 (Audited) RMB'000 |
|-----------------|---|---|
| Within 90 days | 763,484 | 444,047 |
| 91 to 180 days | 105,573 | 88,472 |
| 181 to 365 days | 53,284 | 44,545 |
| 1 to 2 years | 20,521 | 17,992 |
| Over 2 years | 526 | 1,419 |
| | <u>943,388</u> | <u>596,475</u> |

The carrying amounts of the trade and bills receivables pledged as security for interest-bearing bank loans granted to the Group amounted to RMB42.5 million as at 30 June 2011 (31 December 2010: RMB2.5 million).

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | 30 June 2011 (Unaudited) RMB'000 | 31 December 2010 (Audited) RMB'000 |
|--|---|---|
| Cash and bank balances | 217,351 | 200,948 |
| Time deposits | 693,924 | 766,085 |
| | <u>911,275</u> | <u>967,033</u> |
| Less: Pledged for interest-bearing bank borrowings-current portion | (511,327) | (1,178) |
| Pledged for interest-bearing bank borrowings — non-current portion | (90,000) | — |
| Pledged for bills payable | (55,627) | (59,063) |
| Pledged for letters of credit | — | (7,070) |
| Time deposits with terms over 3 months | (14,970) | (721,075) |
| | <u>(671,924)</u> | <u>(788,386)</u> |
| Cash and cash equivalents | <u>239,351</u> | <u>178,647</u> |
| Denominated in RMB | 711,933 | 909,368 |
| Denominated in US\$ | 83,071 | 30,344 |
| Denominated in HK\$ | 115,522 | 19,843 |
| Denominated in EUR | 5 | 6,496 |
| Denominated in SG\$ | 744 | 982 |
| | <u>911,275</u> | <u>967,033</u> |

14. TRADE AND BILLS PAYABLES

| | 30 June 2011 (Unaudited) RMB'000 | 31 December 2010 (Audited) RMB'000 |
|----------------|---|---|
| Trade payables | 140,811 | 100,378 |
| Bills payables | 224,180 | 245,072 |
| | <u>364,991</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:

| | 30 June 2011 (Unaudited) RMB'000 | 31 December 2010 (Audited) RMB'000 |
|-----------------|---|---|
| Within 90 days | 288,360 | 196,091 |
| 91 to 180 days | 47,847 | 83,092 |
| 181 to 360 days | 20,585 | 58,868 |
| 1 to 2 years | 1,357 | 1,734 |
| 2 to 3 years | 2,437 | 923 |
| Over 3 years | 4,405 | 4,742 |
| | <u>364,991</u> | <u>345,450</u> |

The trade payables are non-interest-bearing and are normally settled on 90-day terms. All the bills payable bear maturity dates within 180 days.

15. INTEREST-BEARING BANK BORROWINGS

| | 30 June 2011 (Unaudited) RMB'000 | 31 December 2010 (Audited) RMB'000 |
|---|---|---|
| Current | | |
| Interest-bearing bank borrowings, secured | 547,601 | 336,296 |
| Interest-bearing bank borrowings, unsecured | — | 77,878 |
| Collateralised bank advances, secured | 42,492 | 2,455 |
| | 590,093 | 416,629 |
| Non-current | | |
| Interest-bearing bank borrowings, secured | 478,544 | — |
| Total | 1,068,637 | 416,629 |
| Dominated in RMB | 502,224 | 396,146 |
| Dominated in US\$ | 373,533 | 20,483 |
| Dominated in HK\$ | 192,880 | — |
| Total | 1,068,637 | 416,629 |
| Interest rates | 1.31%-7.76% | 3.46%-5.89% |

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

- (i) a charge over certain property, plant and equipment of the Group with a net carrying amount of approximately RMB306.1 million (31 December 2010: RMB258.3 million) as at the end of the reporting period.
- (ii) a charge over certain leasehold lands of the Group with a net carrying amount of approximately RMB13.6 million (31 December 2010: RMB6.5 million) as at the end of the reporting period.
- (iii) time deposits of the Group with carrying amount of approximately RMB601.3 million (31 December 2010:RMB 1.2 million) as at the end of the reporting period.
- (iv) trade receivables of the Group with carrying amount of approximately RMB42.5 million (31 December 2010:RMB2.5 million) as at the end of the reporting period.
- (v) cross guarantees executed by companies within the Group.

16. SHARE OPTION SCHEME

For the six months period from 1 January 2011 to 30 June 2011, no share option has been granted or agreed to be granted to any person.

