ERNST & YOUNG
安 永

Ernst & Young
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

安永會計師事務所
香港中環金融街8號
國際金融中心2期18樓

電話: +852 2846 9888
傳真: +852 2868 4432

3 November 2010

The Board of Directors
Leoch International Technology Limited
Citigroup Global Markets Asia Limited

Dear Sirs,

We set out below our report on the financial information of Leoch International Technology Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended 31 December 2007, 2008 and 2009 and the six-month period ended 30 June 2010 (the "Relevant Periods"), the consolidated statements of financial position as at 31 December 2007, 2008 and 2009 and 30 June 2010, and a summary of significant accounting policies and other explanatory notes (the "Financial Information"), and the financial information for the six-month period ended 30 June 2009 (the "30 June 2009 Financial Information"), for inclusion in the prospectus of the Company dated 3 November 2010 (the "Prospectus") in connection with the proposed listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands on 27 April 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Through a group reorganisation as set out in the section entitled "Our History, Reorganisation and Group Structure" in the Prospectus (the "Reorganisation"), the Company has become the holding company of the companies now comprising the Group on 8 June 2010.

The subsidiaries now comprising the Group are set out in note 4 of Section II below. All companies comprising the Group have adopted 31 December as their financial year end date.

No audited statutory financial statements have been prepared by the Company as it has not carried out any business transaction other than the Reorganisation. The audited financial statements or management accounts of the subsidiaries have been prepared in accordance with the relevant accounting principles generally accepted in the place of incorporation/establishment of those companies. The names of the statutory auditors of these companies are set out in note 4 of Section II below.

For the purpose of this report, the Directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRSs") (which also include International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board (the "IASB") (the "IFRS Financial Statements").

The Financial Information has been prepared by the Directors based on the IFRS Financial Statements.

The Directors are responsible for the preparation and the true and fair presentation of the Financial Information. The directors of the respective companies of the Group are responsible for the preparation and true and fair presentation of the respective financial statements and, where appropriate, management accounts in accordance with the relevant accounting principles and financial regulations applicable to these companies. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion based on our audit on the Financial Information and to express a conclusion on the 30 June 2009 Financial Information based on our review.

Procedures performed in respect of the Financial Information

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing ("HKSAs"), and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). No adjustments were deemed necessary to the IFRS Financial Statements in preparing the Financial Information for inclusion in the Prospectus.

Procedures performed in respect of the 30 June 2009 Financial Information

For the purpose of this report, we have also performed a review of the 30 June 2009 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 June 2009 Financial Information.

Opinion in respect of the Financial Information

In our opinion, the Financial Information for the Relevant Periods gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010 and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

Review conclusion in respect of the 30 June 2009 Financial Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the 30 June 2009 Financial Information does not give a true and fair view of the consolidated results and cash flows of the Group for the six-month period ended 30 June 2009 in accordance with IFRSs.

I. FINANCIAL INFORMATION

Consolidated statements of comprehensive income

		Year ended 31 December			Six-month period ended 30 June	
		2007	2008	2009	2009	2010
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
REVENUE	6	1,129,129	1,498,997	1,391,533	600,579	944,380
Cost of sales		(989,032)	(1,301,424)	(1,112,936)	(484,290)	(707,556)
Gross profit		140,097	197,573	278,597	116,289	236,824
Other income and gains	6	5,898	10,160	20,561	11,553	5,460
Selling and distribution costs		(34,122)	(43,660)	(57,292)	(23,021)	(27,269)
Administrative expenses		(43,404)	(59,028)	(70,084)	(34,128)	(54,591)
Other operating expenses		(9,153)	(9,079)	(2,367)	(1,009)	(861)
Finance costs	7	(5,405)	(8,343)	(9,614)	(4,625)	(9,598)
PROFIT BEFORE TAX	8	53,911	87,623	159,801	65,059	149,965
Income tax expense	11	(2,281)	(12,865)	(14,523)	(6,833)	(22,983)
PROFIT FOR THE YEAR/PERIOD		51,630	74,758	145,278	58,226	126,982
OTHER COMPREHENSIVE INCOME						
Exchange differences on translation of foreign operations		2,355	1,584	(56)	(32)	(193)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		53,985	76,342	145,222	58,194	126,789
Profit attributable to:						
Owners of the Company		50,676	74,644	145,273	58,221	126,982
Non-controlling interests		954	114	5	5	–
		51,630	74,758	145,278	58,226	126,982
Total comprehensive income attributable to:						
Owners of the Company		53,122	76,301	145,218	58,190	126,789
Non-controlling interests		863	41	4	4	–
		53,985	76,342	145,222	58,194	126,789

Consolidated statements of financial position

		As at 31 December			As at 30 June
		2007	2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	14	204,966	301,466	367,587	410,607
Prepaid land lease payments	15	38,788	39,839	42,440	56,558
Intangible assets	16	306	2,680	2,719	3,493
Long term portion of trade receivables	20	3,623	9,373	19,346	14,035
Deposits paid for purchase of items of property, plant and equipment		6,687	27,095	11,371	17,857
Deferred tax assets	18	1,931	1,754	1,628	1,410
Total non-current assets		256,301	382,207	445,091	503,960
CURRENT ASSETS					
Inventories	19	154,804	98,569	180,659	311,445
Trade and bills receivables	20	184,412	229,508	340,393	442,995
Prepayments, deposits and other receivables	21	7,764	12,795	28,526	40,879
Tax recoverable		–	65	335	13
Amounts due from related companies	24	20,963	19,583	34,245	22,079
Pledged deposits	22	8,666	15,119	18,754	53,890
Cash and bank balances	22	22,452	35,718	43,189	78,970
Total current assets		399,061	411,357	646,101	950,271
CURRENT LIABILITIES					
Trade and bills payables	26	100,251	141,563	163,106	292,478
Dividend payable	28	–	–	–	68,710
Other payables and accruals	27	112,845	118,350	130,550	146,198
Interest-bearing bank borrowings	25	65,155	63,550	173,331	295,317
Amount due to a director	23	15,199	59,817	58,476	70,156
Amounts due to related companies	24	42,647	45,317	54,383	65,127
Income tax payable		1,261	8,395	13,428	26,712
Total current liabilities		337,358	436,992	593,274	964,698
NET CURRENT ASSETS/(LIABILITIES)		61,703	(25,635)	52,827	(14,427)
TOTAL ASSETS LESS CURRENT LIABILITIES		318,004	356,572	497,918	489,533
NON-CURRENT LIABILITIES					
Deferred tax liabilities	18	807	295	754	1,878
Total non-current liabilities		807	295	754	1,878
Net assets		317,197	356,277	497,164	487,655
EQUITY					
Equity attributable to owners of the Company:					
Issued share capital	29	–	–	–	–
Reserves	30	314,671	355,077	497,164	487,655
		314,671	355,077	497,164	487,655
Non-controlling interests		2,526	1,200	–	–
Total equity		317,197	356,277	497,164	487,655

Consolidated statements of changes in equity

		Equity attributable to owners of the Company								
		Issued share capital	Statutory reserve fund*	Merger reserve*	Share option reserve*	Exchange fluctuation reserve*	Retained earnings*	Total	Non-controlling interests	Total equity
	Notes	RMB'000 (Note 29)	RMB'000 (Note 30)	RMB'000 (Note 30)	RMB'000 (Note 30)	RMB'000 (Note 30)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007		–	4,561	203,483	–	1,245	2,740	212,029	3,625	215,654
Total comprehensive income for the year		–	–	–	–	2,446	50,676	53,122	863	53,985
Contribution by the then equity holders of the subsidiaries		–	–	47,558	–	–	–	47,558	–	47,558
Acquisition of non-controlling interests by the then equity holders of the subsidiaries		–	–	1,962	–	–	–	1,962	(1,962)	–
Dividend transferred	13	–	–	7,000	–	–	(7,000)	–	–	–
Transfer from retained earnings		–	5,774	–	–	–	(5,774)	–	–	–
As at 31 December 2007 and 1 January 2008		–	10,335	260,003	–	3,691	40,642	314,671	2,526	317,197
Total comprehensive income for the year		–	–	–	–	1,657	74,644	76,301	41	76,342
Contribution by the then equity holders of the subsidiaries		–	–	21,176	–	–	–	21,176	–	21,176
Acquisition of equity interests in subsidiaries by the Group from the equity holders of the Company		–	–	(22,900)	–	–	–	(22,900)	–	(22,900)
Acquisition of non-controlling interests by the Group		–	–	767	–	–	–	767	(1,367)	(600)
Dividend paid	13	–	–	–	–	–	(34,938)	(34,938)	–	(34,938)
Transfer from retained earnings		–	4,180	–	–	–	(4,180)	–	–	–
As at 31 December 2008		–	14,515	259,046	–	5,348	76,168	355,077	1,200	356,277

		Equity attributable to owners of the Company								
	Notes	Issued share capital RMB'000 (Note 29)	Statutory reserve fund* RMB'000 (Note 30)	Merger reserve* RMB'000 (Note 30)	Share option reserve* RMB'000 (Note 30)	Exchange fluctuation reserve* RMB'000 (Note 30)	Retained earnings* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 31 December 2008 and 1 January 2009		–	14,515	259,046	–	5,348	76,168	355,077	1,200	356,277
Total comprehensive income for the year		–	–	–	–	(55)	145,273	145,218	4	145,222
Contribution by the then equity holders of the subsidiaries		–	–	16,374	–	–	–	16,374	–	16,374
Acquisition of equity interests in a subsidiary by the Group from the equity holders of the Company		–	–	(10,850)	–	1,340	–	(9,510)	–	(9,510)
Acquisition of non-controlling interests by the Group		–	–	147	–	–	–	147	(1,204)	(1,057)
Dividend paid	13	–	–	–	–	–	(10,142)	(10,142)	–	(10,142)
Transfer from retained earnings		–	7,736	–	–	–	(7,736)	–	–	–
As at 31 December 2009 and 1 January 2010		–	22,251	264,717	–	6,633	203,563	497,164	–	497,164
Total comprehensive income for the period		–	–	–	–	(193)	126,982	126,789	–	126,789
Issue of shares	29	–	–	–	–	–	–	–	–	–
Issue of Pre-IPO share options	31	–	–	–	970	–	–	970	–	970
Contribution by the then equity holders of the subsidiaries		–	–	12,959	–	–	–	12,959	–	12,959
Acquisition of subsidiaries pursuant to the Reorganisation		–	–	(2,571)	–	–	–	(2,571)	–	(2,571)
Dividend paid/declared	13	–	–	–	–	–	(147,656)	(147,656)	–	(147,656)
Transfer from retained earnings		–	9,341	–	–	–	(9,341)	–	–	–
As at 30 June 2010		–	31,592	275,105	970	6,440	173,548	487,655	–	487,655

		Equity attributable to owners of the Company								
		Issued share capital	Statutory reserve fund*	Merger reserve*	Share option reserve*	Exchange fluctuation reserve*	Retained earnings*	Total	Non-controlling interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 29)	(Note 30)	(Note 30)	(Note 30)	(Note 30)				
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
As at 1 January 2009.		–	14,515	259,046	–	5,348	76,168	355,077	1,200	356,277
Total comprehensive income for the period		–	–	–	–	(31)	58,221	58,190	4	58,194
Contribution by the then equity holders of the subsidiaries		–	–	16,374	–	–	–	16,374	–	16,374
Acquisition of equity interests in a subsidiary by the Group from the equity holders of the Company . . .		–	–	(10,850)	–	1,340	–	(9,510)	–	(9,510)
Acquisition of non-controlling interests by the Group		–	–	147	–	–	–	147	(1,204)	(1,057)
Dividend paid	13	–	–	–	–	–	(10,142)	(10,142)	–	(10,142)
Transfer from retained earnings		–	2,870	–	–	–	(2,870)	–	–	–
As at 30 June 2009		–	17,385	264,717	–	6,657	121,377	410,136	–	410,136

* These reserve accounts comprise the consolidated reserves of RMB314,671,000, RMB355,077,000, RMB497,164,000 and RMB487,655,000 in the consolidated statements of financial position as at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010, respectively.

