

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Shares are summarised in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading motive battery producer in China's personal transportation device market. Our motive battery products are sold under our own brand name "TIANNENG (天能)" and are predominantly used in electric bikes for sale and distribution in China. Electric bike in China is increasingly popular. Among all types of battery for electric bikes, the lead-acid motive battery is the preferred choice for electric bike manufacturers in China because of its cost efficiency. In light of the market demand in China, our motive battery products are focusing on lead-acid motive battery products for the electric bike market. We also produce lead-acid motive battery products for other types of personal transportation device, such as electric motorcycles and electric cars.

According to the Frost & Sullivan Report, for the financial year ended 31 December 2005, our sales of lead-acid motive battery products in China represented approximately 12.44 per cent. of the total market size (in terms of sales revenue) of the lead-acid motive battery products for electric bikes in China. The report also highlighted that our market share was almost two times the market share of the second largest player.

With our leading position in the motive battery product market in China and our product research and development capability, we are well positioned to capture additional business opportunities in China's personal transportation device market. In light of the clear trend on developing alternative transportation devices, aiming to reduce the reliance on oil and gas and produce less emission, we intend to explore the motive battery market for electric-powered motorcycles and electric cars.

Leveraging our experience and expertise in producing lead-acid motive battery products for electric bikes, our product mix has been expanded to include Ni-MH battery products and complementary electrical equipment, such as chargers, controllers and motors, for different types of personal transportation device.

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Our lead-acid motive battery products are distributed through our sales representatives and exclusive distributors whom are strategically located in 29 provinces, autonomous regions and directly-administered municipalities in China. We sold our motive battery products principally to manufacturers of electric bikes during the Track Record Period. With the growing retail market for replacement of battery products, i.e. our secondary market, we have also strengthened our efforts in the sales of battery products to exclusive distributors.

For each of the three financial years ended 31 December 2006, our turnover amounted to approximately RMB370.96 million, RMB521.69 million and RMB1,019.56 million, respectively, and our profit after taxation amounted to approximately RMB55.35 million, RMB70.10 million and RMB147.66 million, respectively. The CAGR of our turnover and profit after taxation over the period from 2004 to 2006 were approximately 65.78 per cent. and 63.33 per cent., respectively.

COMPARATIVE ADVANTAGES

We have the following comparative advantages:—

- We have strong brand recognition and we are the market leader in the lead-acid motive battery industry in China
- We have our technological know-how that enables us to produce high-quality motive battery products at competitive prices
- We have a strong distribution and servicing network satisfying the demands in both the primary and secondary markets
- We have strong product research and development capability
- We have a strong and experienced management team

GROWTH STRATEGIES

Continue to focus on the electric bike motive battery market in China through expansion of our production capacity, developing new products and exploiting the secondary market

According to the Frost & Sullivan Report, the electric bike market in China is growing. The increasing demand for electric bikes will increase the demand for motive battery products. We will continue to develop new motive battery products with improved performance in order to meet the anticipated increasing demand and to maintain our leading position in China electric bike motive battery market.

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The electric bike motive battery market in China may be categorised into primary market and secondary market comprising manufacturers of electric bikes and dealers of motive batteries for the replacement market, respectively. The Frost & Sullivan Report estimates that the demand for motive battery products in the secondary market is expected to grow at a faster pace than the primary market. We will continue to expand our existing distribution network in the secondary market.

Develop and provide new battery products for various electric transportation devices

Electric transportation devices reduce reliance on oil and gas and produce less emission and noise than internal combustion vehicles. Hence, electric transportation devices (including electric motorcycles and electric cars) are expected to be increasingly used in China and other countries. Our Directors believe that the market for different types of motive battery for different types of electric transportation device will grow significantly.

We have started production and sale of motive battery products for electric motorcycles and electric cars, and will develop battery products for different types of electric transportation device in order to capture emerging business opportunities. We therefore expect to be well positioned to provide motive battery products for a wide range of electric transportation devices.