17. 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 30 June 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | 30 June 2011 (Unaudited) RMB'000 | 31 December 2010 (Audited) RMB'000 |
|---|---|---|
| Within one year | 48 | 43 |
| In the second to fifth years, inclusive | 111 | 123 |
| After five years | 48 | 80 |
| | <u>207</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 30 June 2011, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30 June 2011 (Unaudited) RMB'000 | 31 December 2010 (Audited) RMB'000 |
|---|---|---|
| Within one year | 6,511 | 5,607 |
| In the second to fifth years, inclusive | 3,282 | 8,365 |
| | <u>9,793</u> | <u>13,972</u> |

18. COMMITMENTS

In addition to the operating lease commitments as set out in note 17(b) above, the Group had the following capital commitments:

| | 30 June 2011 (Unaudited) RMB'000 | 31 December 2010 (Audited) RMB'000 |
|-----------------------------------|---|---|
| Contracted, but not provided for: | | |
| Land and buildings | 81,657 | 104,486 |
| Plants and machinery | 263,216 | 41,507 |
| Capital contribution payable to: | | |
| Acquisition of an associate | — | 1,433 |
| Subsidiary | 20,000 | 20,000 |
| | <u>364,873</u> | <u>167,426</u> |

19. EVENTS AFTER THE REPORTING PERIOD

- (i) On 10 August, 2011, Leoch Investment (Singapore) Pte. Limited (“Leoch Investment”, a limited liability company established according to the laws of the Singapore, an indirectly wholly-owned subsidiary of the Company) and ACCUPRO Sdn Bhd (“ACCUPRO”, a company incorporated in 1990 in Malaysia with limited liability) entered into a joint venture agreement to set up a joint venture company in Malaysia. The total investment of the joint venture company will be RM20 million (equivalent to RMB43 million), in which Leoch Investment and ACCUPRO will invest RM8 million (equivalent to RMB17 million) and RM12 million (equivalent to RMB26 million), respectively. Upon establishment, the equity interest of the joint venture company will be held as to its 40% and 60% by Leoch Investment and ACCUPRO, respectively.
- (ii) Two of the Company’s wholly-owned subsidiaries, Shenzhen Leoch Battery Technology Co., Ltd. (“Shenzhen Leoch”) and Dongguan Leoch Battery Technology Co., Ltd. (“Dongguan Leoch”) suspended their production operations in accordance with requests of the local environmental protection bureaus to conduct self-examination and enhancement of their production plants. Shenzhen Leoch and Dongguan Leoch have already completed the relevant self-examination and enhancement. Shenzhen Leoch and Dongguan Leoch are required to engage a third party professional to validate the results of self-examination and enhancement before they submit applications to the local environmental protection bureaus for approval of resumption of operations. The management believes that the impact of the above suspension would not be material to the Group.

- (iii) The Company offered, on 23 August 2011 (the “Offer Date”), to grant share options to eligible employees and directors of the Company under the share option scheme of the Company adopted on 14 October 2010, to subscribe for a total of 15,800,000 ordinary shares of HK\$0.1 each of the Company. The grant of the said share options will be subject to the Company’s receipt of acceptance of offer from the respective offerees which shall be no later than 28 days after the Offer Date.

One-third of the total number of the share options granted are exercisable at anytime on or after 1 September 2012 during the 5 years from the Offer Date (the “Option Period”). An additional one-third of the total number of the share options granted are exercisable at anytime on or after 1 September 2013 during the Option Period, and the remaining one-third of the total number of the share options granted are exercisable at anytime on or after 1 September 2014 during the Option Period.

The subscription price is HK\$3.83 per share (being the highest of: (i) the closing price of HK\$3.64 per share of the Company as stated in The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)’s daily quotations sheet on the Offer Date; and (ii) the average closing price of HK\$3.83 per share of the Company as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of HK\$0.1 per share of the Company).