Consolidated statements of cash flows

	Notes	Year ended 31 December			Six-month period ended 30 June	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		53,911	87,623	159,801	65,059	149,965
Adjustments for:						
Finance costs	7	5,405	8,343	9,614	4,625	9,598
Interest income	6	(887)	(255)	(610)	(189)	(157)
Loss/(gain) on disposal of items of property, plant and equipment	8	55	11	11	(22)	(57)
Depreciation	8	16,018	22,817	32,044	15,659	20,360
Amortisation of prepaid land lease payments	8	551	864	919	447	530
Amortisation of intangible assets	8	118	148	324	160	178
Amortisation of deferred government grants	8	(341)	(626)	(857)	(512)	(264)
Government grants credited to other income	6	(817)	(7,233)	(17,145)	(10,403)	(3,836)
Impairment/(write-back of impairment) of trade receivables	8	1,518	901	688	–	(838)
Equity-settled share option expenses	8	–	–	–	–	970
		75,531	112,593	184,789	74,824	176,449
(Increase)/decrease in inventories		(62,381)	56,235	(82,090)	(46,133)	(130,786)
Increase in trade and bills receivables		(31,833)	(51,747)	(121,546)	(58,707)	(96,453)
Decrease/(increase) in prepayments, deposits and other receivables		10,157	(4,992)	(15,652)	(28,902)	(9,498)
Increase in trade and bills payables		42,621	41,312	21,543	63,580	129,372
(Decrease)/increase in other payables and accruals		(23,092)	105	12,523	46,620	14,830
Movements in balances with a director		(8,032)	26,343	(11,909)	(24,499)	(2,022)
Movements in balances with related parties		27,847	4,660	(5,555)	(3,541)	22,910
Cash generated from/(used in) operations		30,818	184,509	(17,897)	23,242	104,802
Income tax paid		(569)	(6,131)	(9,175)	(4,645)	(8,035)
Net cash flows from operating activities		30,249	178,378	(27,072)	18,597	96,767

		Year ended 31 December			Six-month period ended 30 June	
		2007	2008	2009	2009	2010
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Net cash flows from operating activities		30,249	178,378	(27,072)	18,597	96,767
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		887	255	610	189	157
Purchase of items of property, plant and equipment	32(a)	(72,528)	(136,512)	(84,358)	(45,837)	(49,963)
Proceeds from disposal of items of property, plant and equipment		341	1,769	2,350	2,134	92
Additions in prepaid land lease payments	32(b)	(2,907)	(153)	(3,599)	(3,599)	(16,781)
Additions to intangible assets		(362)	(2,522)	(363)	(363)	(952)
Proceeds from disposal of intangible assets		292	–	–	–	–
Acquisition of equity interests in subsidiaries by the Group from the equity holders of the Company		–	(3,500)	–	–	–
Acquisition of non-controlling interests by the Group	32(c)	–	(600)	–	–	–
Decrease/(increase) in pledged deposits		8,201	(6,453)	(3,635)	(31,526)	(35,136)
Net cash flows used in investing activities		(66,076)	(147,716)	(88,995)	(79,002)	(102,583)
CASH FLOWS FROM FINANCING ACTIVITIES						
Contribution by the then equity holders of the subsidiaries	32(a)	47,558	20,389	16,374	16,374	–
New bank loans		116,332	92,751	243,038	130,707	227,004
Repayment of bank loans		(122,368)	(94,356)	(133,257)	(74,882)	(105,018)
Interest paid		(5,405)	(8,343)	(9,614)	(4,625)	(9,598)
Dividends paid		–	(34,938)	(10,142)	(10,142)	(71,311)
Pre-IPO expenses paid		–	–	–	–	(2,523)
Receipt of government grants		817	7,233	17,145	10,403	3,836
Net cash flows from/(used in) financing activities		36,934	(17,264)	123,544	67,835	42,390
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,107	13,398	7,477	7,430	36,574
Cash and cash equivalents at beginning of year/period		22,888	22,452	35,718	35,718	43,189
Effect of foreign exchange rate changes, net		(1,543)	(132)	(6)	(3)	(793)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		22,452	35,718	43,189	43,145	78,970
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balance		22,452	35,718	43,189	43,145	78,970

Statement of financial position

The statement of financial position of the Company as at 30 June 2010 is as follows:

	Notes	As at 30 June 2010 RMB'000
NON-CURRENT ASSET		
Interests in subsidiaries	17	338,800
CURRENT ASSET		
Prepayments		2,523
CURRENT LIABILITIES		
Amounts due to subsidiaries	17	10,091
Total current liabilities		10,091
NET CURRENT LIABILITIES		(7,568)
Net liabilities		331,232
EQUITY		
Issued capital	29	–
Reserves	30(b)	331,232
Total equity		331,232

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 27 April 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands in preparation for the listing of the Company's shares on the Stock Exchange (the "Listing"). The registered office of the Company is located at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Group is principally engaged in the manufacture and development of lead-acid battery (the "Listing Business").

In the opinion of the directors of the Company (the "Directors"), the holding company and the ultimate holding company is Master Alliance Investment Limited, a company incorporated in the British Virgin Islands, which is wholly owned by Mr. Dong Li.

Before the formation of the Group, the Listing Business was carried out by the subsidiaries now comprising the Group as set out in note 4, all of which were collectively controlled by Mr. Dong Li (hereinafter referred to as the "Controlling Shareholder"). Pursuant to the Reorganisation as described in the section entitled "History, Reorganisation and Group Structure" in the Prospectus and in Appendix VII "Statutory and General Information" to the Prospectus, the Company became the holding company of the subsidiaries now comprising the Group on 8 June 2010.

2. BASIS OF PREPARATION

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

The Financial Information 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 throughout the Relevant Periods and as if all of the Listing Business was transferred to the Group as of the earliest period presented, or since their respective date of incorporation or establishment when this is a shorter period.

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

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and its subsidiaries comprising the Group for the Relevant Periods. As explained herein before, the acquisition of subsidiaries under common control has been accounted for using merger accounting.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control consolidation occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of the Reorganisation under common control.

The Financial Information includes the results and financial positions of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the Reorganisation under common control.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the companies now comprising the Group. An acquisition of non-controlling interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

3.1 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in the Financial Information.

IFRS 1 Amendments	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[2]
IFRS 9	*Financial Instruments*[4]
IAS 24 (Revised)	*Related Party Disclosures*[3]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issue*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

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

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

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

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

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

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement.* This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39. IAS 39 is aimed to be replaced by IFRS 9 in its entirety by the end of 2010. The amendments will not have any financial impact on the Group.

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The revised standard is unlikely to have any impact on the Group's related party disclosures as the Group is not a government related entity.

The IAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. As the Group currently has no such rights, options or warrants in issue, the amendment is unlikely to have any financial impact on the Group.

The IFRIC 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. As the Group has no defined benefit scheme, the amendments will not have any financial impact on the Group.

IFRIC 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

Improvements to IFRSs 2010 issued in May 2010 sets out amendments to a number of IFRSs. Except for the amendment to IFRS 3 and IAS 27, the Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted 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. An impairment loss is charged to profit or loss in the period in which it arises.

An assessment is made at the end of each of the Relevant Periods as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed 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/amortisation) had no impairment loss been recognised 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.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

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 capitalised 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, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the 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 derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised 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 capitalised 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.

Revenue recognition

Revenue is recognised 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 recognised:

(a) Sale of goods

Revenue from the sale of goods is recognised 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 the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(b) Interest income

Interest income is recognised 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.

(c) Rental income

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Foreign currencies

The Financial Information is presented in Renminbi ("RMB"), which is the Company's functional and presentation currency. Each entity within the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are initially recorded using the functional currency rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas entities within the Group are currencies other than RMB. As at the reporting date, the assets and liabilities of these entities are translated into RMB at the exchange rates ruling at the reporting date and, their profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated profit or loss.

For the purpose of the consolidated statements of cash flows, the cash flows of overseas entities within the Group are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequent recurring cash flows of overseas entities within the Group which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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 amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Computer software is amortised over the estimated useful life of ten years.

Research and development costs

All research costs are charged to profit or loss as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group 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. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised 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 the Group commits 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.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at end of each of the Relevant Periods.

The Group's 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 amortised cost using the effective interest rate method less any allowance for impairment. Amortised 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 amortisation is included in finance income in profit or loss. The loss arising from impairment is recognised in profit or loss in other operating expenses.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each of the Relevant Periods 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 reorganisation 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.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals, amounts due to a director and related companies and interest-bearing bank borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flow, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Inventories

Inventories are valued at the lower of cost and net realisable 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 labour and an appropriate proportion of manufacturing overheads.

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

Provisions

A provision is recognised when the Group has 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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received from the lessor, are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Retirement benefits

Obligatory retirement benefits in the form of contributions under a defined contribution retirement scheme administered by local government agencies are charged to the profit or loss as incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial lattice model, further details of which are given in note 31 to the Financial Information.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

3.3 SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below.

(i) Impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of doubtful debts requires management's judgement and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or future expectation is different from the original estimate, such differences will impact the carrying value of the receivables, doubtful debt expenses and write-back of impairment of trade receivables in the period in which such estimate has been changed.