Enhance our technological advantage through investments in research and development facilities

The electric bike market in China is growing and the future development of electric transportation device market will increase the demand for motive battery products. High-performance and environmental-friendly motive battery products will be the mainstream battery products. We will continue to focus on product research and development, and will recruit experienced researchers and technical personnel and make investment in advanced facilities so as to strengthen our research and development capability.

PROPOSED USE OF NET PROCEEDS FROM THE NEW ISSUE

The electric bike motive battery market in China is growing. Therefore, we intend to implement a number of initiatives, including expansion of our production facilities for our existing products; expansion of our distribution and servicing network and enhancement of our research and development capacity in relation to new battery products.

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Assuming the final Offer Price is HK\$1.70 (the mid-point of the indicative Offer Price range between HK\$1.48 to HK\$1.92 per Offer Share) and that the Over-allocation Option is not exercised, the net proceeds from the New Issue are estimated to be approximately HK\$391.7 million. We presently intend to apply such net proceeds as below stated:—

- approximately HK\$197.0 million for the expansion and technical improvement of the production plants which includes:—
 - approximately HK\$6.3 million for construction of a new production plant in Tianneng Jiangsu's production complex in Shuyang County, Jiangsu Province;
 - approximately HK\$22.3 million for purchase of new production equipment for the new production plant of Tianneng Jiangsu's production complex in Shuyang County, Jiangsu Province;
 - approximately HK\$11.1 million for technical improvement of the production facilities of Tianneng Battery and Tianneng Power in Changxing County, Zhejiang Province;
 - approximately HK\$11.1 million for technical improvement of the facilities of Tianneng Battery in Changxing County, Zhejiang Province for the production of chargers, controllers and motors;
 - approximately HK\$57.5 million for construction of a new production plant in Tianneng Wuhu's production complex in Wuhu City, Anhui Province; and
 - approximately HK\$88.7 million for purchase of new production equipment for the new production plant of Tianneng Wuhu's production complex in Wuhu City, Anhui Province;
- approximately HK\$41.8 million for research and development of new battery products which includes:—
 - approximately HK\$3.2 million for research and development of new environmentally friendly metal alloy;
 - approximately HK\$3.2 million for research and development of new motive battery products for electric motorcycles;
 - approximately HK\$17.8 million for research and development of new motive battery products for electric cars;
 - approximately HK\$8.8 million for research and development of Ni-MH battery products; and
 - approximately HK\$8.8 million for research and development of Li-ion battery products;

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- approximately HK\$23.0 million for enhancement of our sales and distribution network and for marketing and promotion purposes which includes:—
 - approximately HK\$2.2 million for enhancement of our sales and distribution network through the continual recruitment of more independent sales representatives and exclusive distributors to expand our sales forces and geographical coverage in China; and
 - approximately HK\$20.8 million for marketing and promotion purposes, of which approximately HK\$10.6 million will be applied to launch various forms of advertisements, approximately HK\$3.9 million will be applied for participation in exhibitions and trade fairs, approximately HK\$2.0 million will be applied for specific promotion events and the remaining for promotion materials, new product launch promotion campaigns and other related expenses;
- approximately HK\$100 million for repayment of bank loans incurred during the period from June 2006 to March 2007 the proceeds of which were used for construction of the new production plant in Tianneng Jiangsu's production complex and purchase of new production equipments for this new production plant (these bank loans have maturities ranging from June 2007 to December 2009 and with interest rates from 5.81 per cent. to 7.56 per cent. per annum); and
- approximately HK\$29.9 million as general working capital.

If the Over-allocation Option is exercised in full and assuming the final Offer Price is HK\$1.70 (the mid-point of the indicative Offer Price range between HK\$1.48 to HK\$1.92 per Offer Share), our Company will receive additional net proceeds of approximately HK\$25 million, and such additional proceeds will be applied to the above usages in proportion to the original proportion.