Among the above share options offered, a total of 900,000 share options were offered to the three independent non-executive directors of the Company as follows:

| Name | Number of share options offered |
|----------------------|--|
| Mr. Cao Yixiong Alan | 300,000 |
| Mr. An Wenbin | 300,000 |
| Mr. Liu Yangsheng | 300,000 |

Save as disclosed above, none of the offerees of the share options is a director, chief executive or substantial shareholder of the Company, or an associate of any of them.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

2011 is the first year after the Company's successful listing (the "Listing") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). After obtaining support from capital markets, the Group's lead-acid battery business has grown rapidly. The Group has become a leading manufacturer and developer of lead-acid batteries in China. The Group manufactured more than 1,600 models of lead-acid battery products with capacity ranging from 0.251 Ah to 4,050 Ah, including all segments of lead-acid batteries, namely reserve power batteries, SLI batteries and motive power batteries. With the speedy urbanization and industrial automation in China, the demand for all segments of lead-acid batteries grew rapidly. Leveraging a leading market position, the Group increased production capabilities and sale of all types of lead-acid batteries. Meanwhile, environmental authorities in China re-examined production facilities of lead-acid battery plants during the period 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 the Group's leading position in the market, the Group increased sales of lead-acid batteries and enabled rapid growth during the period. The operating situation of the Group in the three lead-acid battery segments, reserve power batteries, SLI batteries and motive power batteries, are as follows:

Reserve power batteries:

Reserve power batteries products are mainly applied in four areas, namely uninterrupted power supply system (UPS), telecommunications, other consumer products, and renewable energy. Sales of reserve power batteries of the Group recorded a significant growth during the six months ended 30 June 2011. Sales amounted to RMB1,292.1 million, representing an increase of 57.4%. The Group's steady increase in sales of UPS batteries was mainly attributable to the fact that the Group had secured new contracts from additional major global UPS manufacturers and provided lead-acid batteries to them, which enabled the Group to capture increased market share from foreign lead-acid battery manufacturers. Although telecommunications operators have not increased their capital expenditure significantly, the Group's sales to telecommunications industry still increased significantly. This was due to a continued increase of the Group's market share through purchases of the major telecommunication operators. The sales in renewable energy batteries increased significantly due to substantial growth in the use of batteries in solar and wind energy power generation. Sales of other consumer products increased significantly during the period, which was mainly due to the increase in sales of electronic consumer products driving the substantial increase in purchase of related batteries. The Group predicts this trend will continue.

SLI batteries:

SLI batteries are used mainly in starting automobiles and motorcycles. The Group recorded a substantial growth in sales of SLI batteries during the six months ended 30 June 2011. The sales amounted to RMB177.5 million, representing an increase of 132.8%. This was a benefit of increased recognition of quality and value of the Group's products by domestic and foreign manufacturers and distributors of automobiles and motorcycles. Moreover, the Group enhanced production capacity of SLI batteries during the period to meet market demand, resulting in an increase of SLI battery sales. The Group predicts this trend will continue.

Motive power batteries:

Motive power batteries are mainly used in providing power for electric vehicles such as electric bicycles, forklifts and golf cars. The Group recorded a significant growth in sales of motive power batteries during the six months ended 30 June 2011, which amounted to RMB63.5 million, representing an increase of 796.1%. This was due to increased governmental investment in the PRC and abroad for the promotion of environment-friendly vehicles, resulting in a substantial increase in demand of this type of motive power batteries. Additionally, the Group strengthened the production of batteries for electronic bicycles, forklifts and golf cars during the period to meet market demands, therefore, the Group's sales of motive power batteries increased significantly. The Group predicts this trend will continue.

Sales network

The Group's PRC sales headquarter was located in Beijing and the Group has 32 sales representative offices and professional sales teams in major provinces and municipalities nationwide. The Group's international sales headquarter was located in Shenzhen and Hong Kong. The Group also has professional sales teams and warehouses in the United States, Europe and Singapore, and its sales network covered more than 100 countries and regions worldwide to provide services to customers all over the world. Currently, the Group has over 400 sales personnel and after-sales personnel and has distributors in 16 countries. The Group has opened 11 battery specialty stores in the PRC to further strengthen its sales capabilities and enable it to face consumers directly to increase profit margins. The Group will continue expanding its sales teams and sales network to strengthen sales capabilities and control over sales channels.

Production base

As of 30 June 2011, the Group operated five wholly owned production bases in the PRC and one joint venture production base in Malaysia, equalling a combined 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 7.5 million KVAh from 5.1 million KVAh at the time of Listing. The Group had 53 production lines at the end of 2010 and increased by 17 during the period to a total of 70 production lines. The Group will actively seek to build new production bases in order to further strengthen its production and manufacturing capacity.

Research and development

To further enhance the leading position of the Group in lead-acid battery technology, the Group invested heavily in research and development. The Group has two state of the art research and development centers and over 400 researchers and technicians in Zhaoqing and Jiangsu. Currently, the Group has registered 56 patents in the PRC and one patent in Hong Kong and another 270 proprietary technologies are under application for patent registration.