(ii) Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverable amount of an asset, or, where appropriate, the cash-generating unit to which it belongs, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

(iii) Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, competitor actions in response to severe industry cycles or unforeseeable change in legal enforcement rights in future. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(iv) Useful lives of intangible assets

The Group determines the estimated useful lives and related amortisation charges for its intangible assets. This estimate is based on the historical experience of the actual useful life of intangible assets of similar functions. It could change significantly as a result of technical innovations. Management reassesses the useful life at each reporting date.

(v) Net realisable value of inventories

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of similar nature which could change significantly as a result of competitor actions. Management reassesses these estimates at each reporting date.

(vi) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(vii) Valuation of share options

As described in note 31 to the Financial Information, the Company has engaged an independent professionally qualified valuer to assist in the valuation of the share options granted during the six-month period ended 30 June 2010. The fair value of options granted under the pre-IPO share option scheme is determined using the binomial lattice model. The significant inputs into the model were the weighted average share price at the grant date, risk-free interest rate, exercise price, expected volatility of the underlying shares, expected dividend yield and expected life of options.

The grant of equity instruments might be conditional upon satisfying specified vesting condition, (i.e. the service period). Significant management judgement is required to take into account the vesting conditions and adjust the number of equity instruments included in the measurement of equity-settled share option expenses. Determining the number of equity instruments that eventually vest requires management to make assumptions regarding the profit forecast and likelihood of a successful initial public offering, and hence they are subject to uncertainty.

4. PARTICULARS OF COMPANIES COMPRISING THE GROUP

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

	Date of incorporation/ registration	Place of incorporation and registration/ operations	Issued and paid-up/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Direct	Indirect	
				%	%	
Subsidiaries:						
江蘇理士電池有限公司 (Leoch Battery (Jiangsu) Corp.) ("Jiangsu Leoch")(1)	11 March 2003	PRC#	US$30,095,000	–	100	Investment holding and manufacture and sale of lead-acid batteries

	Date of incorporation/ registration	Place of incorporation and registration/ operations	Issued and paid-up/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Direct	Indirect	
				%	%	
肇慶理士電源技術有限公司 (Zhaoqing Leoch Battery Technology Co., Ltd.) ("Zhaoqing Leoch")(2)	9 May 2005	PRC	US$13,000,000	–	100	Manufacture and sale of lead-acid batteries
安徽理士電池技術有限公司 (Anhui Leoch Battery Technology Corp.) ("Anhui Leoch Battery")(3)	26 July 2006	PRC	US$8,400,000	–	100	Manufacture and sale of lead-acid batteries
深圳理士奧電源技術有限公司 (Shenzhen Leoch Battery Technology Co., Ltd.) ("Shenzhen Leoch")(4)	26 April 1999	PRC	RMB20,000,000	–	100	Investment holding and manufacture and sale of lead-acid batteries
東莞市理士奧電源技術有限公司 (Dongguan Leoch Battery Technology Co., Ltd.) ("Dongguan Leoch")(5)	27 November 2002	PRC	RMB3,500,000	–	100	Manufacture and sale of lead-acid batteries
Kinetic Growth International Limited ("Kinetic Growth")(6)	11 January 2008	Hong Kong	HK$2	–	100	Sale of lead-acid batteries
Leoch Battery Corporation ("Leoch Battery Corp")(7)	17 June 2003	USA	US$200,000	–	100	Sale of lead-acid batteries
Leoch Power Supply (H.K.) Limited ("Leoch Power Supply")(8)	18 August 2004	Hong Kong	HK$12,000,000	–	100	Investment holding and sale of lead-acid batteries

	Date of incorporation/ registration	Place of incorporation and registration/ operations	Issued and paid-up/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Direct	Indirect	
				%	%	
Honour Label Investments Limited ("Honour Label")(7)	28 February 2005	BVI	US$1	–	100	Investment holding
Peak Year Investments Limited ("Peak Year")(7)	25 January 2007	BVI	US$1	–	100	Investment holding
Shieldon International Limited ("Shieldon")(7)	19 January 2007	BVI	US$1	–	100	Investment holding
Leoch Battery Company Limited ("Leoch Battery Company")(9)	25 April 2007	Hong Kong	HK$1,000,000	–	100	Investment holding and sale of lead-acid batteries
南京理士奥電源技術有限公司 (Nanjing Leoch Battery Technology Co., Ltd.)* ("Nanjing Leoch")(10)	15 March 2006	PRC	RMB300,000	–	100	Sale of lead-acid batteries
北京理士奥電源技術有限公司 (Beijing Leoch Engineering Technology Co., Ltd.)* ("Beijing Leoch") (11)	14 December 2004	PRC	RMB1,000,000	–	100	Sale of lead-acid batteries
昆明理士奥工程技術有限公司 (Kunming Leoch Engineering Technology Co., Ltd.)* ("Kunming Leoch") (12)	25 May 2006	PRC	RMB500,000	–	100	Sale of lead-acid batteries
西寧理士奥工程技術有限公司 (Xining Leoch Engineering Technology Co., Ltd.)* ("Xining Leoch")(11)	15 November 2006	PRC	RMB700,000	–	100	Inactive

	Date of incorporation/ registration	Place of incorporation and registration/ operations	Issued and paid-up/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Direct	Indirect	
				%	%	
深圳理士電池技術有限公司 (Leoch Battery Shenzhen Corp.) ("Shenzhen Leoch Battery")(4)	27 September 2007	PRC	RMB1,000,000	–	100	Inactive
Catherine Holdings International Company Limited ("Catherine Holdings") (7)	3 May 2010	BVI	US$6	100	–	Investment holdings
Leoch Europe Limited ("Leoch Europe")(9)	5 January 2010	United Kingdom	GB£1	–	100	Inactive
Leoch Battery Pte. Ltd. ("Leoch Battery Pte.")(9)	5 April 2010	Singapore	SG$1	–	100	Inactive
安徽理士電源技術有限公司 (Anhui Leoch Power Supply Corp.) ("Anhui Leoch Power")(9)	26 October 2010	PRC	–	–	100	Inactive

Notes:

(1) The statutory financial statements for the years ended 31 December 2007 and 2009 were audited by Jiangsu Dingxin Certified Public Accountants* (江蘇鼎信會計師事務所有限公司), Certified Public Accountants registered in the PRC. The statutory financial statements for the year ended 31 December 2008 were audited by HuaiAn Guoxin Certified Public Accountants* (淮安國信會計師事務所), Certified Public Accountants registered in the PRC.

(2) The statutory financial statements for the year ended 31 December 2007 were audited by Guangdong Zhaoqing Zhongpeng Certified Public Accountants Co., Ltd.* (廣東肇慶中鵬會計師事務所有限公司), Certified Public Accountants registered in the PRC. The statutory financial statements for the years ended 31 December 2008 and 2009 were audited by Zhaoqing Xiang Xin Certified Public Accountants Co., Ltd.* (肇慶市祥信會計師事務所有限公司), Certified Public Accountants registered in the PRC.

(3) The statutory financial statements for the years ended 31 December 2007 and 2008 were audited by HuaiBei HuaYa Certified Public Accountants* (淮北華亞會計師事務所), Certified Public Accountants registered in the PRC and the statutory financial statements for the year ended 31 December 2009 were audited by Anhui ZhiLian Certified Public Accountants* (安徽智聯會計師事務所), Certified Public Accountants registered in the PRC.

(4) The statutory financial statements for the years ended 31 December 2007, 2008 and 2009 were audited by Shenzhen Xingyuan Certified Public Accountants* (深圳星源會計師事務所), Certified Public Accountants registered in the PRC.

(5) The statutory financial statements for the years ended 31 December 2007 and 2008 were audited by Dongguan Discran Certified Public Accountants* (東莞市德信康會計師事務所有限公司), Certified Public Accountants registered in the PRC. The statutory financial statements for the year ended 31 December 2009 were audited by Dongguan Yonghe Certified Public Accountants* (東莞市永和會計師事務所有限公司), Certified Public Accountants registered in the PRC.

(6) The statutory financial statements for the years ended 31 December 2008 and 2009 were audited by Fung, Yu & Co., Certified Public Accountants registered in Hong Kong.

(7) No audited financial statements have been prepared for companies incorporated in the United States and the British Virgin Islands, as they are not subject to any statutory audit requirements in their jurisdictions of establishment.

(8) The statutory financial statements for the year ended 31 December 2007 were audited by Leung Siu Wo & Co., Certified Public Accountants registered in Hong Kong and the statutory financial statements for the years ended 31 December 2008 and 2009 were audited by Klis & Associates CPA Limited, Certified Public Accountants registered in Hong Kong.

(9) No statutory financial statements have been prepared for this subsidiary as the company has been inactive from its incorporation to the year ended 31 December 2009.

(10) The statutory financial statements for the years ended 31 December 2007 and 2008 were audited by Jiangsu Tian Cheng Certified Public Accountants Co., Ltd.* (江蘇天誠會計師事務所有限公司), Certified Public Accountants registered in the PRC. No statutory financial statements have been prepared for the year ended 31 December 2009 as there is no statutory requirement for the company to prepare audited financial statements.

(11) No statutory financial statements have been prepared for these subsidiaries as there is no statutory requirement for these companies to prepare audited financial statements.

(12) The statutory financial statements for the years ended 31 December 2007 and 2008 were audited by YunNan HengXin Certified Public Accountants Co., Ltd.* (雲南恒信會計師事務所有限公司), Certified Public Accountants registered in the PRC. The statutory financial statements for the year ended 31 December 2009 were audited by Yunnan GaoLu Certified Public Accountants* (雲南高路會計師事務所), Certified Public Accountants registered in the PRC.

* The English names of the subsidiaries and auditors registered in the PRC represent the best efforts made by management of the Company to translate their Chinese names as they do not have official English names.

\# PRC is refer to the mainland of the People's Republic of China.

5. SEGMENT INFORMATION

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

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

Geographical information

(a) Revenue from external customers

	Year ended 31 December			Six-month period ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
PRC	421,824	557,300	625,398	269,173	361,831
European Union	277,019	332,930	248,439	112,525	192,885
United States of America	204,005	333,815	256,199	117,839	167,210
Other Asian countries/areas	159,928	209,725	202,198	78,325	182,676
Other countries	66,353	65,227	59,299	22,717	39,778
	1,129,129	1,498,997	1,391,533	600,579	944,380

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

(b) Non-current assets

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

Information about major customers

During the year ended 31 December 2007, the Group made sales to two customers of RMB200,300,000 and RMB127,922,000, respectively, which individually exceeded 10% of the Group's total revenue for that year.

During the year ended 31 December 2008, the Group made sales to two customers of RMB312,348,000 and RMB156,764,000, respectively, which individually exceeded 10% of the Group's total revenue for that year.

