

# RISK FACTORS

*Investors should consider carefully all of the information set out in this prospectus and, in particular, should evaluate the following risks in connection with our operations and an investment in the Offer Shares, certain of which are not typically associated with investing in equity securities of companies located predominantly in Hong Kong or other economically advanced jurisdictions. They can be broadly categorised into: (i) risks relating to our business; (ii) risks relating to the industry in which we operate; (iii) risks relating to the PRC; (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.*

## **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**

For each of the three financial years ended 31 December 2006, approximately 90.01 per cent., 88.48 per cent. and 88.14 per cent. of our turnover were derived from the sales of lead-acid motive battery products, respectively. The reliance on the sales of lead-acid motive battery products rendered our business and financial performance susceptible to factors affecting the sales performance of and the demand for lead-acid motive battery products. Any unanticipated major fluctuation in the market condition for lead-acid motive battery products including price war, decrease in demand for lead-acid motive battery and advancement in technology, could adversely affect our performance. As such, there can be no assurance that we will be able to respond properly to these changes and respond to the changing market condition in an appropriate way to maintain our comparative advantages.

**Our performance is heavily relying on the demand for electric bikes in China**

Our lead-acid motive battery products are mostly used in electric bikes. Hence, the demand for our lead-acid motive battery products is largely depending on the demand for electric bikes which is in turn significantly affected by the policy of the PRC government, the economic environment and the level of consumption in China. Technological change, for example, may also result in new products to be developed which could adversely affect the demand for our lead-acid motive battery products.

There can be no assurance that the demand for electric bikes will continue to grow in China. If there is a substantial decrease in the demand for electric bikes and if we are not able to react in the most appropriate ways, our performance could be adversely affected.

**Our business could be interrupted and we may suffer significant economic loss due to unexpected events including those happened during the Track Record Period**

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.

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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 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.

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 10µg/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 (村民委員會) of Jianxia Village, Xinan Village and Qiuwu Village in Meishan Town agreed to cooperate 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.

Having considered our long-term business development, we relocated our electrode plate production facilities to our new production plant in Wuhu, Anhui Province, which is located within the Xikaihu Industrial Park and is relatively remote from any residential area.

Due to the above incident, our production activities were disrupted, and we suffered damage to inventory and other properties with a direct loss of approximately RMB2.3 million. We did not maintain any insurance coverage on business interruption.

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Under the PRC law, the limitation period for initiating a civil claim for compensation as a result of pollution or discharge of chemical waste is three years from the date on which the affected person first knows the injury in concern. As such, our Directors are not able to determine a date after which no claim would be brought by any person in relation to the alleged effect by the production facilities of Tianneng Battery. If there is any such claim to be brought against us in the future, our business reputation and financial condition could be adversely affected.

There can be no assurance that we will not be claimed against for similar reasons in the future or in respect of the same incident. There can be no assurance that our production activities would not be interrupted if incidents of similar nature occur. If our business, such as production, sales and delivery of our products, is interrupted in the future, we may suffer significant economic loss or loss of business or compensation to our customers for failure to deliver our products.

**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**

Solid waste, sewage and fumes are generated during the production process of battery products. We are required to comply with the environmental laws, rules and regulations promulgated by the PRC government. These laws, rules and regulations govern, among other things, the level of fees payable to the government entities providing environmental services and setting out the requirements in relation to the installation of ventilation equipment to ensure the appropriate treatment of lead dust and particles generated during production of lead-acid motive battery products. They also prescribe the standards for the discharge of solid waste, sewage and fumes. In addition, these laws, rules, and regulations empower the local PRC governments to impose sanctions on enterprises failing to comply with such laws, rules and regulations.

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.

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Although we have adopted preventive measures, inherent risks involved in our production activities cannot be completely eliminated. As our production may cause pollution to the environment and may affect the health of our employees and the residents nearby, we may be subject to civil claims for compensation or administrative sanctions such as fines or discontinuation of production activities. If there is any legal action initiated against us on any alleged violation of environmental protection laws and regulations, or that our production discharge results in any harmful impact on any person, our business could be materially and adversely affected.

There can be no assurance that the relevant governmental authorities and other people would not take actions against us for our past, present and future business operations. We have not maintained any insurance coverage for these possible claims due to environmental related matters as our Directors are not aware of such type of insurance to be available in China.