The Group is constructing a new scientific research base of 80,000 sq.m. in Zhaoqing to further support research and development in battery technology and maintain its leading position in the industry. The scientific research base is expected to be in use by the end of this year.

Trend of lead price

Lead is the main raw materials of lead-acid batteries and is the major sales cost of the Group's battery production. According to Shanghai Metals Market, an information service provider of non-ferrous metal market, changes in lead price were stable during the year. Domestic average lead price slightly increased to RMB16,917 per ton in 2011 from RMB16,108 per ton in 2010, representing an increase of approximately 5%. In order to cope with potential risks of fluctuation in lead price, the Group uses a price linkage mechanism, shifting fluctuation of raw materials prices on to customers including large customers such as China Mobile, China Unicom, China Telecom, BMW, Jaguar and Mattel to offset relevant risks. The Group also centralises purchase of raw materials which enables it to conduct favorable negotiation on bulk purchase contracts and reduce costs of raw materials.

Production suspension of some plants

Shenzhen Leoch Battery Technology Co., Ltd. and Dongguan Leoch Battery Technology Co., Ltd., the Group's subsidiaries engaged in assembly and production of lead-acid batteries, suspended production for self-examination. The two companies only accounted for approximately 3.5% of overall production capacity of the Group. Therefore, during the production suspension of the two companies, other subsidiaries of the Company completely compensated lost capacity of the two assembly factories and there was no impact on the Group's basic operation.

Future Prospects

The Group believes China will accelerate modernization and electricity consumption will increase accordingly, therefore the demand for batteries, which are necessary parts of various electric equipment, will also increase substantially. Lead acid batteries are considered irreplaceable in the foreseeable future, due to high cycling rate, low production cost and safety reliability. The Group therefore anticipates that due to industry upgrade in China, foreign industries will shift purchases to Chinese lead-acid manufacturers expanding the Chinese export market. Domestically, rapid modernization and urbanization of the Chinese economy, industry consolidation of battery enterprises in China and more extensive application of renewable energy will fuel growth in the consumption of lead-acid batteries in China. The Group predicts that lead-acid batteries will continue to grow significantly in all three segments, namely reserve power batteries, SLI batteries and motive power batteries. The Group will grasp this opportunity to become one of major battery providers in the world. The Group has the following strategic plans for the three segments of lead-acid batteries:

Reserve power batteries:

As technologies keep improving and industries keep upgrading in China, and as a result of the migration from reliance on low-end techniques in the past to current high-end technology, international battery buyers will speed up the transfer of their orders to China. The Group predicts the reserve power battery market will grow consistently. The Group anticipates that all the four major application areas of reserve power batteries, namely telecommunication, UPS, other consumer products, and renewable energy industry, will grow. The Group has obtained certification from many large UPS manufacturers this year which proved the value and quality of the Group's products. As a result of the Group's efforts, telecommunications operators have received quality products and services of the Group driving various telecommunications operators to continue to increase purchases from the Group and enabling the Group's market share in the telecommunication battery market to expand continuously. The Group predicts that it will obtain more orders in this regard in the future. Electronic consumer batteries sales will also increase due to the increase in sales of electronic consumer products. The Group predicts that it will obtain more orders in this regard in the future. Sales of renewable energy batteries will also increase significantly due to further promotion and application of solar and wind energy power generation. The Group predicts that it will obtain more orders in this regard in the future. The Group will strive to meet these product demands, and Reserve power batteries will contribute to continued growth of the Group's results.

SLI batteries:

The PRC economy is in a fast growing period and enjoys growing consumption demands. The urbanization rate in China is increasing marking a large shift from rural to urban areas adding to the demand in vehicles. Vehicle sales in China have increased substantially. China has become the largest vehicle manufacturer in the world and will further drive the demand for SLI batteries. The Company predicts that this trend will continue. The Group will actively expand production based on market demand. Automobile and motorcycle manufacturers and battery dealers including BMW, Jaguar, Haojue and Pep Boys have increased battery purchases from the Group. In addition, the Group will make use of its 11 battery specialty stores to strengthen sales of SLI batteries. The Group will expand investment in production and sales of SLI batteries which will contribute to the continuous growth of the Group's results.

Motive power batteries:

Governments of various countries have placed more emphasis on green energy in recent years. Customers' demands for motive power batteries have increased substantially. The Group predicts that this trend will continue. The Group will strengthen production and sales capabilities of motive power batteries. The Group has opened 11 battery specialty stores to sell motive power batteries in order to strengthen sales capabilities and increase sales channels. Motive power batteries will contribute to the continuous growth of the Group's results.

