

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.

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

In terms of market share, we are the leading producer of lead-acid motive battery products in China. For each of the three financial years ended 31 December 2006, our turnover derived from the sale of lead-acid motive battery products in China amounted to approximately RMB333.93 million, RMB461.59 million and RMB898.60 million, respectively. Our success is to a significant extent attributable to our focused efforts on the development of lead-acid motive battery products since 1990s and our emphasis on product research and development.

With this market leadership position, we enjoy the production-scale advantage. We are also a forerunner in the development of the motive battery industry in China, that allows us to receive the latest market intelligence, to strengthen the quality of our battery products and to diversify our product mix for the emerging market for alternative and clean motive energy to be used in transportation devices in China with the latest technological change.

We have obtained awards and certifications in relation to our re-chargeable battery products. With our established brand name and reputation in the industry, together with our strong production capacity, we can further strengthen our leadership in the lead-acid motive battery industry in China and benefit from the continuous development of the market, in terms of product diversity and technological change.

We have our technological know-how that enables us to produce high-quality motive battery products at competitive prices

Technological know-how is important in producing motive battery products with high-quality and consistent performance. We have our technological know-how that enables us to enhance the quality of our motive battery products by extending the product life cycle and increasing their performance. These features are crucial to motive battery products as they are expected to perform steadily and to provide uninterrupted power supply to transportation vehicles. Our Directors also consider that this is one of the most important factors that facilitates us in establishing a recognised brand name in the lead-acid motive battery industry in China.

We have a strong distribution and servicing network satisfying the demands in both the primary and secondary markets

Our Directors believe that our distribution and servicing network is one of the most sophisticated networks in the China motive battery industry. As at the Latest Practicable Date, we had a total of 298 sales representatives and exclusive distributors strategically located in 29 PRC provinces, autonomous regions and directly-administered municipalities in China. With this network in place, we are able to extend our business reach to almost all leading electric transportation manufacturers in China and all major retailers and wholesalers for motive battery products. This enables us to continue to maintain our leadership in the industry.

We have strong product research and development capability

We focus on product research and development with a view to improving the quality of our products and keep up with the latest technological trends. As at the Latest Practicable Date, our research and development team comprised 121 staff, 11 of them having received doctorate or master's degrees, or possessing professor or senior engineer qualification. Our product research and development team is equipped with the equipment for the development of a variety of battery products. Our product research and development expenses for each of the three financial years ended 31 December 2006 were approximately RMB2.08 million, RMB1.88 million and RMB3.81 million, respectively.

In addition to our strong in-house product research and development team, we collaborate with a number of universities in China, including Harbin Industrial University and South-East University, to study trends in the industry and to focus on product features that are considered important by our customers. Current research projects include Ni-MH motive battery products, Li-ion battery products and high efficiency motive battery products technology which is regarded as one of the significant technologies with support from the PRC government according to the "National Medium-to-Long-range Program for Scientific and Technological Development (2006-2020)".

We have a strong and experienced management team

Our chairman, Mr. ZHANG Tianren, has had an experience of 18 years in management in motive battery industry in China. Our executive Directors are also specialised in different aspects of production, sales and marketing in the motive battery products industry and corporate management. We have a management team with extensive experience and expertise in the management and operation of our business in the motive battery products industry.

INDUSTRY HIGHLIGHTS

With the continuous economic development in China, the demand for electric bikes soars substantially amongst medium-size PRC cities and rural areas in China where public transportation is less sophisticated. Electric bikes can provide a convenient and affordable means of transportation in these areas without using gasoline as energy.

The PRC is also one of the principal production bases in the world for electric bikes. According to statistics reported by www.chinabike.net, manufacturers in China exported an aggregate of two million units of electric bikes and electric motorcycles. Although some of these are equipped with Ni-MH battery products, most of the electric bikes are powered by lead-acid motive battery products which are the principal source of power for electric bikes.

In light of the foregoing, both the increasing domestic demand in China and the expanding production capacities of electric bikes in China accelerate the demand for lead-acid motive battery products.

Lead-acid motive battery products are commonly used for electric bikes in China because of their price competitiveness and the high-level of electric density. According to the Frost & Sullivan Report, the demand for electric bikes in China grew from 580,000 units in 2001 to 8.5 million units in 2005, while sales of lead-acid motive battery products in China grew with a CAGR of approximately 133 per cent. over the same period.

Moreover, approximately 90 per cent. of electric bikes in China were equipped with lead-acid motive battery products with the remaining powered by other types of battery products. Our Directors believe that lead-acid motive battery products are predominantly used as the source of power for electric bikes and will also be used for other transportation means in the future.

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.

The electric bike motive battery market in China may be categorised into primary market and secondary market comprising manufacturers of electric bikes and the dealers of motive batteries for the replacement markets, 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.

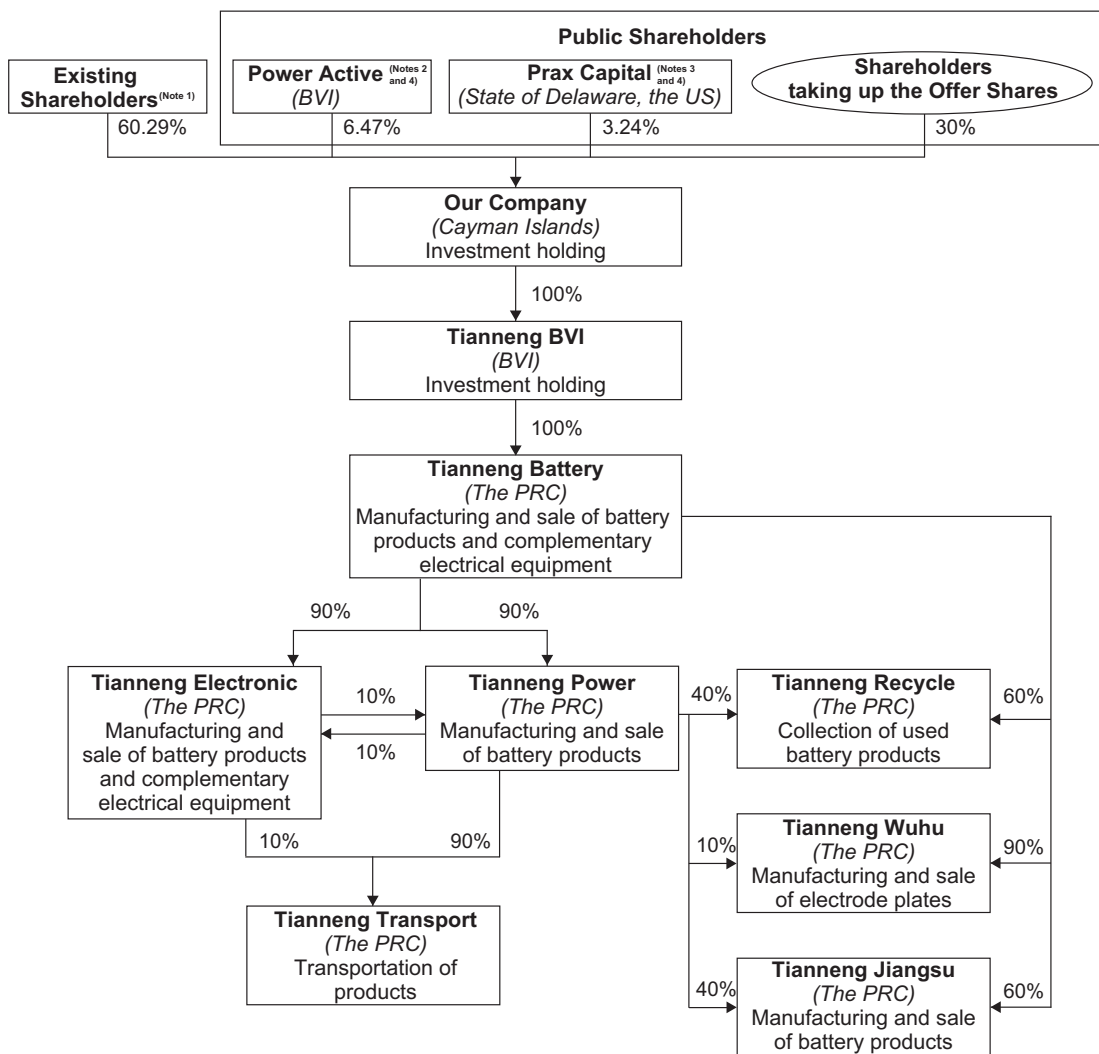
We have started production and sale of motive battery products for electric motorcycles and electric cars, and will develop battery products for different types of electric transportation device in order to capture emerging business opportunities. We therefore expect to be well positioned to provide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

SHAREHOLDING AND CORPORATE STRUCTURE

The following diagram illustrates our shareholding and corporate structure immediately after completion of the Capitalisation Issue and the Share Offer (assuming that the Over-allocation Option is not exercised):—



Notes:—

1. Immediately after completion of the Share Offer and the Capitalisation Issue (without taking into consideration the Shares that may fall to be issued pursuant to the exercise of the Over-allocation Option and any option may be granted under the Share Option Scheme), the Existing Shareholders will in aggregate hold 602,881,483 Shares, representing approximately 60.29 per cent. of the number of Shares in issue, of which:—
 - (i) 414,179,650 Shares, representing approximately 41.42 per cent. of the number of Shares in issue, will be held by Prime Leader Global Limited, a company incorporated in the BVI and wholly owned by Mr. ZHANG Tianren, our executive Director and the chairman of our Board;
 - (ii) 34,364,174 Shares, representing approximately 3.44 per cent. of the number of Shares in issue, will be held by Plenty Gold Holdings Limited, a company incorporated in the BVI and wholly-owned by Mr. ZHANG Kaihong, our executive Director;
 - (iii) 31,952,789 Shares, representing approximately 3.20 per cent. of the number of Shares in issue, will be held by Precise Asia Global Limited, a company incorporated in the BVI and wholly-owned by Mr. SHI Borong, our executive Director;

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- (iv) 30,144,216 Shares, representing approximately 3.01 per cent. of the number of Shares in issue, will be held by Easy Express Limited, a company incorporated in the BVI and wholly-owned by Mr. RUAN Mansheng;
- (v) 25,321,022 Shares, representing approximately 2.53 per cent. of the number of Shares in issue, will be held by Top Benefits International Limited, a company incorporated in the BVI and wholly-owned by Mr. ZHANG Aogen, our executive Director;
- (vi) 12,660,582 Shares, representing approximately 1.27 per cent. of the number of Shares in issue, will be held by Super View Investments Limited, a company incorporated in the BVI and wholly-owned by Mr. GAO Xinkun, who had been a former director and deputy general manager of Tianneng Battery since 2003 and left the Group in October 2005;
- (vii) 9,043,152 Shares, representing approximately 0.90 per cent. of the number of Shares in issue, will be held by Profit Best International Limited, a company incorporated in BVI and wholly-owned by Mr. CHEN Minru, our executive Director;
- (viii) 9,043,151 Shares, representing approximately 0.90 per cent. of the number of Shares in issue, will be held by Mark Victory Limited, a company incorporated in BVI and wholly-owned by Mr. HU Shijin, who joined us in 1989 and is a deputy general manager of Tianneng Electronic;
- (ix) 9,043,151 Shares, representing approximately 0.90 per cent. of the number of Shares in issue, will be held by Success Zone Limited, a company incorporated in BVI and wholly-owned by Mr. YANG Lianming, our executive Director;
- (x) 9,043,151 Shares, representing approximately 0.90 per cent. of the number of Shares in issue, will be held by Oriental Best Trading Limited, a company incorporated in BVI and wholly-owned by Mr. ZHANG Zengquan, a cousin of Mr. ZHANG Tianren and Mr. ZHANG Aogen, who joined us in 1986 and is the deputy general supervisor of our quality control department;
- (xi) 6,028,815 Shares, representing approximately 0.60 per cent. of the number of Shares in issue, will be held by High Profit Capital Limited, a company incorporated in BVI and wholly-owned by Mr. SHE Rensong, who joined us in 2000 and is the deputy general manager of Electrical Appliances Manufacturing Branch Company of Tianneng Battery;
- (xii) 6,028,815 Shares, representing approximately 0.60 per cent. of the number of Shares in issue, will be held by Centre Wealth Limited, a company incorporated in BVI and wholly-owned by Mr. ZHOU Jianzhong, who joined us in 1996 and is the deputy general manager of Tianneng Power; and
- (xiii) 6,028,815 Shares, representing approximately 0.60 per cent. of the number of Shares in issue, will be held by Glorious Crest Limited, a company incorporated in BVI and wholly-owned by Mr. YANG Huanrong, the husband of the elder sister of Mr. ZHANG Tianren and Mr. ZHANG Aogen, who joined us in 1989 and is the duty manager of our finance department of Tianneng Battery.