Kingsway Capital and we jointly engaged MWH Environmental Engineering (Shanghai) Co., Ltd (“MWH”), an independent international environment consulting company, to perform an environmental assessment at our five production plants in order to, among other things, assess whether corrective actions would be required in light of certain international environmental standards. MWH concluded that, among other things, if we discharged wastewater directly to the environment, we would be required to comply with the strictest standards for direct wastewater discharge to the environment and the corrective actions involving treatment or monitoring would be required with an additional cost between US\$750,000 and US\$1,500,000 and require a maximum of two years to complete. The letter issued by MWH in respect of the MWH Report and a summary of the MWH Report are set forth in appendix IV to this prospectus.

There can be no assurance that our production facilities will be able to satisfy the increasingly stringent environmental protection requirements in China or that the costs of compliance are commercially viable to our production. We may be imposed additional requirements or obligations which would require additional expenditure to be spent on environmental protection.

## **Our sales are dominated by sales in China**

For each of the three financial years ended 31 December 2006, almost all of our sales were derived from customers in China. We expect that the domestic market in China will continue to be our major market. Our business is therefore heavily depending on the demand for motive battery products in China and the domestic market prices of these products. In the event that there is any material adverse change in the level of the demand for motive battery products in China or that there is a significant price fluctuation in China, our performance could be adversely affected.

## **We have no long-term sales contracts with our major customers**

Aggregate turnover attributable to our five major customers represented approximately 21.00 per cent., 18.49 per cent. and 12.01 per cent. of our total turnover for each of the three financial years ended 31 December 2006, respectively. For each of these periods, turnover attributable to our largest customer represented approximately 6.37 per cent., 7.89 per cent. and 3.25 per cent., respectively, of our total turnover.

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We have no long-term sales contracts with our customers. If the business relationship between us and our five major customers is adversely affected or if any of them substantially reduces the purchase from us or terminates the business relationship with us entirely, our performance could be adversely affected.

### **Our performance in the future is significantly relying on our ability to develop and launch our new products**

Changes in technologies may render our products obsolete and our performance in the future is thus significantly dependent on our ability to develop and launch new products. There can be no assurance that our research and development efforts will be successful or completed within the anticipated timeframe and results. Moreover, there can be no assurance that any research and development project undertaken by us will result in commercially viable products. Unsuccessful development and launch of new products could adversely affect our performance and our ability to compete.

### **We rely on our major suppliers**

We rely on selected suppliers to supply us with a wide range of raw materials, such as electrolytic lead, electrode plate, sulphuric acid, plastic battery casing and fibre glass dividing plate, and there is not any long-term supply contract between our suppliers and us. The ability to obtain quality raw materials at competitive prices in a timely fashion is crucial to our production.

Our five major suppliers accounted for approximately 52.95 per cent., 47.44 per cent. and 52.08 per cent., respectively, of our total purchase for each of the three financial years ended 31 December 2006. Our largest supplier accounted for approximately 20.11 per cent., 17.62 per cent. and 15.84 per cent., respectively, of our total purchase for the same periods.

If we are not able to maintain business relationship with our major suppliers or if they are not able or not willing to continue to supply raw materials to us, or the quality of their supplies deteriorated or their prices increase substantially, we will have to locate alternative supply which could affect our performance in the future.

### **Fluctuations in the prices of raw materials, such as electrolytic lead, could adversely affect our profitability**

Electrolytic lead is one of the principal raw materials for the production of lead-acid motive battery products.

Our success significantly depends on our ability to secure sufficient and constant supply of electrolytic lead for our production at acceptable price levels. Electrolytic lead represents our largest cost item in our lead-acid motive battery production. During each of the three financial years ended 31 December 2006, the average selling price of electrolytic lead by our suppliers was approximately RMB7,506 per ton, RMB7,952 per ton and RMB10,239 per ton, respectively. For each of the three financial years ended

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31 December 2006, costs of electrolytic lead accounted for approximately 36.97 per cent., 40.28 per cent. and 30.99 per cent., respectively, of our total cost of sales. We have no long-term contracts with any of our electrolytic lead suppliers. Nor have we entered into any arrangement to mitigate the effect of price fluctuations of electrolytic lead. Hence, any significant increase in the cost of electrolytic lead in the future could adversely affect our results if we cannot transfer the price increment to our customers.

### **We face potential product liability claims**

We may face possible product liability claims in respect of our lead-acid motive battery products and may therefore be liable to pay for damages arising from loss and injury due to defective products. In such event, our business reputation and our performance could be adversely affected.

### **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 develop our production know-how in relation to the lead alloy confection process from our experience in the production of lead-acid motive battery products and our research and development efforts. As the basic technology in producing lead alloy is generally applied by lead alloy manufacturers and can easily be found in literature, an application for patent protection may be impracticable. If our competitors are able to develop similar, better or more cost-efficient technology, our lead-acid motive battery products may lose their competitive advantages. There can be no assurance that we can continue to enjoy the competitive advantages arising from our confidential production know-how.

### **We rely on our key senior management team**

We rely on our key senior management team and our ability to attract and retain additional personnel of suitable calibre. Our future success is relying on the efforts, performance and abilities of our key senior management team including all the executive Directors and senior management as set out under the section headed “Directors, senior management and staff” of this prospectus. In particular, the loss of services of the executive Directors would deprive us of the strategic and business direction they contribute to our business, which could adversely affect our performance.

### **We may not have sufficient insurance coverage on the risks involved in our business operations**

We may face major accident in our production process or which will cause significant property damage and personal injuries. In particular, we are also required by laws and regulations governing health and safety at work in China to provide our employees exposed to lead dust or particles in the performance of their duties at work 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. If any employee is found to have his blood lead level exceeding the prescribed national standard, he or she

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will be allowed time off and will be provided with the necessary medical treatment. As it is not possible to eliminate the entire risk of exposing to lead dust or particles, employees may be found to have medium elevated blood lead level during 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 Centre, 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.

Losses incurred or compensation or medical expenses paid could have a material adverse impact on our result of operations. If there is a significant number of employees found to have elevated blood lead level, our production process and business could also be adversely affected.

### **The tax benefits currently enjoyed by us may not continue in the future**

Under the Income Tax Law of the People's Republic of China Concerning Foreign Investment Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外國所得稅法) promulgated on 9 April 1991 and the Detailed Implementing Rules for the Income Tax Law of Foreign Investment Enterprises and Foreign Enterprises (中華人民共和國外商投資企業所得稅法細則) promulgated on 30 June 1991, Tianneng Battery, one of our major operating subsidiaries is entitled to exemption from PRC Enterprise Income Tax ("EIT") for a period of two years from 2005 to 2006 and a 50 per cent. reduction of the EIT for a period of three years from 2007 to 2009. Moreover, pursuant to the notices (減免企業所得稅的通知) issued by Zhejiang Provincial Tax Bureau Changxing County branch (長興縣地方稅煤山徵收管理局), Tianneng Power, which is recognised as a welfare enterprise, was entitled to a tax waiver of 80 per cent. of the EIT during each of the two financial years ended 31 December 2005 and also a tax waiver of 75 per cent. of the EIT for the nine months ended 30 September 2006. According to the notice (國家稅務總局關於進一步做好調整現行福利企業稅收優惠政策試點工作的通知) dated 25 September 2006 and issued by the Financial Department of the PRC Government and State Tax Bureau, effective from 1 October 2006, the tax waiver of the EIT entitled by welfare enterprises was cancelled and is replaced by a tax benefit whereby a portion of its taxable profits, representing 200 per cent. of the salaries paid to staff with physical disability, would be exempted from the EIT. These tax benefits mitigate our tax obligations and have a positive impact on our profitability.

The National People's Congress has recently passed a new Enterprise Income Tax Law, with effect from 1 January 2008, imposing an uniform Foreign Enterprise Income Tax rate of 25 per cent. applicable to most domestic enterprises and foreign invested enterprises. The new Enterprise Income Tax Law will modify the preferential tax treatment currently enjoyed by foreign investment enterprises in China, including Tianneng Battery. For foreign investment enterprises incorporated before 1 January 2008, the applicable tax rates which they are subject to will be progressively adjusted to reach the statutory stipulated maximum of 25 per cent. in stages. According to our legal advisers as to PRC law, Tianneng Battery, which currently enjoys reduced tax rates, may continue to enjoy

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such reduced tax rates until the expiry of such tax reduction under existing applicable tax laws. Members of the Group which currently do not enjoy any preferential tax treatment or our subsidiaries to be incorporated in China may be required to pay, under the new Enterprise Income Tax Law, the stipulated tax rate up to 25 per cent. Hence, the level of tax payment to be borne by us may be different from that in the past, and this may have an adverse impact on our financial performance.

