You should read the following discussion and analysis in conjunction with our consolidated financial information, including the accompanying notes thereto, set out in Appendix I to this prospectus. Our consolidated financial information has been prepared in accordance with IFRS. The following discussion and analysis also contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the factors set forth in the section titled "Risk Factors" elsewhere in this prospectus.

OVERVIEW

We are a leading manufacturer and developer of lead-acid batteries in China with a proven track record of robust growth. With more than 1,500 models of reserve power batteries, SLI batteries and motive power batteries, and battery products ranging in capacity from 0.251 Ah to 4,025 Ah, we offer one of the broadest lines of lead-acid batteries among Chinese battery manufacturers. Our products are used by a growing number of domestic and international customers in various applications, including telecommunications systems, UPS, automobiles, motorcycles and other vehicles, renewable energy systems, and other consumer and industrial products. We possess substantial technical expertise and strong research and development capabilities and have successfully implemented most lead-acid battery technologies, including advanced tubular gel VRLA and TPPL VRLA technologies, into production. Led by a diverse core management team with significant experience in the battery industry, our global sales operation provides us with an understanding of the different geographic markets, our client base and their operational needs. Our stringent quality control system and comprehensive after-sale services have also contributed to our earning the trust of leading lead-acid battery consumers, including major China-based telecommunications companies such as China Unicom, China Mobile and China Telecom, and international companies such as Mattel, BMW and Jaguar.

Our revenue primarily derives from our sale of reserve power batteries, which contributed 89.9% and 86.9% of our total revenue in 2009 and the six months ended June 30, 2010, respectively. Our domestic and international sales accounted for 44.9% and 55.1%, respectively, of our total revenue in 2009 and 38.3% and 61.7% of total revenue in the six months ended June 30, 2010, respectively. The majority of our sales in the domestic market in China was to UPS and telecommunications customers, who together accounted for 82.3%, 88.0%, 87.8% and 82.4% of our total sales in the domestic market in the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. In the international market, OEM customers accounted for 92.4%, 87.5%, 89.2% and 90.2% of our international sales in the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. We anticipate that the revenue derived from these major customers will continue to represent a significant portion of our total revenue in the future.

During the Track Record Period, our revenue increased from RMB1,129.1 million for the year ended December 31, 2007 to RMB1,499.0 million for the year ended December 31, 2008, but then decreased to RMB1,391.5 million for the year ended December 31, 2009. Our revenue increased from RMB600.6 million for the six months ended June 30, 2009 to RMB944.4 million for the six months ended June 30, 2010. Our profit grew from RMB51.6 million for the year ended December 31, 2007 to RMB74.8 million for the year ended December 31, 2008 and to RMB145.3 million for the year ended December 31, 2009, and from RMB58.2 million for the six months ended June 30, 2009 to RMB127.0 million for the six months ended June 30, 2010. We attribute such growth to increasing sales of higher profit-margin products, a broadening range of high quality products employing a variety of technologies, our extensive sales network, our strong and growing research and development capabilities and our experienced management.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our financial condition and results of operations have been, and will continue to be, affected by a number of factors, including those set out below.

Demand for lead-acid batteries in high-growth sectors in China and other emerging markets

Our sales revenue generated from the domestic market in China grew from RMB421.8 million in 2007 to RMB625.4 million in 2009, and from RMB269.2 million in the first half of 2009 to RMB361.8 million in the first half of 2010. Our ability to continue to grow our revenue in China will be driven by the development of high-growth sectors, such as telecommunications, automobiles and motorcycles, and renewable energy. In addition, sales to other emerging markets in Asia and elsewhere expanded significantly in the six months ended June 30, 2010, particularly in the UPS and telecommunications sectors, and are expected to continue to be an important source of revenue growth.

The conversion to 3G networks by telecommunications companies in China has driven the demand for our reserve power batteries in recent years. Although we expect that the development of 3G infrastructure is nearing completion in China's largest cities, we believe that the continuing roll out of 3G infrastructure in second and third tier cities and more rural areas will continue to drive demand for our battery products by telecommunications companies in the foreseeable future.

In the automobile industry, China is now the largest producer of automobiles and the largest automobile market in the world. China is also the world's largest producer and consumer of motorcycles. We expect the demand for automobiles and motorcycles to continue to grow as the income level rises in China. The rapid growth of China's automobile and motorcycle industries has created a large market with significant growth potential for our SLI batteries. Further, we expect a significant secondary market for our SLI products to develop as automobile and motorcycle batteries require periodic replacement.

Finally, the increasing focus in China and globally on the development of renewable sources of energy could present significant opportunities for us to increase our sale of our reserve power batteries for renewable energy applications. In particular, we are targeting wind and solar power farms with our batteries, and hope to benefit as China's development of these sources of energy increases in future periods.

Moreover, we also plan to focus on the anticipated growth in various emerging markets, particularly India, Turkey and South Korea, as a driver for our sales and revenue. We expect sales to the UPS and telecommunications industries in those countries to continue to grow, as evidenced by the increased sales to these countries in the first half of 2010.

Each of these markets could create opportunities for us to continue growing our revenue. However, there could be development in any of these markets that cause demand to be less than we anticipate.

Ability to develop and manufacture new products

Our ability to keep pace with technological developments will be an important factor in maintaining our competitiveness, especially in the international market. We plan to aggressively focus on the development of new products that use advanced technologies. We have already begun the production of tubular gel VRLA batteries and expect to begin trial production of TPPL VRLA batteries in the fourth quarter of 2010 that target the renewable energy and telecommunications industries. Our research and development team is also focusing on the development of spiral pure lead batteries for use in vehicles. There is, however, no assurance that these new products or our research and development efforts will be successful. If we cannot successfully implement new technologies into production or achieve market acceptance for new products, our results of operations and future prospects may be adversely affected. Our future growth depends on our ability to continue to develop and manufacture technologically advanced products to meet the changing needs of our customers.

Pursuing capacity expansion while maintaining high utilization rate

Our results of operations have been and are expected to continue to be affected by our production capacity. We have historically operated our production facilities at a high utilization rate and our growth has in part been limited by our capacity. During the Track Record Period, we expanded our aggregate annual production capacity from 2.0 million KVAh as of December 31, 2007 to 5.1 million KVAh as of June 30, 2010 by adding two new production facilities in Zhaoqing and Anhui and four additional production lines at our other production facilities. We have received the title certificate and been granted land use rights for a parcel of land with a site area of approximately 20,354 sq.m. next to our Anhui production facility. We have also signed letters of intent to purchase a parcel of land with a site area of approximately 85,228 sq.m. near our Zhaoqing production facility and a parcel of land with a site area of approximately 269,333 sq.m. near our Anhui production facility. We plan to use these land parcels to expand our production capacity. We believe that successful implementation of our planned capacity expansion will impact our future sales volumes, revenue and profits, and enable us to increase our market share.

However, the addition of new production capacity will require an increase in our sales volume and production volume, which in turn will require corresponding expansion of our supporting infrastructure, most importantly further development of our sales and marketing team, and the expansion of our customer base. We must develop sufficient market share to maintain our high utilization rates in order to make these expansion plans profitable. During the year ended December 31, 2009 and the six months ended June 30, 2010, the average utilization rate of our five production facilities was approximately 89.7% and 92.7%, respectively. Our ability to expand our production facilities while maintaining our high utilization rate will continue to be a key factor to our success.

Cost of production

The global lead-acid battery market is competitive, and our ability to continue to grow our market position will depend on our effective management of our production costs, including raw materials and labor. The primary raw material used in our production is lead, which constituted approximately 60.8%, 61.8%, 56.6% and 62.4% of our cost of sales in 2007, 2008 and 2009 and in the six months ended June 30, 2010, respectively. The price of lead has fluctuated significantly in recent years and our average cost of lead per ton was RMB14.6 thousand per ton in 2007, RMB16.0 thousand per ton in 2008, RMB11.2 thousand per ton in 2009 and RMB12.9 thousand per ton in the six months ended June 30, 2010. We are thus exposed to the risk of changes in the price of lead and to the extent we cannot fully pass on price increases to our customers, our business operations and financial performance could be affected. We have, however, been able to mitigate the risk in the fluctuation of the price of lead through inclusion of pricing mechanisms in certain of our supply and sales contracts. Through these mechanisms, the price of our lead supply and of our products is adjusted if the lead price published on the Shanghai Metals Market fluctuates beyond a certain range. We believe the impact of the fluctuation in the prices of the raw materials on our business will be limited if we can continue employing the pricing mechanism in our contracts. However, not all of our contracts have this mechanism, and even for those that do, there is usually a threshold for adjustment as well as a time difference between the pricing and the actual purchase of lead used, and the mechanism cannot protect us fully from all fluctuations in lead pricing. For example, based on our actual cost of production and volume of batteries sold, and assuming the fluctuation in the price of lead can be fully passed on to our customers, a decrease in the price of lead by 10% during 2009 versus our actual cost of lead would have resulted in an increase in our gross profit margin of 0.96%, and an increase in the price of lead by 10% versus our actual cost of lead would have resulted in a decrease to our gross profit margin of 0.88%. Therefore while the price of lead decreased throughout most of 2009 and our product price and revenue were lower, our profit margin actually increased.

We also work to reduce the overall production cost by pursuing vertical integration and automation. We carry out all the steps in the battery-manufacturing processes in house, including the production of certain components. This has allowed us to reduce cost by not incurring significant third parties service costs. To further control our costs, we have centralized our sales and marketing, procurement, production planning, and logistics systems across our five production facilities in China. We also continue to implement automation in various stages of the production processes. We believe automation will help to minimize labor and associated costs and increase the efficiency of our production processes.

Product mix

Our results of operations have been and are expected to be substantially affected by the types of products we sell and our product mix. The continued growth in our profit during the Track Record Period, despite the decline in our revenue in the year ended December 31, 2009, was principally due to an increase in the sale of batteries to telecommunications customers, as well as increases in the sale of renewable energy and SLI batteries. While sales to UPS customers remained significant, we experienced a decline in UPS sales in the year ended December 31, 2009 as the global financial crisis negatively affected the export market, in which our UPS sales are concentrated. As telecommunications and renewable energy storage batteries generally have a higher profit margin, and despite that telecommunications customers, under common industry practice, have a longer credit period, they have been and will continue to be key drivers in our growth. Our ability to increase the sales of these and other high-margin products, and to develop new technologies for these applications, such as tubular gel and TPPL VRLA technologies, will be an important factor in our success.

Furthermore, offering a broad range of products will allow us to tap into new markets and diversify our income stream to better mitigate the impact of cyclicality in any particular industry. By offering more than 1,500 models of lead-acid batteries employing various technologies, we can attract new customers, better meet the continuously evolving needs of our existing customers, and reduce customers' need to deal with multiple battery manufacturers.

Ability to maintain product quality and reputation

Product quality and reputation are important in lead-acid battery customers' purchasing decisions. As many of our products are used in emergency situations, the quality and performance of our products are vitally important factors in enabling us to build our reputation among leading companies and expand our customer base. Our results of operations, future prospects and reputation may be materially and adversely affected if our products experience significant failures or defects. We therefore must continue to diligently ensure the quality and consistency of our products through stringent quality control measures. Moreover, we believe maintaining close contacts with our customers will give us an opportunity to identify and address any potential issues before they cause an adverse effect.

Level of income tax and preferential tax treatment

Our profit attributable to equity holders is affected by the level of income tax that we pay and the preferential tax treatment to which we are entitled. Pursuant to relevant laws and regulations in the PRC, our effective tax rate was 4.2%, 14.7%, 9.1% and 15.3% for the years ended December 31, 2007, 2008, 2009 and the six months ended June 30, 2010, respectively, which was considerably lower than the standard enterprise income tax rate of 25%. Unless our PRC subsidiaries qualify for other preferential tax benefits after these benefits expire, it is possible that the standard 25% EIT rate could apply to some or all of our operations in future periods. The change in the applicable corporate income tax rate upon the expiration of preferential tax treatment could have a negative impact on the amount of taxes we pay and consequently have a material adverse impact on our results of operations and financial condition.

BASIS OF PRESENTATION

Pursuant to the Reorganization, the Company became the holding company of the companies now comprising the Group on June 8, 2010. Since the Company and the companies now comprising the Group were under common control of Mr. Dong both before and after the completion of the Reorganization, the Reorganization has been accounted for using merger accounting.