During the year ended 31 December 2009, the Group made sales to two customers of RMB264,019,000 and RMB204,991,000, respectively, which individually exceeded 10% of the Group's total revenue for that year.

During the six months ended 30 June 2010, the Group made sales to two customers of RMB148,570,000 and RMB128,233,000, respectively, which individually exceeded 10% of the Group's total revenue for that period.

During the six months ended 30 June 2009, the Group made sales to two customers of RMB122,862,000 (unaudited) and RMB93,040,000 (unaudited), respectively, which individually exceeded 10% of the Group's total revenue for that period.

Details of the concentration of credit risk arising from the customers are set out in note 36.

6. REVENUE, OTHER INCOME AND GAINS

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

	Year ended 31 December			Six-month period ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue					
Sale of goods	1,129,129	1,498,997	1,391,533	600,579	944,380
Other income and gains					
Rental income	2,446	1,087	186	174	20
Bank interest income	887	255	610	189	157
Government grants	817	7,233	17,145	10,403	3,836
Sale of scrap materials	506	1,193	1,096	411	143
Others	1,242	392	1,524	376	1,304
	5,898	10,160	20,561	11,553	5,460

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

7. FINANCE COSTS

	Year ended 31 December			Six-month period ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Loan interest	4,407	5,772	6,549	3,272	8,687
Interest arising from discounted bills	998	2,571	3,065	1,353	911
	5,405	8,343	9,614	4,625	9,598

8. PROFIT BEFORE TAX

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

	Year ended 31 December			Six-month period ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of inventories sold	979,696	1,295,102	1,102,083	479,207	699,521
Employee benefit expense (including directors' remuneration as set out in *note 9*):					
Wages and salaries	69,325	87,195	108,803	48,168	82,489
Equity-settled share option expenses	–	–	–	–	970
Retirement benefit scheme contributions	4,198	3,931	5,658	2,304	4,063
	73,523	91,126	114,461	50,472	87,522
Research and development costs	9,336	6,322	10,853	5,083	8,035
Auditors' remuneration	66	135	135	118	141
Pre-IPO expenses	–	–	–	–	7,568
Depreciation of property, plant and equipment *(note 14)*	16,018	22,817	32,044	15,659	20,360
Amortisation of prepaid land lease payments *(note 15)*	551	864	919	447	530
Amortisation of intangible assets* *(note 16)*	118	148	324	160	178
Amortisation of deferred government grants	(341)	(626)	(857)	(512)	(264)
Impairment/(write-back of impairment) of trade receivables *(note 20)*	1,518	901	688	–	(838)
Minimum lease payments under operating leases	7,832	6,993	5,839	2,669	2,505
Exchange differences, net	6,264	7,644	780	966	832
Loss/(gain) on disposal of items of property, plant and equipment	55	11	11	(22)	(57)

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

9. DIRECTORS' REMUNERATION

Directors' remuneration during the Relevant Periods, disclosed pursuant to the Listing Rules is as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries, allowances and benefits in kind	278	1,446	1,562	647	926
Performance related bonuses	–	–	–	–	–
Equity-settled share option expenses	–	–	–	–	64
Retirement benefit scheme contributions	9	9	8	4	5
	287	1,455	1,570	651	995

(a) Executive directors

The remuneration of each of the directors for the year ended 31 December 2007 is set out below:

	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share option expenses	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Name of directors:					
Mr. Dong Li	184	–	–	7	191
Ms. Zhao Huan	94	–	–	2	96
Mr. Philip Armstrong Noznesky	–	–	–	–	–
	278	–	–	9	287

The remuneration of each of the directors for the year ended 31 December 2008 is set out below:

	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share option expenses	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Name of directors:					
Mr. Dong Li	184	–	–	7	191
Ms. Zhao Huan	99	–	–	2	101
Mr. Philip Armstrong Noznesky	1,163	–	–	–	1,163
	1,446	–	–	9	1,455

The remuneration of each of the directors for the year ended 31 December 2009 is set out below:

	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share option expenses	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Name of directors:					
Mr. Dong Li	318	–	–	7	325
Ms. Zhao Huan	114	–	–	1	115
Mr. Philip Armstrong Noznesky	1,130	–	–	–	1,130
	1,562	–	–	8	1,570

The remuneration of each of the directors for the six-month period ended 30 June 2009 is set out below:

	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share option expenses	Retirement benefit scheme contributions	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Name of directors:					
Mr. Dong Li	131	–	–	3	134
Ms. Zhao Huan	58	–	–	1	59
Mr. Philip Armstrong Noznesky	458	–	–	–	458
	647	–	–	4	651

The remuneration of each of the directors for the six-month period ended 30 June 2010 is set out below:

	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share option expenses	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Name of directors:					
Mr. Dong Li	226	–	–	3	229
Ms. Zhao Huan	61	–	34	2	97
Mr. Philip Armstrong Noznesky	639	–	30	–	669
	926	–	64	5	995

During the Relevant Periods, two directors were granted share options, in respect of their services to the Group, under the pre-IPO share option scheme of the Company, further details of which are set out in note 31 to the Financial Information. The fair value of such options which has been recognised in the consolidated statement of comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the six-month period ended 30 June 2010 is included in the above directors' remuneration disclosure.

There was no arrangement under which directors waived or agreed to waive any remuneration during the Relevant Periods and no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

No emoluments were paid to the non-executive directors and independent non-executive directors of the Company during the Relevant Periods.

10. FIVE HIGHEST PAID INDIVIDUALS

An analysis of the five highest paid individuals within the Group during the Relevant Periods is as follows:

	Number of employees				
	Year ended 31 December			Six-month period ended 30 June	
	2007	2008	2009	2009 (Unaudited)	2010
Directors	1	1	2	2	2
Non-director employees	4	4	3	3	3
	5	5	5	5	5

Details of directors' remuneration are set out in note 9 above.

Details of the remuneration of the above non-director, highest paid individuals are as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries, allowances and benefits in kind	772	970	957	413	666
Performance related bonuses	–	–	–	–	–
Equity-settled share option expense	–	–	–	–	134
Retirement benefit scheme contributions	14	8	5	3	6
	786	978	962	416	806

The number of non-director, highest paid individuals whose remuneration fell within the following band is as follows:

	Number of employees				
	Year ended 31 December			Six-month period ended 30 June	
	2007	2008	2009	2009 (Unaudited)	2010
Nil to RMB1,000,000	4	4	3	3	3

During the Relevant Periods, share options were granted to two non-director, highest paid employee in respect of their services to the Group, under the pre-IPO share option scheme of the Company, further details of which are set out in note 31 to the Financial Information. The fair value of such options, which has been recognised in the consolidated statement of comprehensive income over the vesting period was determined as at the date of grant and the amount is included in above non-director, highest paid employees' remuneration disclosure for the six-months ended 30 June 2010.

During the Relevant Periods, no highest paid individuals waived or agreed to waive any emoluments and no emoluments were paid by the Group to the non-director, highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

11. INCOME TAX

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

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

The subsidiary incorporated in the United States is not subject to income tax for the period from 1 January 2007 to 31 May 2010 as such subsidiary made an election to be treated as a small business corporation ("S corporation") for the United States federal income tax purpose. In general, a U.S. domestic corporation is eligible to make an S corporation election if it does not have more than 100 shareholders, does not have shareholder who is not an individual, does not have non-resident as a shareholder, and does not have more than one class of stock. During the above period, the subsidiary is an eligible entity for a S corporation election as it is a U.S. domestic corporation that has only a single U.S. citizen shareholder. Moreover, the subsidiary has only one class of stock. S corporations are corporations that elect to pass corporate income, losses, deductions and credit through to their shareholders for federal tax purposes. As such, the subsidiary is not subject to corporate level tax in the United States, except for certain built-in gains and passive income. The subsidiary is no longer qualified as an S corporation since 1 June 2010 and has been subject to corporate income tax in the United States since then. The applicable federal corporate income tax rate is in the range of 15%-35% regarding to taxable income.

The subsidiaries incorporated in the British Virgin Islands are not subject to income tax as such subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the British Virgin Islands.

The subsidiaries incorporated in the United Kingdom and Singapore are not subject to income tax as such subsidiaries have no taxable income.

The provision for Hong Kong current tax is based on the statutory rate of 17.5% (for the year of assessment 2007/08) and 16.5% (for the year of assessment 2008/09 onwards) of the assessable profits of the Group. No provision for Hong Kong profits tax has been made by Kinetic Growth as it did not carry on any business in Hong Kong and had no assessable profits arising in or derived from Hong Kong during the Relevant Periods. The operations of Kinetic Growth were carried out in the PRC by the PRC subsidiaries of the Group. Such arrangement may have PRC tax exposures. The relevant potential PRC income tax provision has been recognised by the Group by way of allocating the profits of Kinetic Growth to the respective PRC subsidiaries based on the total cost of goods purchased by Kinetic Growth from each PRC subsidiaries.

The provision for PRC current income tax is based on the statutory rate of 25% (2007: 33%) of the assessable profits of the Group as determined in accordance with the new PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in PRC which are charged for tax at preferential rates.

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 exempted from corporate income tax ("CIT") for two years and were entitled to a 50% reduction in the PRC CIT for the subsequent three years ("CIT Exemption"). The six-month period ended 30 June 2010 was the third year for Anhui Leoch Battery and Zhaoqing Leoch and the fifth year for Jiangsu Leoch to enjoy the CIT Exemption.

Pursuant to the transitional arrangement under the new PRC Corporate Income Tax Law, the 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, another PRC subsidiary, was recognised as a high-tech enterprise by the PRC tax authority in 2008 with an effective period of three years from year 2008 to year 2010 and was entitled to a 15% CIT rate from 1 January 2008 onwards.

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

	Year ended 31 December			Six-month period ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current tax – PRC	1,951	13,187	13,920	6,627	21,195
Current tax – Hong Kong	69	13	18	15	446
Deferred tax *(note 18)*	261	(335)	585	191	1,342
Total tax charge for the period/year	2,281	12,865	14,523	6,833	22,983

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

	Year ended 31 December			Six-month period ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before tax	53,911	87,623	159,801	65,059	149,965
Tax at an applicable tax rate (33% in 2007, 25% in 2008 and 2009 and six-month period ended 30 June 2010)	17,791	21,906	39,950	16,265	37,491
Tax concession for certain subsidiaries	(16,432)	(9,489)	(25,819)	(9,511)	(16,990)
Income not subject to tax	(119)	(10)	(478)	(205)	(1,202)
Expenses not deductible for tax	1,041	458	380	162	2,513
Withholding tax on undistributed earnings	–	–	490	122	1,171
Tax charge at the Group's effective rate	2,281	12,865	14,523	6,833	22,983

12. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results for the Relevant Periods on the basis as disclosed in note 2 above.