In the event that the final Offer Price is higher than the mid-point of the indicative range of the Offer Price and/or the Over-allocation Option is exercised, the additional net proceeds from the New Issue will be applied to the above applications on a pro rata basis. In the event that the final Offer Price is less than the mid-point of the indicative range of the Offer Price, we will use our internal funds to meet the remaining funding requirements.

Pending the use of net proceeds from the New Issue for the purposes described above, and to the extent permitted under relevant PRC and Hong Kong law, we intend to deposit the net proceeds from the New Issue in short-term interest-bearing deposit with licensed banks and/or financial institutions in Hong Kong.

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FINANCIAL INFORMATION

The following is a summary of our consolidated results for the Track Record Period extracted from the accountants' report, the text of which is set forth in appendix I to this prospectus. The results were prepared on the basis of the presentation as set forth in the accountants' report.

	<i>Notes</i>	Financial year ended 31 December		
		2004	2005	2006
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	(1)	370,964	521,691	1,019,559
Cost of sales		(241,020)	(359,468)	(747,345)
Gross profit		129,944	162,223	272,214
Other income		23,965	10,444	6,071
Distribution costs		(28,310)	(35,679)	(58,016)
Administrative expenses		(14,004)	(30,755)	(55,293)
Change in fair value of redeemable convertible notes carried at fair value through profit or loss		(33,844)	(20,572)	1,194
Other operating expenses		(1,032)	(5,096)	(1,409)
Finance costs		(4,634)	(8,191)	(11,243)
Gain on disposal of a subsidiary		610	–	–
Profit before taxation		72,695	72,374	153,518
Taxation		(17,342)	(2,276)	(5,857)
Profit for the year		<u>55,353</u>	<u>70,098</u>	<u>147,661</u>
Profit attributable to:				
Equity holders of the Company		49,934	68,683	147,661
Minority interests		5,419	1,415	–
		<u>55,353</u>	<u>70,098</u>	<u>147,661</u>
Dividends paid		<u>14,183</u>	<u>–</u>	<u>–</u>
Earnings per Share	(2)			
– Basic		<u>RMB0.08</u>	<u>RMB0.11</u>	<u>RMB0.22</u>
– Diluted		<u>N/A</u>	<u>N/A</u>	<u>RMB0.20</u>

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Notes:—

1. Turnover

The following is an analysis of the turnover by major product segments:—

	Financial year ended 31 December					
	2004		2005		2006	
	<i>RMB'000</i>	<i>per cent.</i>	<i>RMB'000</i>	<i>per cent.</i>	<i>RMB'000</i>	<i>per cent.</i>
Lead-acid motive battery products	333,929	90.01	461,591	88.48	898,604	88.14
Chargers, controllers and motors	24,876	6.71	21,467	4.11	51,256	5.03
Others ^(Note)	12,159	3.28	38,633	7.41	69,699	6.83
Total	370,964	100.00	521,691	100.00	1,019,559	100.00

Note:—

Others include Ni-MH battery products, charging testers, dischargers, adaptors, transportation fee and income from disposal of waste.

2. Earnings per Share

The calculations of the basic earnings per Share are based on the profit attributable to equity holders of our Company for each of the three financial years ended 31 December 2006 of approximately RMB49,934,000, RMB68,683,000, and RMB147,661,000, respectively, and the weighted average number of 630,423,574, 630,423,574 and 664,167,058 Shares during the respective years, assuming the Capitalisation Issue occurred on the first day of the relevant periods as described in the section headed "Statutory and general information" in appendix VI to this prospectus.

No diluted earnings per Share has been presented for the financial year ended 31 December 2004 and 2005 as the inclusion of the effect of the Shares to be issued would increase the profit per Share for the financial year ended 31 December 2004 and 2005. The calculation of the diluted earnings per Share for the financial year ended 31 December 2006 is based on the profit attributable to equity holders of our Company of RMB147,661,000 after adjusting for the change in fair value of Redeemable Convertible Notes of RMB1,194,000, resulting in adjusted earnings of RMB146,467,000 and the weighted average number of 750,000,000 Shares for the financial year ended 31 December 2006.