The financial information in this prospectus has been prepared on the basis as if the Company had always been the holding company of the companies now comprising the Group. The financial information presents the consolidated results, cash flows and financial position of the companies comprising the Group as if the group structure had been in existence at the beginning of the Track Record Period, or since the companies' respective date of incorporate or establishment, where there is a shorter period.

The financial information has been prepared in accordance with IFRS which comprise standards and interpretations approved by the IASB that are applicable to the Track Record Period and the disclosure requirements of the Companies Ordinance. For the purpose of preparing and presenting the financial information for inclusion in this prospectus, the Group has early adopted and applied throughout the Track Record Period all IFRS that are applicable to the accounting period beginning on January 1, 2010, that are relevant to the Group's operations, except for IFRS 3 (Revised), which has been applied for business combination for which the acquisition date is on or after January 1, 2010, and IAS 27 (Revised) which has been applied for accounting period beginning on January 1, 2010.

The financial information has been prepared under the historical cost convention. The financial information is presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that require management to exercise judgment and make estimates that yield materially different results if management were to apply different assumptions or make different estimates. Our financial statements have been prepared in accordance with IFRS. Our principal accounting policies are set forth in Note 3.2 to Accountants' Report, attached as Appendix I to this prospectus. IFRS requires that we adopt accounting policies and make estimates that we believe are most appropriate in the circumstances for the purpose of giving a true and fair view of our results and financial condition. We believe the most complex and sensitive judgments, because of their significant to our operations and financial conditions, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results in these areas could different from our estimates. The critical accounting policies are described below.

Revenue Recognition

We recognize revenue to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding other sales taxes or duties.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods. We recognize revenue from the sale of goods when the significant risks and rewards of ownership have been transferred and the title has been passed to the buyer and the amount of revenue can be measured reliably provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Interest income. Interest income is recognized on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Rental income. Rental income is recognized on a time proportion basis over the lease terms.

Impairment of Non-financial Assets Other than Goodwill

When an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash generating unit to which the asset belongs.

We recognize an impairment loss only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, we discount the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. We charge an impairment loss to profit or loss in the period in which it arises.

An assessment is made at the end of each accounting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, we estimate the recoverable amount. We reverse a previously recognized impairment loss of an asset only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such impairment loss is credited to profit or loss in the period in which it arises.

Property, Plant and Equipment and Depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20 years
Plant and machinery	3 – 10 years
Office equipment	3 – 10 years
Motor vehicles	3 – 10 years
Tooling and equipment	3 – 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery under construction or installation and testing which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction or installation and testing and capitalized borrowing costs on related borrowed funds during the period of construction or installation and testing. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible Assets (Other than Goodwill)

Intangible assets acquired separately are measured on initial recognition as cost. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Research and Development Costs

All research costs are charged to profit or loss as incurred. Expenditure incurred on projects to develop new products is capitalized and deferred only when we can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Financial Assets

Initial Recognition and Measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of its financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that we commit to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

We determine the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at end of each of the accounting periods.

Our financial assets include pledged deposits, cash and bank balances and trade and bills receivables, deposits and other receivables and amounts due from related companies.

Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance income in profit or loss. The loss arising from impairment is recognized in profit or loss in other operating expenses.

Impairment of Financial Assets

We assess at the end of each of the accounting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. The costs of raw materials comprise the purchasing costs of the materials and other costs incurred in bringing the materials to their present locations and conditions. The costs of work in progress and finished goods comprise direct materials, direct labor and an appropriate proportion of manufacturing overheads.

Net realizable value is based on selling prices, less estimated costs to be incurred to completion and disposal.

Provisions

A provision is recognized when we have a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is included in finance costs in profit or loss.

PRINCIPAL INCOME STATEMENT COMPONENTS

The following table sets forth the principal components of our statement of income:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	(RMB in millions)	Share (%)	(RMB in millions)	Share (%)	(RMB in millions)	Share (%)	(RMB in millions)	Share (%)	(RMB in millions)	Share (%)
REVENUE	1,129.1	100.0	1,499.0	100.0	1,391.5	100.0	600.6	100.0	944.4	100.0
Cost of Sales	(989.0)	(87.6)	(1,301.4)	(86.8)	(1,112.9)	(80.0)	(484.3)	(80.6)	(707.6)	(74.9)
Gross profit	140.1	12.4	197.6	13.2	278.6	20.0	116.3	19.4	236.8	25.1
Other income and gains	5.9	0.5	10.2	0.7	20.6	1.4	11.6	1.9	5.5	0.6
Selling and distribution costs	(34.1)	(3.0)	(43.7)	(2.9)	(57.3)	(4.1)	(23.0)	(3.8)	(27.3)	(2.9)
Administrative expenses	(43.4)	(3.8)	(59.0)	(3.9)	(70.1)	(5.0)	(34.1)	(5.7)	(54.6)	(5.8)
Other operating expenses	(9.2)	(0.8)	(9.1)	(0.6)	(2.4)	(0.2)	(1.0)	(0.2)	(0.9)	(0.1)
Finance costs	(5.4)	(0.5)	(8.3)	(0.6)	(9.6)	(0.7)	(4.7)	(0.8)	(9.5)	(1.0)
PROFIT BEFORE TAX	53.9	4.8	87.7	5.9	159.8	11.4	65.1	10.8	150.0	15.9
Income tax expense	(2.3)	(0.2)	(12.9)	(0.9)	(14.5)	(1.0)	(6.9)	(1.1)	(23.0)	(2.4)
PROFIT FOR THE YEAR/PERIOD	51.6	4.6	74.8	5.0	145.3	10.4	58.2	9.7	127.0	13.5
OTHER COMPREHENSIVE INCOME										
Exchange differences on translation of foreign operations	2.4	0.2	1.5	0.1	(0.1)	–	–	–	(0.2)	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	54.0	4.8	76.3	5.1	145.2	10.4	58.2	9.7	126.8	13.5
Profit attributable to:										
Owners of the Company	50.6	4.5	74.7	5.0	145.3	10.4	58.2	9.7	127.0	13.5
Non-controlling interests	1.0	0.1	0.1	–	–	–	–	–	–	–
	51.6	4.6	74.8	5.0	145.3	10.4	58.2	9.7	127.0	13.5
Total comprehensive income attributable to:										
Owners of the Company	53.1	4.7	76.3	5.1	145.2	10.4	58.2	9.7	126.8	13.5
Non-controlling interests	0.9	0.1	–	–	–	–	–	–	–	–
	54.0	4.8	76.3	5.1	145.2	10.4	58.2	9.7	126.8	13.5

Revenue

We generate revenue from the sale of lead-acid batteries and of components such as electrode plates and battery shelves. Component sales comprised less than 5% of our revenue throughout the Track Record Period. We also historically generated a small amount of revenue from the sale of electric vehicles, however this was discontinued in 2010.

We recognize revenue when the significant risks and rewards of ownership have been transferred, the title has been passed to the buyer and the amount of revenue can be measured reliably, provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. Except for telecommunications customers, revenue recognition criteria are met upon delivery of products. For sales to telecommunications customers, we recognize revenue when a purchase order is signed, which, consistent with market practice of the telecommunications industry, usually takes place within four weeks after we deliver the products. For more details about our terms of sales for telecommunications customers, please see "Business—Customers—Terms of Sales and Credit Policy" in this prospectus.

The major sources of growth over the Track Record Period have been the sale of batteries for the telecommunications industry, as well as batteries for the renewable energy sector and SLI batteries. Geographically, growth has been driven by increased sales to domestic customers in China, as well as in various emerging markets, which expanded significantly during the six months ended June 30, 2010 as many international markets recovered from the global economic crisis.

The table below sets forth our revenue by product types, their percentage of total revenue and the average selling price ("ASP") calculated as revenue per KVAh sold for the periods indicated:

	Year ended December 31,									Six months ended June 30,					
	2007			2008			2009			2009			2010		
	Revenue (RMB in millions)	Share (%)	ASP (RMB)	Revenue (RMB in millions)	Share (%)	ASP (RMB)	Revenue (RMB in millions)	Share (%)	ASP (RMB)	Revenue (RMB in millions)	Share (%)	ASP (RMB)	Revenue (RMB in millions)	Share (%)	ASP (RMB)
Revenue															
Reserve power	1,084.5	96.0	583.4	1,430.1	95.5	649.6	1,246.7	89.5	514.0	539.8	89.9	507.5	821.0	86.9	514.1
of which:															
UPS	641.3	56.8	536.9	828.5	55.3	566.9	564.0	40.5	421.8	251.9	41.9	448.0	443.1	46.9	463.9
Telecommunications	203.4	18.0	661.3	335.9	22.4	907.5	486.3	34.9	674.9	196.8	32.8	578.2	210.1	22.2	581.5
Renewable energy storage	8.0	0.7	941.5	14.4	1.0	975.9	32.3	2.3	610.3	5.5	0.9	563.5	11.9	1.3	731.7
Other consumer and industrial products	231.8	20.5	655.5	251.3	16.8	707.5	164.1	11.8	521.4	85.6	14.3	565.6	155.9	16.5	590.1
SLI	27.2	2.4	361.6	48.3	3.2	457.1	90.8	6.5	390.4	41.9	7.0	413.3	76.3	8.1	444.3
Motive power	3.1	0.3	315.7	6.1	0.4	392.7	2.8	0.2	358.7	1.4	0.2	354.6	7.1	0.8	521.2
Other[(1)]	14.3	1.3	N/A	14.5	0.9	N/A	51.2	3.8	N/A	17.5	2.9	N/A	40.0	4.2	N/A
TOTAL	1,129.1	100.0	N/A	1,499.0	100.0	N/A	1,391.5	100.0	N/A	600.6	100.0	N/A	944.4	100.0	N/A

Note:

(1) Other includes sale of battery components and electric vehicles. As of the Latest Practicable Date, we have ceased sales of electric vehicles.

The following table sets out total sales volume of our batteries during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(KVAh in thousands)				
Total Sales Volume					
Reserve power	1,858.6	2,201.5	2,425.5	1,063.8	1,596.8
of which:					
UPS	1,194.3	1,461.5	1,337.2	562.3	955.1
Telecommunications	307.5	370.1	720.6	340.4	361.3
Renewable energy storage	8.5	14.8	52.9	9.7	16.3
Other consumer and industrial products	348.3	355.1	314.8	151.4	264.1
SLI	75.2	105.6	232.7	101.4	171.6
Motive power	10.0	15.5	7.7	4.0	13.6
TOTAL	1,943.8	2,322.6	2,665.9	1,169.2	1,782.0

The following table sets out our revenue by geographic location during the Track Record Period:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Revenue (RMB in millions)	Share (%)	Revenue (RMB in millions)	Share (%)	Revenue (RMB in millions)	Share (%)	Revenue (RMB in millions)	Share (%)	Revenue (RMB in millions)	Share (%)
Geographic Location										
China	421.8	37.4	557.3	37.2	625.4	44.9	269.2	44.8	361.8	38.3
European Union	277.0	24.5	332.9	22.2	248.4	17.9	112.5	18.7	192.9	20.4
United States	204.0	18.1	333.8	22.3	256.2	18.4	117.8	19.6	167.2	17.7
Other Asian countries/areas	159.9	14.2	209.7	14.0	202.2	14.5	78.3	13.0	182.7	19.3
Other countries	66.4	5.8	65.3	4.3	59.3	4.3	22.8	3.9	39.8	4.3
TOTAL	1,129.1	100.0	1,499.0	100.0	1,391.5	100.0	600.6	100.0	944.4	100.0

The following table sets out our revenue by OEM and non-OEM sales during the Track Record Period:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Revenue (RMB in millions)	Share (%)	Revenue (RMB in millions)	Share (%)	Revenue (RMB in millions)	Share (%)	Revenue (RMB in millions)	Share (%)	Revenue (RMB in millions)	Share (%)
Domestic – OEM[(1)]	12.3	1.1	26.1	1.7	13.2	0.9	10.7	1.8	28.0	3.0
Domestic – non-OEM[(1)]	409.5	36.3	531.2	35.5	612.2	44.0	258.5	43.0	333.8	35.3
International – OEM[(1)(2)]	653.6	57.9	824.1	55.0	683.6	49.1	282.6	47.1	525.6	55.7
International – non-OEM[(1)(2)]	53.7	4.7	117.6	7.8	82.5	6.0	48.8	8.1	57.0	6.0
TOTAL	1,129.1	100.0	1,499.0	100.0	1,391.5	100.0	600.6	100.0	944.4	100.0

Notes:

(1) OEM sales represent sales of products under our customers' trademarks or brand names, while non-OEM sales principally include sales of products under our own brand.