13. DIVIDENDS

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

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

	Year ended 31 December			Six-month period ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Dividends	7,000	34,938	10,142	10,142	147,656

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Tooling and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At 1 January 2007	39,460	121,591	3,798	5,223	8,354	1,391	179,817
Additions	2,426	9,319	1,415	1,872	124	66,693	81,849
Transfers	3,868	3	–	–	630	(4,501)	–
Disposals	(41)	(195)	–	(135)	(153)	–	(524)
Exchange realignment	(15)	–	(2)	–	–	–	(17)
At 31 December 2007 and 1 January 2008	45,698	130,718	5,211	6,960	8,955	63,583	261,125
Additions	452	31,184	2,601	3,082	4,854	78,943	121,116
Transfers	107,235	1,814	176	–	3,458	(112,683)	–
Disposals	(4)	(1,410)	(27)	(93)	(964)	–	(2,498)
Exchange realignment	(30)	–	(2)	–	–	–	(32)
At 31 December 2008 and 1 January 2009	153,351	162,306	7,959	9,949	16,303	29,843	379,711
Additions	2,868	34,452	1,854	1,934	21,926	37,582	100,616
Transfers	62,503	832	360	–	233	(63,928)	–
Disposals	–	(2,379)	(235)	(412)	(416)	–	(3,442)
Exchange realignment	–	(90)	–	–	–	–	(90)
At 31 December 2009 and 1 January 2010	218,722	195,121	9,938	11,471	38,046	3,497	476,795
Additions	283	19,273	5,848	786	3,161	34,064	63,415
Transfers	1,695	–	–	–	–	(1,695)	–
Disposals	–	–	(32)	(296)	(79)	–	(407)
At 30 June 2010	220,700	214,394	15,754	11,961	41,128	35,866	539,803

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Tooling and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated depreciation and impairment:							
At 1 January 2007	(2,558)	(33,772)	(1,147)	(1,293)	(1,509)	–	(40,279)
Charge for the year	(1,818)	(10,688)	(828)	(1,049)	(1,635)	–	(16,018)
Disposals	–	42	–	53	33	–	128
Exchange realignment	9	–	1	–	–	–	10
At 31 December 2007 and 1 January 2008	(4,367)	(44,418)	(1,974)	(2,289)	(3,111)	–	(56,159)
Charge for the year	(5,109)	(13,520)	(1,138)	(1,220)	(1,830)	–	(22,817)
Disposals	4	304	24	61	325	–	718
Exchange realignment	12	–	1	–	–	–	13
At 31 December 2008 and 1 January 2009	(9,460)	(57,634)	(3,087)	(3,448)	(4,616)	–	(78,245)
Charge for the year	(7,626)	(16,944)	(1,480)	(1,739)	(4,255)	–	(32,044)
Disposals	–	391	204	190	296	–	1,081
At 31 December 2009 and 1 January 2010	(17,086)	(74,187)	(4,363)	(4,997)	(8,575)	–	(109,208)
Charge for the period	(4,820)	(9,524)	(966)	(1,000)	(4,050)	–	(20,360)
Disposals	–	–	25	272	75	–	372
At 30 June 2010	(21,906)	(83,711)	(5,304)	(5,725)	(12,550)	–	(129,196)
Net book amount:							
At 31 December 2007	41,331	86,300	3,237	4,671	5,844	63,583	204,966
At 31 December 2008	143,891	104,672	4,872	6,501	11,687	29,843	301,466
At 31 December 2009	201,636	120,934	5,575	6,474	29,471	3,497	367,587
At 30 June 2010	198,794	130,683	10,450	6,236	28,578	35,866	410,607

The net book amount of items of property, plant and equipment pledged as security for interest-bearing bank borrowings granted to the Group are as follows (note 25):

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Buildings	18,675	17,707	86,322	144,000
Plant and machinery	81,569	96,895	93,927	109,431
Total	100,244	114,602	180,249	253,431

As at the date of this report, the Group has not obtained certificates of real estate ownership from the relevant PRC government authorities for certain buildings with a carrying amount of RMB8,334,000 at 30 June 2010. The management is in the process of obtaining these certificates. Until obtaining receipt of the certificates, the Group has no right to assign or pledge these buildings.

15. PREPAID LAND LEASE PAYMENTS

Group

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
At cost:				
At beginning of year/period	21,321	41,434	43,388	46,987
Additions	20,113	1,954	3,599	14,980
At end of year/period	41,434	43,388	46,987	61,967
Accumulated amortisation:				
At beginning of year/period	1,267	1,818	2,682	3,601
Charge for the year/period	551	864	919	530
At end of year/period	1,818	2,682	3,601	4,131
Net book amount:				
At end of year/period	39,616	40,706	43,386	57,836
Less: current portion included in prepayments, deposits and other receivables	(828)	(867)	(946)	(1,278)
	38,788	39,839	42,440	56,558
Net book amount pledged *(notes 25 and 26)*	12,112	11,845	27,944	42,408

The leasehold land is held under a long term lease and is situated in PRC.

16. INTANGIBLE ASSETS

Group

	Computer software
	RMB'000
Cost:	
At 1 January 2007	415
Additions	362
Disposals	(371)
At 31 December 2007 and 1 January 2008	406
Additions	2,522
At 31 December 2008 and 1 January 2009	2,928
Additions	363
At 31 December 2009 and 1 January 2010	3,291
Additions	952
At 30 June 2010	4,243
Accumulated amortisation:	
At 1 January 2007	61
Charge for the year	118
Disposals	(79)
At 31 December 2007 and 1 January 2008	100
Charge for the year	148
At 31 December 2008 and 1 January 2009	248
Charge for the year	324
At 31 December 2009 and 1 January 2010	572
Charge for the period	178
At 30 June 2010	750
Net book amount:	
At 31 December 2007	306
At 31 December 2008	2,680
At 31 December 2009	2,719
At 30 June 2010	3,493

17. INTERESTS IN SUBSIDIARIES

Company

	As at 30 June 2010
	RMB'000
Unlisted shares, at cost	338,800

The amounts due to subsidiaries included in the Company's current liabilities of RMB10,091,000 are unsecured, interest-free and are repayable on demand.

18. DEFERRED TAX

Details of the deferred tax assets/(liabilities) recognised and their movements during the Relevant Periods are set out below:

Deferred tax assets

Group

	Provision for impairment of trade receivable	Provision for impairment of property, plant and equipment	Provision for obsolete inventories	Decelerated tax on pre-operating expense	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	34	1,676	94	48	1,852
Deferred tax credited to profit or loss during the year *(note 11)*	79	–	–	–	79
Gross deferred tax assets at 31 December 2007 and 1 January 2008	113	1,676	94	48	1,931
Deferred tax credited/(charged) to profit or loss during the year *(note 11)*	140	(189)	(94)	(34)	(177)
Gross deferred tax assets at 31 December 2008 and 1 January 2009	253	1,487	–	14	1,754
Deferred tax credited/(charged) to profit or loss during the year *(note 11)*	77	(189)	–	(14)	(126)
Gross deferred tax assets at 31 December 2009 and 1 January 2010	330	1,298	–	–	1,628
Deferred tax charged to profit or loss during the period *(note 11)*	(124)	(94)	–	–	(218)
Gross deferred tax assets at 30 June 2010	206	1,204	–	–	1,410

Deferred tax liabilities

Group

	Reversal of welfare payable	Undistributed profits of the PRC subsidiaries	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2007	467	–	467
Deferred tax charged to profit or loss during the year *(note 11)*	340	–	340
Gross deferred tax liabilities at 31 December 2007 and 1 January 2008	807	–	807
Deferred tax credited to profit or loss during the year *(note 11)*	(512)	–	(512)
Gross deferred tax liabilities at 31 December 2008 and 1 January 2009	295	–	295
Deferred tax charged/(credited) to profit or loss during the year *(note 11)*	(31)	490	459
Gross deferred tax liabilities at 31 December 2009 and 1 January 2010	264	490	754
Deferred tax charged/(credited) to profit or loss during the period *(note 11)*	(47)	1,171	1,124
Gross deferred tax liabilities at 30 June 2010	217	1,661	1,878

Pursuant to the new PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in PRC in respect of earnings generated from 1 January 2008.

19. INVENTORIES

Group

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	29,475	14,339	34,897	71,335
Work in progress	51,784	33,103	80,321	124,796
Finished goods	74,300	51,127	65,441	115,314
	155,559	98,569	180,659	311,445
Less: Provision for obsolete inventories	(755)	–	–	–
	154,804	98,569	180,659	311,445

20. TRADE AND BILLS RECEIVABLES

Group

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	194,008	244,973	365,570	460,792
Bills receivable	661	–	949	1,434
Less: Impairment provision	(6,634)	(6,092)	(6,780)	(5,196)
	188,035	238,881	359,739	457,030
Less: Non-current portion	(3,623)	(9,373)	(19,346)	(14,035)
Current portion	184,412	229,508	340,393	442,995

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

Trade receivables are unsecured and non-interest-bearing. The carrying amounts of trade receivables and bills receivable approximate to their fair values.

As at 30 June 2010, the Group had discounted certain trade and bills receivables amounting to RMB2,568,000 (31 December 2009: RMB969,000; 31 December 2008: RMB815,000; 31 December 2007: RMB2,434,000) to banks with recourse in exchange for cash. The proceeds from transferring the trade and bills receivables of RMB2,568,000 (31 December 2009: RMB969,000; 31 December 2008: RMB815,000; 31 December 2007: RMB2,434,000) were accounted for as collateralised bank advances until the bills were collected or the Group made good of any losses incurred by the banks (note 25).

An aged analysis of the trade and bills receivables as at 31 December 2007, 2008 and 2009, and 30 June 2010 based on the invoice date, net of provisions, is as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Outstanding balances with ages:				
Within 90 days	157,371	189,905	268,565	314,820
91 to 180 days	18,466	38,629	42,245	78,074
181 to 365 days	9,337	7,023	41,019	50,011
1 to 2 years	2,858	2,463	6,830	12,900
Over 2 years	3	861	1,080	1,225
	188,035	238,881	359,739	457,030

Movements in the provision for impairment of trade receivables during each of the Relevant Periods are as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	5,166	6,634	6,092	6,780
Impairment loss recognised	1,518	901	688	145
Amount written off as uncollectible	(14)	(1,443)	–	(746)
Impairment losses reversed	–	–	–	(983)
Exchange differences	(36)	–	–	–
At end of year/period	6,634	6,092	6,780	5,196

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

The carrying amounts of deposits and the trade and bills receivables pledged as security for interest-bearing bank loans granted to the Group are as follows (note 25):

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables	2,434	815	969	2,568

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

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	188,032	238,020	358,659	455,805
Past due over 1 year but not impaired	3	861	1,080	1,225
	188,035	238,881	359,739	457,030

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

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	1,565	1,701	3,602	5,378
Deposits and other receivables	6,199	11,094	24,924	35,501
	7,764	12,795	28,526	40,879

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

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.

22. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

Group

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	22,452	35,718	43,189	78,970
Pledged deposits	8,666	15,119	18,754	53,890
	31,118	50,837	61,943	132,860
Denominated in RMB	26,538	39,561	57,024	111,251
Denominated in US$	4,369	11,044	4,419	21,190
Denominated in HK$	211	207	492	415
Denominated in EUR	–	25	8	4
	31,118	50,837	61,943	132,860

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances and pledged deposits approximate to their fair values. The RMB is not freely convertible into other currencies; however, under PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

23. AMOUNT DUE TO A DIRECTOR

Group

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to a director of the Company	15,199	59,817	58,476	70,156

The amount due to a director is interest-free, unsecured and repayable on demand.

Subsequent to 30 June 2010, the amount due to a director was settled.

24. BALANCES WITH RELATED COMPANIES

		As at 31 December			As at 30 June
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related parties					
Access Bright Group Limited	(iii)	328	1,703	308	14
D&P International Research and Development Corp.	(i)	–	2,204	18,147	17,957
Marshell International Inc.	(i)	–	–	13,552	–
Shanghai Donmin Vehicle Co., Ltd.	(ii)	–	139	–	–
Shanghai Leoch Power Supply Co., Ltd.	(ii)	–	8,500	2,238	4,108
Shenzhen Marshell Green Power Co., Ltd.	(ii)	1,544	4,767	–	–
Shenzhen Marshell Power Supply Co., Ltd.	(ii)	18,310	–	–	–
Shenzhen Marxon Power Supply Co., Ltd.	(ii)	194	–	–	–
Uplus Batteries Private Limited	(ii)	587	2,270	–	–
		20,963	19,583	34,245	22,079

		As at 31 December			As at 30 June
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to related parties					
D&P International Research and Development Corp.	(i)	1,104	–	–	–
Dongguan Leoch Power Supply Co., Ltd.	(ii)	15,544	24,137	18,640	12,984
Leoch Holding Co., Ltd.	(iv)	–	1,235	1,233	1,222
Leoch International (H.K.) Ltd.	(ii)	2,718	8,925	6,151	16,831
Leoch Asia Pacific Pte Ltd.	(i)	–	–	–	4,767
Marshell International Inc.	(i)	466	2,299	–	1,523
Shanghai Leoch Power Supply Co., Ltd.	(ii)	1,630	–	–	–
Shanghai Donmin Vehicle Co., Ltd.	(ii)	19,801	–	13,439	9,237
Shenzhen Marshell Green Power Co., Ltd.	(ii)	1,384	–	10,837	9,897
Shenzhen Marshell Power Supply Co., Ltd.	(ii)	–	4,608	3,000	3,555
Shenzhen Marxon Power Supply Co., Ltd.	(ii)	–	4,113	391	5,111
Uplus Batteries Private Limited	(i)	–	–	692	–
		42,647	45,317	54,383	65,127

The maximum balances outstanding for amounts due from related parties during the Relevant Periods were as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Access Bright Group Limited	328	1,703	308	14
D&P International Research and Development Corp.	–	2,204	18,147	17,957
Marshell International Inc.	–	–	13,552	4,620
Shanghai Donmin Vehicle Co., Ltd.	–	465	–	2,019
Shanghai Leoch Power Supply Co., Ltd.	–	8,500	2,238	4,108
Shenzhen Marshell Green Power Co., Ltd.	7,671	4,767	–	–
Shenzhen Marshell Power Supply Co., Ltd.	24,274	–	–	–
Shenzhen Marxon Power Supply Co., Ltd.	900	–	–	–
Uplus Batteries Private Limited	587	2,270	–	–
	33,760	19,909	34,245	28,718

Notes:

(i) The balances are non-trade in nature, unsecured, interest-free and have no fixed term of repayment. The related companies are controlled by Mr. Dong Li, a director and controlling shareholder of the Company.

(ii) The balances are trade in nature, unsecured, interest-free and have no fixed terms of repayment. The related companies are controlled by Mr. Dong Li, a director and controlling shareholder of the Company.

(iii) The balance is an advance to the related party to finance its operation. The balance is unsecured, interest-free and has no fixed term of repayment. The related company is controlled by Mr. Dong Li, a director and controlling shareholder of the Company.

(iv) The balance is an advance from the related party to finance the Group's operation. The balance is unsecured, interest-free and has no fixed term of repayment. The related company is controlled by Mr. Dong Li, a director and controlling shareholder of the Company.

The nature of the transactions with related parties is disclosed in note 35.

Subsequent to 30 June 2010, the non-trade balances with related parties were settled.

The carrying amounts of the balances due from/to related parties approximate to their fair values.

25. INTEREST-BEARING BANK BORROWINGS

Group

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans, secured	62,721	62,735	172,362	292,749
Collateralised bank advances, secured	2,434	815	969	2,568
Total	65,155	63,550	173,331	295,317
Denominated in RMB	61,000	57,000	166,900	288,568
Denominated in US$	4,155	6,550	6,431	6,749
	65,155	63,550	173,331	295,317
The bank loans bear interest at rates per annum of:	6.12% to 7.52%	4.75% to 7.47%	2.28% to 5.31%	2.28% to 5.84%

The above bank loans were all repayable within one year. The carrying amounts of the Group's bank loans approximate to their fair values.

Notes:

(a) The Group's bank borrowings are secured by the pledge or guarantees of the following:

(i) pledge of the Group's assets:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Prepaid land lease payments	12,112	11,845	27,944	42,408
Buildings	18,675	17,707	86,322	144,000
Plant and machinery	81,569	96,895	93,927	109,431
Trade and bills receivables	2,434	815	969	2,568
Pledged deposits	1,713	–	1,000	–
	116,503	127,262	210,162	298,407

(ii) guarantees executed by one of the directors and a related company to the extent of:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Personal guarantee by Mr. Dong Li*	–	–	5,463	55,462
Joint guarantee by Mr. Dong Li and Ms. Peng Hui*	–	13,669	–	–
Corporate guarantee by a related company Dongguan Leoch Power Supply Co., Ltd.	30,000	–	30,000	30,000
	30,000	13,669	35,463	85,462

* Mr. Dong Li is a director and controlling shareholder of the Company and Ms. Peng Hui is the wife of Mr. Dong Li.

Subsequent to 30 June 2010, the above guarantees were released.

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

(b) As at 31 December 2008, the Group could not meet the relevant debt covenants of bank loans of RMB5,468,000 in relation to the liquidity ratio and the carrying amount of the net assets of the subsidiary which entered into the loan agreement. For the bank loans outstanding as at 31 December 2008, the related debt covenants had been relinquished subsequent to the end of 2008.

26. TRADE AND BILLS PAYABLES

Group

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	69,973	73,149	74,211	135,527
Bills payable	30,278	68,414	88,895	156,951
	100,251	141,563	163,106	292,478

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

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	60,103	52,068	65,671	229,392
91 to 180 days	31,212	81,061	83,888	52,942
181 to 365 days	1,660	1,772	3,243	1,589
1 to 2 years	3,881	879	4,104	2,570
2 to 3 years	2,207	3,315	750	423
Over 3 years	1,188	2,468	5,450	5,562
	100,251	141,563	163,106	292,478

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

As of 30 June 2010, bills payable are secured by:

(i) the pledge of certain of the Group's bank balances amounting to RMB51,099,000 (31 December 2009: RMB15,779,000; 31 December 2008: RMB13,984,000; 31 December 2007: RMB6,494,000);

(ii) prepaid land lease payments amounting to RMB10,584,000 as at 31 December 2009 (30 June 2010: Nil, 31 December 2008: Nil; 31 December 2007: Nil);

(iii) a personal guarantee by Mr. Dong Li, a director and controlling shareholder of the Company, to the extent of RMB65,000,000 (31 December 2009: RMB65,000,000; 31 December 2008: RMB60,000,000; 31 December 2007: Nil), which was replaced by corporate guarantee provided by the Group;

(iv) the pledge of office premises of a related company, Shenzhen Marshell Power Supply Co., Ltd., to the extent of RMB9,093,000 (31 December 2009: RMB9,350,000; 31 December 2008: RMB9,866,000; 31 December 2007: RMB10,383,000), which was replaced by corporate guarantee provided by the Group.

27. OTHER PAYABLES AND ACCRUALS

Group

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Payables for purchase of items of property, plant and equipment	15,573	19,798	20,332	15,580
Payables for purchase of prepaid land lease payment	–	1,801	1,801	–
Withholding tax payable on dividend	–	–	–	7,635
Advances from customers	19,255	14,591	19,406	21,994
Accrued expenses	19,110	14,771	18,251	22,134
Accrued payroll	5,821	9,015	9,621	13,689
Value-added tax payable	6,498	8,624	4,963	6,652
Deferred government grants	28,424	27,798	30,436	30,172
Provision for social insurance and retirement benefits	14,176	17,523	20,807	23,021
Other payables	3,988	4,429	4,933	5,321
	112,845	118,350	130,550	146,198

The carrying amounts of payables for purchase of items of property, plant and equipment, payables for purchase of prepaid land lease payment, accrued expenses, accrued payroll and other payables approximate to their fair values.

28. DIVIDEND PAYABLE

Dividend payable represented the outstanding balance of dividend declared by Jiangsu Leoch to D&P International Research and Development Corp.

Such dividend payable was settled subsequent to 30 June 2010.

29. ORDINARY SHARE CAPITAL

Company

	As at 30 June 2010
	HK$'000
Authorised:	
3,800,000 ordinary shares of HK$0.1 each	380
Issued and fully paid:	
1 ordinary share of HK$0.1 each	–

The Company was incorporated in the Cayman Islands on 27 April 2010 with an initial authorised share capital of HK$380,000 divided into 3,800,000 shares of a par value of HK$0.1 each. On the date of incorporation, 1 ordinary share of HK$0.1 was allotted, issued and credited as fully paid to its shareholder.

Subsequent to the Relevant Periods on 14 October 2010, the authorised share capital was further increased from HK$380,000 divided into 3,800,000 shares to HK$1,000,000,000 divided into 10,000,000,000 shares through the creation of 9,996,200,000 additional shares pursuant to the written resolution of the shareholder of the Company dated 14 October 2010.