FINANCIAL REVIEW

For the six months ended 30 June 2011, the Group's revenue amounted to RMB1,547.6 million, representing an increase of 63.9% compared to that for the six months ended 30 June 2010. The profit attributable to shareholders of the Company amounted to RMB182.5 million, representing an increase of 43.7% compared to that for six months ended 30 June 2010. Earning per share for the six months ended 30 June 2011 was RMB0.14.

Revenue

The Group's revenue increased by 63.9% from RMB944.4 million for the six months ended 30 June 2010 to RMB1,547.6 million for the six months ended 30 June 2011.

The revenue of reserve power batteries increased by 57.4% from RMB821.0 million for the six months ended 30 June 2010 to RMB1,292.1 million for the six months ended 30 June 2011. The revenue of SLI batteries during the period increased by 132.8% from RMB76.3 million for the six months ended 30 June 2010 to RMB177.5 million for the six months ended 30 June 2011. The revenue of motive power batteries increased by 796.1% from RMB7.1 million for the six months ended 30 June 2010 to RMB63.5 million for the six months ended 30 June 2011. The increase in revenue was mainly due to a significant increase in our sales. Details of the Group's revenue for the six months ended 30 June 2010 and 2011 by category of batteries are set out below:

| Product category | Revenue RMB'000 | The six months ended 30 June | | | |
|-------------------------|----------------------------|-------------------------------------|--|-------------------------------------|--------------------|
| | | 2011 Share | Percentage increase/ (decrease) | 2010 Revenue RMB'000 | Share |
| Reserve power batteries | 1,292,091 | 83.5% | 57.4% | 820,984 | 87.0% |
| SLI batteries | 177,528 | 11.5% | 132.8% | 76,253 | 8.1% |
| Motive power batteries | 63,453 | 4.1% | 796.1% | 7,081 | 0.7% |
| Other | 14,570 | 0.9% | (63.6%) | 40,062 | 4.2% |
| Total | <u>1,547,642</u> | <u>100%</u> | <u>63.9%</u> | <u>944,380</u> | <u>100%</u> |

Geographically, the Group's customers are principally located in China, United States, Europe and other Asian countries. For the six months ended 30 June 2011, the Group's sales revenue in China increased significantly by 98.9% from RMB361.8 million for the six months ended 30 June 2010 to RMB719.5 million, representing 46.5% of the Group's total revenue (for the same period ended 30 June 2010: 38.3%). The substantial increase in the Group's sales in China was mainly due to the significant increase in domestic demand in China resulting in greater increase in domestic sales compared to increase in export.

The following table sets forth details of the Group's revenue during the six months ended 30 June 2010 and 2011 based on the geographic locations:

| | Six months ended 30 June | | | |
|-----------------------------|---------------------------------|--------------------|-----------------------|--------------------|
| | 2011 | | 2010 | |
| | <i>RMB'000</i> | <i>Share</i> | <i>RMB'000</i> | <i>Share</i> |
| China | 719,505 | 46.5% | 361,831 | 38.3% |
| United States | 214,801 | 13.9% | 167,210 | 17.7% |
| Europe | 292,827 | 18.9% | 192,885 | 20.4% |
| Other Asian countries/areas | 258,987 | 16.7% | 182,676 | 19.4% |
| Other countries | 61,522 | 4.0% | 39,778 | 4.2% |
| Total | <u>1,547,642</u> | <u>100%</u> | <u>944,380</u> | <u>100%</u> |

Cost of Sales

The Group's cost of sales increased by 69.6% from RMB699.5 million for the six months ended 30 June 2010 to RMB1,186.5 million for the six months ended 30 June 2011, mainly due to the increase in the sales volume for sales of the Group resulting in corresponding increase in cost of sales.

Gross Profit

The Group's gross profit increased by 47.5% from RMB244.9 million for the six months ended 30 June 2010 to RMB361.2 million for the six months ended 30 June 2011. The overall gross profit margin maintained from 25.9% for the six months ended 30 June 2010 to 23.3% for the six months ended 30 June 2011. The Group's increased costs during the period, resulting in the decrease of gross profit margin, was mainly due to the significant increase in the number of employees.

Other Income and Gains

Other income and gains increased by 395.8% from RMB5.5 million for the six months ended 30 June 2010 to RMB27.1 million for the six months ended 30 June 2011, which was primarily due to the increase in government grants during the period.

Selling and Distribution Costs

The Group's selling and distribution costs increased by 56.0% from RMB27.3 million for the six months ended 30 June 2010 to RMB42.6 million for the six months ended 30 June 2011, primarily due to the corresponding increase in cost of sales after significant increase in sales.

Administrative Expenses

The Group's administrative expenses increased by 45.2% from RMB54.6 million for the six months ended 30 June 2010 to RMB79.3 million for the six months ended 30 June 2011, mainly due to increased expenses due to increased administrative staff in order to strengthen management for requirements of continuous expansion during the period.

Other Operating Expenses

The Group's other operating expenses increased by 270.8% from RMB8.9 million for the six months ended 30 June 2010 to RMB33.0 million for the six months ended 30 June 2011, mainly due to the increase in research and development expenses arising from the strengthening of the Group's research and development during the period.

Finance Expenses

The Group's finance expenses increased by 103.1% from RMB9.6 million for the six months ended 30 June 2010 to RMB19.5 million for the six months ended 30 June 2011, mainly due to the corresponding increase in the Group's bank loans to cope with liquidity requirements, as well as the corresponding increase of interest rate throughout the period.

Profit before Income Tax

As a result of the foregoing factors, the Group recorded profit before income tax of RMB213.9 million for the six months ended 30 June 2011 compared to RMB150.0 million for the six months ended 30 June 2010, representing an increase of 42.6%.

Income Tax Expense

Income tax expense increased by 36.6% from RMB23.0 million for the six months ended 30 June 2010 to RMB31.4 million for the six months ended 30 June 2011, mainly due to the increase in taxable profit of the Group.

Profit for the Period

As a result of the foregoing factors, the Group's profit for the period increased by 43.7% from RMB127.0 million for the six months ended 30 June 2010 to RMB182.5 million for the six months ended 30 June 2011.

Liquidity and Financial Resources

As of 30 June 2011, the Group's net current assets amounted to RMB1,423.8 million (31 December 2010: RMB1,442.0 million), among which cash and bank deposit amounted to RMB821.3 million (31 December 2010: RMB967.0 million).

As of 30 June 2011, the Group had bank borrowings of RMB1,068.6 million (31 December 2010: RMB416.6 million), all of which are interest-bearing and repayable within two years. The Group's borrowings are denominated in RMB, U.S. dollars and H.K. dollars, and the effective interest rates of which as of 30 June 2011 were 1.31% to 7.76% (31 December 2010: 3.46% to 5.89%).

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

As at 30 June 2011, the Group's gearing ratio was 26.9% (31 December 2010: 13.5%), which was calculated by dividing total bank borrowings by total assets as of the end of each respective period, multiplied by 100%.

Risks of Exchange Rate Fluctuation

The Group adopts price linkage mechanism in its product sales which enables the Group to pass on the risks of exchange rate fluctuation of its sales to customers. But the Group's receivables in foreign currencies may be subject to potential risks of exchange rate fluctuation during account periods. However, appreciation of RMB will be in a slow progress based on public information of the PRC government, therefore the Board does not consider the Group faces material exchange rate risks.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2011 (31 December 2010: nil).

Pledge of Assets

Please refer to Note 15 to interim condensed consolidated financial statements for details.

Capital Commitments

Please refer to Note 18 to interim condensed consolidated financial statements for details.

EMPLOYEES

As at 30 June 2011, the Group had 11,861 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 RMB178.6 million for the six months ended 30 June 2011 (the six months ended 30 June 2010: RMB87.5 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.

INTERIM DIVIDENDS

The Board has declared an interim dividend of 3.3 HK cents per share for the six months ended 30 June 2011 to shareholders whose names appear on the Company's Register of Members on Thursday, 15 September 2011. It is expected that the interim dividend will be paid around 18 October 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 12 September 2011 to Thursday, 15 September 2011, both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Friday, 9 September 2011.

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”) set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities of the Company by directors. All directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2011.

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, 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 six months ended 30 June 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.

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 30 June 2011, HK\$1,503.4 million has 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, REDEMPTION OR SALE OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2011.

GRANT OF SHARE OPTIONS

The Board has resolved to grant share options to various eligible participants under the share option scheme of the Company adopted on 14 October 2010 to subscribe for a total of 15,800,000 ordinary shares of HK\$0.1 each of the Company. The grant of the said share options will be subject to the Company's receipt of acceptance of offer from the respective offerees. Please refer to the Company's announcement dated 23 August 2011 for further details of the grant of options.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 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.hkex.com.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, August 23, 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.