Additional information on our results during the Track Record Period is set forth in the section headed "Financial information" in this prospectus.

SHARE OFFER STATISTICS

	Based on an Offer Price of HK\$1.48	Based on an Offer Price of HK\$1.92
Market capitalisation of the Shares ^(Note 1)	HK\$1,480 million	HK\$1,920 million
Price/earnings multiple		
— weighted average ^(Note 2)	6.73 times	8.73 times
— on a pro forma basis ^(Note 3)	10.0 times	13.0 times
Unaudited pro forma adjusted net tangible asset value per Share ^(Note 4)	HK\$0.79	HK\$0.90

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Notes:—

1. The calculation of the market capitalisation of the Shares is based on 1,000,000,000 Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of the Over-allocation Option and any option which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by us pursuant to the Issuing Mandate and the Repurchase Mandate.
2. The calculation of price/earnings multiple on a weighted average basis is based on the earnings per Share on a weighted average basis for the financial year ended 31 December 2006 of approximately HK\$0.22 at the respective Offer Prices.
3. The calculation of prospective price/earnings multiple on a pro forma basis is based on the earnings attributable to our equity holders for the financial year ended 31 December 2006 of approximately HK\$147.66 million at the respective Offer Prices assuming that our Company had been listed since 1 January 2006 and a total of 1,000,000,000 Shares were issued and outstanding during the entire year. This calculation assumes that the Over-allocation Option is not exercised and that all New Shares were issued on 1 January 2006.
4. The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after the adjustments set forth in appendix II to this prospectus and on the basis of 1,000,000,000 Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of the Over-allocation Option and any option which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by us pursuant to the Issuing Mandate and the Repurchase Mandate.

RISK FACTORS

There are certain risks relating to our operation and an investment in the Offer Shares, which can be categorised into (i) risks relating to our business; (ii) risks relating to the industry in which we operate; (iii) risks relating to China; (iv) risks relating to the Share Offer and (v) risks associated with forward-looking statements, information quoted from official governmental publication and other information not contained in this prospectus. These risk factors are summarised as follows:—

Risks relating to our business

- We rely heavily on the sales of lead-acid motive battery products during the Track Record Period and will continue to rely on the same in the near future
- Our performance is heavily relying on the demand for electric bikes in China
- Our business could be interrupted and we may suffer significant economic loss due to unexpected events including those happened during the Track Record Period
- We may be subject to civil claims or administrative sanctions for our past, present and future operations and may not be able to meet the increasingly stringent environment protection requirements imposed by the PRC government
- Our sales are dominated by sales in China
- We have no long-term sales contracts with our major customers

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- Our performance in the future is significantly relying on our ability to develop and launch our new products
- We rely on our major suppliers
- Fluctuations in the prices of raw materials, such as electrolytic lead, could adversely affect our profitability
- We face potential product liability claims
- We rely on our production know-how in relation to the development and production of lead-acid motive battery products and have not applied for any patent in respect of such production know-how
- We rely on our key senior management team
- We may not have sufficient insurance coverage on the risks involved in our business operations
- The tax benefits currently enjoyed by us may not continue in the future
- Our business could be adversely affected by any dispute on production know-how or related intellectual property rights
- A possible recurrence of SARS or avian influenza outbreak or another widespread public health crisis could adversely affect our business and operating results
- Dividends paid by us during the Track Record Period should not be treated as an indication of our future dividend policy

Risks relating to the industry in which we operate

- Lead-acid motive battery products may be substituted by other battery products
- Competition in motive battery industry in China is keen
- We may be affected by changes in the policies adopted by the PRC government in relation to the electric bike industry and the use of electric bikes

Risks relating to China

- We may be affected by changes in the economic and political environment in China
- China's legal system is different from the common law system and has inherent uncertainties that could limit the legal protections available to us