2. Power Active is a wholly-owned subsidiary of New World Liberty.

On 15 September 2006, New World Industrial Holdings Ltd. ("**New World Industrial**"), a wholly-owned subsidiary of New World, entered into an agreement with New World Liberty pursuant to which New World Industrial agreed to sell, and New World Liberty agreed to purchase, the entire issued share capital of Power Active and the loans advanced by New World Industrial to Power Active. Completion of the transaction took place on 4 October 2006. Power Active has not and will not, after the Proposed Listing, participate in our daily management and operation and Power Active does not nominate any representative to our Board. Save for being a Shareholder, Power Active and its associates are Independent Third Parties. Hence, Power Active will be considered as a public Shareholder under the Listing Rules.

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Power Active held 98,079,153 Shares, representing approximately 13.08 per cent. of the Shares in issue, immediately prior to the Share Offer and the Capitalisation Issue. Assuming that the Over-allocation Option is not exercised, Power Active is selling 33,333,382 Sale Shares under the Offer for Sale and will hold 64,745,771 Shares, representing approximately 6.47 per cent. of the Shares in issue immediately after the completion of the Share Offer and the Capitalisation Issue. Assuming that the Over-allocation Option is exercised in full, Power Active will sell an additional 20,000,029 Sale Shares under the Offer for Sale and will hold 44,745,742 Shares, representing approximately 4.41 per cent. of the Shares in issue immediately after completion of the Share Offer, the Capitalisation Issue and the exercise of Over-allocation Option.

3. Prax Capital has not and will not, after the Proposed Listing, participate in our daily management and operation, and Prax Capital does not nominate any representative to our Board. Save for being a Shareholder, Prax Capital and its associates are Independent Third Parties. Hence, Prax Capital will be considered as a public Shareholder under the Listing Rules.

Prax Capital held 49,039,364 Shares, representing approximately 6.54 per cent. of the Shares in issue immediately prior to completion of the Share Offer and the Capitalisation Issue. Assuming that the Over-allocation Option is not exercised, Prax Capital is selling 16,666,618 Sale Shares under the Offer for Sale and will hold 32,372,746 Shares, representing approximately 3.24 per cent. of the Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue. Assuming that the Over-allocation Option is exercised in full, Prax Capital will sell an additional 9,999,971 Sale Shares under the Offer for Sale and will hold 22,372,775 Shares, representing approximately 2.20 per cent. of the Shares in issue, immediately after completion of the Share Offer, the Capitalisation Issue and the exercise of Over-allocation Option.

4. Pursuant to the International Placing Underwriting Agreement, each of Power Active and Prax Capital has undertaken to our Company and the International Placing Underwriters and each of them that without the prior written consent of the Global Co-ordinator, it shall not directly or indirectly in the period commencing on the date by reference to which disclosure of the shareholding of each of them is made in this prospectus and ending on a date which is twelve months from the Listing Date:—
- (a) transfer or otherwise dispose of (including without limitation pledge, mortgage, charge, create any other security interest, lend, assign, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, either conditionally or unconditionally, or directly or indirectly or otherwise) any Shares, interest in Shares, any securities that constitute or confer the right to receive Shares, or securities convertible into or exercisable or exchangeable for or repayable with Shares; or
 - (b) enter into a swap agreement or any other agreement or any transaction that transfers to another, in whole or in part, directly or indirectly, the economic consequences of ownership of the Shares, whether any such swap agreement or other agreement or transaction is to be settled by delivery of Shares or such other securities, in cash or otherwise; or
 - (c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a) and (b) above; or
 - (d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) above.

PRODUCTS






Our principal products for electric bikes include lead-acid motive battery products as well as chargers, controllers and motors. During the Track Record Period, we also manufactured and sold other related electrical products such as charging testers, dischargers and adaptors upon request of our customers. Since June 2005, we have also started production of Ni-MH battery products for use in electric tools. All of our products

are produced and sold by us under our “TIANNENG (天能)” brand name and “天能” trademark.

Lead-acid motive battery products

The key components of a lead-acid motive battery include electrode plates and fibre glass dividing plates. The electrode plates are coated with oxidised lead and alloy lead. Pairs of positively charged electrode plates and negatively charged electrode plates each separated by a fibre glass dividing plate are bound together by metal strip and installed into the plastic casing of a lead-acid motive battery. The battery is then filled with sulphuric acid and charged with electricity. The number and the size of electrode plates required to be installed in a lead-acid motive battery will depend on the required level of its storage capacity and the power output.

As at the Latest Practicable Date, we produced and offered over 20 models of lead-acid motive battery products for sale and were mainly engaged in the production of the following models of lead-acid motive battery products for electric bikes:—

Model	Dimensions (mm)	Weight (kg)	Power output (w)	Estimated hours required per charging (Note 1)	Estimated hours of use per charging (Note 2)	Estimated travelling distance per charging (km)
6-DZM-10AH 	Length: 152 Width: 99 Height: 94	4.1	200-350	8	2	40-70
6-DZM-12AH 	Length: 152 Width: 99 Height: 96	4.3	200-350	8	2	40-80
6-DZM-17AH 	Length: 181 Width: 77 Height: 167	6.1	350-500	8	2	50-90
6-DZM-20AH 	Length: 186 Width: 77 Height: 176	6.7	350-500	8	2	40-100
6-DM-24AH 	Length: 186 Width: 105 Height: 130	7.6	500	8	2	60-120

Notes:—

1. Estimated hours required per charging refers to the estimated number of hours required for charging the battery from nil to full storage capacity.
2. Estimated hours of use per charging refers to the estimated maximum number of hours for which the battery is able to be used on each occasion when it is charged to its full storage capacity.

All the lead-acid motive battery products produced by us are re-chargeable and can be recharged for around 500 times. They are standardised and can be used in electric bikes, electric motorcycles and electric cars produced by different manufacturers.

Chargers, controllers and motors

In addition to battery products, we also produce chargers which are used for re-charging lead-acid motive battery products, controllers which are used for controlling direction and speed of an electric bike as well as motors for electric bikes. These products do not, however, currently account for a significant portion of our sales. For each of the three financial years ended 31 December 2006, sales of chargers, controllers and motors, together, accounted for approximately 6.71 per cent., 4.11 per cent. and 5.03 per cent. of our turnover, respectively.

We sell our chargers, controllers and motors to manufacturers of electric bikes and our exclusive distributors. Manufacturers usually supply a charger, a controller and a motor with each new electric bike, while chargers, controllers and motors sold to our exclusive distributors are mainly for sale in the retail market as parts.

As at the Latest Practicable Date, we produced and offered over 55 models of chargers, controllers and motors for sale. The following illustrates the various models of chargers, controllers and motors produced by us:—



chargers



controllers



motors

Ni-MH battery products

The key components of Ni-MH battery include nickel hydroxide cathode, hydrogen alloy anode and potassium hydroxide electrolyte.

We first began to engage in the research and development of Ni-MH battery products in March 2004 and completed trial production in April 2005. We started commercial production of Ni-MH battery products in June 2005. Currently, we produce Ni-MH battery products for use in electronic equipment such as digital cameras and in electric tools such as handheld vacuum cleaners, lighting and electric drills.

All of the Ni-MH battery products produced by us are re-chargeable. All Ni-MH battery products have a limited life. Our Ni-MH battery products can be recharged for approximately 500 times.

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SALES

Overview

The following table sets out an analysis of our turnover by major product segments, the principal customer markets and various sales channel for the Track Record Period:—

	Financial year ended 31 December					
	2004		2005		2006	
	<i>RMB million</i>	<i>per cent.</i>	<i>RMB million</i>	<i>per cent.</i>	<i>RMB million</i>	<i>per cent.</i>
Lead-acid motive battery products						
<i>Sales to primary market</i>						
conducted through independent sales representatives	144.24	38.88	223.74	42.89	433.69	42.54
direct sales	37.00	9.97	14.61	2.80	16.25	1.59
conducted through connected sales representatives	69.59	18.76	95.28	18.26	133.36	13.08
sub-total	250.83	67.61	333.63	63.95	583.30	57.21
<i>Sales to secondary market</i>						
conducted through independent exclusive distributors	64.96	17.51	111.21	21.32	288.72	28.32
direct sales	0.37	0.10	2.76	0.53	2.70	0.27
conducted through connected exclusive distributors	17.77	4.79	13.99	2.68	23.88	2.34
sub-total	83.10	22.40	127.96	24.53	315.30	30.93
sub-total	<u>333.93</u>	<u>90.01</u>	<u>461.59</u>	<u>88.48</u>	<u>898.60</u>	<u>88.14</u>
Chargers, controllers and motors						
<i>Sales to primary market</i>						
conducted through independent sales representatives	2.71	0.73	3.76	0.72	15.77	1.55
direct sales	11.02	2.97	10.72	2.05	32.56	3.19
conducted through connected sales representatives	9.77	2.63	5.57	1.07	2.26	0.22
sub-total	23.50	6.33	20.05	3.84	50.59	4.96
<i>Sales to secondary market</i>						
conducted through independent exclusive distributors	0.99	0.27	0.76	0.14	0.62	0.06
direct sales	0.03	0.01	0.50	0.10	-	-
conducted through connected exclusive distributors	0.35	0.10	0.16	0.03	0.05	0.01
sub-total	1.37	0.38	1.42	0.27	0.67	0.07
sub-total	<u>24.87</u>	<u>6.71</u>	<u>21.47</u>	<u>4.11</u>	<u>51.26</u>	<u>5.03</u>
Others (Note)	<u>12.16</u>	<u>3.28</u>	<u>38.63</u>	<u>7.41</u>	<u>69.70</u>	<u>6.83</u>
Total	<u>370.96</u>	<u>100.00</u>	<u>521.69</u>	<u>100.00</u>	<u>1,019.56</u>	<u>100.00</u>

Note:—

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

We currently sell almost all of our products in China and our sales are settled in RMB. The market of our products can be principally divided into two parts: the primary market comprising the manufacturers of electric bikes and the secondary market comprising dealers of electric bikes, batteries and accessories. We supply most of our battery products to the primary market. We also supply battery products to the secondary market through our exclusive distributors who sell our products to dealers of electric bikes for sale in the market.

Our chargers, controllers and motors are also sold to electric bike manufacturers as well as our exclusive distributors. Our Ni-MH battery products are sold to manufacturers of electric tools or electric toys and export to other countries. Our turnover is mainly driven by the market size of electric bikes in China and also the demand for replacement batteries used in electric bikes. The growth in our turnover during the Track Record Period was primarily a result of our continuing efforts to promote our sales in both the primary and the secondary markets. An analysis of our turnover growth are set forth in the section headed "Financial information" of this prospectus.

The sales return within the warranty period during each of the three financial years ended 31 December 2006 amounted to approximately RMB6.53 million, RMB11.15 million and RMB43.39 million, respectively, represented approximately 1.76 per cent., 2.14 per cent. and 4.26 per cent. of our total sales. Out of sales return, approximately RMB1.19 million, RMB1.52 million and RMB4.40 million (representing approximately 0.32 per cent., 0.29 per cent. and 0.43 per cent. of our total sales) during each of the three financial years ended 31 December 2006 respectively, were sales returned from sales conducted through connected sales representatives and connected exclusive distributors during the same period.