### **Our business could be adversely affected by any dispute on production know-how or related intellectual property rights**

If our trademarks or intellectual property rights are similar to others' trademarks or intellectual property rights (including production know-how), we may infringe third parties' intellectual property rights. If our production know-how is found to be infringing third parties' intellectual property rights, our business reputation and production process could be materially and adversely affected. If any claim is initiated and successfully brought against us, we may be required to pay compensation or royalty or licence fee in relation to our production process. We may also be required to alter our production process which may cause serious disruption to our business operations. In any of these events, our business could be adversely affected.

### **A possible recurrence of SARS or avian influenza outbreak or another widespread public health crisis could adversely affect our business and operating results**

From November 2002 to July 2003, China, Hong Kong, Singapore, Taiwan and certain other areas in Asia experienced an outbreak of SARS. More recently, China, Vietnam, Indonesia, Hong Kong and other areas in Asia have experienced outbreaks of avian influenza. Although the number of human cases of avian influenza is relatively small at present, the future global impact of any widespread epidemic is uncertain. A recurrent outbreak of SARS or attack of avian influenza or other epidemic could potentially disrupt our operations if any of our employees or of customers are suspected to have been infected, and identified as a possible source of spreading the related infection. We may be required to quarantine the employees that have been suspected of becoming infected, as well as any others that had come into contact with them. We may also be required to disinfect the affected production plant and therefore suffer a temporary suspension of business operations. Any quarantine of our employees or suspension of our business operations at any production plants will affect our overall operations and operating results. Furthermore, such an outbreak would likely restrict the level of economic activity in affected areas, which would also 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**

Tianneng Battery declared and paid dividends of RMB14.2 million to its then equity holders in the financial year ended 31 December 2004. For the financial year ended 31 December 2006, our Board declared a final dividend of approximately RMB44.30 million in April 2007 which has yet to be paid. Whether we will declare and pay dividends and the



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amount of dividends to be declared and paid will be subject to the discretion of our Board taking into account our working capital requirement, the availability of our retained profits, our financial position, funding requirements and other relevant factors. Our historical dividend payout ratio should not be used as a reference or basis for estimating the amount of dividends that may be declared by us in the future.

## **RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE**

### **Lead-acid motive battery products may be substituted by other battery products**

In 2005, according to the Frost & Sullivan Report, approximately 90 per cent. of the electric bikes in China was using lead-acid motive battery products. However, with the technological advancement, it is a general market trend to develop motive battery products which are more environmental-friendly with increased power output and less weight. There can be no assurance that manufacturers of electric bike will continue to use lead-acid motive battery products as the principal source of motive power for electric bikes. In the event that the market prefers to use other forms of battery product and if we are not able to develop new motive battery products to meet the future demand, our business could be adversely affected.

### **Competition in motive battery industry in China is keen**

We face competition from the domestic and foreign producers in China which move into the motive battery industry in view of the growth potential. New entrants will continue to emerge. Any intensification in competition could dilute our market share and may lead to price reductions and increased expenses in marketing and product development. Any of these events could have an adverse impact on our profitability.

### **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**

Our operations and financial results could be adversely affected by changes in the political, economic and social conditions in China or the relevant policies of the PRC government in respect of the use of electric bikes. The “Law of People’s Republic of China on Road Traffic Safety” 《中華人民共和國道路交通安全法》 categorises electric bike as a non-motor vehicle. However, certain local governments in China may prohibit the use of electric bikes. In the event that there is any unfavourable policy on the electric bike industry and the use of electric bikes, sales of electric bikes may decrease, and this could have a significant adverse impact on our business.

## **RISKS RELATING TO CHINA**

### **We may be affected by changes in the economic and political environment in China**

The economy of China differs from the economies of most countries belonging to the Organisation for Economic Cooperation and Development in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. Prior to 1978, the economy of China was a planned economy. Since 1978, increasing emphasis has been placed on the utilisation of market forces in the development of China economy. Annual and five-year State Plans are adopted by the PRC government in connection with the development of the economy. Although state-owned enterprises still account for a substantial portion of China’s industrial output, in general the PRC government is reducing the level of direct control which it exercises over the economy through State Plans and other measures. There is an increasing level of freedom and autonomy in areas such as allocation of

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resources, production, pricing and management and a gradual shift in emphasis to a “market economy” and enterprise reform. Many of the reforms are unprecedented and may be subject to revision, change or abolition based upon the outcome of such experiments. There can be no assurance that the PRC government will continue to pursue an economic reform policy.

### **China's legal system is different from the common law system and has inherent uncertainties that could limit the legal protections available to us**

China's legal system is based on written statute and their interpretation by the Supreme People's Court of China. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. Interpretation and enforcement of these laws and regulations may involve uncertainties and may be different from those under the common law system. Such uncertainties 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**

Immediately following completion of the Share Offer and the Capitalisation Issue (assuming no exercise of the Over-allocation Option), Mr. ZHANG Tianren, our executive Director and one of our Controlling Shareholders, will hold, indirectly through Prime Leader Global Limited, approximately 41.42 per cent. of our then issued Shares. As our largest Shareholder, subject to the Articles and applicable laws and regulations, Mr. ZHANG will be able to influence major policy decisions, including our overall strategic and investment decisions, by:—

- controlling the election of Directors and, in turn, indirectly controlling the selection of senior management;
- determining the timing and amount of dividend payments;
- deciding on increases or decreases in share capital in issue;
- determining the issuance of new securities; and
- approving mergers, acquisitions and disposals of our assets or businesses.

The interests of the Controlling Shareholders could be different from the interests of the other Shareholders. Accordingly, the Controlling Shareholders may take actions that favour their own interests and which may not be in the best interests of other Shareholders. Any such actions could adversely affect the interests of minority Shareholders or the prices of the Shares.

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### **There has been no prior public market for the Shares and liquidity may be low**

Prior to completion of the Share Offer and the Capitalisation Issue, there has been no public market for the Shares. There can be no assurance that an active trading market for the Shares will develop or be sustained upon completion of the Share Offer.

### **Our Share price may be volatile**

The final Offer Price will be determined by negotiations among the Global Co-ordinator (on behalf of the Underwriters), the Selling Shareholders and us and may bear no relationship to the market price of the Shares after the Share Offer. The trading prices of the Shares may fluctuate substantially in response to, among other factors, the following:—

- our interim or annual results of operations;
- financial estimates by securities analysts;
- investors' perception of us, our future plans and prospects and the global investment environment;
- pricing policies adopted by us or our competitors;
- the liquidity of the trading market for the Shares;
- the demand for and supply of the Shares;
- the recruitment or departures of key personnel; and
- general economic and other factors.

Moreover, in recent years, stock markets in general have increasingly experienced price and volume fluctuations, some of which have been unrelated or have not corresponded to the operating performances of listed companies. These broad market and industry fluctuations may adversely affect the market price of the Shares.

### **Issuance of additional Shares will have dilution effect**

We may need to raise additional funds in the future to finance expansion of our operations or new acquisitions. If additional funds are raised through the issuance of new Shares or other securities that may be converted into the Shares or other equity-linked securities of our Company in a way other than on a pro rata basis to our existing Shareholders, the percentage of shareholdings of the then existing Shareholders may be reduced. In addition, any such new securities may have preferred rights, options or preemptive rights that make them more valuable than or senior to the Shares.

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## **Future issues or sales of securities by us or our Shareholders may decrease the value of the Shares**

Future issues or sales by us or our Shareholders of substantial amounts of Shares after the Share Offer could adversely affect market prices of the Shares prevailing from time to time. Only a limited number of the Shares currently outstanding will be available for sale immediately after the Share Offer due to contractual and regulatory restrictions on sale.

Nevertheless, after these restrictions lapse or if these restrictions are waived or breached, future sales of substantial amounts of Shares, including Shares issued upon exercise of any outstanding options and warrants, or the possibility of such sales, could negatively impact the market price of the Shares and our ability to raise equity capital in the future.