Risks relating to the Share Offer

- We will continue to be controlled by the Controlling Shareholders, whose interests may differ from those of other Shareholders

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- There has been no prior public market for the Shares and liquidity may be low
- Our Share price may be volatile
- Issuance of additional Shares will have dilution effect
- Future issues or sales of securities by us or our Shareholders may decrease the value of the Shares

Risks associated with forward-looking statements, information quoted from official governmental publication and other information not contained in this prospectus

- Prospective investors are cautioned not to place undue reliance on any forward-looking statements contained in this prospectus
- The industry information from official governmental publication contained in this prospectus should not be unduly relied upon
- Prospective investors are cautioned not to place any reliance on any information not prepared or approved by us
- Prospective investors are cautioned not to place any reliance on the information in any press article on our environmental track record which is inconsistent with the information contained in this prospectus

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

Environmental protection arrangements

We are subject to the national and local environmental laws and regulations in China on environmental matters, such as the discharge of waste water, exhaust fumes and solid waste. The main pollutants generated by us are lead dust or particles and waste water which contain mainly lead and sulphuric acid.

Pursuant to the applicable environmental laws and regulations in China, we are obliged to install environmental protection equipment to ensure effective removal of lead dust and particles generated during our production process. We have installed such equipment at all our five production plants.

Our production process generates waste water containing lead and sulphuric acid. Such waste water will be neutralised and treated to remove lead contents in accordance with the applicable environmental standards in China. We have installed such waste water treatment facilities at all our five production plants. Waste water generated at our production process, after the required treatment, will either be collected and reused for our production requirements or discharged to the municipal waste water collection systems for further treatment and discharge to the environment.

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We are also required by the laws and regulations governing health and safety at work in China to provide our employees exposed to lead dust or particles with protective clothing and accessories, such as gloves, goggles and masks. We also arrange all our employees engaging in the lead-related production process to receive medical checks at least once a year. The medical checks include measurement of blood lead level.

Despite the implementation of the above protective measures, it may not be possible to eliminate the entire risk of exposing to lead dust or particles. Certain employees have been found to have medium elevated blood lead level during the routine medical checks arranged by us. According to the result on the medical checks attended by our employees issued by Changxing Municipal Diseases Precaution and Control Center, during each of the three financial years ended 31 December 2006, we had 29, 39 and nine employees, respectively, representing approximately 2.4 per cent., 3.2 per cent. and 0.72 per cent. of those employees taking the measurement of blood lead level at that time, found to have medium elevated blood lead level. We would arrange medication to those employees who were found with elevated blood lead levels. All of the aforesaid employees who were found with elevated lead blood levels were cured so that the blood lead level was reduced to the normal level after the medication and to the best knowledge of the Directors, the aforesaid employees have not suffered other illness caused by the elevated blood lead level.

Tianneng Battery and Tianneng Power obtained ISO14001:2004 certification for the production of lead acid battery products in May 2006 and will endeavour to maintain such certification. The local government environmental protection bureau, which are under The State Environmental Protection Administration in China and are commissioned by us, carry out inspections at our production plants on a regular basis. According to their latest inspections conducted in May 2007, Changxing Environmental Protection Bureau, Shuyang Environmental Protection Bureau and Wuhu Environmental Protection Bureau issued statements confirming (and without giving any recommendation) that, as of the date such statements were issued, our subsidiaries in China were in compliance with the requirements on environmental protection. Based on the advice from our legal advisers as to the PRC laws, all our production facilities have been assessed for compliance with the applicable environmental laws and regulations in China and that our existing environmental protection systems and facilities are adequate to comply with the applicable environmental laws and regulations in China.

As at 30 November 2006, we had a team of 59 staff who were selected from our various divisions including production division, administration division, etc. stationed at our production plants and was, in addition to their normal duties, assigned with environmental protection and related works including (i) the operation, inspection, monitoring and maintenance of the machines and equipment for environmental protections such as ventilation systems and water treatment facilities; (ii) monitoring the continuous compliance with the Environmental Management System Certificate ISO14001 and (iii) liaising with the local environmental bureau. This environmental team ensured the daily operation and proper functioning of all the environmental protection equipment. The team also maintained daily records on the proper functioning and operation of all the environmental protection equipment and facilities and if there was any malfunction, the team members would be required to report to the senior management of the relevant production plant with a written report explaining the situation. A copy of the report would

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also be made to other team members who would arrange for a prompt repair or replacement of the relevant equipment. Following completion of the necessary repairs and replacements, the maintenance report would then be updated and the equipment would be thoroughly checked before resuming operations.

As at the Latest Practicable Date, in order to enhance the quality of our environmental compliance and monitoring works, we established a dedicated team comprising 44 staff, the members of which were selected from the former environmental team, to be the central task force and is responsible for environmental compliance and monitoring works. The team is led by Mr. CHEN Minru, our executive Director, and has performed the tasks originally undertaken by the former environmental team. All the team members of this dedicated environmental team are working on a full-time basis with clear division of works and responsibilities. A monthly reporting system is in place to report all environmental matters to our Board on a monthly basis.

Previous environmental incidents and related reports

Our Directors confirm that the following sets forth all the material information relating to the relevant incidents and that there is no omission of any material information which may render the following description not correct or misleading in any material aspect.

In April and May 2005, village residents in Meishan Town, Changxing County alleged that the elevated blood lead levels of their children were due to the lead waste discharged during the production process of Tianneng Battery.

During the period between 27 June and 30 June 2005, various demonstrations were held outside the production plant of Tianneng Battery in Meishan Town which interrupted the production activities of Tianneng Battery. On 29 July 2005, the water supply facilities of the production plant of Tianneng Battery were damaged by the villagers.

During the period between 14 August and 20 August 2005, demonstrations were held outside the production plant of Tianneng Battery in Meishan Town which resulted in suspension of the production activities. On 20 August 2005, an office building and a warehouse in the production plant of Tianneng Battery were also damaged. Three persons participating the demonstrations were prosecuted by the People's Court in Changxing County for the offence of disturbing social orders.

According to the results of the blood test of 1,888 children from nine nearby villages provided by the People's Mediation Commission of Meishan Town, 801 children had blood lead level below 10µg/dL, 572 children had blood lead level of or above 10µg/dL but below 15µg/dL, 294 children had blood lead level of or above 15µg/dL but below 20µg/dL, 137 children had blood lead level of or above 20µg/dL but below 25µg/dL and 84 children had blood lead level of or above 25µg/dL. There was no official blood lead level of concern for children in China in 2005 until February 2006. Under the guidance 《兒童高鉛血症和鉛中毒分級處理原則》 issued by the Ministry of Health of the PRC Government on 9 February 2006, blood lead level ranging from 100 to 199 µg/dL (i.e. 10 to 19.9 µg/dL) as found in two consecutive measurements is considered to be elevated

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blood lead level, blood lead level ranging from 200 to 249 $\mu\text{g}/\text{dL}$ (i.e. 20 to 24.9 $\mu\text{g}/\text{dL}$) as found in two consecutive measurements is considered to be lead poisoning of low degree, blood lead level ranging from 250 to 449 $\mu\text{g}/\text{dL}$ (i.e. 25 to 44.9 $\mu\text{g}/\text{dL}$) as found in two consecutive measurements is considered to be lead poisoning of medium degree, and blood lead level of more than 450 $\mu\text{g}/\text{dL}$ (i.e. 45 $\mu\text{g}/\text{dL}$) as found in two consecutive measurements is considered to be lead poisoning of high degree.

Through the mediation held by the People's Mediation Commission of Meishan Town, Tianneng Battery initiated discussions with the villagers for the purpose of resolving the incidents amicably. As a result of the mediation, the Compromise Agreements were entered into pursuant to which, Tianneng Battery agreed to provide a subsidy to the children with blood lead level over 10 $\mu\text{g}/\text{dL}$ (which was the then blood lead level of concern set by the Centers for Disease Control and Prevention of the Department of Health and Human Services of the U.S. Government, and was referred to by us as there was no official blood lead level of concern for children in China in 2005) on a voluntary basis with an aggregate amount of RMB1 million. The Villagers' Commissions of Jianxia Village, Xinan Village and Qiuwu Village in Meishan Town agreed to procure the resumption of the normal production activities of Tianneng Battery. The subsidy of RMB1 million (which was a voluntary payment and not a penalty) was then paid to the People's Mediation Commission of Meishan Town for their distribution to the related children.

In November 2005, the Environmental Science Research & Design Institute of Zhejiang Province (the "**Zhejiang Research Institute**"), an Independent Third Party as appointed by the municipal government of Meishan Town for the purpose of addressing the concern of the villagers in Meishan Town, issued an investigation and consultation report (the "**first investigation report**") on the environmental condition of certain region of Meishan Town and the investigation on 12 enterprises (of which Tianneng Battery was among one) engaged in assembling of rechargeable batteries within the region. Zhejiang Research Institute is an integrated environmental research and design institute in Zhejiang Province. Zhejiang Research Institute was awarded Qualification Certificate of Engineering Consultation (《工程諮詢資格證書》) and is principally engaged in environmental investigation and consultation, environmental planning, environmental facilities design, and environmental science and policy research.

According to the first investigation report, after the investigation carried out by the Zhejiang Research Institute and the Zhejiang Environmental Monitoring Centre on Tianneng Battery and 11 enterprises engaged in assembling of rechargeable batteries within four kilometers distant from Tianneng Battery in Meishan Town, the Zhejiang Research Institute concluded that the disposal of solid waste and the lead level in the waste water discharged and the air quality within the area of Tianneng Battery were all complied with the prescribed national standards in China. It was also noted in the first investigation report that even though the fume discharged by Tianneng Battery might exceed the relevant national standards at that time, the air quality within the production plant of Tianneng Battery and the region of Meishan Town was complied with the prescribed national standards in China. The excessive discharge of Tianneng Battery was therefore not a principal reason for any material deterioration in the environmental conditions. The first investigation report also concluded that the air quality, water quality and ground soil condition of the vicinity satisfied the relevant standards and are not harmful to human health.

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The local government of Changxing County also confirmed that pursuant to their investigation, there is no scientific or concrete evidence to suggest that there is any relationship between the alleged elevated blood lead level amongst children in Meishan Town and the waste discharge and emission of Tianneng Battery. Our Directors therefore do not consider there is any causal relationship between the alleged high blood lead level amongst children in Meishan Town and the waste discharge and emission of Tianneng Battery.

The first investigation report also included certain recommendations to Tianneng Battery and other factories in Meishan Town engaged in assembling rechargeable batteries for improving the environmental and/or industrial safety facilities. We have implemented the recommendations as described in the first investigation report.

On 14 September 2006, the Zhejiang Research Institute, as appointed by the local government of Meishan Town and us, issued a supplemental report to the first investigation report (the “**supplemental investigation report**”). Pursuant to the supplemental investigation report, the Zhejiang Research Institute concluded that Tianneng Battery had implemented the recommendations as described in the first investigation report and made certain additional recommendations on our operation for further improvement of environmental protection.

On 28 September 2006, the Zhejiang Research Institute, as appointed by us, issued a third investigation report pursuant to which, the Zhejiang Research Institute was of the view that the measures implemented by Tianneng Battery subsequent to the supplemental investigation report, and the Zhejiang Research Institute and the Zhejiang Environmental Monitoring Centre confirmed that the discharges from Tianneng Battery’s production plant, were all complied with the relevant environmental standards in China.

Saved for those recommendations which require our continuous efforts, such as increasing the green area within the production plant of Tianneng Battery, we have implemented all the recommendations given by Zhejiang Research Institute in the first investigation report, the supplemental investigation report and the third investigation report.