For each of the three financial years ended 31 December 2006, the number of lead-acid motive battery products sold by us were approximately 4.71 million units, 6.47 million units and 11.06 million units, respectively, and the aggregate number of charges, controllers and motors sold by us were approximately 371,000 units, 234,000 units and 432,000 units, respectively. During the Track Record Period, the average unit selling price of lead-acid motive battery products increased slightly due to the increase in the prices set by us. The average unit selling price of chargers, controllers and motors showed a growing trend during the Track Record Period as the product mix included high selling price items, in particular, the proportion of sales derived from motors products selling at high price level over RMB200 per unit/set has grown from approximately 2.80 per cent. during the financial year ended 31 December 2004 to approximately 76.40 per cent. in the financial year ended 31 December 2006 in the turnover of chargers, controllers and motors category.

Our customers

For each of the three financial years ended 31 December 2006, our five largest customers, together, accounted for approximately 21.00 per cent., 18.49 per cent. and 12.01 per cent., and our largest customer accounted for approximately 6.37 per cent., 7.89 per cent. and 3.25 per cent. of our turnover, respectively. All of our five largest customers for the financial year ended 31 December 2006 were manufacturers of electric bikes. We have had business dealings with certain customers for over five years.

Save for Zhejiang Changtong, being one of the five largest customers and our connected person for each of the three financial years ended 31 December 2006, none of our Directors or their associates or any person who to the knowledge of our Directors owned five per cent. or more of our issued share capital as at the Latest Practicable Date had any interest in any of our five largest customers for the Track Record Period. For each of the three financial years ended 31 December 2006, the sales of products to Zhejiang Changtong amounted to approximately RMB13.44 million, RMB15.87 million and RMB25.79 million, respectively. The corresponding percentage to total sales during each of the Track Record Period were 3.62 per cent., 3.04 per cent. and 2.53 per cent., respectively. Further information relating to the sales of products to Zhejiang Changtong is set forth in the section headed “Connected transactions” in this prospectus.

Sales of lead-acid motive battery products

Our lead-acid motive battery products are sold to manufacturers of electric bikes, which represent our primary market, and dealers of electric bikes, batteries and accessories, which represent our secondary market. Currently, our sales in our primary market are made principally through our sales representatives. All our sales in our secondary market are made through our exclusive distributors. All products sold to our customers, including all connected and independent electric bike manufacturers and exclusive distributors, are sold without recourse unless the products are found to have manufacturing defects within the warranty period offered by us.

Our sales representatives and exclusive distributors were recruited through advertisements as well as referral from our then sales representative and exclusive distributors. Our sales representatives and exclusive distributors possess the requisite knowledge and experience in performing their role as our selection is based on several criteria including their financial conditions, their experience and performance in trading business and their credibility. We also discuss with them from time to time in order to understand their business objectives, and all sales representatives and exclusive distributors were required to pass our corporate body checks.

Sales of lead-acid motive battery products in our primary market

We sell our lead-acid motive battery products to manufacturers of electric bikes. As at the Latest Practicable Date, we engaged 75 sales representatives who are based in 11 provinces and three directly-administered municipalities in China. Out of those 75 sales representatives, there were 24 sales representatives who also act as our exclusive distributors in China and sell our lead-acid motive battery products to dealers of electric bikes as further described under “Sales of lead-acid motive battery products in our

secondary market” below. Other than the aforesaid sales representatives who also act as our exclusive distributors, our sales representatives are solely responsible for sales and sales support services to electric bike manufacturers.

We have entered into a product sales procurement agreement (the “**Procurement Agreement**”) with each of our sales representatives and the principal terms of all the Procurement Agreements are identical. In accordance with the Procurement Agreement, the sales representative will, acting on our behalf, procure sales of all our products to manufacturers of electric bikes. For sales referred to us by our sales representatives (including both connected sales representatives and independent sales representatives) in our primary market, the sales contracts were entered into by us with the customers directly, and invoices were issued by us to the customers. The term of the Procurement Agreement is three years and is subject to renewal by mutual agreement. Each sales representative is designated and restricted (unless with our prior approval) to carry on business in a specific region for the promotion and sales of our products in order to avoid any competition among our sales representatives.

We adopted uniform *ex-factory* prices of our products for all sales representatives which may be adjusted according to changes in the market, changes of prices of identical or similar products and also changes in prices of raw materials. The commission of all our sales representatives is determined by reference to the difference between the final selling prices charged (based on negotiations of the pricing between the sales representatives and the customers) to those customers introduced by the respective sales representatives and our uniform *ex-factory* prices of the relevant products. Pursuant to the Procurement Agreement, each of the sales representatives has agreed to apply all their commission income as guarantee for the payment obligation of the relevant customers in the event of default by any of the customers. Although there is such a guarantee provision in the Procurement Agreement, our Directors consider that such provision is intended to remind the sales representatives of their duties to follow-up all outstanding trade receivables due from the customers referred by them. We have a right to early terminate the Procurement Agreement. Commission made to sales representatives will be computed on a monthly basis based on the monthly sales introduced by them with reference to the accumulated collection percentage up to that month. No commission will be paid on outstanding trade receivables in relation to sales introduced by sales representatives.

In addition to the Procurement Agreement, sales representatives who also act as our exclusive distributors have also entered into a distribution and after sales service agreement with us, particulars of which are set forth under “Sales of lead-acid motive battery products in our secondary market” below.

For each of the three financial years ended 31 December 2006, the commission paid to our sales representatives amounted to approximately RMB15.12 million, RMB20.39 million and RMB27.40 million, respectively.

For each of the three financial years ended 31 December 2006, the proportion of our motive battery products sold directly to manufacturers of electric bike, including those sold to Zhejiang Changtong who is a connected person of the Group, represented

approximately 9.97 per cent., 2.80 per cent. and 1.59 per cent. of our total turnover, respectively. Further information on our sales to Zhejiang Changtong is set forth in the section headed “Connected transactions” in this prospectus. We recognise sales of our products to primary market at the time the products are received by the manufacturers of electric bikes. The title to the products is passed to the manufacturers at that time.

Of the 75 sales representatives engaged by us, 14 are close relatives of certain of our Directors and therefore are our connected persons and their continued engagement by us will constitute our continuing connected transactions after the Proposed Listing. These connected persons have been and will, after the Proposed Listing, continue to be engaged by us and the principal terms of their engagement are identical to those of the Independent Third Parties engaged by us as sales representatives. Further information on the engagement of these connected persons as sales representatives and the commission paid to these connected sales representatives is set forth in the section headed “Connected transactions” in this prospectus.

Sales of lead-acid motive battery products in our secondary market

We also sell our lead-acid motive battery products to dealers of electric bikes and batteries. As at the Latest Practicable Date, we engaged 247 exclusive distributors who are based in 21 provinces, four autonomous regions and three directly-administered municipalities in China. Each exclusive distributor is granted exclusive right to sell our products within a specific region in order to avoid any unnecessary competition among our exclusive distributors. Each exclusive distributor undertakes that it will only supply the products purchased from us to dealers of electric bikes and batteries located within the designated region or directly to any consumer in the retail market. Out of those 247 exclusive distributors, as at the Latest Practicable Date, 24 also acted as our sales representatives. Other than the exclusive distributors who also act as our sales representatives, our exclusive distributors are solely responsible for sales and sales support services to dealers of electric bikes and batteries. For sales referred to us by our exclusive distributors (including both connected exclusive distributors and independent exclusive distributors) in our secondary market, the sales contracts were entered into by us with the customers directly, and invoices were issued by the Group to the customers. Otherwise, products were sold to our exclusive distributors for reselling to dealers of electric bikes, and invoices were issued by the Group to these exclusive distributors.

We have entered into distribution and after-sales service agreements of identical terms with our exclusive distributors. Our exclusive distributors may earn a commission by introducing to us dealers of electric bikes and batteries which purchase our products directly from us, and the commission is determined by reference to the difference between the uniform *ex-factory* price of our products to all exclusive distributors and the prices charged to our customers as negotiated between the exclusive distributors and the customers. Our exclusive distributors may earn an income being the difference between the uniform *ex-factory* price of our battery products purchased from us and the re-selling price they charged their customers. All direct sales transactions to our exclusive distributors are made on a cash basis and we have not granted any credit period to any of them. This is intended to control our credit risk associated to sales to exclusive distributors.

For each of the three financial years ended 31 December 2006, the commission paid to our exclusive distributors amounted to approximately RMB1.23 million, RMB1.12 million and RMB1.24 million, respectively.

We recognise sales in our secondary market in two folds. For dealers of electric bikes and batteries introduced by exclusive distributors and entering sales contracts directly with us, sales are recognised when the products are received by the dealers. For the products sold to exclusive distributors directly, sales are recognised when the exclusive distributors accepted the delivery of the products. Title to our products is passed from us when we recognise our sales.

Of the 247 exclusive distributors engaged by us, 13 are close relatives of certain of our Directors and therefore are our connected persons and the sale of lead-acid motive battery products to them by us will constitute our continuing connected transactions after the Proposed Listing. Three of the connected exclusive distributors also acted as our sales representatives and all these 13 connected exclusive distributors, similar to other independent exclusive distributors, distribute our products to dealers of electric bikes and batteries. These connected persons have been and will, after the Proposed Listing, continue to be engaged by us and the principal terms of their engagement are identical to those of which Independent Third Parties have been engaged by us as exclusive distributors. Further information relating to the engagement of these connected persons as exclusive distributors and the historical transaction amounts with these connected exclusive distributors is set forth in the section headed “Connected transactions” in this prospectus.

Sales of other products

Similar to our lead-acid motive battery products, our other products which include principally chargers, controllers, motors and Ni-MH battery products and other miscellaneous products are also sold to manufacturers through our sales representatives and to exclusive distributors for their onward distribution. For each of the three financial years ended 31 December 2006, the aggregate sales of chargers, controllers and motors accounted for approximately 6.71 per cent., 4.11 per cent. and 5.03 per cent. of our total turnover respectively while the sales of Ni-MH battery products, which commenced sales in June 2005 accounted for approximately nil per cent., 0.54 per cent. and 1.68 per cent. of our total turnover for the same period respectively. We will continue to invest in the development of new battery products as set forth in the section headed “Future plans and proposed use of net proceeds from the New Issue” in this prospectus.

PRODUCTION FACILITIES AND PROCESS

Production facilities

We currently have five production plants, of which three are located in Changxing County in Zhejiang Province, one in Wuhu City in Anhui Province and one in Shuyang County in Jiangsu Province in China. The table below sets out further details of each of these production complexes:—

Location	Production focus	Approximate gross floor area (sq.m.)
Jianxia Village Meishan Town Changxing County Zhejiang Province the PRC	lead-acid motive battery products	54,569
Industrial Park District of Meishan Town Changxing County Zhejiang Province the PRC	lead-acid motive battery products	26,724
Baoqiao Village Baijiabang Zhicheng Town Changxing County Zhejiang Province the PRC	Ni-MH battery products, chargers, controllers and motors	28,628
Xikaihu Industrial Park Wuhu City Economic and Technology Development Zone Anhui Province the PRC	electrode plates	15,531
Tianneng Road Shuyang County Economic Development Zone Jiangsu Province the PRC	electrode plates and lead-acid motive battery products	83,264

BUSINESS

Most of the key production equipment used for our production was purchased from domestic manufacturers in China. Our Directors confirm that we had not experienced any incident of power shortage during the Track Record Period.

Production capacity and average utilisation rate

The annual designed production capacity and the average utilisation rate of our production facilities for lead-acid motive battery products, chargers, controllers and motors for each of the financial years ended 31 December 2004, 2005 and 2006 are set out in the table below:—

Product	Production plant	Financial year ended 31 December					
		2004		2005		2006	
		Annual production capacity <i>(Note 1)</i> <i>(units in million)</i>	Average utilisation rate <i>(Note 2)</i> <i>(per cent.)</i>	Annual production capacity <i>(Note 1)</i> <i>(units in million)</i>	Average utilisation rate <i>(Note 2)</i> <i>(per cent.)</i>	Production capacity for the period <i>(Note 1)</i> <i>(units in million)</i>	Average utilisation rate <i>(Note 2)</i> <i>(per cent.)</i>
Lead-acid motive battery products	Jianxia Village, Meishan Town, Changxing County	3.3	98.9	4.8	98.0	9.6	71.7
	Industrial Park District of Meishan Town, Changxing County	1.6	94.5	2.0	96.2	2.6	90.2
	Shuyang County Economic Development Zone of Jiangsu Province <i>(Note 4)</i>	0	0	0	0	0.2	19.7
Sub-total	4.9	97.4	6.8	97.5	12.4	75.1	
Chargers	Baoqiao Village, Changxing County	0.30	93.4	0.40	42.0	0.42	59.2
Controllers	Baoqiao Village, Changxing County	0.065	44.2	0.09	10.8	0.12	48.5
Motors	Baoqiao Village, Changxing County	0.065	95.4	0.09	61.6	0.20	68.2

Notes:—

- The annual production capacity has been calculated on the assumptions that the workers work for eight hours per day and 360 days per year and that there is sufficient supply of power and raw materials for the whole production process.
- The average utilisation rate is the ratio of the actual production volume to the annual designed production capacity during the relevant period of time.
- The above table has not included the production capacity of our production plant at Wuhu City which produces only electrode plants, one of the major raw material for production of our lead-acid motive battery products.
- As at 31 December 2006, our production plant at Shuyang County did not commence commercial production, and the production capacity only included the production capacity of its trial production for the period from October to December 2006.