## **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**

This prospectus contains certain forward-looking statements and information and uses forward-looking terminology such as “anticipate”, “believe”, “expect”, “may”, “ought to”, “should”, “could” or “will”. These statements cover, but are not limited to, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Prospective investors are cautioned that reliance on any forward-looking statements involves risk and uncertainties and that, although we believe that assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be incorrect and as a result, the forward-looking statements based on those assumptions could also be incorrect. In the light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us that our plans or objectives will be achieved and prospective investors should not place undue reliance on such forward-looking statements.

### **The industry information from official governmental publication contained in this prospectus should not be unduly relied upon**

Certain information in the section “Industry overview” in this prospectus relating to the storage battery industry are derived from official governmental publication. Whilst our Directors have taken all reasonable care to ensure that the information are accurately reproduced from such publication, such information has not been independently verified by us and may be inconsistent, inaccurate, incomplete or not being updated. None of our Company, the Global Co-ordinator, the Sponsor, the Underwriters, their respective directors and advisers or any other parties involved in the Share Offer make any representation as to the accuracy or completeness of such information and, accordingly, such information 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 that our Directors do not accept any responsibility for the accuracy or completeness of any reports or articles in the press or other media regarding us or the Share Offer including, in particular, any financial projections, valuations or other forward looking information, as such reports or articles have not been prepared or approved by our Directors. Our Directors make no representations as to the

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appropriateness, accuracy, completeness or reliability of any information including any projections, valuations or other forward-looking information, or any assumptions underlying such projections, valuations or other forward-looking information included in or referred to by the media. To the extent that such statements, if any, are inconsistent with, or conflict with, the information contained in this prospectus, our Directors disclaim them.

Accordingly, prospective investors are cautioned not to place any reliance on any such information.

### **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**

There were various press articles on 23 May 2007 on the incidents happened during the period between April and August 2005 in relation to the production activities of Tianneng Battery. Particulars of the facts related to the incidents are set forth under “Environmental, health and safety matters” in the section headed “Business” in this prospectus. These press articles reported that the production discharge of Tianneng Battery had caused serious poisoning amongst the villagers in Meishan Town, Changxing County, which resulted in the villagers fell chronically ill or died, and that certain of our senior management, including our executive Directors, were involved in a series of criminal offenses threatening the villagers not to publicize the incidents. The press articles also suggested that members of the Group are facing a series of legal claims as a result of the incidents. There were further allegations that the Sponsor had been involved in negotiating with the villagers for compromises made between Tianneng Battery and the villager representatives.

Our Directors do not know the source of these press articles, but confirm that none of the allegations therein contained represents an accurate account of the relevant material facts. Our Directors further confirm that the production discharge of Tianneng Battery was not found to be a reason for the elevated blood lead level of the children attending the blood test organised by the municipal government in Changxing County in August 2005 and the alleged elevated blood lead level of the villagers in Meishan Town. Our Directors also confirm that none of our senior management, including our executive Directors, were involved in any criminal offense threatening the villagers. There were no pending legal claims relating to the incidents against any member of the Group as at the Latest Practicable Date. Other than the subsidy of RMB1 million provided to the children with elevated blood lead level in 2005, we have not made any payment to any villager or children in Meishan Town nor have we agreed with any villager of making any payment to them. Further, neither the Sponsor nor the Company has been or is currently involved in any negotiation with any villagers. Our Directors were not aware of any fatal incident because of poisoning at Changxing County proven to be caused by the production discharge from the factories in the region. None of our Directors and representatives of the Sponsor has been involved in any criminal offenses directly or indirectly relating to the incidents.

Our Directors further consider that some of those allegations are defamatory in nature. Through the Sponsor, we have submitted to the Stock Exchange that none of the allegations is sustainable by any factual information.

In light of the foregoing, we would like to caution all prospective investors that the above mentioned press articles did not set out a true and accurate account of the relevant incidents and that their allegations against us, our Directors, our senior management team and representatives of the Sponsor are groundless. A description of the relevant incidents, together with the measures we have taken, are set forth in this prospectus, and to the extent any information reported in the press articles is different from those stated in this prospectus, prospective investors should not rely on any such information.