30. RESERVES

(a) Group

Merger reserve

The merger reserve of the Group represents the capital contributions by Mr. Dong Li, a director and controlling shareholder of the Company, to the subsidiaries directly held by Mr. Dong Li before the Reorganisation. The additions during the Relevant Periods represent the injection of additional paid-up capital by the equity holders of the subsidiaries to the respective companies, and the acquisition of non-controlling interests in the respective companies by the equity holders of the subsidiaries, which were consolidated from the effective date of acquisition. The deductions during the Relevant Periods represent the distribution of the paid-up capital of the subsidiaries to their then equity holders in exchange for their equity interest in the respective companies.

Statutory reserve fund

In accordance with the Company Law of the PRC and the respective articles of association of the companies registered in the PRC (the "PRC Companies"), each of the PRC Companies was required to allocate 10% of its profits after tax, as determined in accordance with the People's Republic of China accounting rules and regulations ("PRC GAAP"), to the statutory surplus reserve fund until such reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory reserve fund can be capitalised as issued capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside PRC. The reserve is dealt with in accordance with the accounting policy set out in note 3.2.

Share option reserve

Details of the Company's share option schemes and the share options issued under the scheme are included in note 31 to the financial information.

(b) Company

	Shareholder's contribution	Share option reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2010	–	–	–	–
Total comprehensive income for the period	–	–	(7,568)	(7,568)
Contribution from shareholder	337,830	–	–	337,830
Issue of pre-IPO share option	–	970	–	970
	337,830	970	(7,568)	331,232

31. SHARE OPTION SCHEME

Pre-IPO share option scheme

The Company operates a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") for the purpose of providing incentives and rewards to eligible persons who contribute to the success of the Group's operations. Eligible persons of the Pre-IPO Share Option Scheme include the Company's directors and other employees of the Group. The Pre-IPO Share Option Scheme became effective on 1 June 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The principal terms of the Pre-IPO Share Option Scheme, approved by written resolutions of the Company's sole shareholder passed on 25 May 2010, are as follows:

(a) The grantees

The Pre-IPO Share Option Scheme is available to the directors and employees (whether full time or part time) of any member of the Group.

(b) Maximum number of shares to be allotted

The maximum number of the shares in respect of which options may be granted under the Pre-IPO Share Option Scheme shall be 60,000,000 shares representing approximately 4.5% of the total issued share capital of the Company immediately after completion of the global offering, taking no account of the exercise of the over-allotment option.

(c) Subscription price

The subscription price in respect of each share under the Pre-IPO Share Option Scheme is determined by the board of directors at its discretion and set out in the relevant offer letters provided that it should not be less than the nominal value of the shares.

(d) Duration of plan

After the Latest Practicable Date, no further options will be offered or granted under the Pre-IPO Share Option Scheme but in other respects the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme, and options which are granted on or before the Latest Practicable Date may continue to be exercisable in accordance with their terms of issue.

(e) Exercise period and vesting period

Options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

Exercise period	Maximum percentage of options exercisable	Vesting period
Anytime during the 10 years after the second anniversary of the date of offer of the options (the "Offer Date")	25% of the total number of options granted	Up to the date immediately before the second anniversary of the Offer Date
Anytime during the 9 years after the third anniversary of the Offer Date	25% of the total number of options granted	Up to the date immediately before the third anniversary of the Offer Date
Anytime during the 8 years after the fourth anniversary of the Offer Date	25% of the total number of options granted	Up to the date immediately before the fourth anniversary of the Offer Date
Anytime during the 7 years after the fifth anniversary of the Offer Date	25% of the total number of options granted	Up to the date immediately before the fifth anniversary of the Offer Date

(f) Exercise of options

Any exercise of an option granted under the Pre-IPO Share Option Scheme is conditional upon:

(i) the listing committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the shares which may fall to be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme;

(ii) the commencement of dealings in the shares on the Stock Exchange in any event by 30 June 2011;

(iii) any such conditions as may be specified in the offer letter in respect of the grant of options.

Application has been made to the listing committee of the Stock Exchange for the approval of the listing of and permission to deal in the shares which may be issued pursuant to exercise of the options granted under the Pre-IPO Share Option Scheme.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 1 June 2010, an aggregate of 37,680,000 share options under the Pre-IPO Share Option Scheme were issued to two directors of the Company and 144 employees of the Group. The exercise prices and exercise periods of the Pre-IPO Share Options outstanding at the end of the Relevant Periods are as follows:

Number of options	Exercise price per share*	Exercise period
4,030,000	HK$0.2	1 June 2012 to 1 June 2022
4,830,000	HK$0.4	1 June 2012 to 1 June 2022
820,000	HK$0.6	1 June 2012 to 1 June 2022
2,650,000	HK$0.8	1 June 2012 to 1 June 2022
5,320,000	HK$1.0	1 June 2012 to 1 June 2022
2,780,000	HK$1.2	1 June 2012 to 1 June 2022
3,940,000	HK$1.4	1 June 2012 to 1 June 2022
3,030,000	HK$1.6	1 June 2012 to 1 June 2022
4,880,000	HK$1.8	1 June 2012 to 1 June 2022
5,400,000	HK$2.0	1 June 2012 to 1 June 2022
37,680,000		

* The exercise prices of the Pre-IPO Share Options are at discount to the fair value of HK$1.667 per ordinary share of the Company at the date of grant.

The fair value of the Pre-IPO Share Options granted was estimated at RMB36,655,000, of which the Company recognised a share option expense of RMB970,000 during the six-month period ended 30 June 2010.

The fair value of the Pre-IPO Share Options granted during the Relevant Periods was estimated as at the date of grant by Jones Lang LaSalle Sallmanns Limited, an independent firm of professionally qualified valuers, using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Exercise price (HK$ per share)	0.2–2.0
Expected dividend yield (%)	–
Expected volatility (%)	62.47
Risk-free interest rate (%)	3.64
Expected life of share options (years)	10
Weighted average share price at grant date (HK$ per share)	1.667

The expected life of the Pre-IPO Share Options is not necessarily indicative of the exercise patterns that may occur. The expected volatility may not necessarily reflect the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the Relevant Periods, the Company had outstanding Pre-IPO Share Options for the subscription of 37,680,000 shares under the Pre-IPO Share Option Scheme, which represented approximately 3.8% of the issued share capital of the Company as at that date. The exercise in full of the outstanding Pre-IPO Share Options would, under the present capital structure of the Company, result in the issue of 37,680,000 additional ordinary shares of the Company and additional share capital of HK$3,768,000 (equivalent to RMB3,304,000) and share premium account of HK$40,186,000 (equivalent to RMB35,232,000), before related issuance expenses.

32. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

(a) Additions in property, plant and equipment

During the six-month period ended 30 June 2010, the controlling shareholder of the Company contributed plant and machinery of RMB12,959,000 as capital injection in the Group.

During the six-month period ended 30 June 2010, the Group purchased certain equipments of RMB11,371,000 which were settled through the current account with a director, Mr. Dong Li.

(b) Additions in prepaid land lease payments

During the year ended 31 December 2007, the Group was granted government subsidies of RMB17,206,000 in the form of a waiver of land lease payments.

(c) Acquisition of subsidiaries

During the year ended 31 December 2008, the Group acquired 100% equity interest of Shenzhen Leoch from the controlling shareholder, Mr Dong Li, and a non-controlling shareholder at an aggregate consideration of RMB20,000,000, of which RMB600,000 was settled by cash with the non-controlling shareholder and RMB19,400,000 was settled through current account with a director, Mr. Dong Li.

During the year ended 31 December 2009, the Group acquired 100% equity interest of Leoch Power Supply from the controlling shareholder, Mr Dong Li, and a non-controlling shareholder at an aggregate consideration of RMB10,567,000 which was settled through current account with a director, Mr. Dong Li.

During the six-month period ended 30 June 2010, the Group acquired certain subsidiaries pursuant to the Reorganisation at an aggregate consideration of RMB2,571,000 from the controlling shareholder, Mr Dong Li, which was settled through current account with a director, Mr. Dong Li.

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its 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.

At the end of each of the Relevant Periods, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within a year	1,407	273	60	64
In the second to fifth years, inclusive	316	169	214	202
After five years	689	672	755	734
	2,412	1,114	1,029	1,000

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to twenty years.

At the end of each of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within a year	6,502	4,047	3,531	4,939
In the second to fifth years, inclusive	10,943	10,685	10,107	13,739
After five years	36,645	30,961	28,473	26,738
	54,090	45,693	42,111	45,416

Subsequent to 30 June 2010, the Group signed two separate supplemental agreements with lessors to shorten the lease periods of two operating leases. Accordingly, the above minimum lease payments in the second to fifth years was reduced by RMB6,292,000 (31 December 2009: RMB4,917,000, 31 December 2008: RMB2,416,000, 31 December 2007: Nil) and the above minimum lease payments after five years was reduced by RMB26,724,000 (31 December 2009: RMB28,473,000, 31 December 2008: RMB30,961,000, 31 December 2007: RMB36,645,000).

34. COMMITMENTS

In addition to the operating lease commitments detailed above, the Group had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
Land and building	65,346	18,683	937	1,265
Plant and machinery	12,145	13,365	15,098	50,970
	77,491	32,048	16,035	52,235

35. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in the Financial Information, the Group had the following material transactions with related parties:

	Year ended 31 December			Six-month period ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Nature of transactions					
Purchases of raw materials from related companies *(note i)*					
Dongguan Leoch Power Supply Co., Ltd.	139,265	137,996	107,421	44,992	53,492
Shanghai Donmin Vehicle Co., Ltd.	2,440	8,399	6,198	3,611	2,537
Shenzhen Marshell Green Power Co., Ltd.	55,052	35,189	27,896	9,520	23,176
Shenzhen Marshell Power Supply Co., Ltd.	–	2,031	22,206	4,254	3,917
Shenzhen Marxon Power Supply Co., Ltd.	–	3,595	3,364	1,564	1,907
	196,757	187,210	167,085	63,941	85,029
Sales of products to related companies *(note i)*					
Dongguan Leoch Power Supply Co., Ltd.	2,449	1,828	17,367	122	10,973
Leoch International (H.K.) Ltd.	9,836	13,948	28,447	10,185	28,385
Shanghai Donmin Vehicle Co., Ltd.	2,540	3,388	5,507	410	1,972
Shanghai Leoch Power Supply Co., Ltd.	3,425	18,311	10,265	4,694	9,349
Shenzhen Marshell Green Power Co., Ltd.	6,778	6,585	8,627	2,009	4,155
Shenzhen Marshell Power Supply Co., Ltd.	127,831	26,772	302	302	346
Shenzhen Marxon Power Supply Co., Ltd.	29	4,008	941	625	6,522
Uplus Batteries Private Limited	14,260	12,337	202	–	–
	167,148	87,177	71,658	18,347	61,702
Lease of office premises from a related company and a director					
Shenzhen Marshell Power Supply Co., Ltd. *(note ii)*	665	665	674	332	345
Eastern International LLC *(note viii)*	3,187	2,736	2,458	1,230	1,221
Mr. Dong Li *(note iii)*	–	–	–	–	83
	3,852	3,401	3,132	1,562	1,649
Lease of office premises to a related company					
Marshell International Inc *(note iv)*	1,737	367	–	–	–
Lease of a manufacturing plant from a related company *(note v)*					
Dongguan Leoch Power Supply Co., Ltd.	168	168	168	84	84
Lease of land to a related company *(note vi)*					
Dongguan Leoch Power Supply Co., Ltd.	–	–	–	–	–
Cash receipts on behalf of the Group by related companies *(note vii)*					
Shenzhen Marshell Power Supply Co., Ltd.	909	1,154	40	–	–
Shenzhen Marshell Green Power Co., Ltd.	70	–	12	–	–
D&P International Research and Development Corp.	62,544	46,278	36,369	14,840	17,572
Marshell International Inc	235,760	266,393	195,807	91,084	195,205
	299,283	313,825	232,228	105,924	212,777
Cash receipts by the Group on behalf of a related company					
Shenzhen Marshell Power Supply Co., Ltd.	3,970	906	–	–	–

Notes:

(i) The sales of products to and purchases of raw materials from related companies were made at prices mutually agreed between the parties.