We have invested in the new production plant in Shuyang County Economic Development Zone, the construction of which began in May 2005. The plant has begun commercial production in January 2007 and we intend to further expand the production facilities and equipment in this plant in the future. Based on the current plan of installation of equipment and machinery, the annual production capacity of lead-acid motive battery products of this production plant would reach approximately 6.4 million units in 2007, 12.5 million units in 2008 and 15.1 million units in 2009. This production plant is dedicated to the production of lead-acid motive battery products and electrode plates.

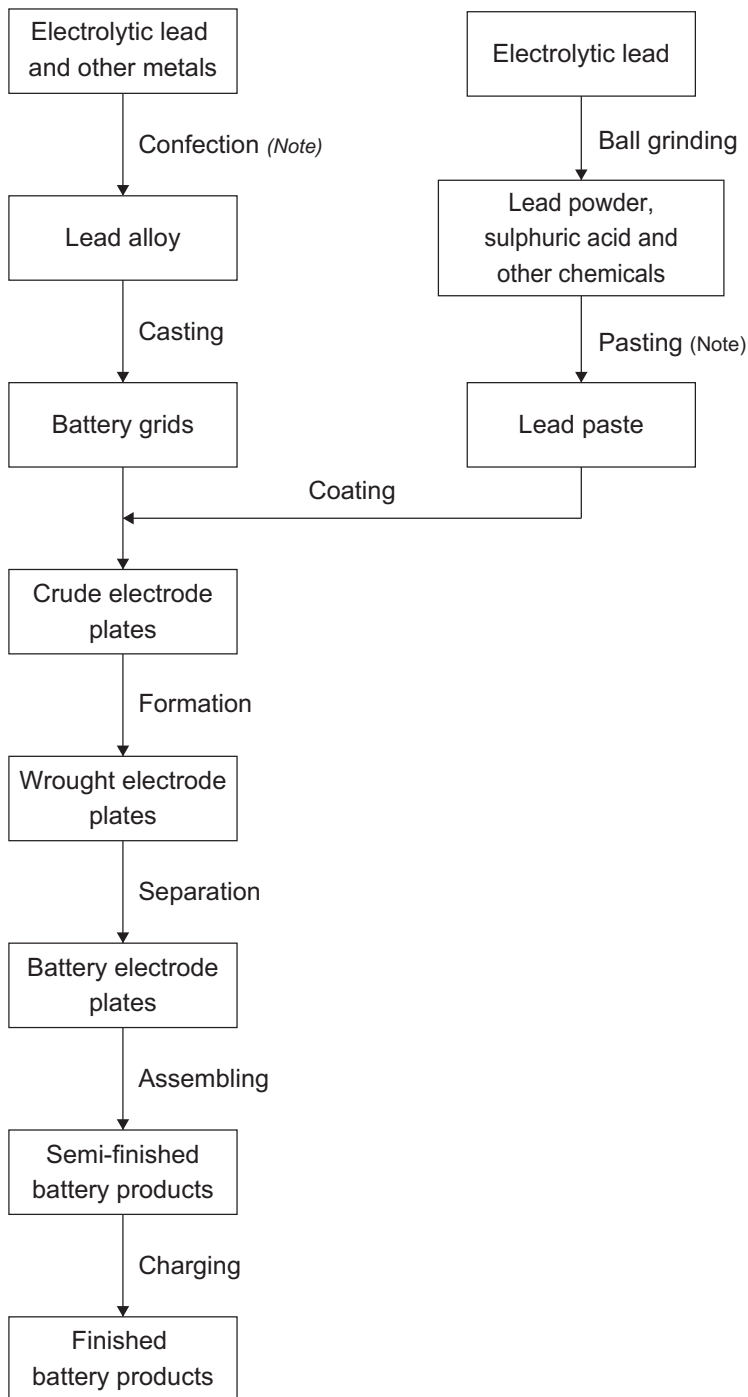
We also plan to expand and improve our production facilities and equipment in our production plants in Meishan Town, Changxing County, and we expect to increase the production capacity of our production plants in Meishan Town from approximately 12.2 million units of lead-acid motive battery products in 2006 to approximately 13.6 million units in 2007 and 2008 and approximately 15.1 million units in 2009.

We also plan to install production facilities and equipment to produce lead-acid motive battery products in our production plant in Wuhu City which would commence production in mid-2008. We expect the production capacity to be approximately 5.4 million units in 2008 and 10.8 million units in 2009.

The above expansion plan of our production facilities in Changxing, Wuhu and Shuyang is expected to increase our annual production capacity for lead-acid motive battery products from approximately 12.4 million units in 2006 to approximately 41 million units under full operation in 2009.

Production process of lead-acid motive battery products

The following diagram illustrates the key stages of our production process for lead-acid motive battery products:—



Note: Since June 2006, we have applied nano technology in this production process in order to enhance the power output and extend the useful life of our lead-acid motive battery products.

Confection

This involves the melting of lead ingots into liquid form. Through stirring and mixing with chemical additives during the melting process, impurities are removed. Other metals such as tin are added into the liquid lead. The liquid lead is then casted into lead alloy ingots.

We have developed production know-how in relation to this lead alloy confection process which is the key to enable us to improve the storage capacity, power output and stability in performance of our lead-acid motive battery products, thereby allowing us to produce battery products that has a longer useful life before re-charging is required with light weight and more powerful. Different amount of lead alloy ingredients together with different amount of lead paste ingredients (as more particularly described below) will produce positive or negative electrode plates.

Casting

The lead alloy ingots are melted into liquid and casted into battery grids in a furnace. Battery grids are produced in different sizes for use in lead-acid motive battery products with different storage capacity and power output.

Coating

The battery grids are then coated with a lead paste. We have also developed production know-how in relation to the production of lead paste which involves the following key steps:—

(1) Ball grinding

This involves the grinding of electrolysed lead into lead powder by a ball crusher. The lead powder becomes oxidised during this process.

(2) Pasting

The lead powder is then diluted and mixed with sulphuric acid and other chemicals to produce the lead paste.

The lead paste is applied as a coating on the battery grids by automated coating machines. During this process, the lead paste has to be continuously applied to ensure that the battery grids are evenly coated. Once coating is completed, the battery grids become electrode plates which will then undergo a drying process.

Formation

The electrode plates are then immersed into sulphuric acid contained in formation slots where they are first charged with electricity and tested and then the electricity is discharged to allow the electrode plates to be further processed. The electrode plates have to be charged and discharged for a specific duration the length of which will depend on their intended storage capacity. The electrode plates are then cleaned and dried.

Separation

The electrode plates are then cut into the appropriate sizes by automated cutting machines. Each electrode plate is then weighted.

Wrapping and assembling

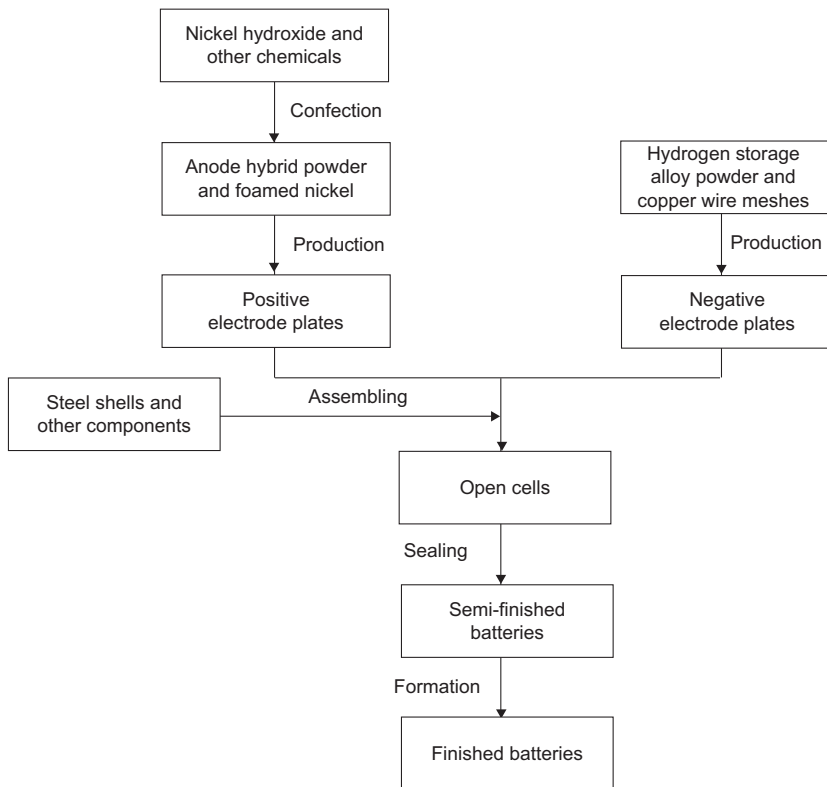
Pairs of positively charged and negatively charged electrode plates, each separated by a fibre glass dividing plate which acts as an insulating layer, are bound together. Different members of electrode plates are used in a lead-acid motive battery depending on the required level of storage capacity and power output. The electrode plates are then installed into the plastic casing of the battery by welding which is then sealed.

Charging

Electrolyte is added to the semi-finished battery products with acid feeders. The battery products will be charged with electricity, with the process taking 48 hours to complete, depending on the storage capacity of the battery products. The charged battery products will then be cleaned and sealed. A serial number is affixed onto each battery once it has passed the final inspection and testing.

Production process of Ni-MH battery products

The following diagram illustrates the key stages of our production process for Ni-MH battery products:—



Confection

Nickel hydroxide is mixed with other chemicals in a blender to produce anode hybrid powder.

Production of positive electrode plates

The anode hybrid powder is applied onto foamed nickel which is rolled into positive electrode plates by drawing and rolling machines. Electrodes are affixed by spot welding machine.

Production of negative electrode plates

Hydrogen storage alloy powder is applied onto copper wire mesh which is rolled into negative electrode plates.

Assembling

Positive electrode plates are separated from negative electrode plates with diaphragms, and convoluted as combined electrodes through a convolution machine and they encrypted into steel shells. The steel shells will be put into a rolling machine where the groove lye will be inserted. The steel shells encrypted with combined electrodes will be produced as open cells for sealing.

Sealing

Covers are welded onto the open cells and the cells are then sealed by using cappers to form semi-finished battery products for formation.

Formation

Under the processes of formation and examination by using chemical combination machines and examination tanks, the semi-finished battery products will turn into finished products with technical standards.

RAW MATERIALS AND SUPPLIERS

Raw materials

The major raw materials used in our production include electrolytic lead and electrode plates. Other raw materials used by us include sulphuric acid, plastic battery casings and fibre glass dividing plates. The table below sets out an analysis of our direct costs of raw materials for the Track Record Period:—

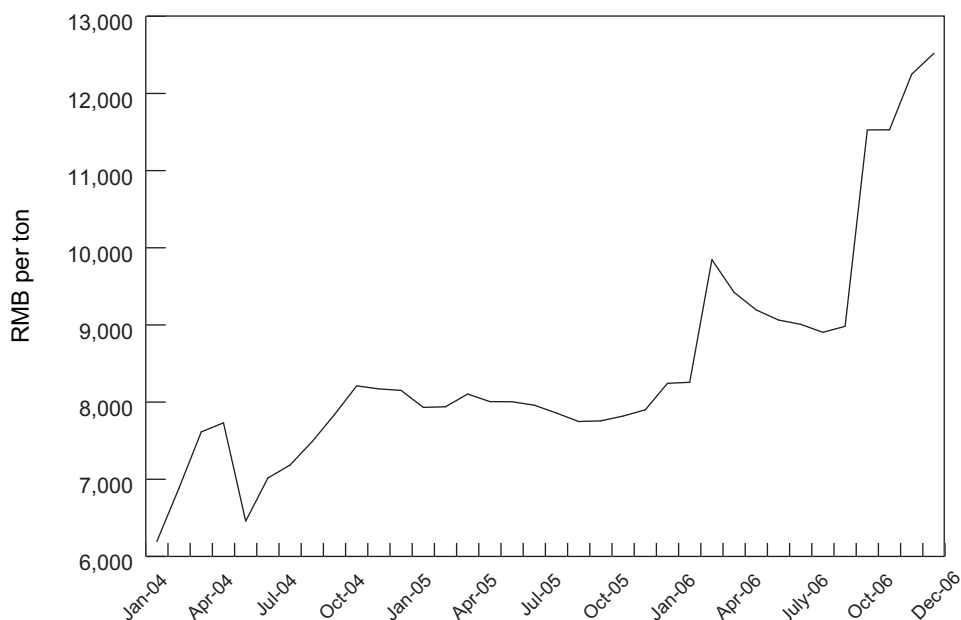
	Financial year ended 31 December					
	2004		2005		2006	
	<i>RMB million</i>	<i>per cent.</i>	<i>RMB million</i>	<i>per cent.</i>	<i>RMB million</i>	<i>per cent.</i>
Electrolytic lead	89.10	51.39	144.81	50.03	231.62	37.70
Electrode plates ^(Note 1)	11.85	6.83	48.67	16.82	236.86	38.55
Plastic battery casings	25.29	14.59	31.46	10.87	45.74	7.45
Fibre glass dividing plates	11.44	6.60	12.13	4.19	21.41	3.49
Other materials ^(Note 2)	35.71	20.59	52.37	18.09	78.70	12.81
Total	173.39	100.00	289.44	100.00	614.33	100.00

Notes:—

1. Electrode plates refer to the electrode plates purchased from our suppliers only. Cost of electrode plates manufactured by us were included in the cost of electrolytic lead, which is a major raw material used in the production of electrode plates. No electrode plates were purchased prior to 2004 as our self-produced electrode plates were sufficient to meet our production requirements at that time. With the expansion of our business, the electrode plates produced by us are no longer sufficient to meet our production requirements and we commenced purchasing electrode plates since then.
2. Other materials include sulphuric acid, aluminium powder, sulphur powder, and other metals and chemicals.

The supply and the price of lead may be subject to significant fluctuations as a result of changes in market conditions both domestically in China as well as internationally. Such fluctuations will have a direct impact on the supply and prices of electrolytic lead which is a type of lead which has been subject to electrolysis. We currently purchase all our supply of electrolytic lead in China.

The table below shows the average purchase price per ton of electrolytic lead we purchased during the Track Record Period:—



As shown in the table above, the average purchase price per ton of electrolytic lead we purchased increased by approximately 5.94 per cent. and 28.77 per cent., respectively over the period from 2004 to 2005 and 2005 to 2006.

We have not entered into any hedging arrangement to protect ourselves from the risk of fluctuations in the price of electrolytic lead as we do not consider that the costs and risks associated with such hedging arrangements are commercially justified based on our current volume of usage of electrolytic lead. We seek to minimise any adverse effect which may arise from any significant fluctuation in the supply or price of electrolytic lead primarily through inventory control. We normally maintain 1,400 tons of electrolytic lead in stock which, based on our current production requirements, will be able to support us for approximately 20 days of production of electrode plates. We closely monitor movements in the market price of electrolytic lead in China and will adjust our stock level of electrolytic lead if we anticipate any significant fluctuation in supply or price.

Another key component used in the production of lead-acid motive battery products is electrode plates. We undertake the production of electrode plates required for our production of lead-acid motive battery products as well as source them from external suppliers to supplement the ones produced by ourselves.

BUSINESS

The table below sets out the proportion of electrode plates manufactured by us and those sourced from external suppliers for the Track Record Period:—

	Financial year ended 31 December					
	2004		2005		2006	
	(Rmb'000)	per cent.	(Rmb'000)	per cent.	(Rmb'000)	per cent.
Manufacturing cost of electrode plates manufactured by us	138,217	88	183,626	78	279,738	49
Purchase of electrode plates sourced from external suppliers	18,847	12	51,814	22	292,337	51

Suppliers

We purchase all our raw materials from suppliers in China. We maintain at least two suppliers for each of the key raw materials required for our production. All our purchases are paid for in Renminbi. In the financial year ended 31 December 2006, approximately 77.19 per cent. of our purchase of raw materials was made on credit terms, with credit period ranging from 60 to 90 days, whilst the remainder was settled by way of cash on delivery. We have not experienced any material disruption to the supply of any of the key raw materials required for our production.

For each of the three financial years ended 31 December 2006, our five largest suppliers, together accounted for approximately 52.95 per cent., 47.44 per cent. and 52.08 per cent., and our largest supplier accounted for approximately 20.11 per cent., 17.62 per cent. and 15.84 per cent. of our purchase of raw materials. Of our five largest suppliers in the financial year ended 31 December 2006, three were suppliers of electrolytic lead, and two were suppliers of electrode plates. We have had business dealings with certain suppliers for over 11 years.

Save for Meishan Xing Da, being one of the five largest suppliers for the financial year ended 31 December 2004 and our connected person, none of our Directors or their associates or any person who to the knowledge of our Directors owned five per cent. or more of our issued share capital as at the Latest Practicable Date had any interest in any of our five largest suppliers in any of the Track Record Period. For each of the two financial years ended 31 December 2005 and the period from 1 January 2006 until its deregistration on 28 July 2006, plastic cases purchased from Meishan Xing Da amounted to approximately RMB10.53 million, RMB8.54 million and RMB0.28 million, respectively. The corresponding percentage to total purchase of raw materials during each of the Track Record Period is approximately 4.43 per cent., 2.48 per cent. and 0.04 per cent., respectively.

QUALITY CONTROL

The quality of our products is the key to our success. We firmly uphold the principles that priority should be given to quality and our customers, and will strive to supply safe, reliable and quality products to our customers. We have obtained the accreditation of ISO 9001:2000 which is valid for the period from April 2007 to April 2010. We have applied the principles of ISO 9001:2000 throughout our quality control system.

We have internal quality management guidelines which are used by us in terms of quality management, quality planning, quality control and quality enhancement. We compile and update the same in strict compliance with the standards as set out in “GB/T19001-2000 idt ISO 9001: 2000 Quality Management System Requirements”. We will also continue to improve and enhance the same by taking into account the actual situation.

We have a quality assurance team to monitor our daily operation and the quality standard of our raw materials, semi-products and products. Observation and testings are carried out at various stages of production process.

As at the Latest Practicable Date, our quality control team consists of 143 staff who are responsible for implementing quality control by inspecting the quality and origin of the raw materials, observing and checking our production process, testing on finished goods and monitoring our customer support services. Almost all our quality control staff possess secondary school or above education level in China, some of the quality control staff has relevant experience in the Group’s industry or similar role in other enterprises. A majority of the senior management of our quality control team has over five year’s working experience in the quality control field and four of them possess engineer qualifications. Our quality control staff, from time to time, attend training courses of ISO standards organised by China Certification Center for Quality Mark for internal auditors on quality management system and environmental management system. Every attendee is usually required to attend a test after training. We have also conducted internal training to new employees of the quality control team and training comprising battery testing techniques and chemical ability testing techniques.

We impose strict control over the quality of the electrode plates purchased from our suppliers. We also provided know-how and specifications relating to the production of electrode plates on a confidential basis. In order to ensure the quality of electrode plates, we required our suppliers of electrode plates to source their raw materials from designated source. We also conducted internal quality check on the electrode plates produced by such suppliers. If the quality, weight or performance of the electrode plates fall below our prescribed standard, we shall request the relevant suppliers to arrange for replacement of any sub-standard electrode plates or terminate the supply from them.

We have five quality assurance team members stationed at the production sites of our five suppliers of electrode plates in order to ensure that all raw materials used by them are purchased from our designated sources and that their production processes are consistent with our standard.

RESEARCH AND DEVELOPMENT

We dedicate significant resources in research and development to improve the quality and performance of our existing products.

Our research and development activities are focusing on developing clean, durable, safe, light and environmental-friendly products. As at the Latest Practicable Date, our

research and development team consists of 121 staff, out of which 11 have obtained doctorate or master's degree, or have possessed with professor or senior engineer qualification.

In addition to enhance and further develop our lead-acid motive battery products, we have invested in the research and development of Ni-MH battery products and Li-ion battery products.

We have participated in a Post-doctoral Scientific Research Workstation jointly funded by us and the Zhejiang provincial government since September 2005. This is a programme co-operated with the PRC government for the key research and development of environmental friendly, Ni-MH battery products and Li-ion battery products. The programme is mainly responsible for conducting research on industrial techniques closely related to our business development. Under the programme, we provide funding, determine the research and development topics, select the appropriate post-doctoral graduates to participate in the programme, examine the research results and their commercial applications. At the same time, the programme also promotes the utilisation and standardisation of such techniques in industrial production. Since this programme started off at its preliminary stage, we only incurred approximately RMB1 million up to the Latest Practicable Date. The intellectual property rights in respect of newly developed know-how or products will be owned by us.

We have signed a letter of intent and entered into a co-operation agreement with Harbin Industrial University and South-East University for the development of new battery products through their collaboration with us. Under such documents, we provide funding to the universities for research and development purposes and we also recruit suitable technicians or experts on a project specific basis. In return, our research and development teams can make use of the universities' facilities for research and development purposes. According to the letter of intent with Harbin Industrial University, all intellectual property rights of the newly developed know-how or products shall be jointly owned by Harbin Industrial University and us, with the priority given to us to utilise such intellectual property rights. According to the co-operation agreement with South-East University, all intellectual property rights of newly developed know-how or products shall belong to South-East University while the relevant usage rights belong to us.

Our research and development expenses for each of the three financial years ended 31 December 2006 were approximately RMB2.08 million, RMB1.88 million and RMB3.81 million, respectively. Majority of our research and development expenses were incurred in the consumption of materials used for research and development and were amounted to approximately RMB1.84 million, RMB1.74 million and RMB2.84 million for each of the three financial years ended 31 December 2006, respectively. The remaining portion was mainly on staff cost.

AFTER-SALES SERVICES AND PRODUCT WARRANTY

We consider that the quality of our after-sales services is important. We believe that high quality after-sales services will strengthen market recognition.

Our network of sales representatives allows us to ensure that each manufacturer of electric bikes to whom we sell our products is served by one of our sales representatives. For these manufacturers, the focus of our after-sales services is on maintaining follow-up visits and supports by our sales representatives and ensuring that their requirements and feedback on our products are promptly relayed to us and attended to.

We also provide after-sales services to customers in the secondary market through our exclusive distributors. We provide each of our exclusive distributors with equipment to enable them to carry out basic repairs to our lead-acid motive battery products. We also provide them with training to carry out such repairs. We understand the importance of providing efficient and prompt services and hence, we require all repairs to be completed and the battery returned to the customer within 48 hours after it has been brought to our exclusive distributor for repairs. If significant repairs have to be carried out which are beyond the expertise of the exclusive distributor, the product will be sent to us. Our staff pays regular visits to our exclusive distributors to monitor the quality of the after sales service provided by them.

We provide a warranty of between six to fifteen months on all our lead-acid motive battery products. Under the terms of our warranty, we undertake to repair or replace the battery free of charge in the event of any malfunctioning within the warranty period. We also provide a warranty of between seven to fifteen months on our chargers, controllers and motors.

MARKETING, ADVERTISING AND PROMOTION

We have adopted different sales and marketing strategies in order to further develop our market share in the primary and the secondary markets.

It is our significant long term strategy to reinforce, strengthen and develop a stable and sound cooperation with electric bike manufacturers on our established relationship. To do so, we have identified the following specific strategies:—

- To maintain regular management visits and attending industry conferences and exhibitions.
- To provide intimate customer care through our sales representatives.
- To guarantee sufficient supply of our products.
- To provide technological support and upgrading.

Our specific strategies to strengthen our position in the secondary market are detailed as follows:—

- To reinforce and further expand our distribution and after-sales services networks.
- To strengthen our internal control, improve and optimise our service system. We have designated six marketing executives responsible for paying visits in the secondary market so as to reinforce our communication with our exclusive distributors as well as our communications with dealers of electric bikes, batteries and accessories and end-users.
- To strengthen our brand-building and our marketing activities so as to promote our corporate image and our products.

To implement our sales and marketing strategies as stated above effectively, we participated in local exhibitions, placed advertisements in various publications and along highways and acted as official battery sponsor in the National Electric Bike Competition held in Shijiazhuang in 1999 and 2000.

Our sales representatives and exclusive distributors also assisted us in promoting our corporate and products in the storage battery market at their respective sales areas. They also conducted market researches and reported on new products launched in the market.

COMPETITION

As we sell almost all of our products in China, our major competitors are PRC-based motive battery products manufacturers. According to the Frost & Sullivan Report, we were ranked as the largest supplier of lead-acid motive battery products in China in 2005 in terms of sales revenue. The three largest manufacturers of lead-acid motive battery products in China in 2005 accounted for approximately 23.3 per cent. of the total market share and the remaining market share is shared among numerous manufacturers in China. In terms of primary and secondary markets, both markets are fragmented. The six largest manufacturers of lead-acid battery products supplying the primary market and the secondary market accounted for approximately 34.13 per cent. and 29.51 per cent. of the sales revenue in the respective markets in 2005. We accounted for 17.54 per cent. and 7.41 per cent. of the sales revenue, and were the largest and second largest manufacturer, for the primary and secondary markets in 2005.

Our Directors believe that competition in China market of lead-acid motive battery products is characterised by pricing, quality of products, ability to meet customers' requirements and after-sales services. Our Directors believe that we can compete despite the intense competition in China because we possess with the relevant know-how in

producing electrode plates which directly affect the quality of our products. Also, our Directors consider that the following factors differentiate us from our competitors:—

Quality products

Through direct involvement in the production of electrode plates, we can control the quality of its major raw material and therefore maintain the high quality of our products.

Reputation in the primary market

Our research and development team focuses on improving and enhancing our existing products and to develop new products in order to meet customers' varying requirements. Our Directors believe that "TIANNENG (天能)" brand has become a reliable and reputable storage battery products brand in China market.

Wide distribution and after sales coverage in the secondary market

Our exclusive distributors, who are based in 21 provinces, four autonomous regions and three directly-administered municipalities in China, provide another competitive advantage to the Group when compares with our competitors which are smaller in scale in terms of operational size and distribution network.

In particular, we have comparative advantages against our competitors and we have also formulated strategies for our future growth in the competitive industry, which are respectively set forth in "Comparative advantages" and "Growth strategies" in this section.

CREDIT CONTROL POLICY

For the Track Record Period, we did not have any material bad debts. We attribute this to our strict credit control policy. We monitor closely the credit standing of each of the manufacturers of electric bikes and if necessary we will adjust the credit period or limit the amount granted to such manufacturer. Pursuant to the procurement agreement entered into between each of the sales representatives and us, each of the sales representatives has obligation to pay to us in the event of default by any of the manufacturers to whom he has procured sales of our products.

During the Track Record Period, we offered our customers credit period ranging from 0 to 45 days, depending on the relationship with, and the credibility and volume of purchase of, the customer. Extended credit period would be granted to customers on a case by case basis upon reviewing their settlement history, relationship with us and credibility, our Directors consider that this arrangement can retain customers' loyalty as well as maintain customers relationship. Settlement is usually effected by way of cash, cheque and telegraphic transfers to our designated bank accounts. For new or less established customers, we may require cash payment before or upon delivery.

As a term of the sales contract entered into between the manufacturer and us, the manufacturer will be required to pay the purchase price to us, from which we will pay the commission due to the relevant sales representative who procured such sales. We are only obliged to pay the commission to the sales representative when we have collected payment from the manufacturer. Under the procurement agreement, the sales representative is responsible for collecting any outstanding amount due from any manufacturer to whom he has procured sales of our products and provided a guarantee in favour of Tianneng Battery in the event of default by such manufacturer. This provision allows us to withhold the commission payment from the sales representatives in the event of default or delayed payment by the manufacturers referred by them. The Directors consider that this arrangements, together with the commission payment mechanism applied to all sales representatives, are effective tactics to reduce the level of bad and doubtful debts and to utilise the sales representatives to chase trade receivables from the manufacturers according to the credit terms. Because of the relative small amount of the average commission payment, which represented approximately 5.0 per cent. of the sales in primary market during the Track Record Period, we choose not to enforce the guarantee provision, but to require the manufacturers to make prompt payment.

Since 2006, we have agreed with certain sales representatives to recategorise certain long outstanding amounts due from manufacturers for over one year to them. Although records have been updated to recategorise the outstanding debts under the name of the relevant sales representatives, this arrangement did not change the aging of the respective trade receivables and the primary payment obligation of the relevant manufacturers and that the relevant manufacturers will not be made aware of such arrangement. We adopted identical credit policy and review procedures to these re-categorised receivables, specific provisions will also be made if these debts are determined to be irrecoverable.

During the Track Record Period, the total amount of trade receivables recategorised was approximately RMB2.4 million, of which, approximately RMB2.2 million was settled as at 31 January 2007 and the remaining balance has been fully provided as bad and doubtful debts. The above arrangement was intended to impose pressure on the relevant sales representative to use their best endeavors to collect settlement of the amount due from the relevant manufacturers. In view of the partial recovery of the amount due, the Directors consider that this arrangement is positive in promoting the collection of outstanding trade receivables and advantageous to the Group.

Our Directors confirm that the above arrangement is specifically made for the long outstanding balance of trade receivables of approximately RMB2.4 million during the Track Record Period. Our PRC legal advisers confirm that this arrangement is not in violation to any PRC legal requirements. Our Directors will ensure that no further similar arrangement will be made and that adequate provisions will be made to reflect the collectibility of our trade receivable. Our Directors will also make sure that adequate provision will be made in respect of bad and doubtful debts.

We adopt a credit control policy under which the length of credit period is assessed according to our review of the creditworthiness of the customer, having considered the customer's credit history and its relationship with us. We review the recoverability of aging trade receivables due by our customers, sales representatives and exclusive distributors from time to time. It is our policy to make specific provisions for bad and doubtful debts on trade receivables if we are of the opinion that such amount may not be recovered.

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We have adopted an uniform credit control policy to all customers. As at the balance sheet date of each of Track Record Period, the aging analysis of trade receivables from our independent and connected customers (net of bad debts provision) are set out as follow:—

Age	At 31 December			
	2004	2005	2006	
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	
0 to 45 days	..... Independent parties	19,403	27,436	43,146
	..... Connected parties	732	565	513
46 to 90 days	..... Independent parties	13,192	21,870	17,097
	..... Connected parties	1,200	1,779	231
91 to 180 days	..... Independent parties	6,822	10,569	12,058
	..... Connected parties	835	1,573	995
181 to 365 days	..... Independent parties	5,389	4,755	7,946
	..... Connected parties	1,957	220	2,149
1 to 2 years	..... Independent parties	483	3,280	2,120
	..... Connected parties	238	50	135
Over 2 years	..... Independent parties	72	109	743
	..... Connected parties	15	–	540
		<u>50,338</u>	<u>72,206</u>	<u>87,673</u>
Bad debt provisions for the year	..... Independent parties	1,512	4,342	7,479
	..... Connected parties	24	71	187
	..... Total	<u>1,536</u>	<u>4,413</u>	<u>7,666</u>

Note: An amount of RMB55,900 due from a connected sales representative outstanding since 2003 is included in the above aging analysis which was fully settled in June 2006. Other than this balance, the remaining trade receivable balances due from connected parties as stated in the above table as at each of the balance sheet date during the Track Record Period represent balances due from connected exclusive distributors.

We did not experience any significant difficulties in collecting trade receivables during the Track Record Period. The trade receivables turnover days of the Group for each of the three financial years ended 31 December 2006 were approximately 43.9 days, 42.9 days and 28.6 days, respectively.

AWARDS AND RECOGNITION

We have received various awards and recognition for our achievements in product quality and technological standards, the major ones of which include the following:—

Award/recognition	Subject matter of award or recognitions	Month/Year Awarded	Organisation presenting award or recognitions
<i>Products</i>			
Certificate for Product Exemption from Quality Surveillance Inspection (產品質量免檢證書)	Battery products for electric bikes	December 2006	State General Administration for Quality Supervision and Inspection and Quarantine (國家質量監督檢驗檢疫總局)
New Product and Technology Evaluation and Inspection Certificates (新產品新技術鑒定驗收證書)	<ul style="list-style-type: none"> • Motor controller (直流無刷電機控制器) • Equipment for testing electric vehicle battery capacity (電動車電池容量測試儀) • Electrically powered vehicle rechargeable battery (12DZM-15Ah) (電動助力車用蓄電池) • 2820 intelligent charger (2820型智能充電器) 	December 2004	Wuzhou Economic and Trade Committee (潮州市經濟貿易委員會)
Scientific Technology Results Evaluation Certificates (科學技術成果鑒定證書)	<ul style="list-style-type: none"> • Motors (model nos. SWX-180 and SWX-180A) (SWX-180及SWX-180A型永磁無刷(整體式)及(輻條式)直流電動機) • Rechargeable battery products (model nos.18-DZM-12, 6-DZM-10, 6-DZM-12 and 3-DZM-7) (18-DZM-12, 6-DZM-10, 6-DZM-12及3-DZM-7電動助力車專用蓄電池) 	February 2005	Zhejiang Province Scientific Technology Office (浙江省科學技術廳)
Scientific Technology Results Evaluation Certificates (科學技術成果鑒定證書)	<ul style="list-style-type: none"> • Motors for electric bikes • Controllers for electric bikes 	September 2003	Zhejiang Province Scientific Technology Office (浙江省科學技術廳)
CE Declaration of Conformity	6DZM-7, 6DAM-12 and 6DZM-17 lead-acid motive battery products and TN-IC 2820 intelligent charger	April 2001 and December 2003 respectively	Bay Area Compliance Laboratory Corporation, USA and China Ceprei (Sichuan) Compliance Lab. respectively
Exclusive Supplier of Battery Award (天能蓄電池唯一指定使用電池)	Battery products for electric bikes	September 2000	China Bicycle Association Professional Committee (中國自行車協會助力自行車專業委員會)

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Award/recognition	Subject matter of award or recognitions	Month/Year Awarded	Organisation presenting award or recognitions
Certificate of State Focused Products (國家重點新產品)	Rechargeable batteries for electric motive vehicles	December 2001	State Scientific Technology Department, State Tax Authority, State Commercial Department, State Quality Inspection Authority and State Environmental Protection Authority
Certificate of State Focused Products (國家重點新產品)	Application of nano technology into rechargeable battery products (納米基氧化物應用於蓄電池)	April 2003	State Scientific Technology Department, State Tax Authority, State Commercial Department, State Quality Inspection Authority and State Environmental Protection Authority
<i>Corporate</i>			
Environmental Management System Certificate (GB/T 24001-2004 idt ISO 14001:2004)	Production of lead-acid battery series products within the area of Tianneng Battery	April 2007 (valid to April 2010)	China Certification Center for Quality Mark (CQM)
Environmental Management System Certificate (GB/T 24001-2004 idt ISO 14001:2004)	Production and relevant management activities of lead-acid battery series products by Tianneng Power	April 2007 (valid to April 2010)	China Certification Center for Quality Mark (CQM)
Quality Management System Certificate (GB/T 19001-2000 idt ISO 9001:2000)	Design, development and production of lead-acid battery by Tianneng Battery	April 2007 (valid to April 2010)	China Certification Center for Quality Mark (CQM)
Quality Management System Certificate (GB/T 19001-2000 idt ISO 9001:2000)	Production of lead-acid battery for electric bike by Tianneng Power	April 2007 (valid to April 2010)	China Certification Center for Quality Mark (CQM)
High Technology Enterprise Certificate (高新技術企業認定證書)	—	November 2004	Zhejiang Province Scientific Technology Office (浙江省科學技術廳)
Zhejiang Province Well-Known Trademarks Certificate (浙江省著名商標證書)	Battery products (class 9)	January 2005	Zhejiang Province Industrial and Commercial Administrative Authority (浙江省工商行政管理局)

INVENTORY CONTROL

We have adopted an inventory control system in our procurement function with various levels of verification and approval for purchases. Approvals are granted by our procurement department when the related purchase price and ordered quantity were reasonable and in line with our production plans. We have also established a payment authorisation process with monthly analysis of purchases, payment and payables.

To reduce the risk of obsolete inventory due to any change of economic or industrial conditions, we impose control on sourcing of raw materials and components. All purchases will have to be budgeted in our yearly production plan.

Our practice is to keep our inventory of battery products at such level representing twice or three times our daily sales amount, principally for the purpose of meeting any unexpected demand from our major customers.

In order to ensure the quality and performance of our battery products, inventory is kept in uncharged mode. In general, most of our battery products are kept for storage for a period not more than 10 days. However, the storage period may vary depending on the specifications of the products.

Specific provision for inventory will be provided when it is considered necessary and appropriate. For each of the two financial years ended 31 December 2005, there was no specific provision for inventory. For the financial year ended 31 December 2006, an amount of RMB378,000 was provided for this purpose.

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 lead and sulphuric acid. Our Directors confirm that during the operation of our production, we did not release any toxic element other than those that are permitted under the relevant laws and regulations.

Lead is the key raw material used in our production of lead-acid motive battery products. An excessive intake of lead dust or particles, whether through inhaling or skin contact, could have harmful effect on health. Lead poisoning may also result from occupations that involve close and frequent contact with or exposure to lead dust or particles.

Lead dust and particles are generated during our production process. Our workers are exposed to electrode plates during different stages of our production process.

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 each of 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.

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 9 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.

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According to 職業性慢性鉛中毒診斷標準 (Diagnostic Criteria of Occupational Chronic Lead Poisoning) (GBZ37-2002) issued by the Hygiene Department of the PRC government in April 2002, a person who possesses the following symptoms is considered to have lead poisoning:—

	lead poisoning of low degree	lead poisoning of medium degree	lead poisoning of high degree
Symptoms	<p>(a) blood lead level is equal to or more than 600 µg/L (i.e. 60 µg/dL) or urine lead level is equal to or more than 120 µg/L (i.e. 12 µg/dL); and</p> <p>(b) either one of the following symptoms:—</p> <p>(i) δ-aminolevulin acid-ALA is equal to or more than 8,000 µg/L;</p> <p>(ii) free erythrocyte protoporphyrin (EP) is equal to or more than 2,000 µg/L;</p> <p>(iii) zinc protoporphyrin (ZPP) is equal to or more than 13.0 µg/gHb;</p> <p>(iv) abdominal pain, abdominal swelling or constipation</p>	<p>(a) symptoms of lead poisoning of low degree; and</p> <p>(b) either one of the following symptoms:—</p> <p>(i) acute abdominal pain;</p> <p>(ii) anaemia;</p> <p>(iii) mild toxic peripheral neuropathy</p>	<p>(a) either one of the following symptoms:—</p> <p>(i) lead paralysis;</p> <p>(ii) toxic encephalopathy</p>

For each of the three financial years ended 31 December 2006, we incurred on environmental protection approximately RMB11.33 million (of which RMB10.22 million were used in purchase of equipment, RMB0.23 million were used as environmental fees, RMB0.41 million were used for staff insurance and RMB0.47 million were used for staff medical checks and others), RMB17.95 million (of which RMB16.58 million were used in purchase of equipment, RMB0.31 million were used as environmental fees, RMB0.75 million were used for staff insurance and RMB0.31 million were used for staff medical checks and others) and RMB31.75 million (of which RMB29.54 million were used in purchase of equipment, RMB0.26 million were used as environmental fees, RMB1.62 million were used for staff insurance and RMB0.33 million were used for staff medical checks and others), respectively.

Tianneng Battery and Tianneng Power obtained ISO 14001:2004 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 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.

Subsequent to the incident happened in August 2005 as described under “Previous environmental incidents” below, following the recommendations made by Zhejiang Research Institute, we have acquired and installed additional machines and equipment to ensure the compliance of relevant standards in relation to the waste discharges. In addition, we have in place online monitoring equipment at the waste water and fume emitting pipes at our production plants in Meishan Town and Shuyang which are connected to the Zhejiang Environmental Monitoring Centre and the Shuyang Environmental Monitoring Centre, respectively, and allow these two environmental monitoring centres to conduct remote surveillance on our environmental related installations to ensure the proper functioning of our environmental related equipment. In the event of any improper functioning of our environmental related equipment discovered, the respective environmental monitoring centers would inform us in order to ensure timely repair of the relevant equipment. Our Directors would explore with Wuhu Environmental Monitoring Centre on the possibilities of installing similar online monitoring equipment at the Wuhu production plants connected to Wuhu Environmental Monitoring Centre.

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 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, which include daily monitoring of the proper operation of the environmental protection equipment, regular inspection and maintenance of environmental protection equipment, preparing environmental report to the management, and formulating and implementing effective measures in enhancing the environmental protection. A monthly reporting system is in place to report all environmental matters to our Board on a monthly basis.

Our environmental protection equipment primarily includes dust absorbing and removing facilities, acidic mist and lead fumes purifying facilities, acid-proof floor surface and waste water processing facilities. We will also renew and/or upgrade our production equipment and facilities as and when necessary to ensure continuous compliance with the relevant environmental laws and regulations in China.

We have recently engaged Changxing Environmental Monitoring Centre, Wuhu Environmental Monitoring Centre and Shuyang Environmental Monitoring Centre to measure the level of various types of wastage discharged at each of our production plants on a monthly basis after the Proposed Listing. Changxing Environmental Monitoring Centre, Wuhu Environmental Monitoring Centre and Shuyang Environmental Monitoring Centre are subordinate units to Changxing Environmental Protection Bureau, Shuyang Environmental Production Bureau and Wuhu Environmental Protection Bureau, respectively. Their expertise in environmental matters includes (i) managing the local environmental monitoring system (which covers areas such as water, air, soil and noise), (ii) issuance of Environmental Conditions Bulletin and Annual Report, and (iii) provision of environmental supervision and technical consultation services.

The above measurements by Changxing Environmental Monitoring Centre, Wuhu Environmental Monitoring Centre and Shuyang Environmental Monitoring Centre are proposed to be implemented on a monthly basis since it is technically and commercially not justifiable to implement assessment by the independent laboratory more frequently taking into account (i) the whole procedure from testing, analyzing to receiving the results may take weeks to complete and (ii) the estimated cost of each measure at all of the Group's production plants to be implemented by an independent laboratory is approximately RMB100,000 (i.e. RMB100,000 per day if implemented daily) and such measures to be implemented at all of the Group's five production plants on monthly basis is already estimated to cost approximately RMB1.2 million per annum. Such measure provides enhancement to the daily internal monitoring conducted by us and the review and inspection by the local Environmental Protection Bureau which are usually conducted annually in ensuring the Group's waste discharges meeting the relevant standards.

Based on the above and taking into account (i) our implementations of the recommendations by Zhejiang Research Institute (as defined below) to improve our facilities in respect of environmental protection; (ii) the compliance with the relevant rules and regulations of all our production facilities as confirmed by Changxing Environmental Protection Bureau, Shuyang Environmental Protection Bureau and Wuhu Environmental Protection Bureau pursuant to their latest inspection in August 2006; (iii) the installment of the online monitoring equipment which are connected to the Zhejiang Environmental Monitoring Centre; (iv) the proposed engagement of an independent laboratories and/or research institutes to conduct regular tests at all our production plants and (v) the adoption of internal guidelines on safety and environmental management to be observed by all production workers and periodical training in relation to the environmental aspects to all our staff, both our Directors and the Sponsor consider that the Group has adopted measures to ensure continuous compliance with the relevant environmental regulations and waste discharge standards and will be able to conduct its business in full compliance with all relevant environmental laws and regulations.

Although certain number of production staff of Tianneng Power had physical disability, they, as confirmed by the Civil Affairs Bureau of Changxing County, Zhejiang Province (浙江省長興縣民政局) and Changxing branch of China Disabled Persons' Federation (長興縣殘疾人聯合會), were found to have physical disability prior to being a staff of Tianneng Power and their physical disability were not caused in employment, Tianneng Power is not liable for medical cost of the staff with physical disability. The employment of staff with physical disability by Tianneng Power, being a welfare enterprise (民政福利企業), was consistent with the PRC government policy of providing employment opportunities to disabled population in China.

Other than the incident relating to Tianli Battery during its short history within the Group as mentioned in the section headed "History and development" in this prospectus, our Directors confirm that (i) the Group has been in full compliance with and there is no other violation by any member of the Group of any relevant laws, regulations and standard and (ii) the Group has not been involved in any legal claims or proceedings arising from, nor has it been fined in relation to, the discharge of waste from its operations during the Track Record Period and up to the Latest Practicable Date. The Directors, after taking into account the advice of the PRC legal advisers and the discussion with the reporting accountants, are of the view that it was not necessary for our Company to made any provision in relation to possible litigations associated with environmental protection issue.

Our Controlling Shareholders have provided an indemnity on a joint and several basis in favour of us fully and effectually against any costs, claim, penalties, losses and other liabilities which may be incurred or suffered by any members of, the Group as a result of any breach of or non-compliance with, among other things, the national and local environmental laws and regulations in China and the national and local laws and regulations governing health and safety at work in China, committed by the Group prior to the Listing Date.

The Sponsor is of the view that the provision of this undertaking by the Controlling Shareholders is in the interests of the Company and our Shareholders.

Previous environmental incidents

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 10 μ g/dL, 572 children had blood lead level of or above 10 μ g/dL but below 15 μ g/dL, 294 children had blood lead level of or above 15 μ g/dL but below 20 μ g/dL, 137 children had blood lead level of or above 20 μ g/dL but below 25 μ g/dL and 84 children had blood lead level of or above 25 μ g/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 μ g/dL (i.e. 10 to 19.9 μ g/dL) as found in two consecutive measurements is considered to be elevated blood lead level, blood lead level ranging from 200 to 249 μ g/dL (i.e. 20 to 24.9 μ g/dL) as found in two consecutive measurements is considered to be lead poisoning of low degree, blood lead level ranging from 250 to 449 μ g/dL (i.e. 25 to 44.9 μ g/dL) as found in two consecutive measurements is considered to be lead poisoning of medium degree, and blood lead level of more than 450 μ g/dL (i.e. 45 μ g/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 μ g/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 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.

According to the Frost & Sullivan Report, we are the largest electric bike battery manufacturers, in terms of sales revenue, in China in 2005. Our Directors consider that it was not uncommon that such social activities were targeting us, being one of the most established lead-acid battery manufacturers in the region. Despite that there was no scientific or concrete evidence suggesting a causal relationship between the alleged high blood lead level amongst children in Meishan Town and the wastage of the Group, the demonstrations in August 2005 did affect our production arrangements. As a result of the incident mentioned above, we relocated the production facilities of electrode plates to our new production plant in Wuhu City, Anhui Province, which is located within the Xikaihu Industrial Park and relatively remote from any residential area. The environmental and industrial safety facilities at our Wuhu production plant satisfied the standards under the relevant environmental rules and regulations in China.

Due to the above incident, our production activities were disrupted and we also suffered damage to inventory and other properties with a direct loss of approximately RMB2.3 million. As advised by our PRC legal advisers, the legal rights of making civil claims in relation to environmental related issues is three years from the date the affected person first became aware of being affected. Although we have not been fined for the excessive discharges found in November 2005 pursuant to the first investigation report, our PRC legal advisers advised that the government could in future impose penalty on us for our previous excessive discharges. As such, there can be no assurance that the villagers will not claim against any member of the Group in respect of the same incident. Also, there can be no assurance that our production activities would not be interrupted if an incident of similar nature occurs in the future.

During the period the above incidents happened to Tianneng Battery in August 2005, our Directors who were the directors of Tianneng Battery included Mr. ZHANG Tianren, Mr. ZHANG Aogen, Mr. ZHANG Kaihong, Mr. SHI Borong, Mr. GAO Xinkun, Mr. CHEN Minru and Mr. YANG Lianming.

Save as disclosed in this paragraph, our Directors confirm that the Group had not received any claim from any person in connection with elevated blood lead level or similar matter. Our Directors and our PRC legal advisers also confirm that save for the incidents of Tianneng Battery and Tianli Battery as set out under this subparagraph headed "Investigation report issued by the Environmental Science Research & Design Institute of Zhejiang Province" in the paragraph headed "Environmental, health and safety matters" and the subparagraph headed "Tianli Battery" in the paragraph headed "Development milestones" in this section, there was no disputes or administrative proceedings in relation to the allegations about environmental pollution and/or health hazards arising from the Group's business operations.

Subsequent studies and investigation reports

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.

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.

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The following table sets forth the primary recommendations included in the first investigation report and the measures which had been implemented by us and reported in the supplemental investigation report:—

Primary recommendations included in the first investigation report	Measures implemented by us and reported in the supplemental investigation report
<ul style="list-style-type: none">• Adopt bag-shaped dust removing machines in the process of alloy casting	<ul style="list-style-type: none">• Tianneng Battery had adopted the bag-shaped dust removing machines in the process of alloy casting.
<ul style="list-style-type: none">• Lower the temperature and adopt acidic fog purifying machines to minimise the formation of and collect acidic fog in the process of formation	<ul style="list-style-type: none">• The workshops responsible for the formation process had ceased operation and the relevant facilities had been removed.
<ul style="list-style-type: none">• Adopt noise minimising facilities to the air-conditioning machines and electrical appliances	<ul style="list-style-type: none">• The relevant machines which produced the noise had been removed when the workshops responsible for the production of lead powder, battery grids, lead paste and electrode plates had ceased operation.
<ul style="list-style-type: none">• Improve the production process of lead powder, battery grids, lead paste and electrode plates to clean production of those materials	<ul style="list-style-type: none">• The workshops responsible for the production of lead powder, battery grids, lead paste and electrode plates had ceased operation and the relevant facilities had been removed.
<ul style="list-style-type: none">• Improve the processing of electrode plates by adopting dust-absorbing machines	<ul style="list-style-type: none">• Tianneng Battery had adopted dust-absorbing machines in the processing of electrode plates.

The following sets forth the recommendation included in the supplemental investigation report and the measures which had been implemented by us and reported in the third investigation report:—

Recommendation included in the supplemental investigation report	Measures implemented by us and reported in the third investigation report
<ul style="list-style-type: none">• Improve operation of the dust removing machines in the process of alloy casting by switching on the machines prior to the beginning of the process of alloy casting and implement due daily maintenance of the dust removing system	<ul style="list-style-type: none">• Tianneng Battery had cleaned the dust collecting pipes and rooms of the dust removing systems and adjusted the temperature in the process of alloy casting.

The following sets forth the level of discharge and emission of the Group:—

(1) *Industrial exhaust air*

Production facilities	Relevant standard	Pollutants	Maximum permitted emission concentration	The Group's average emission concentration	Conclusion
Changxing	Second class Emission Standard under the "Comprehensive Air Emission Standards" (大氣污染物綜合排放標準) (GB16297-1996)	Lead and its chemical compounds	0.70 mg/m ³	At the test conducted in November 2005 – 0.076 mg/m ³ to 2.60 mg/m ³	Of the Group's 33 air chimneys measured, 29 were with emission concentration lower than 0.70 mg/m ³ and 4 were with emission concentration higher than 0.70 mg/m ³
				At the test conducted in September 2006 – 0.129 mg/m ³ to 0.377 mg/m ³	The emission measured met the relevant standard
				At the test conducted in March 2007 – 0.31 mg/m ³ to 0.47 mg/m ³	The emission measured met the relevant standards
				At the test conducted in May 2007 – 0.12 mg/m ³ to 0.23 mg/m ³	The emission measured met the relevant standards
Shuyang	Second class Emission Standard under the "Comprehensive Air Emission Standards" (大氣污染物綜合排放標準) (GB16297-1996)	Lead and its chemical compounds	0.70 mg/m ³	At the test conducted in March 2007 – 0.004 mg/m ³ (at boundary) ^{Note}	The lead concentration of air met the relevant standards
				At the test conducted in May 2007 – 0.045 mg/m ³	The emission measured met the relevant standards
Wuhu	Second class Emission Standard under the "Comprehensive Air Emission Standards" (大氣污染物綜合排放標準) (GB16297-1996)	Lead and its chemical compounds	0.70 mg/m ³	At the test conducted in March 2007 – 0.262 mg/m ³ to 0.474 mg/m ³	The emission measured met the relevant standards
				At the test conducted in May 2007 – 0.322 mg/m ³ to 0.454 mg/m ³	The emission measured met the relevant standards

Note:—

These represent test results of lead concentration of air at boundary of the production plants which met the relevant standard of 0.006 mg/m³ in China.

(2) Exhaust air from metal melting furnaces

Production facilities	Relevant standard	Pollutants	Maximum organised emission concentration for height of air chimney ≥ 15 meter	The Group's average emission concentration	Conclusion
Changxing	Second class Standard under the "Emission Standards for Air Pollutants of Industrial Furnaces" (工業爐窯大氣污染物排放標準) (GB9078-1996)	Lead	0.1 mg/m ³	At the test conducted in November 2005 – 0.66 mg/m ³	The Group's emission concentration exceed the maximum permitted emission concentration under the relevant standard
				At the test conducted in September 2006 – 4.23 x10 ⁻⁵ mg/m ³ to 6.04 x10 ⁻⁵ mg/m ³	The emission measured met the relevant standard
				At the test conducted in March 2007 – 0.072 mg/m ³	The emission measured met the relevant standard
				At the test conducted in May 2007 – 0.072 mg/m ³	The emission measured met the relevant standard

Note: The relevant emission standard only applicable to the production facilities in Zhejiang.

(3) Waste water

Production facilities	Relevant standard	Pollutants	Standard/Maximum permitted discharge concentration	The Group's average discharge concentration	Conclusion
Changxing	Category I of the First Class Standard under the "Integrated Waste Water Discharge Standards" (污水綜合排放標準) (GB8978-1996)	pH of waste water	6-9	At the test conducted in November 2005 – 7.47 to 7.60	The waste water discharge measured met the relevant standard
				At the test conducted in March 2007 – 8.26 to 8.35	The waste water discharge measured met the relevant standard
				At the test conducted in May 2007 – 6.61 to 8.11	The waste water discharge measured met the relevant standard
				At the test conducted in November 2005 – 0.5 mg/L to 0.965 mg/L	The waste water discharge measured met the relevant standard
		Lead	1.0mg/L	At the test conducted in March 2007 – 0.559 mg/L to 0.577 mg/L	The waste water discharge measured met the relevant standard
				At the test conducted in May 2007 – 0.286 mg/L to 0.810 mg/L	The waste water discharge measured met the relevant standard

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Production facilities	Relevant standard	Pollutants	Standard/Maximum permitted discharge concentration	The Group's average emission concentration	Conclusion
Shuyang	Category I of the Second Class Standard under the "Integrated Waste Water Discharge Standards" (污水綜合排放標準) (GB8978-1996)	pH of waste water	6-9	At the test conducted in March 2007 – 7.2	The waste water discharge measured met the relevant standard
				At the test conducted in May 2007 – 7.68	The waste water discharge measured met the relevant standard
		Lead	1.0mg/L	At the test conducted in March 2007 – 0.13 mg/L	The waste water discharge measured met the relevant standard
				At the test conducted in May 2007 – 0.03 mg/L	The waste water discharge measured met the relevant standard
Wuhu	Category I of the Third Class Standard under the "Integrated Waste Water Discharge Standards" (污水綜合排放標準) (GB8978-1996)	pH of waste water	6-9	At the test conducted in March 2007 – 7.46 to 7.50	The waste water discharge measured met the relevant standard
				At the test conducted in May 2007 – 7.63 to 7.71	The waste water discharge measured met the relevant standard
		Lead	1.0mg/L	At the test conducted in March 2007 – 0.282 mg/L	The waste water discharge measured met the relevant standard
				At the test conducted in May 2007 – 0.234 mg/L	The waste water discharge measured met the relevant standard

As shown in the above table, the level of various types of wastage discharged at our production sites, which were measured by Changxing Environmental Monitoring Centre, Wuhu Environmental Monitoring Centre and Shuyang Environmental Monitoring Centre in 2007, were in compliance with the relevant standards in China.

Saved for those recommendations which require our continuous efforts such as increase the green area of 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.

In addition, 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 sites

in order to (i) assess and document the environmental regulatory status of the sites with respect to the local Chinese regulations, (ii) compare local environmental standards to relevant international environmental standards and (iii) assess whether corrective actions would be required if international environmental standards were to be applied at the sites.

After the assessment, MWH concluded that, among other things, (i) environmental concerns of lead have also been well recognised in China, and there are specific regulations for lead emissions and discharges; (ii) Chinese standards are generally more stringent than other available international standards for air emissions; (iii) for wastewater discharge, the Chinese standards are not as stringent as other selected international standards, however, they apply to discharge to municipal wastewater collection systems for further treatment by local wastewater treatment plant rather than to direct discharge to the environment; (iv) a review of the monitoring data for our production sites indicates that our current wastewater discharges meet some other countries discharge standards such as the ones for France and Germany, and standards for Japan and the United Kingdom apply to direct discharge to surface water bodies, which is not the case for our sites; (v) no additional corrective actions would be required for our five production sites with respect to the status of their environmental discharges to the environment in light of the relevant applicable international environmental standards and (vi) if we were to discharge wastewater directly to the environment and had to comply with the strictest standards for direct wastewater discharge to the environment and/or with the use of the best available technologies, some corrective actions involving further treatment or monitoring would be required, and would cost from US\$750,000 to US\$1,500,000 and requires a maximum of two years to implement. 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.

The subsequent engagement of Zhejiang Research Institute by us in respect of the issuance of the supplemental investigation report and the third investigation report was mainly because Zhejiang Research Institute was the institute conducting the initial investigation and hence, our Directors considered that it would be more efficient and effective for Zhejiang Research Institute to ensure the implementation of their recommendations. However, we have our own internal monitoring system, details of which is set forth under “Environmental, health and safety matters” above, and we do not need to rely on Zhejiang Research Institute as the continuous monitoring measures.

PRODUCT LIABILITY AND INSURANCE COVERAGE

As at the Latest Practicable Date, we maintained property insurance and vehicle insurance policies covering our assets including production plants, inventories, machinery, equipment and vehicles. We also maintained insurance on our employees.

Although, as at the Latest Practical Date, as confirmed by our PRC legal advisers, there were no laws or industrial regulations in China requiring us to maintain any insurance policies relating to product liability for the quality of our products, the Group maintained the product liability insurance for the lead-acid motive battery products. Our Directors confirm that, as at the Latest Practicable Date, we did not receive any material claims relating to product liability relating to our products.

We have not maintained any insurance coverage on environmental liability or possible injury to third parties due to environmental matters as there is no such insurance generally available in China.

INTELLECTUAL PROPERTY RIGHTS

We conduct our business and marketing primarily under the two trademarks below:–



We have registered five trademarks in China and three trademarks in Hong Kong and have applied for registration of two trademarks in China. Details of these registrations and applications for registration are set forth under “Further information about the business of the Group” in appendix VI to this prospectus.

In addition to our trademarks, we utilise various self-owned patents in our production. 7 patents have been registered by us in China, with a further 26 patent applications in progress. Registered patents are valid for 10 years from the date of patent application. Further details of our patent registrations and applications are set forth under “Further information about the business of the Group” in appendix VI to this prospectus.

Our registered trademarks and patents are currently under sufficient protection. As business grows, our policy is to obtain patent protection for our new products and designs in the future. As at the Latest Practicable Date, our Directors were not aware of any material infringement of our trademarks and patents, nor are we threatened with any claim for infringement of any intellectual property rights of third parties.