(2) Each of International–OEM and International–non-OEM includes our sales to distributors. Sales to distributors in aggregate accounted for less than 5.0% of our revenue during the Track Record Period.

Cost of Sales

Our cost of sales consists primarily of raw materials, electricity, labor, depreciation and other production costs.

Raw materials. Raw materials consist primarily of lead, ABS plastic, sulphuric acid and fiberglass separators. Lead has historically represented the largest component of raw materials, comprising approximately 60.8%, 61.8%, 56.6%, and 62.4% of our total cost of sales in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively.

Labor for production. Labor cost primarily includes wages, salaries and benefits for our employees directly involved in the production process.

Depreciation expenses. Depreciation expenses represent the depreciation for the production plants and equipment we use.

The following table provides a breakdown of our cost of sales for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	(RMB in millions)	Share (%)	(RMB in millions)	Share (%)	(RMB in millions)	Share (%)	(RMB in millions)	Share (%)	(RMB in millions)	Share (%)
Cost of Sales										
Raw materials	886.4	89.6	1,160.8	89.2	945.7	85.0	411.0	84.9	607.3	85.9
of which:										
Lead	601.1	60.8	804.7	61.8	630.0	56.6	290.1	59.9	441.2	62.4
Other raw materials	285.3	28.8	356.1	27.4	315.7	28.4	120.9	25.0	166.1	23.5
Electricity	37.9	3.8	51.2	3.9	58.7	5.3	29.9	6.1	36.9	5.2
Labor	40.8	4.1	62.8	4.8	75.0	6.7	30.9	6.4	43.9	6.2
Depreciation	15.1	1.5	18.9	1.5	26.6	2.4	9.6	2.0	14.2	2.0
Others	8.8	1.0	7.7	0.6	6.9	0.6	2.9	0.6	5.3	0.7
TOTAL	989.0	100.0	1,301.4	100.0	1,112.9	100.0	484.3	100.0	707.6	100.0

Gross Profit and Gross Profit Margin

Our profit margins for sales of batteries for the telecommunications industry and renewable energy industry have historically been higher than for many of our other products. The following table sets out our total gross profit, gross profit margin and gross profit per KVAh by product category during the Track Record Period:

	Year ended December 31,									Six months ended June 30,					
	2007			2008			2009			2009			2010		
	Gross Profit (RMB in millions)	Gross Profit Margin (%)	Gross Profit per KVAh (RMB)	Gross Profit (RMB in millions)	Gross Profit Margin (%)	Gross Profit per KVAh (RMB)	Gross Profit (RMB in millions)	Gross Profit Margin (%)	Gross Profit per KVAh (RMB)	Gross Profit (RMB in millions)	Gross Profit Margin (%)	Gross Profit per KVAh (RMB)	Gross Profit (RMB in millions)	Gross Profit Margin (%)	Gross Profit per KVAh (RMB)
Gross Profit															
Reserve power	136.8	12.6	73.6	192.8	13.5	87.6	253.1	20.3	104.4	106.4	19.7	99.9	209.7	25.5	131.3
of which:															
UPS	54.2	8.5	45.4	94.3	11.4	64.5	88.8	15.7	66.4	45.1	17.9	80.2	92.8	20.9	97.1
Telecommunications	52.6	25.9	171.1	70.6	21.0	190.7	127.3	26.2	176.8	46.9	23.9	138.2	74.3	35.4	205.8
Renewable energy storage	3.4	42.5	400.3	5.7	39.3	383.5	13.0	40.2	245.2	2.4	44.5	250.7	7.9	66.1	483.5
Other consumer and industrial products	26.6	11.5	76.3	22.2	8.9	62.7	24.0	14.6	76.1	12.0	13.7	77.5	34.7	22.3	131.4
SLI	2.5	9.3	33.7	3.1	6.4	29.2	20.7	22.8	89.0	8.2	19.6	81.1	16.9	22.2	98.5
Motive power	0.3	9.3	29.5	0.8	12.4	48.6	0.3	9.2	32.9	0.1	9.0	31.8	2.6	36.4	189.7
Other	0.5	3.5	N/A	0.9	6.4	N/A	4.5	8.7	N/A	1.6	9.3	N/A	7.6	19.0	N/A
TOTAL	140.1	12.4	N/A	197.6	13.2	N/A	278.6	20.0	N/A	116.3	19.4	N/A	236.8	25.1	N/A

Other Income and Gains

Our other income and gains primarily consist of bank interest income, government grants, and sale of scrap materials.

Bank interest income: Bank interest income is generated by balances in our current accounts.

Government grants: During the Track Record Period, we received certain grants from municipal and provincial governments as a result of our status as a high-technology manufacturer. In addition, we received an electricity rebate totaling approximately RMB15.5 million from Jiangsu province in 2008 and 2009 to subsidize our usage of electricity. Jiangsu province provides these rebates to companies operating in selected industries that they seek to attract.

Sale of scrap materials: This is generated from sales of miscellaneous materials generated by our operations.

Selling and Distribution Costs

Our selling and distribution costs primarily consist of domestic shipping and freight costs, wages, salaries and benefits for sales and marketing and after-sales service employees, sales and marketing related expenditures, such as advertisement costs, travel and entertainment, and rental costs for leasing our sales offices in China and around the world. Costs we incur to have our products certified for sale in particular industries or in particular markets are also included in this line item.

Administrative Expenses

Our administrative expenses principally comprise of wages, salaries and benefits for all non-production, non-sales employees and management; general employee benefit expenses such as cafeteria and other fringe benefits, and depreciation and amortization of non-production assets.

Other Operating Expenses

This is generated principally from foreign exchange gains and losses and bad debt expenses.

Finance Costs

This includes interest payable on outstanding indebtedness.

Income Tax Expense

Income tax expense primarily represents the amount of the PRC enterprise income tax we pay. During the Track Record period, we were not subject to any income tax in the Cayman Islands, and we were not subject to income taxes in the U.K. and Singapore as no profit was generated from our operations in those jurisdictions. Our U.S. subsidiary, Leoch Battery Corp, has been subject to corporate income tax in the United States since becoming our subsidiary on June 1, 2010.

Leoch Power Supply and Leoch Battery Company, two of our Hong Kong subsidiaries, are subject to Hong Kong income tax at the statutory rate of 17.5% (for the year of assessment 2007/08) and 16.5% (for the year of assessment 2008/09 onwards). One of our Hong Kong subsidiaries, Kinetic Growth, has not performed any operations in Hong Kong. Most of its operations were carried out in the PRC by our PRC subsidiaries that sold products to it. The profits of Kinetic Growth were allocated to respective PRC subsidiaries based on the total cost of goods purchased from such PRC subsidiaries. The tax provision of Kinetic Growth was RMB5.5 million, RMB6.3 million and RMB6.2 million for the years ended December 31, 2008 and 2009 and the six months ended June 30, 2010. There was no tax provision for the year ended December 31, 2007 as Kinetic Growth was set up on January 11, 2008.

Our five production subsidiaries, Jiangsu Leoch, Anhui Leoch Battery, Zhaoqing Leoch, Shenzhen Leoch and Dongguan Leoch, currently benefit from a reduced EIT rate. Our effective tax rate was 4.2%, 14.7%, 9.1% and 15.3% in 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. The applicable EIT rates during the Track Record Period for our five subsidiaries are set out below:

	Year ended December 31,			
	2007	2008	2009	2010(1)
Jiangsu Leoch	Nil	12.5%	12.5%	12.5%
Zhaoqing Leoch	N/A	Nil	Nil	12.5%
Anhui Leoch Battery	N/A	Nil	Nil	12.5%
Dongguan Leoch	15%	15%	15%	15%
Shenzhen Leoch	7.5%	18%	20%	22%

Note:

(1) Tax rates for 2010 are based on the statutory rate for each subsidiary as of the Latest Practicable Date and are not expected to change during the remainder of 2010.

Our effective tax rates during the Track Record Period were considerably lower than the standard enterprise income tax rate of 25% under the EIT Law because our PRC subsidiaries have been entitled to certain preferential tax benefits. In accordance with the relevant income tax laws and regulations of the PRC for manufacturing enterprises, Anhui Leoch Battery, Zhaoqing Leoch and Jiangsu Leoch were exempt from enterprise income tax for two years and were entitled to a 50% reduction in enterprise income tax for the subsequent three years ("EIT Exemption"). The six-month period ended June 30, 2010 was the third year for Anhui Leoch Battery and Zhaoqing Leoch and the fifth year for Jiangsu Leoch to enjoy the EIT Exemption. Pursuant to the transitional arrangement under the EIT Law, the enterprise income tax rate applicable to Shenzhen Leoch will be gradually increased from the rate of 18% to the unified rate of 25% over five years commencing from year 2008. Meanwhile, Dongguan Leoch was recognized as a high-tech enterprise by the PRC tax authority in 2008 with an effective period of three years from 2008 to 2010 and was entitled to a 15% enterprise income tax rate from January 1, 2008 onwards.

Share-based Compensation Expenses

We adopted the Pre-IPO Share Option Scheme on May 25, 2010 and granted in aggregate 37,840,000 share options to our directors and employees on June 1, 2010. We recognize share option scheme expenses by amortizing a portion of the share-based compensation expenses over the period in which the performance and/or service conditions are fulfilled. We grant options to our directors and employees and measure a share-based compensation expenses by reference to the fair value of options on the grant date. We recorded share-based compensation expenses of RMB1.0 million in the six months ended June 30, 2010. We had RMB35.7 million of unamortized deferred share-based compensation expenses as of June 30, 2010.

The following table sets forth the allocation of our share-based compensation expenses both in absolute amount and as a percentage of total share-based compensation expenses.

	Year ended December 31,						Six months ended June 30,	
	2007		2008		2009		2010	
	RMB (in millions)	Share (%)	RMB (in millions)	Share (%)	RMB (in millions)	Share (%)	RMB (in millions)	Share (%)
Allocation of Share-based Compensation Expenses								
Cost of sales	–	–	–	–	–	–	0.1	10.0
Administrative expenses	–	–	–	–	–	–	0.5	50.0
Selling and distribution costs	–	–	–	–	–	–	0.4	40.0
	–	–	–	–	–	–	1.0	100.0

Other comprehensive income

This consists of unrealized exchange differences on translation of foreign operations during the preparation of our consolidated financial statements.

SIX-MONTH PERIOD ENDED JUNE 30, 2010 COMPARED TO SIX-MONTH PERIOD ENDED JUNE 30, 2009

Revenue

Our total revenue increased by 57.2% from RMB600.6 million for the six months ended June 30, 2009 to RMB944.4 million for the six months ended June 30, 2010, primarily because, as demand for our products increased and as we continued to expand our sales, particularly in reserve power batteries for UPS and for other consumer and industrial products sales volume increased by 70.8% from 0.7 million KVAh in the six months ended June 30, 2009 to 1.2 million KVAh in the six months ended June 30, 2010. Our revenue growth was also attributable to the increase in our average selling price, particularly the average selling price of our reserve power batteries which increased from RMB507.5 per KVAh in the six months ended June 30, 2009 to RMB514.1 per KVAh in the six months ended June 30, 2010, primarily as the result of lead price increases.

By product type, sales revenue from reserve power batteries increased by 52.1% to RMB821.0 million in the six months ended June 30, 2010 from RMB539.8 million in the six months ended June 30, 2009 as the sales volume of reserve power batteries increased by 50.1% to 1.6 million KVAh in the six months ended June 30, 2010 from 1.1 million KVAh in the six months ended June 30, 2009. In particular, sales volume for reserve power batteries used in UPS and in renewable energy storage increased by 69.9% and 68.0%, respectively, in the six months ended June 30, 2010 compared to the same period in 2009. Furthermore, the average selling price for reserve power batteries increased by 1.3% to RMB514.1 per KVAh in the six months ended June 30, 2010 from RMB507.5 per KVAh in the six months ended June 30, 2009. Most notably, average selling price of reserve power batteries used in renewable energy storage increased by 29.9% from RMB563.5 per KVAh to RMB731.7 per KVAh.

Sales revenue from SLI batteries increased by 82.1% to RMB76.3 million in the six months ended June 30, 2010 from RMB41.9 million in the six months ended June 30, 2009 as sales volume of SLI batteries increased by 69.2% to 0.2 million KVAh in the six months ended June 30, 2010 from 0.1 million KVAh in the six months ended June 30, 2009 and as average selling price increased by 7.5% to RMB444.3 per KVAh in the six months ended June 30, 2010 from RMB413.3 per KVAh in the six months ended June 30, 2009.

Sales revenue from motive power batteries increased by 407.1% to RMB7.1 million in the six months ended June 30, 2010 from RMB1.4 million in the six months ended June 30, 2009 as sales volume of motive power batteries increased by 240.0% to 13,600 KVAh in the six months ended June 30, 2010 from 4,000 KVAh in the six months ended June 30, 2009 and as average selling price increased by 47.0% to RMB521.2 per KVAh in the six months ended June 30, 2010 from RMB354.6 per KVAh in the six months ended June 30, 2009.

Cost of Sales

Our cost of sales increased by 46.1% from RMB484.3 million for the six months ended June 30, 2009 to RMB707.6 million for the six months ended June 30, 2010. The increase was principally driven by our increased sales volume.

Lead: Cost of lead increased by 52.1% from RMB290.1 million for the six months ended June 30, 2009 to RMB441.2 million for the six months ended June 30, 2010 as our lead consumption increased from 27.3 thousand tons in the six months ended June 30, 2009 to 34.2 thousand tons in the six months ended June 30, 2010 in connection with our increased sales volume. In addition, our average cost of lead increased by 20.7% from RMB10.6 thousand per ton in the six months ended June 30, 2009 to RMB12.8 thousand per ton in the six months ended June 30, 2010.

Other raw materials: Cost of other raw materials increased by 37.4%, from RMB120.9 million for the six months ended June 30, 2009 to RMB166.1 million for the six months ended June 30, 2010, corresponding to the increase in sales volume.

Electricity: Cost of electricity increased by 23.4% from RMB29.9 million for the six months ended June 30, 2009 to RMB36.9 million for the six months ended June 30, 2010, which corresponded to our increased use of electricity resulting from the increase in sales volume, as our average unit cost for electricity did not change materially between the six months ended June 30, 2009 and the six months ended June 30, 2010.

Labor for production: Our labor costs increased by 42.2% from RMB30.9 million for the six months ended June 30, 2009 to RMB43.9 million for the six months ended June 30, 2010, primarily due to an increase in the number of production employees to meet our increase in sales volume.

Depreciation: Our depreciation costs increased by 48.6% from RMB9.6 million for the six months ended June 30, 2009 to RMB14.2 million for the six months ended June 30, 2010, principally because of the new equipment and machineries commissioned at Zhaoqing and Anhui production facilities.

Gross Profit and Gross Profit Margin

Gross profit increased by approximately 103.7% from RMB116.3 million for the six months ended June 30, 2009 to RMB236.8 million for the six months ended June 30, 2010. Our gross profit margin increased from 19.4% for the six-month period ended June 30, 2009 to 25.1% for the six-month period ended in June 30, 2010. These increases were primarily due to efficiency gains from economies of scale as our sales volume increased to 1.8 million KVAh in the six months ended June 30, 2010 from 1.2 million KVAh in the six months ended June 30, 2009. In particular, the sales volume of motive power batteries and reserve power batteries for renewable energy storage increased by 240.0% to 13,600 KVAh in the first half of 2010 from 4,000 KVAh in the same period of 2009 and by 68.0% to 16,300 KVAh in the first half of 2010 from 9,700 KVAh in the same period of 2009, respectively. As the production volume for each type of our batteries increased, we were able to increase the economies of scale of our production and reduce the per unit cost. In addition, our gross profit grew as a result of improvements we made to our production process, which resulted in a reduction in waste generated in the production process and more efficient use of lead for all of our battery products. We used on average 7.8% less lead per KVAh, thus lowered the per unit cost, in the six months ended June 30, 2010.

Other Income and Gains

Other income and gains decreased by 52.7% from RMB11.6 million for the six months ended June 30, 2009 to RMB5.5 million for the six months ended June 30, 2010. This was primarily due to the decrease in the amount of government grants received in the six months ended June 30, 2010 compared to the six months ended June 30, 2009. In particular, we did not receive any electricity rebate in the six months ended June 30, 2010.

Selling and Distribution Costs

Our selling and distribution costs increased by 18.5% from RMB23.0 million for the six months ended June 30, 2009 to RMB27.3 million for the six months ended June 30, 2010, mainly because of an increase in the number of sales employees in the six months ended June 30, 2010. Although the quantity of products sold increased in the six months ended June 30, 2010 compared to the six months ended June 30, 2009, shipping and freight costs only decreased by 1.7% as we became more effective in coordinating production and shipment from the closest production facility to reduce our per unit shipping and freight costs.

Administrative Expenses

Our administrative expenses increased by 60.0% from RMB34.1 million for the six months ended June 30, 2009 to RMB54.6 million for the six months ended June 30, 2010, mainly due to professional expenses relating to the Global Offering of approximately RMB7.6 million and an increase in the number of administrative employees.

Other Operating Expenses

Our other operating expenses decreased by 14.7% from RMB1.0 million for the six months ended June 30, 2009 to RMB0.9 million for the six months ended June 30, 2010, mainly because foreign exchange loss was lower in the first half of 2010 as the RMB exchange rate remained relatively stable compared to the same period in 2009.

Finance Costs

Our finance costs increased by 107.5% from RMB4.7 million for the six months ended June 30, 2009 to RMB9.6 million for the six months ended June 30, 2010, primarily because of an increase in total interest bearing indebtedness, and an increase in interest associated with discounted bills.

Profit before Income Tax

As a result of the foregoing factors, we recorded profit before income taxes of RMB65.1 million in the six months ended June 30, 2009 compared to RMB150.0 million in the six months ended June 30, 2010, representing an increase of 130.5%.

Income Tax Expense

Income tax expense increased by 236.4% from RMB6.8 million for the six months ended June 30, 2009 to RMB23.0 million for the six months ended June 30, 2010. Our income tax expense increased significantly primarily because in the six months ended June 30, 2010, (i) our profit increased, and (ii) Zhaoqing Leoch and Anhui Leoch Battery were no longer fully exempt from income tax and were both subject to a 12.5% income tax from January 1, 2010. Our effective tax rate was 10.5% and 15.3% for the six-month periods ended June 30, 2009 and 2010, respectively.

Profit for the Period

As a result of the foregoing factors, our profit for the period increased by 118.1% from RMB58.2 million for the six months ended June 30, 2009 to RMB127.0 million for the six months ended June 30, 2010.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company increased by 118.1%, from RMB58.2 million for the six months ended June 30, 2009 to RMB127.0 million for the six months ended June 30, 2010.

YEAR ENDED DECEMBER 31, 2009 COMPARED TO YEAR ENDED DECEMBER 31, 2008

Revenue

Our total revenue decreased by 7.2% from RMB1,499.0 million for the year ended December 31, 2008 to RMB1,391.5 million for the year ended December 31, 2009, primarily as a result of an approximately 30.0% decrease in the average price of lead in 2009 and, as a result, a decrease in the average selling prices of our batteries. While our sales volume increased by 14.8% from 2.3 million KVAh in the year ended December 31, 2008, to 2.7 million KVAh in the year ended December 31, 2009 as a result of increased market demand, the 21.3% decrease in average selling prices more than offset the increase in sales volume. Average selling price per KVAh during 2009 was RMB502.8, compared to RMB639.1 in 2008.

Cost of Sales

Our cost of sales decreased by 14.5% from RMB1,301.4 million for the year ended December 31, 2008 to RMB1,112.9 million for the year ended December 31, 2009. The decrease was principally driven by a decrease in the cost of lead.

Lead: Cost of lead decreased by 21.7% from RMB804.7 million for the year ended December 31, 2008 to RMB630.0 million for the year ended December 31, 2009. Our cost of lead decreased despite an increase in lead consumed from 50.3 thousand tons for the year ended December 31, 2008 to 56.1 thousand tons for the year ended December 31, 2009 in connection with our increased sales volume, as the average cost per ton decreased by 30.0% from RMB16.0 thousand per ton for the year ended December 31, 2008 to RMB11.2 thousand per ton for the year ended December 31, 2009.

Other raw materials: Cost of other raw materials decreased by 11.3%, from RMB356.1 million for the year ended December 31, 2008 to RMB315.7 million for the year ended December 31 2009, principally as a result of a decrease in the price of ABS plastic.

Electricity: Cost of electricity increased by 14.6% from RMB51.2 million for the year ended December 31, 2008 to RMB58.7 million for the year ended December 31, 2009, which directly corresponded to our increased use of electricity, as our average unit cost for electricity did not change materially between 2008 and 2009.

Labor for production: Our labor costs increased by 19.5% from RMB62.8 million for the year ended December 31, 2008 to RMB75.0 million for the year ended December 31, 2009, primarily due to an increase in the number of production employees as Zhaoqing and Anhui production facilities continued to commission various parts of their operations, as well as an increase in the wages and benefit cost per employee.

Depreciation: Our depreciation costs increased by 40.8% from RMB18.9 million for the year ended December 31, 2008 to RMB26.6 million for the year ended December 31, 2009, principally because more facilities were commissioned at our Zhaoqing and Anhui production facilities and we depreciated those facilities for the full 12 months of 2009, whereas some of the facilities were under construction in 2008 and we only recorded depreciation expense for certain facilities for a few months in 2008.

Gross Profit and Gross Profit Margin

Gross profit increased by approximately 41.0% from RMB197.6 million for the year ended December 31, 2008 to RMB278.6 million for the year ended December 31, 2009. Our gross profit margin increased from 13.2% in 2008 to 20.0% in 2009. This was primarily because our sales to the telecommunications industry increased as percentage of our total sales, and we have higher profit margins on telecommunications batteries than on most other products. In addition, as a result of the pricing mechanism in many of our contracts, the decline in lead prices reduced our cost of sales more than the decrease in the price of our products.

Other Income and Gains

Other income and gains increased from RMB10.2 million for the year ended December 31, 2008 to RMB20.6 million for the year ended December 31, 2009. In 2009, we recorded government grants of RMB17.1 million, most of which was attributed to a rebate for electricity consumption at our Jiangsu production facility, which was a significant increase over grants of RMB7.2 million in 2008.

Selling and Distribution Costs

Our selling and distribution costs increased by 31.2% from RMB43.7 million for the year ended December 31, 2008 to RMB57.3 million for the year ended December 31, 2009, mainly because of the increase in shipping and freight costs directly corresponding to the increase in the quantity of products sold.

Administrative Expenses

Our administrative expenses increased by 18.7% from RMB59.0 million for the year ended December 31, 2008 to RMB70.1 million for the year ended December 31, 2009, mainly because of an increase in wages, salaries and benefits for additional administrative personnel, as well as increased depreciation and amortization, as our office facilities at Zhaoqing and Anhui were commissioned.

Other Operating Expenses

Our other operating expenses decreased by 73.9% from RMB9.1 million for the year ended December 31, 2008 to RMB2.4 million for the year ended December 31, 2009, mainly because there was no significant fluctuation in the exchange rate between the Renminbi and U.S. dollar during 2009. In 2009, the one U.S. dollar ranged from RMB6.82 to RMB6.84, compare to 2008, when one U.S. dollar ranged from RMB 6.78 to RMB7.29.

Finance Costs

Our finance costs increased by 15.2% from RMB8.3 million for the year ended December 31, 2008 to RMB9.6 million for the year ended December 31, 2009, mainly because of an increase in total interest bearing indebtedness, and an increase in interest associated with discounted bills.

Profit before Income Tax

As a result of the foregoing factors, we recorded profit before income taxes of RMB159.8 million in the year ended December 31, 2009 compared to RMB87.7 million in the year ended December 31, 2008, representing an increase of 82.4%.

Income Tax Expense

Income tax expense increased by 12.9% from RMB12.9 million for the year ended December 31, 2008 to RMB14.5 million for the year ended December 31, 2009. Our income tax expense increased at a lower rate than our profit before income tax because our Zhaoqing and Anhui production facilities enjoyed zero tax rates in 2009. Our effective tax rate was 14.7% and 9.1% for the years ended December 31, 2008 and 2009, respectively.

Profit for the Year

As a result of the foregoing factors, our profit for the year increased by 94.3% from RMB74.8 million for the year ended December 31, 2008 to RMB145.3 million for the year ended December 31, 2009.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company increased by 94.6%, from RMB74.6 million for the year ended December 31, 2008 to RMB145.2 million for the year ended December 31, 2009.

YEAR ENDED DECEMBER 31, 2008 COMPARED TO YEAR ENDED DECEMBER 31, 2007

Revenue

Our total revenue increased by 32.8% from RMB1,129.1 million for the year ended December 31, 2007 to RMB1,499.0 million for the year ended December 31, 2008. Both increases in sales volume and increases in average selling price contributed to the increase in revenue during 2008. Our sales volume increased from 1.9 million KVAh in the year ended December 31, 2007, to 2.3 million KVAh in the year ended December 31, 2008, and our average selling prices increased during 2008 as a result of the significant increase in the price of lead that occurred through much of the year, from RMB580.9 per KVAh during 2007 to RMB645.4 per KVAh in 2008.

Cost of Sales

Our cost of sales increased by 31.6% from RMB989.0 million for the year ended December 31, 2007 to RMB1,301.4 million for the year ended December 31, 2008. The increase was principally driven by an increase in the cost of lead, together with our increased sales volume.

Lead: Cost of lead increased by 33.9% from RMB601.1 million for the year ended December 31, 2007 to RMB804.7 million for the year ended December 31, 2008. This was due to our lead consumed increasing by 22.1% from 41.2 thousand tons for the year ended December 31, 2007 to 50.3 thousand tons for the year ended December 31, 2008 in connection with our increased sales volume, as well as the 9.6% increase in average cost per ton from RMB14.6 thousand per ton for the year ended December 31, 2007 to RMB16.0 thousand per ton for the year ended December 31, 2008.

Other raw materials: Cost of other raw materials increased by 24.8%, from RMB285.3 million for the year ended December 31, 2007 to RMB356.1 million for the year ended December 31, 2008, as our increased sales volume led to an increase in various material costs.

Electricity: Cost of electricity increased by 35.1% from RMB37.9 million for the year ended December 31, 2007 to RMB51.2 million for the year ended December 31, 2008, which corresponded to our increased use of electricity as our sales volume increased; in addition, we experienced a slight increase in our average unit cost from RMB0.57 per kWh for the year ended December 31, 2007 to RMB0.60 per kWh for the year ended December 31, 2008.

Labor for production: Our labor costs increased by 53.9% from RMB40.8 million for the year ended December 31, 2007 to RMB62.8 million for the year ended December 31, 2008, primarily due to an increase in employees, together with an increase in the wages and benefit cost per employee in 2008.

Depreciation: Our depreciation costs increased by 25.3% from RMB15.1 million for the year ended December 31, 2007 to RMB18.9 million for the year ended December 31, 2008, principally due to the addition of new property, plant and equipment of RMB81.8 million in 2007.

Gross Profit and Gross Profit Margin

Gross profit increased by approximately 41.0% from RMB140.1 million for the year ended December 31, 2007 to RMB197.6 million for the year ended December 31, 2008. Our gross profit margin increased from 12.4% in 2007 to 13.2% in 2008. This change was due to increased sales to the telecommunications industry, which sales generally have higher margins that our other battery products, and improved margins in our UPS sales.

Other Income and Gains

Other income and gains increased by 72.3%, from RMB5.9 million for the year ended December 31, 2007 to RMB10.2 million for the year ended December 31, 2008. In 2008, we recorded government grants of RMB7.2 million, which was a significant increase over government grants of RMB0.8 million in 2007.

Selling and Distribution Costs

Our selling and marketing expenses increased by 28.0% from RMB34.1 million for the year ended December 31, 2007 to RMB43.7 million for the year ended December 31, 2008, mainly because of the increase in shipping and freight costs directly corresponding to the increase in the quantity of products sold.

Administrative Expenses

Our administrative expenses increased by 36.0% from RMB43.4 million for the year ended December 31, 2007 to RMB59.0 million for the year ended December 31, 2008, mainly because of an increase in headcount and related employee staff cost at Zhaoqing and Anhui production facilities.

Other Operating Expenses

Our other operating expenses decreased by 0.8% from RMB9.2 million for the year ended December 31, 2007 to RMB9.1 million for the year ended December 31, 2008.

Finance Costs

Our finance costs increased by 54.4% from RMB5.4 million for the year ended December 31, 2007 to RMB8.3 million for the year ended December 31, 2008, because of an increase in loan interest and in interest associated with discounted bills.

Profit before Income Tax

As a result of the foregoing factors, we recorded profit before income taxes of RMB87.7 million in the year ended December 31, 2008 compared to RMB53.9 million in the year ended December, 2007, representing an increase of 62.5%.

Income Tax Expense

Income tax expense increased significantly from RMB2.3 million for the year ended December 31, 2007 to RMB12.9 million for the year ended December 31, 2008. The significant increase in income tax expense was due to our Jiangsu production facility no longer having a zero tax rate and it began to pay a 12.5% tax on its profit for the year ended December 31, 2008. As a result, our effective tax rate increased from 4.2% in the year ended December 31, 2007 to 14.7% for the year ended December 31, 2008.

Profit for the Year

As a result of the foregoing factors, our profit for the year increased by 44.8% from RMB51.6 million for the year ended December 31, 2007 to RMB74.8 million for the year ended December 31, 2008.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company increased by 47.3%, from RMB50.6 million for the year ended December 31, 2007 to RMB74.7 million for the year ended December 31, 2008.

DESCRIPTION OF CERTAIN ITEMS ON THE STATEMENT OF FINANCIAL POSITION

Net Current Assets

We had net current assets of RMB61.7 million as of December 31, 2007, net current liabilities of RMB25.6 million as of December 31, 2008, net current assets of RMB52.8 million as of December 31, 2009 and net current liabilities of RMB14.4 million as of June 30, 2010.

Our current assets mainly consist of inventories, trade and bills receivables, cash and bank balances, and prepayments, deposits and other receivables. Our current liabilities mainly consist of trade and bills payables, other payables and accruals, and interest-bearing bank loan and other borrowings.

Our net current assets have been significantly affected by our robust growth during the Track Record Period. Our trade and bills receivable have steadily increased throughout the Track Record Period, as we have increased our sales volume, and in particular, increased our sales to telecommunications companies, which historically take longer to pay their accounts in full than some of our other customers. Our trade and bills payable have also increased throughout the Track Record Period, in connection with our increase in sales volume. Our interest-bearing bank borrowings increased significantly in 2009 and in the six months ended June 30, 2010, as we increased our borrowings to maintain our working capital position. In addition, amounts due to a Director increased as we purchased Shenzhen Leoch from a Director during 2008. We have fully settled the amount due to a Director with our internal resources and banking facilities subsequent to June 30, 2010. As of August 31, 2010, we had banking facilities of approximately RMB746.6 million, of which RMB256.7 million were unutilized.

The following table sets out details of our current assets and current liabilities as of the dates indicated.

	As of December 31,			As of June 30,	As of August 31,
	2007	2008	2009	2010	2010
	(RMB in millions)				
CURRENT ASSETS					
Inventories	154.8	98.6	180.7	311.4	415.5
Trade and bills receivables	184.4	229.5	340.4	443.0	516.6
Prepayments, deposits and other receivables	7.8	12.8	28.5	40.9	40.2
Tax recoverable	–	0.1	0.3	–	–
Amounts due from related companies	21.0	19.6	34.2	22.1	17.4
Pledged deposits	8.7	15.1	18.8	53.9	49.8
Cash and bank balances	22.4	35.7	43.2	79.0	30.1
Total current assets	399.1	411.4	646.1	950.3	1,069.6
CURRENT LIABILITIES					
Trade and bills payables	100.3	141.6	163.1	292.5	360.4
Dividend payable	–	–	–	68.7	18.5
Other payables and accruals	112.8	118.3	130.6	146.2	161.8
Interest-bearing bank borrowings	65.2	63.6	173.3	295.3	334.6
Amount due to a director	15.2	59.8	58.5	70.2	65.3
Amounts due to related companies	42.6	45.3	54.4	65.1	86.5
Income tax payable	1.3	8.4	13.4	26.7	25.1
Total current liabilities	337.4	437.0	593.3	964.7	1,052.2
NET CURRENT ASSETS/(LIABILITIES)	61.7	(25.6)	52.8	(14.4)	17.4

We experienced a net current liability position as of December 31, 2008, mainly due to (a) the capital expenditure needed for the construction and development of new production facilities in Zhaoqing and Anhui that were funded by short term bank borrowings, and (b) the purchase of Shenzhen Leoch from a Director in 2008 which led to a significant increase in the amounts due to a Director for the period. We also experienced a net current liability position as of June 30, 2010 primarily as a result of the declaration of dividends in the aggregate amount of RMB147.7 million by two of our subsidiaries to their then shareholders during the period, of which RMB71.3 million had been paid as of June 30, 2010 and RMB76.4 million (comprising dividend payable of RMB68.7 million and withholding tax as other payable of RMB7.6 million) was outstanding and significantly increased our currently liabilities during the period. Our bank borrowings increased as a result of our increase in production volume and working capital requirements as well as the increase in sales to telecommunication customers. We extend a longer credit period to telecommunication customers than customers in other industries. The increase in sales to telecommunication customers resulted in an increase in our receivables turnover period and required us to obtain more bank borrowings to finance working capital.

Notwithstanding our net current liability positions as of December 31, 2008 and June 30, 2010, we were able to repay and renew bank borrowings. In addition, we have not experienced any default in our debt covenants except that as of December 31, 2008, one of our U.S. subsidiaries did not meet certain debt covenants with respect to bank loans in the amount of RMB5.5 million in relation to requirements on its liquidity ratio and the carrying amount of net tangible assets, due to our financial staff's oversight. These debt covenants are no longer applicable as the loan has been settled in full. For further details on the relevant debt covenants and on our measures to improve capital management, please refer to the sub-section headed "Indebtedness" below.

Our Directors consider that it is a common practice in the PRC for local banks to extend working capital loans to enterprises with maturities of less than 12 months. We have not in the past experienced any difficulties in renewing our banking facilities upon maturity, nor have we defaulted on any bank borrowings except as mentioned above. We do not foresee any immediate repayment requirement for our bank borrowings or withdrawal or reduction in banking facilities on short notice. In addition, we expect that our net current liabilities position will be substantially improved following the completion of the Global Offering. In light of our consistently improving profitability, our Directors believe that our cash-on-hand, cash generated from operating activities and additional bank borrowings, if necessary, will be adequate to finance our existing operations and meet the capital requirements for our future plans.

Inventories

During the Track Record Period, inventories constituted one of the principal components of our current assets. We strive to carefully manage and control our level of inventories. The value of our inventories accounted for approximately 38.8%, 24.0%, 28.0% and 32.8% of our total current assets as of December 31, 2007 and 2008 and 2009 and June 30, 2010, respectively.

Our inventories decreased by approximately 36.3% from RMB154.8 million as of December 31, 2007 to RMB98.6 million as of December 31, 2008. Our inventories declined in 2008 because we made significant efforts to use our raw materials inventories prior to year end as the price of lead was declining, and we depleted our inventory stock while monitoring the market price prior to making purchase decisions to try to take advantage of the declining price. Our inventories increased by approximately 83.3% from RMB98.6 million as of December 31, 2008 to RMB180.7 million as of December 31, 2009. The increase in 2009 was primarily due to higher lead prices and in increased purchases of raw materials associated with increased production volume. Our inventories increased by approximately 72.4% from RMB180.7 million as of December 31, 2009 to RMB311.4 million as of June 30, 2010 because as our sales volume is usually higher in the second half of the year, we increased our inventory stock to meet the anticipated growth in our sales volume. As of August 31, 2010, RMB279.9 million of inventories recorded on our June 30, 2010 balance sheet had been sold.

We do not have a general provisioning policy for inventories but make assessments on provisions on a case-by-case basis. During the Track Record Period, we did not make any material provisions for inventories. Our raw materials are not generally susceptible to obsolescence by passage of time.

The following table is a summary of our balance of inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(RMB in millions)			
Raw materials	29.5	14.4	34.9	71.3
Work in progress	51.8	33.1	80.3	124.8
Finished goods	74.3	51.1	65.5	115.3
	155.6	98.6	180.7	311.4
Less: Provision for obsolete inventories	(0.8)	–	–	–
TOTAL	154.8	98.6	180.7	311.4

Our average inventory turnover days decreased from 46 days in 2007 to 36 days in 2008 in connection with the decline in our inventory amounts, principally a decline in our inventory of lead. Average inventory turnover days increased to 46 days in 2009 as lead prices and the volume of our lead inventory increased throughout 2009. Average inventory turnover days increased to 64 days in the six months ended June 30, 2010 because in order to meet the needs of increased sales volume in the second half of the year, we increased the inventory of raw material, work-in-progress and finished products.

The following table sets out our average inventory turnover days for the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
Average inventory turnover days[(1)]	46	36	46	64

Note:

(1) Average inventory turnover days are equal to the average inventory divided by cost of sales and multiplied by 365 days (183 days in the case of six months ended June 30, 2010). Average inventories are equal to inventories at the beginning of the year plus inventories at the end of the year/period and divided by two.

Trade and Other Receivables Analysis

Trade and Bills Receivables

The following table is a summary of our trade and bills receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(RMB in millions)			
Trade receivables	194.0	245.0	365.6	460.8
Bills receivable	0.6	–	0.9	1.4
Less: Impairment provision	(6.6)	(6.1)	(6.8)	(5.2)
	188.0	238.9	359.7	457.0
Less: Non-current portion[(1)]	(3.6)	(9.4)	(19.3)	(14.0)
Current portion	184.4	229.5	340.4	443.0

Note:

(1) Non-current portion refers to the portion of the trade and bills receivables due in more than one year.

Our trade and bills receivables primarily relate to receivables for goods sold to our customers. We grant different credit periods to our customers, based on our relationship with the customer, their credit history, the size of the customer's orders and other factors we deem relevant. The credit period of individual customers is considered on a case-by-case basis. Certain customers, particularly new or smaller customers, are required to make partial payment before or upon delivery. With the exception of telecommunications customers, for our major customers, we generally require payments to be made within 30 to 60 days after shipment or monthly settlement. For our telecommunications customers, we extend a longer credit period. Payments are made in installments as specified in the framework agreements and purchase orders. We normally receive approximately 70% to 80% of the total order amount within 60 days of signing the purchase order, and receive a subsequent installment six months to one year after the installation of our products, which is usually completed within two months after signing the purchase order. We receive final installment of approximately 5% to 10% of the total order amount after the final inspection which is usually carried out one year after installation. We seek to maintain strict control over our outstanding receivables and closely monitor them to minimize credit risk, especially receivables from customers with credit terms over three months, or with installment payments, such as telecommunications customers. Overdue balances are reviewed regularly by our senior management. As of August 31, 2010, RMB218.3 million of trade and bills receivables outstanding as of June 30, 2010 were settled.

Trade receivables are unsecured and non-interest-bearing. The carrying amounts of trade receivables and bills receivables approximate their fair values. As of December 31, 2007, 2008 and 2009, and as of June 30, 2010, we had pledged certain trade and bills receivables amounting to approximately RMB2.4 million, RMB0.8 million, RMB1.0 million and RMB2.6 million as security for interest-bearing bank loans, respectively. The proceeds from transferring the trade and bills receivables were accounted for as collateralized bank advances until the bills were collected or we made good of any losses incurred by the banks.

The following table sets out our average trade and bills receivables turnover days for the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
Average trade and bills receivables turnover days[(1)]	56	52	79	79

Note:

(1) Average trade and bills receivables turnover days are equal to the average trade and bills receivables divided by revenue and multiplied by 365 days (183 days in the case of six months ended June 30, 2010). Average trade and bills receivables are equal to trade and bills receivables at the beginning of the year plus trade and bills receivables at the end of the year/period and divided by two.

Our trade and bills receivables (net of impairment provision) increased by approximately 30.1% from RMB340.4 million as of December 31, 2009 to RMB443.0 million as of June 30, 2010, primarily due to our increased sales volume. Average trade and bills receivables turnover days remained 79 in the six months ended June 30, 2010.

Our trade and bills receivables (net of impairment provision) increased by approximately 48.3% from RMB229.5 million as of December 31, 2008 to RMB340.4 million as of December 31, 2009, primarily due to our increasing sales volume, and in particular, increasing sales to telecommunications companies, to whom we extent a longer credit period than with respect to sales in other industries. Average trade and bills receivables turnover days also increased from 52 in the year ended December 31, 2008 to 79 in the year ended December 31, 2009 in connection with our sales to telecommunications customers.

Our trade and bills receivables increased by approximately 24.5% from RMB184.4 million as of December 31, 2007 to RMB229.5 million as of December 31, 2008, primarily due to the substantial increase in our revenue. Average trade and bills receivables turnover days decreased from 56 in the year ended December 31, 2007 to 52 in the year ended December 31, 2008, as we did not have any significant increases in late payments as our revenue grew.

An aging analysis of the trade and bills receivables for the Track Record Period based on the invoice date, net of provisions, is as follows:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(RMB in millions)			
Outstanding balances with ages:				
Within 90 days	157.4	189.9	268.6	314.8
91 to 180 days	18.5	38.6	42.2	78.1
181 to 365 days	9.3	7.0	41.0	50.0
1 to 2 years	2.8	2.5	6.8	12.9
Over 2 years	–	0.9	1.1	1.2
TOTAL	188.0	238.9	359.7	457.0

As of August 31, 2010, RMB218.3 million of trade and bills receivables outstanding as of June 30, 2010 were settled.

Our outstanding balances with an age within 90 days increased from RMB268.6 million as of December 31, 2009 to RMB314.8 million as of June 30, 2010 due to the increase in our sales, especially to international customers whose payment terms are usually within 90 days. Our outstanding balances with an age between 181 to 365 days increased significantly to RMB41.0 million as of December 31, 2009 because of increased sales to telecommunications industry which had a longer credit period.

An aging analysis of the trade and bills receivables from sales to telecommunications customers for the Track Record Period based on the invoice date, net of provisions, is as follows:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(RMB in millions)			
Outstanding balances with ages:				
Within 90 days	41.3	98.7	158.5	113.8
91 to 180 days	9.0	25.1	25.8	69.2
181 to 365 days	7.6	2.0	36.0	41.6
1 to 2 years	1.9	1.6	2.9	10.1
Over 2 years	–	0.2	0.1	0.8
TOTAL	59.8	127.6	223.3	235.5

Movements in the provision for impairment of trade receivables during the Track Record Period are as follows:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(RMB in millions)			
At beginning of year/period	5.2	6.6	6.1	6.8
Impairment loss recognized	1.5	0.9	0.7	0.1
Amount written off as uncollectible	–	(1.4)	–	(0.7)
Impairment losses reversed	–	–	–	(1.0)
Exchange differences	(0.1)	–	–	–
At end of year/period	6.6	6.1	6.8	5.2

The above provision for impairment of trade receivables relate to individual customers that were in financial difficulties and receivables that are not expected to be recoverable. These balances were fully provided for. We do not hold any collateral or other credit enhancements over these balances.

For a description of impairments of trade receivables, please see Note 20 of Accountants' Report set forth in Appendix I.

Prepayments, Deposits and Other Receivables

We principally make prepayments and deposits in connection with our purchase of raw materials, the large majority of which relates to our purchase of lead. We are sometimes required to make a deposit or prepay a portion of the purchase price in advance of taking delivery of lead or other raw materials, depending on the supplier. Our prepayments and deposits have increased throughout the Track Record Period as our volume of production has increased.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(RMB in millions)			
Prepayments	1.6	1.7	3.6	5.4
Deposits and other receivables	6.2	11.1	24.9	35.5
TOTAL	7.8	12.8	28.5	40.9

Other receivables primarily include prepayments advanced to our suppliers. The carrying amounts of other receivables approximate their fair values.

Our deposits and other receivables increased by approximately 79.0% from RMB6.2 million as of December 31, 2007 to RMB11.1 million as of December 31, 2008, by approximately 124.3% to RMB24.9 million as of December 31, 2009, and then by approximately 42.6% to RMB35.5 million as of June 30, 2010. The increases in our deposits and other receivables during the Track Record Period were mainly due to the increase in our scale of operations and the related increase in the deposits paid to our suppliers.

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.

Trade and Bills Payables

Our trade and bills payable primarily relate to our purchase of raw materials that we require for our production process. The largest component of trade and bills payable relates to our purchase of lead.

The following sets forth our trade and bills payable as of the dates indicated.

	As of December 31,			Six months ended June 30,
	2007	2008	2009	2010
	(RMB in millions)			
Payables				
Trade payables	70.0	73.2	74.2	135.5
Bill payables	30.3	68.4	88.9	157.0
TOTAL	100.3	141.6	163.1	292.5

The following table sets out our average trade payables turnover days for the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
Average trade payables turnover days(1)	29	34	50	59

Note:

(1) Average trade payables turnover days is equal to the average trade payables divided by cost of sales and multiplied by 365 days (183 days in the case of six months ended June 30, 2010). Average trade payables are equal to trade payables at the beginning of the year plus trade payables at the end of the year/period and divided by two.

Our average trade payables turnover days increased from 29 days for the year ended December 31, 2007 to 34 days for the year ended December 31, 2008, 50 days for the year ended December 31, 2009, and 59 days for the six months ended June 30, 2010. These increases were primarily due to our suppliers granting longer payment terms of up to 120 days.

An aging analysis of outstanding trade and bills payables as of December 31, 2007, 2008, 2009 and June 30, 2010 based on the invoice date, is as follows:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(RMB in millions)			
Within 90 days	60.1	52.1	65.7	229.4
91 to 180 days	31.2	81.1	83.9	52.9
181 to 365 days	1.7	1.8	3.2	1.6
1 to 2 years	3.9	0.9	4.1	2.6
2 to 3 years	2.2	3.3	0.8	0.4
Over 3 years	1.2	2.4	5.4	5.6
TOTAL	100.3	141.6	163.1	292.5

Our trade payables are non-interest-bearing and are normally settled within 90 days. The carrying amounts of the trade payables approximates their fair values.

Bills payables were normally required to be settled within three or six months and secured by:

- the pledge of certain of our bank balances amounting to RMB6.5 million, RMB14.0 million, RMB15.8 million and RMB51.1 million as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively;
- prepaid land lease payments amounting to RMB10.6 million as of December 31, 2009; no bills were secured by prepaid land lease payments as of December 31, 2007 and 2008 and June 30, 2010;
- personal guarantees by Mr. Dong to the extent of RMB60.0 million, RMB65.0 million and RMB65.0 million as of December 31, 2008 and 2009 and June 30, 2010, respectively; no personal guarantees were given in 2007. As of the Latest Practicable Date, the personal guarantees by Mr. Dong have been released and replaced by our corporate guarantee;
- the pledge of office premises of a related company, Shenzhen Marshell Power Supply, to the extent of RMB10.4 million, RMB9.9 million, RMB9.4 million and RMB9.1 million as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively. The pledge of office premises of Shenzhen Marshell Power Supply has been released and replaced by our corporate guarantee.

Our trade payables increased slightly by 4.5% from RMB70.0 million as of December 31, 2007 to RMB73.2 million as of December 31, 2008, and remained relatively unchanged at RMB74.2 million as of December 31, 2009. Our trade payables increased by 82.6% from RMB74.2 million as of December 31, 2009 to RMB135.5 million as of June 30, 2010. Our trade payables increased throughout the Track Record Period as we increased the purchase of raw materials to meet the needs of our increased sales volume. Our bills payables increased by 126.0% from RMB30.3 million as of December 31, 2007 to RMB68.4 million as of December 31, 2008, and increased by 29.9% to RMB88.9 million as of December 31, 2009. Our bills payables increased by 76.6% from RMB88.9 million as of December 31, 2009 to RMB157.0 million as of June 30, 2010. Our bills payables increased throughout the Track Record Period, as we took advantage of the relatively low cost of financing available from banks to finance our payables. As of August 31, 2010, RMB104.6 million of trade and bills payables as of June 30, 2010 had been settled.

Other Payables and Accruals

Other payables and accruals primarily consist of payments for our expenditures related to the construction and outfitting of our production facilities, payments we make in connection with transportation charges, advance payments that some international customers make to us in advance of our shipments, and payroll and benefits for our employees and staff. Deferred government grants represent a subsidy from PRC government in relation to prepaid land lease payment as an encouragement to our capital investment. Deferred government grants will be amortized over the land lease term of 50 years.

The following table sets forth payables and accruals data as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(RMB in millions)			
Payables and Accruals				
Payables for purchase of items of property, plant and equipment	15.6	19.8	20.3	15.6
Payable for purchase of prepaid land lease payment	–	1.8	1.8	–
Withholding tax payable on dividend	–	–	–	7.6
Advances from customers	19.3	14.6	19.4	22.0
Accrued expenses	19.1	14.8	18.3	22.1
Accrued payroll	5.8	9.0	9.6	13.7
Value-added tax payable	6.5	8.6	5.0	6.7
Deferred government grants	28.4	27.8	30.4	30.2
Provision for social insurance and retirement benefits	14.2	17.5	20.8	23.0
Other payables	3.9	4.4	5.0	5.3
TOTAL	112.8	118.3	130.6	146.2

The carrying amounts of other payables approximate to their fair values.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity and capital resources have been and are expected to continue to be cash from our operating activities and various forms of financing including bank borrowings. In the past, we have also relied occasionally on loans from related parties, which we do not intend to continue after the Listing. We expect to increase our liquidity and capital resources from the proceeds of the Global Offering.

The following table sets forth certain information about our consolidated cash flows during the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
	(RMB in millions)			
Net cash generated from/(used in) operating activities	30.2	178.4	(27.0)	96.8
Net cash used in investing activities	(66.1)	(147.7)	(89.0)	(102.6)
Net cash generated from/(used in) financing activities	36.9	(17.3)	123.5	42.4
Net (decrease)/ increase in cash and cash equivalents	1.0	13.4	7.5	36.6
Cash and cash equivalents at beginning of year/period	22.9	22.4	35.7	43.2
Net effect of foreign exchange rate changes	(1.5)	(0.1)	–	(0.8)
Cash and cash equivalents at end of year/period	22.4	35.7	43.2	79.0

Cash Flow from/(used in) Operating Activities

Our net cash inflow/(outflow) from operating activities represents profit before tax adjusted for non-cash items and movements in working capital.

Net cash generated from operating activities amounted to RMB96.8 million in the six months ended June 30, 2010. This was primarily attributable to our profit before tax of RMB150.0 million. In addition, our trade and bills payables increased by RMB129.4 million in connection with our increased purchases of raw materials during the period. These factors were offset by an increase in inventories of RMB130.8 million, as our increased sales volume lead to increased purchases of raw materials and an increase in the inventory of work in progress and finished goods, increases in trade and bills receivables of RMB96.5 million as a result of increased sales volume and an increase in prepayments, deposits and other receivables of RMB9.5 million.

Net cash used in operating activities amounted to RMB27.0 million in the year ended December 31, 2009, primarily attributable to profit before tax of RMB159.8 million, offset by increases in trade and bills receivables of RMB121.5 million as a result of the increase in sales volume during 2009, and in particular increased sales to telecommunications companies since the beginning of 2009, an increase in inventories of RMB82.1 million associated with our increased sales volume, which led to our increased purchases of raw materials and also an increase in our inventory of work-in-progress, and an increase in prepayments, deposits and other receivables of RMB15.7 million. Our trade and bills payable increased by RMB21.5 million in connection with our increased purchases of raw materials during the year, and other payables and advances from customers increased by RMB12.5 million, relating to increased sea freight and other transportation charges.

Net cash generated from operating activities amounted to RMB178.4 million in the year ended December 31, 2008. Our profit before tax was RMB87.7 million. In addition, we recorded a decrease in inventories of RMB56.2 million, as we made efforts to sell all finished goods in inventory prior to year end. In addition, our trade and bills payable increased by RMB41.3 million as we continued to purchase higher volumes of lead and other raw materials in connection with our increasing sale volume. Also contributing to cash from operating activities was an increase in balances with a director of RMB26.3 million, which resulted from the sale by the controlling shareholder of our Dongguan and Shenzhen subsidiaries to Jiangsu, which occurred in 2008, but for which we did not pay compensation in 2008. These increases in cash flow were partially offset by an increase in trade and bills receivable of RMB51.7 million, primarily related to our increased sales to telecommunications companies.

Net cash generated from operating activities amounted to RMB30.2 million in the year ended December 31, 2007. Our profit before tax was RMB53.9 million. In addition, we recorded an increase in trade and bills payable of RMB42.6 million, principally in connection with our purchases of lead, the price of which increased significantly throughout much of 2007. However, the increase in payables was more than offset by an increase in inventories of RMB62.4 million, also related to the increase in lead prices. In addition, trade and bills receivable increased by RMB31.8 million in connection with our increasing sales volume, and other payables and advances from customers decreased by RMB23.1 million.

Cash Flow from Investing Activities

Net cash used in investing activities in the six months ended June 30, 2010 was RMB102.6 million, which consisted primarily of RMB50.0 million in purchases of plant, machinery and equipment, RMB16.8 million in the purchase of land use rights and an increase in pledged deposits in the aggregate amount of RMB35.1 million.

Net cash used in investing activities in the year ended December 31, 2009 was RMB89.0 million, which consisted primarily of RMB84.4 million in purchases of equipment to outfit our Zhaoqing and Anhui production facilities. We also made small purchases of land during the year, amounting to RMB3.6 million.

Net cash used in investing activities in the year ended December 31, 2008 was RMB147.7 million, resulting primarily from RMB136.5 million used to construct our Zhaoqing and Anhui production facilities, and purchase equipment for them.

Net cash used in investing activities in the year ended December 31, 2007 was RMB66.1 million, consisting principally of funds used to construct our Zhaoqing and Anhui production facilities. In addition, we also spent a small amount of funds to expand operations at our Jiangsu production facility. Finally, we spent RMB2.9 million on small land purchases.

Cash Flow from Financing Activities

Net cash provided by financing activities amounted to RMB42.4 million in the six months ended June 30, 2010. We received RMB227.0 million in connection with new bank loans during the period. This was offset in part by our repayment of debt in the amount of RMB105.0 million, interest payments of RMB9.6 million and dividends paid of RMB71.3 million.

Net cash provided by financing activities amounted to RMB123.5 million in the year ended December 31, 2009. We received RMB243.0 million in connection with new bank loans during the year, and RMB16.4 million in cash injections provided by our Controlling Shareholders. We also received an aggregate of RMB17.1 million in government grants as a result of our operating in a high technology industry and in certain selected areas in China. These receipts of funds were offset in part by our repayment of debt in the amount of RMB133.3 million, interest payments of RMB9.6 million and dividends paid of RMB10.1 million.

Net cash used in financing activities amounted to RMB17.3 million in the year ended December 31, 2008. We received RMB92.8 million in connection with new bank loans during the year, and RMB20.4 million in cash injections provided by our Controlling Shareholders. We also received of RMB7.2 million in government grants as a result of our operating in a high technology industry and in certain selected areas in China. These receipts of funds were more than offset by our repayment of debt in the amount of RMB94.4 million, interest payments of RMB8.3 million and dividends paid of RMB34.9 million.

Net cash provided by financing activities amounted to RMB36.9 million in the year ended December 31, 2007. We received RMB116.3 million in connection with new bank loans during the year, and RMB47.6 million in cash injections provided by our Controlling Shareholders. These receipts of funds were offset in part by our repayment of debt in the amount of RMB122.4 million and interest payments of RMB5.4 million.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

We have commitments regarding future lease payments as both a lessor and a lessee, which are summarized below in the following tables.

As Lessee

We lease certain of our office properties under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to twenty years. We had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(RMB in millions)			
Within a year	6.5	4.0	3.5	4.9
In the second to fifth years, inclusive	11.0	10.7	10.1	13.8
After five years	36.6	31.0	28.5	26.7
TOTAL	54.1	45.7	42.1	45.4

As Lessor

We lease our staff quarters, office premises and land under operating lease arrangements, with leases negotiated for terms ranging from five to fifty 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.

We had total future minimum lease receivables under non-cancellable operating leases with our tenants falling due as follows:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(RMB in millions)			
Within a year	1.4	0.2	0.1	0.1
In the second to fifth years, inclusive	0.3	0.2	0.2	0.2
After five years	0.7	0.7	0.8	0.7
TOTAL	2.4	1.1	1.1	1.0

Capital Commitments

In addition to the operating lease commitments detailed above, we had the following capital commitments, which related primarily to our obligations to complete construction of, and purchase equipment and machinery for, our new production facilities at Zhaoqing and Anhui:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(RMB in millions)			
Contracted, but not provided for:				
Land and building	65.4	18.7	0.9	1.2
Plant and machinery	12.1	13.4	15.1	51.0
	77.5	32.1	16.0	52.2

CAPITAL EXPENDITURES

The following table sets out our historical capital expenditures during the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
	(RMB in millions)			
Historical Capital Expenditures				
Property, plant and equipment	81.8	121.1	100.6	63.4
Prepaid land lease prepayments	20.1	2.0	3.6	15.0
Intangible assets	0.4	2.5	0.4	1.0
TOTAL	102.3	125.6	104.6	79.4

Our capital expenditures in 2007, 2008 and 2009 principally consisted of expenditures on construction in progress and property, plant and equipment for our new production facilities in Zhaoqing and Anhui. In addition, we incurred a small amount of capital expenditures in connection with the completion of our Jiangsu production facility. Our capital expenditures in the six months ended June 30, 2010 principally consisted of the land acquisition in Zhaoqing and purchase of additional production equipment.

The following table sets out our projected capital expenditures for each of the two years ending December 31, 2010 and 2011:

	Year ending December 31,	
	2010	2011
	(RMB in millions)	
Projected Capital Expenditures		
Property, plant and equipment	118.4	439.6
Construction in progress	92.6	198.7
TOTAL	211.0	638.3

We expect that the capital expenditures planned for 2010 and 2011 will be primarily used for construction in progress and property, plant and equipment. Construction in progress and property, plant and equipment primarily represent projected capital expenditures for our new production facilities in Zhaoqing, Anhui and Jiangsu. The following table sets out our projected capital expenditures for our new production facilities in, among others, Zhaoqing, Anhui and Jiangsu for the two years ending December 31, 2011:

	Year ending December 31,	
	2010	2011
	(RMB in millions)	
Production Facilities		
Zhaoqing	38.5	271.8
Anhui	67.1	221.1
Jiangsu	64.0	20.4
Others	41.4	125.0
TOTAL	**211.0**	**638.3**

We expect to fund our projected capital expenditures principally through a portion of the net proceeds from the Global Offering, cash generated from our operating activities and proceeds from bank loans. Should the necessity for additional funds arise, we cannot assure you that we will be able to raise additional capital on terms acceptable to us or at all.

Our current plan with respect to future capital expenditures is subject to change based on the implementation of our business strategy and market conditions. As we continue to grow our business, we may incur additional capital expenditures.

WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration the financial resources presently available to us, including internally generated funds, available banking facilities, and the estimated net proceeds of the Global Offering, the Company has sufficient working capital for our present requirements at least in the next 12 months commencing from the date of this prospectus.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we have not entered into any off-balance sheet transactions.

INDEBTEDNESS

Our indebtedness consists of obligations to our lenders, including commercial banks and certain related party companies. The following table shows our total borrowings as of the dates indicated:

	As of December 31,			As of June 30,	As of August 31,
	2007	2008	2009	2010	2010
	(RMB in millions)				
Borrowings					
Interest-bearing bank borrowings	65.2	63.6	173.3	295.3	334.6
Amount due to a Director	15.2	59.8	58.5	70.2	65.3
Amount due to related companies (non-trade)	1.6	3.5	1.9	7.5	8.7
TOTAL	82.0	126.9	233.7	373.0	408.6

Bank borrowings consist of interest-bearing short term loans from commercial lenders at market rates, all of which are secured by pledges of certain of our assets including prepaid land lease payments, buildings, plant and machinery, trade and bills receivables and bank deposits. Amount due to related parties (non-trade) and an amount due to a Director are interest-free and unsecured. Amounts due to a Director increased significantly in 2008 as we purchased Shenzhen Leoch from a Director during the period. Total borrowings increased by RMB44.9 million, or 54.8%, from RMB82.0 million as of December 31, 2007 to RMB126.9 million as of December 31, 2008, by RMB106.8 million, or 84.2%, to RMB233.7 million as of December 31, 2009, and then by RMB139.3 million, or 59.6%, to RMB373.0 million as of June 30, 2010. The increase in total borrowings over the Track Record Period was primarily due to our increase in production volume and hence working capital requirements, particularly in 2009, as we obtained more bank borrowings to finance our operations. In addition, the increase in sales to telecommunication customers to whom we extend a longer credit period than with respect to sales in other industries resulted in an increase in our receivables turnover period and resulted in a need to obtain more bank borrowings to finance working capital. We have settled the non-trade nature amounts due to related companies and a Director with our internal resources and banking facilities subsequent to June 30, 2010.

The table below sets forth the maturity profiles of our bank borrowings as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(RMB in millions)			
Within 1 year	65.2	63.6	173.3	295.3

Our borrowings are denominated in RMB and U.S. dollars, and the effective interest rates of our bank and other borrowings as of December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 were 6.1% to 7.5%, 4.8% to 7.5%, 2.3% to 5.3% and 2.3% to 5.8%, respectively. As of December 31, 2008, one of our U.S. subsidiaries did not meet certain debt covenants with respect to bank loans in the amount of RMB5.5 million in relation to requirements on its liquidity ratio and the carrying amount of net tangible assets, due to our financial staff's oversight. These bank loans were accordingly classified as current liabilities on our consolidated statement of financial position. The loan was settled in full by the end of 2008. Except for this covenant breach by our U.S. subsidiary, as of the Latest Practicable Date, we had not breached any of the covenants in any of our loan agreements or any other agreement related to any of our borrowings. In order to ensure our continuing compliance, we have designated our general manager of finance who is a PRC qualified accountant with sufficient accounting background and experience in enterprise financial auditing and management to review loan covenants and requirements against our financial position and will recommend to our senior management appropriate actions if new undertakings may jeopardize our compliance. We have also set up a budgetary control system in September 2010 where our financial position, liquidity and various financial performance data will be regularly monitored.

As of August 31, 2010, we had banking facilities of approximately RMB746.6 million, of which RMB256.7 million were unutilized, RMB249.8 million of which will expire between February and August 2011.

The following table sets out our gearing ratio for the Track Record Period:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
		(%)		
Gearing ratio[(1)]	12.5	16.0	21.4	25.6

Note:

(1) The gearing ratio is calculated by dividing total borrowings by total assets as of the end of each respective period, multiplied by 100%.

Our gearing ratio increased from 21.4% as of December 31, 2009 to 25.6% as of June 30, 2010 primarily due to the increase in our bank borrowings. Our gearing ratio increased from 16.0% as of December 31, 2008 to 21.4% as of December 31, 2009, as we increased our bank borrowing to take advantage of low interest rates. Our gearing ratio increased from 12.5% as of December 31, 2007 to 16.0% for the year ended December 31, 2008, primarily due to the increase in bank borrowings and loans from related parties to finance our expansion in 2008.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we had no material contingent liabilities. We are not involved in any current material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving our Company. If we were involved in such material legal proceedings, we would record any loss contingencies when, based on information then available, it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated.

We confirm that, other than as disclosed in this prospectus, there has been no material change in our indebtedness or contingent liabilities since June 30, 2010.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market Risk

Our production process requires a significant amount of lead, ABS plastic, sulphuric acid and other materials, and our success depends significantly on our ability to secure sufficient and constant supply of principal raw materials for its production at acceptable price levels. Lead is the most significant raw material used in production. Average purchase price of lead fluctuated significantly during the Track Record Period. We do not have long-term, fixed-cost supply contracts of raw materials with our suppliers. Since many of our sales contracts are priced by reference to the market price of lead at the time of a particular order, its exposure to the risk of changes in price of lead is reduced.

Foreign Exchange Risk

We operate in Hong Kong, the United States and the PRC. For our companies in China, their principal activities are transacted in RMB. For other companies outside of China, their principal activities are transacted in U.S. dollars. We do not enter into any hedging transactions to manage the potential fluctuation in foreign currency as our Directors believe that we do not have significant foreign currency risk exposure.

However, as a result of our 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 China's political and economic conditions.

Interest Rate Risk

Our exposure to interest rate risks comes from our bank borrowings. As of December 31, 2009 and June 30, 2010, interest-bearing bank borrowings of RMB173.3 million and RMB295.3 million, respectively, were denominated in Renminbi at fixed interest rates that are subject to adjustment by our lenders in accordance with changes in relevant PBOC regulations. We have not entered into any interest rate hedging contracts or any other derivative financial instruments in order to manage our interest rate exposure. Since our bank loans bear fixed interest and are due within one year, we believe our exposure to the risk of changes in market interest rates is low.

Credit Risk

Our cash is deposited principally with banks in the PRC. Our credit risk is related to our trade and other receivables from our customers. We trade only with recognized and creditworthy customers. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, therefore, we believe our exposure to bad debts is not significant.

With respect to credit risk arising from our other financial assets, which comprise cash and bank balances and pledged deposits, deposits and other receivables and amounts due from related companies, our exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. We have no other financial assets that carry significant exposure to credit risk. We have not experienced any material losses as a result of our customers' default in their payment obligations during the Track Record Period, nor have we experienced losses from default by counterparties on our financial assets.

Liquidity Risk

We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both our financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. In addition, banking facilities have been put in place for contingency purposes.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2010

Forecast consolidated profit attributable to owners of the Company(1)	not less than RMB253.6 million (equivalent to approximately HK$290.7 million)
Unaudited pro forma forecast earnings per Share(2)	not less than RMB19.0 cents (equivalent to approximately HK$21.8 cents)

Notes:

(1) The bases and assumptions on which the above profit forecast has been prepared are set out in Appendix III to this prospectus.

(2) The calculation of the forecast earnings per Share on an unaudited pro forma basis is based on the forecast consolidated profit attributable to owners of our Company for the year ending December 31, 2010, assuming that we had been listed since January 1, 2010 and a total of 1,333,334,000 Shares had been issued and outstanding during the entire year.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had been taken place on June 30, 2010 and based on our audited consolidated net tangible assets attributable to the owners of our Company as at June 30, 2010 as shown in the Accountants' Report set forth in Appendix I to this prospectus and is adjusted as follows:

	Audited consolidated net tangible assets attributable to owners of our Company as at June 30, 2010(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company(3)	Unaudited pro forma adjusted consolidated net tangible assets per Share(4)	
	RMB in millions	RMB in millions	RMB in millions	RMB	HK$(5)
Based on Offer Price of HK$3.75 per Offer Share	484.2	1,008.7	1,492.9	1.12	1.28
Based on Offer Price of HK$5.35 per Offer Share	484.2	1,457.7	1,941.9	1.46	1.67

Notes:

(1) The consolidated net tangible assets attributable to owners of the Company as of June 30, 2010, was determined as follows:

	RMB in millions
Audited consolidated net assets of our Company as set out in Appendix I	487.7
Less: Other intangible assets as set out in Appendix I	3.5
Consolidated net tangible assets attributable to owners of the Company..............	484.2

(2) The estimated net proceeds from the Global Offering are based on the offer price of HK$3.75 per share and HK$5.35 per share after deduction of the underwriting fees and other related expenses payable by the Company, and do not take into account of any shares which may be issued upon the exercise of the Over-allotment Option, options granted under the Pre-IPO Share Option Scheme or any options which may be granted under the Share Option Scheme. The estimated net proceeds from the Global Offering are converted at the PBOC Rate from Hong Kong dollars into Renminbi at an exchange rate of RMB0.8724 to HK$1.00 prevailing on June 30, 2010.

(3) Details of the valuations of our Company's properties as at August 31, 2010 are set out in "Appendix IV–Property Valuation" in this prospectus. The revaluation surplus or deficit of properties included in buildings held for own use, assets under construction, land use rights and investment properties will not be incorporated in our Company's financial statements for the year ending December 31, 2010. If such revaluation surplus is incorporated in our Company's financial statements for the year ending December 31, 2010, the annual depreciation charges would increase by approximately RMB2.5 million.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share are determined after the adjustments as described in note 2 above and on the basis that 1,333,334,000 Shares (being the number of shares expected to be in issue immediately after completion of the Global Offering, without taking into account of any shares which may be issued upon the exercise of the Over-allotment Option, options granted under the Pre-IPO Share Option Scheme or any options which may be granted under the Share Option Scheme) are issued and outstanding during the six-month period ended June 30, 2010. If the options granted under the Pre-IPO Share Option Scheme are exercised in full, the unaudited pro forma adjusted consolidated net tangible assets per Share will increase.

(5) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.8724 to HK$1.00, the PBOC Rate prevailing on June 30, 2010. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

DIVIDEND AND DIVIDEND POLICY

We may distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends requires the approval of the Board and will be at its discretion. In addition, any final dividend for a financial year is subject to shareholders' approval. The Board reviews dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- the payment by our subsidiaries of cash dividends to us;
- our results of operations;
- our cash flows and liquidity position;
- statutory and regulatory restrictions;
- our shareholders' interests;
- general business conditions and strategies;
- our capital requirements; and
- other factors the Board may deem relevant.

Our Company was incorporated on April 27, 2010 and no dividend has been declared or paid by our Company as of the Latest Practicable Date.

On April 6, 2010, Anhui Leoch Battery, based on its distributable profit as of March 31, 2010, declared a dividend of RMB36.3 million to its then shareholder, Uplus. On April 20, 2010, Jiangsu Leoch, based on its distributable profit as of March 31, 2010, declared a dividend of RMB111.4 million to its then shareholder, D&P. In determining the amount of these dividends, we took into consideration the cash flow and operational needs of Anhui Leoch Battery and Jiangsu Leoch, and believed they were sufficient to support these dividends. On the dates such dividends were declared, Anhui Leoch Battery and Jiangsu Leoch were owned and controlled by Mr. Dong through his ownership and control of Uplus and D&P. Therefore, the interests of our Company with respect to these two subsidiaries were aligned before and after Reorganization, and we believe the dividend distribution was in the interests of our Controlling Shareholders and the development of our Company. As of the Latest Practicable Date, total dividends of RMB147.7 million were fully paid by Anhui Leoch Battery and Jiangsu Leoch with their internal resources. Our Directors believe that these dividends were designated to distribute to Mr. Dong a reasonable return on the fruits of his investment in and contribution to our Company over the last 10 years. Taking into consideration the financial resources presently available to us, including cash generated from operations, available loans and banking facilities, and the estimated net proceeds of the Global Offering, our Directors are of the opinion that we have sufficient working capital for our present requirements and for at least in the next 12 months commencing from the date of this prospectus.

As a holding company, our ability to pay dividends depends substantially on the payment of dividends to us by our subsidiaries in China. In particular, our PRC subsidiaries may pay dividends only out of their accumulated distributable profits, if any, determined in accordance with their articles of association, and the accounting standards and regulations in China. Moreover, pursuant to relevant PRC laws and regulations applicable to our subsidiaries in the PRC, our PRC subsidiaries are required to set aside a certain amount of their accumulated after tax profits each year, if any, to fund statutory reserves. These reserves may not be distributed as cash dividends. Certain of our subsidiaries have incurred debt in their own name and may do so again in the future. The instruments governing the debt may require the lenders' consent prior to the subsidiaries declaring dividends, or otherwise restrict dividends or other distributions by such subsidiaries to us.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in this prospectus, the Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favorable to us than terms available to independent third parties and were fair and reasonable and in the interest of our Company and our Shareholders as a whole. For a discussion of related party transactions, please see notes 23, 24 and 35 to our Accountants' Report in Appendix I to this prospectus.

DISTRIBUTABLE RESERVES

Our Company was incorporated on April 27, 2010 and is an investment holding company. There were no reserves available for distribution to the Shareholders as of June 30, 2010.

PROPERTY INTERESTS AND PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interests as of August 31, 2010 and is of the opinion that the value of our property interests as of such date was an aggregate amount of RMB274.2 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix IV to this prospectus.

The table below sets forth the reconciliation of the aggregate amount of net book value of our property interests from our consolidated financial information as of June 30, 2010 with the valuation of our property interests as of August 31, 2010 as set out in Appendix IV to this prospectus:

	RMB in millions	
Valuation of properties (including the lease prepayments (land use rights)) we owned as of August 31, 2010 as set out in the property valuation in Appendix IV to this prospectus		274.2
Add: Capital value of the properties without building ownership certificates or real eastate title certificates *(note)*		8.5
Valuation of properties (including the lease prepayments (land use rights)) we owned as of August 31, 2010		282.7
Net book value of the following properties as of June 30, 2010 as set out in Appendix I to this prospectus		
– Buildings	198.8	
– Lease prepayments (land use rights)	57.8	
Net book value as of June 30, 2010	256.6	
Less: Depreciation/amortization during the period from July 1 to August 31, 2010	1.9	
Net book value as of August 31, 2010		254.7
Net valuation surplus		28.0

Note:

As of the date of valuation, we had not obtained building ownership certificates or real estate title certificates for 33 properties, therefore Jones Lang LaSalle Sallmanns Limited attributed no commercial value to these properties. However, Jones Lang LaSalle Sallmanns Limited is of the opinion that the capital value of these properties as of the date of valuation would be RMB8.5 million, on condition that we are the registered owner of these properties and are entitled to freely transfer, lease, mortgage or otherwise dispose of these properties.

DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

We confirm that, as of the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

DIRECTORS' CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since June 30, 2010, and there is no event since June 30, 2010 which would materially affect the information shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.