(ii) Rental expenses were paid in relation to the lease of office premises of the Group to Shenzhen Marshell Power Supply Co., Ltd. based on monthly rental of RMB55,394 for the period from 1 January 2007 to 31 August 2012.

(iii) Rental expenses were paid in relation to the lease of office premises of the Group to Mr. Dong Li at an annual rent of RMB72,000 for the period from 1 January 2010 to 31 December 2015 and at an annual rent of SG$39,000 for the period from 10 March 2010 to 10 March 2013.

(iv) The rental income was received in relation to a sub-lease of office premise to Marshell International Inc based on a monthly rental of US$23,300 for the first 3 months in 2007 and US$17,666 from 1 April 2007 to 31 March 2008. The original lease term was up to 31 May 2008 and it was early terminated in March 2008.

(v) Rental expenses were paid in relation to the lease of a manufacturing plant from Dongguan Leoch Power Supply Co., Ltd. at an annual rental of RMB168,000. On 30 June 2010, the Group entered into an agreement with Dongguan Leoch Power Supply Co., Ltd. to purchase this manufacturing plant at a future date when the conditions in the agreement are met. The consideration will be determined based on a third party valuation report at the future transfer date. The Group was granted by Dongguan Leoch Power Supply Co., Ltd. a license to use the manufacturing plant at nil consideration between the date of the agreement and the actual transfer date in future.

(vi) A portion of land located in Dongguan was leased to Dongguan Leoch Power Supply Co., Ltd. during the Relevant Periods free of charge.

(vii) The cash receipts on behalf of the Group by related companies represented settlement of trade receivables from customers. The directors confirm that the related parties will not receive cash on behalf of the Group after the Listing.

(viii) Rental expenses were paid in relation to the lease of office premise of the Group to Eastern International LLC based on a monthly rental of US$35,000 for the period from 1 January 2007 to 31 July 2008 and on a monthly rental of US$30,000 for the period from 1 August 2008 to 31 December 2012.

Subsequent to 30 June 2010, Mr. Dong Li, a director and controlling shareholder of the Company, provided certain taxation and staff welfare related indemnity.

The Directors are of the view that all related party transactions set out above were entered into in the ordinary course of business of the Group.

(b) Outstanding balances with related parties:

Details of the Group's balances with its related parties at each of the end of the Relevant Periods together with maximum outstanding balances due from related parties during the particular year are disclosed in note 24 to the Financial Information.

(c) Compensation of key management personnel of the Group:

	Year ended 31 December			Six-month period ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Basic salaries and other benefits	1,050	2,613	3,039	1,286	1,945
Equity-settled share option expenses	–	–	–	–	266
Retirement benefit scheme contributions	23	23	20	10	15
	1,073	2,636	3,059	1,296	2,226

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, amounts due to a director and related companies, trade and bills payables and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade and bills receivables, amounts due from related parties as well as other receivables, which arise directly from its operations. The particular recognition methods adopted are disclosed in the accounting policy associated with each item.

It is, and has been during the Relevant Periods, the Group's policy that no trading in financial instruments should be undertaken.

The main risks arising from the Group's financial instruments are market risk, interest rate risk, foreign currency risk, credit risk, significant concentration of credit risk and liquidity risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes. The Board reviews and agrees policies for managing each of the risks which are summarised below:

Market risk

The Group's production process requires a significant amount of electrolytic lead, ABS plastics, sulphuric acid and other materials, and the Group's success depends significantly on its ability to secure sufficient and constant supply of principal raw materials for its production at acceptable price levels. Electrolytic lead is the most significant raw material used in production. Average purchase price of electrolytic lead fluctuated significantly in the Relevant Periods. The Group does not have long-term, fixed-cost supply contracts of raw materials with its suppliers. Since many of the Group's sales 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.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its interest-bearing bank borrowings. The Group does not use derivative financial instruments to hedge its interest rate risk. Since the Group's bank loans bear fixed interest and are due within one year, its exposure to the risk of changes in market interest rates is low.

Foreign currency risk

The Group operates in Hong Kong, the United States and PRC. For companies in PRC, their principal activities are transacted in RMB. For other companies outside of PRC, their principal activities are transacted in US$. The Group does not enter into any hedging transactions to manage the potential fluctuation in foreign currency as the directors consider that the Group has no significant foreign currency risk exposure.

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's 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, the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and bank balances and pledged deposits, deposits and other receivables and amounts due from related companies, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Significant concentration of credit risk

Concentration of credit risk exists when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group had certain concentration of credit risk with the top five customers accounting for 53%, 47%, 64% and 51% of the Group's total trade receivable balances as at 31 December 2007, 2008 and 2009, and 30 June 2010, respectively. Sales to these customers accounted for 51%, 48%, 50% and 41% of the Group's total sales for the years ended 31 December 2007, 2008 and 2009 and the period ended 30 June 2010, respectively.

Liquidity risk

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

The Group's 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.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

Group

31 December 2007	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	1,722	15,524	50,539	–	–	67,785
Trade and bills payables	–	70,530	29,721	–	–	100,251
Other payables and accruals	–	44,492	–	–	–	44,492
Amount due to a director	15,199	–	–	–	–	15,199
Amounts due to related companies	42,647	–	–	–	–	42,647
	59,568	130,546	80,260	–	–	270,374

31 December 2008	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	5,468	19,299	40,397	–	–	65,164
Trade and bills payables	–	73,651	67,912	–	–	141,563
Other payables and accruals	–	49,814	–	–	–	49,814
Amount due to a director	59,817	–	–	–	–	59,817
Amounts due to related companies	45,317	–	–	–	–	45,317
	110,602	142,764	108,309	–	–	361,675

31 December 2009	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	5,462	84,565	86,741	–	–	176,768
Trade and bills payables	–	84,211	78,895	–	–	163,106
Other payables and accruals	–	54,938	–	–	–	54,938
Amount due to a director	58,476	–	–	–	–	58,476
Amounts due to related companies	54,383	–	–	–	–	54,383
	118,321	223,714	165,636	–	–	507,671

31 December 2010	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	5,571	44,250	255,400	–	–	305,221
Trade and bills payables	–	229,392	63,086	–	–	292,478
Dividend payable	68,710	–	–	–	–	68,710
Other payables and accruals	–	56,724	–	–	–	56,724
Amounts due to a director	70,156	–	–	–	–	70,156
Amounts due to related companies	65,127	–	–	–	–	65,127
	209,564	330,366	318,486	–	–	858,416

Company

The Company's financial liabilities which comprise amounts due to a director and subsidiaries based on the contractual payables were repayable on demand as at 30 June 2010.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is total debts divided by total assets. The Group's total debts include interest-bearing bank borrowings, amount due to a director and amounts due to related companies (non-trade).

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	65,155	63,550	173,331	295,317
Amount due to a director	15,199	59,817	58,476	70,156
Amounts due to related companies (non-trade)	1,570	3,534	1,925	7,512
Total debts	81,924	126,901	233,732	372,985
Total assets	655,362	793,564	1,091,192	1,454,231
Gearing ratio	12.5%	16.0%	21.4%	25.6%

37. FINANCIAL INSTRUMENT BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the reporting date are as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Loans and receivables				
Long term portion of trade receivables	3,623	9,373	19,346	14,035
Trade and bills receivables	184,412	229,508	340,393	442,995
Deposits and other receivables	6,199	11,094	24,924	35,501
Amounts due from related companies	20,963	19,583	34,245	22,079
Pledged deposits	8,666	15,119	18,754	53,890
Cash and bank balances	22,452	35,718	43,189	78,970
	246,315	320,395	480,851	647,470

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities at amortised cost				
Trade and bills payables	100,251	141,563	163,106	292,478
Dividend payable	–	–	–	68,710
Other payables and accruals	44,492	49,814	54,938	56,724
Interest-bearing bank borrowings	65,155	63,550	173,331	295,317
Amount due to a director	15,199	59,817	58,476	70,156
Amounts due to related companies	42,647	45,317	54,383	65,127
	267,744	360,061	504,234	848,512

III. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 30 June 2010, the Company granted share options to one additional grantee. On 14 October 2010, Liu Shuen Kong received 1,500,000 share options under the Pre-IPO Share Option Scheme in note 31 to the Financial Information. The exercise price of each share option is HK$5.0. Options granted to him can only be exercised in the following manner:

Exercise period	Maximum percentage of options exercisable	Vesting period
Anytime during the 10 years after the first anniversary of the Offer Date	1/3 of the total number of options granted	Up to the date immediately before the first anniversary of the Offer Date
Anytime during the 9 years after the second anniversary of the Offer Date	1/3 of the total number of options granted	Up to the date immediately before the second anniversary of the Offer Date
Anytime during the 8 years after the third anniversary of the Offer Date	1/3 of the total number of options granted	Up to the date immediately before the third anniversary of the Offer Date

On 23 July 2010 and 24 August 2010, Leoch Power Supply made additional paid-up capital of US$1,000,000 and US$1,478,962 to Zhaoqing Leoch and Jiangsu Leoch, respectively.

On 26 October 2010, Anhui Leoch Power, a wholly owned subsidiary of the Company, was incorporated. The registered capital of Anhui Leoch Power is HK$150,000,000. According to the Company Law of the PRC, 20% or more of the registered capital will be paid up within two months since incorporation. All registered capital should be injected within two years since incorporation.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 30 June 2010.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong