

CONNECTED TRANSACTIONS

Prior to the Proposed Listing, the Group, in its ordinary course of business, entered into various connected transactions which are of a recurring and continuing nature. Certain of these transactions will cease prior to the Listing Date and certain of these are expected to continue for a period of time after the Proposed Listing. Details of these continuing connected transactions are summarised as follows:—

DISCONTINUED CONNECTED TRANSACTIONS

1. Purchase of products from Meishan Xing Da

During the Track Record Period, Tianneng Battery purchased products from Meishan Xing Da which is wholly-owned by Mr. XU Changquan (許長權). Mr. XU Changquan is a brother-in-law of Mr. ZHANG Tianren, an executive Director. Accordingly, Mr. XU Changquan is an associate of Mr. ZHANG Tianren, and hence both Meishan Xing Da and Mr. XU Changquan are our connected persons for the purposes of the Listing Rules.

The main business of Meishan Xing Da is production and sale of plastic products.

We purchase plastic cases for our motive battery products from various suppliers. Meishan Xing Da was one of the suppliers of our battery cases and for the two financial years ended 31 December 2005 and the period from 1 January 2006 until its deregistration on 28 July 2006, we purchased plastic cases from Meishan Xing Da which amounted to approximately RMB10.5 million, RMB8.5 million and RMB0.3 million, respectively. The transactions between Tianneng Battery and Meishan Xing Da were entered into on arm's length basis at market prices.

As advised by Changxing Changshun, Meishan Xing Da was an individual business (個體工商戶), and the owner of Meishan Xing Da considered that with the growth of its business, it was no longer suitable for Meishan Xing Da to remain as an individual business. To cope with its business development, Mr. XU Changquan ceased the business of Meishan Xing Da and established Changxing Changshun as a limited liability company to continue the business of production and sale of plastic products.

Meishan Xing Da was deregistered in China on 28 July 2006 and hence, Tianneng Battery ceased purchasing plastic battery cases from Meishan Xing Da. Upon deregistration of Meishan Xing Da, we purchase the required plastic cases from Changxing Changshun as detailed under "Continuing connected transactions" below.

2. Purchase of products from Shu Yang Xin Tian

Shu Yang Xin Tian was beneficially owned by Mr. YANG Huiqiang (楊惠強) as to 60 per cent. and Mr. NI Danqing (倪丹青) as to 40 per cent. Mr. YANG Huiqiang is a nephew of Mr. ZHANG Tianren and Mr. ZHANG Aogen and Mr. NI Danqing is a brother-in-law of Mr. ZHANG Tianren and Mr. ZHANG Aogen, both are our executive Directors. Accordingly, Mr. YANG Huiqiang and Mr. NI Danqing are associates of Mr. ZHANG Tianren and Mr. ZHANG Aogen, and hence both Shu Yang Xin Tian, Mr. YANG Huiqiang and Mr. NI Danqing are our connected persons for the purpose of the Listing Rules.

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The business of Shu Yang Xin Tian is storage, transportation and recycle of used batteries, processing of lead, lead alloy materials and lead products. Lead and lead alloy materials are essential materials of electrode plates. In our ordinary course of business, we produce lead and lead alloy materials for our own use and we also purchase lead and lead alloy from other suppliers and engage subcontractors to process such materials for us.

Shu Yang Xin Tian was, since June 2006, one of our suppliers/subcontractors for lead and lead alloy materials, and the transactions between Tianneng Battery and Shu Yang Xin Tian were entered into on arm's length basis and at prices not less favourable than market prices.

On 26 July 2006, Mr. YANG Huiqiang transferred his entire equity interests in Shu Yang Xin Tian to Mr. ZHANG Weihua (張維華), an Independent Third Party, and on 28 August 2006, Mr. NI Danqing transferred part of his equity interests in Shu Yang Xin Tian to Mr. ZHOU Hongqi (周紅旗), an Independent Third Party. Since then, Mr. NI Danqing's equity interest in Shu Yang Xin Tian was reduced to 28 per cent. and Shu Yang Xin Tian has ceased to be our connected person. As such, although the transactions with Shu Yang Xin Tian will continue after the Proposed Listing, the transactions will not constitute connected transactions for us under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Upon the Proposed Listing, the following transactions would constitute continuing connected transactions for us under the Listing Rules:—

A. Continuing connected transactions exempt from independent Shareholders approval requirements but subject to reporting and announcement requirements applicable to continuing connected transactions under rule 14A.34 of the Listing Rules

The following transaction is continuing connected transaction exempt from independent Shareholders' approval requirement only under rule 14A.34 of the Listing Rules by reason that the transactions are on normal commercial terms and the applicable percentage ratios of the transactions expected to be entered into on an annual basis during the duration of the relevant agreement will not exceed 2.5 per cent.:—

1. Purchase of products from Changxing Changshun

Background

Changxing Changshun is a company established in China and is beneficially owned by Ms. YANG Yaqin (楊亞勤) as to 40 per cent., Mr. XU Changquan (許長權) as to 40 per cent. and Ms. XU Wenjuan (許文娟) as to 20 per cent. Ms. XU Wenjuan is a daughter of Ms. YANG Yaqin and Mr. XU Changquan. Ms. YANG Yaqin and Mr. XU Changquan are the sister and brother-in-law, respectively, of the spouse of Mr.

ZHANG Tianren, our executive Director. Accordingly, Mr. XU Changquan (許長權) and Ms. YANG Yaqin (楊亞勤) are associates of Mr. ZHANG Tianren and hence our connected persons, as well as Changxing Changshun, for the purpose of the Listing Rules.

Reasons for the transaction

The main business of Changxing Changshun is production and sale of plastic products. The plastic production division of Tianneng Battery did not produce plastic cases for all models of our motive battery products. In addition, we have since 2006 developed new products which require new type of plastic cases which we did not produce. We therefore need to purchase plastic cases for some models of our motive battery products. Meishan Xing Da used to be one of our suppliers for plastic cases, and the details of the relevant transactions are set forth under “Discontinued connected transactions” above. However, in order to cope with its business development, Mr. Xu Changquan, the owner of Meishan Xing Da, ceased the business of Meishan Xing Da and established Changxing Changshun to continue its business. As such, Changxing Chungshun has become one of our suppliers of plastic cases, and the terms of the purchases from Changxing Changshun are comparable to those purchases by us from other independent third parties of similar products for similar quantities at relevant time when the orders are placed. Such transactions were and will continue to be entered into on arm’s length basis and at market prices.

Pricing and policy

In compliance with the Listing Rules, we have entered into an agreement dated 25 April 2007 with Changxing Changshun pursuant to which we will purchase from time to time plastic cases from Changxing Changshun for the period up to 31 December 2009. The prices of the plastic cases to be purchased from Changxing Changshun will be determined between the parties on an arm’s length basis by reference to prices quoted from Independent Third Parties for purchases of similar products at the relevant time when the relevant orders are placed.

Annual transaction value

Changxing Changshun was established in December 2005 by the owner of Meishan Xing Da, one of our plastic case suppliers. Due to the cease of business of Meishan Xing Da, we shifted our purchases from Meishan Xing Da to Changxing Changshun, and the purchase of plastic cases from Changxing Changshun commenced in March 2006. For the financial year ended 31 December 2006, we purchased plastic cases from Changxing Changshun which amounted to approximately RMB4.9 million.

Our Directors expect that the total purchase of products from Changxing Changshun will be reduced to approximately RMB3.7 million in the financial year ending 31 December 2007 and our Directors expect to terminate those transactions made between Changxing Changshun and our Company in the financial year ending 31 December 2008. Such estimate is based on the projected growth of our production capacity and the total expected amount of products required from Changxing Changshun. Our Directors expect that due to the expected increasing production capacity of our plastic production division and our increasing capability to produce plastic cases for more models of our battery products, less plastic cases would be needed to be purchased from our suppliers including Changxing Changshun.

Implications under the Listing Rules

In respect of such purchase of products from Changxing Changshun, our Directors expect that the applicable percentage ratios as stated in rule 14.07 of the Listing Rules will on an annual basis not exceed 2.5 per cent. Therefore, the transactions with Changxing Changshun for purchase of plastic cases are subject to the reporting and announcement requirements applicable to non-exempt continuing connected transactions under rule 14A.34 of the Listing Rules.

B. Non-exempt continuing connected transactions

1. Sale of products to Zhejiang Changtong

During the Track Record Period, Tianneng Battery sold products to Zhejiang Changtong, which was one of our major customers for the three financial years ended 31 December 2006.

Background

Zhejiang Changtong is a company established in China. When Zhejiang Changtong was established in April 2002, the investors were Mr. ZHANG Tianren, Mr. ZHANG Aogen, Mr. ZHANG Kaihong and Mr. SHI Borong. They sold their equity interests to Mr. NI Danqing and Mr. SHE Zhifu in November 2004, with Mr. NI Danqing being the majority stakeholder. Therefore, Zhejiang Changtong is beneficially owned by Mr. NI Danqing as to 88.08 per cent. and Mr. SHE Zhifu as to 11.92 per cent. Mr. NI Danqing is a brother-in-law of Mr. ZHANG Tianren and Mr. ZHANG Aogen, both are executive Directors. Accordingly, both Mr. NI Danqing and Zhejiang Changtong are associates of Mr. ZHANG Tianren, and hence our connected persons for the purposes of the Listing Rules.

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Reasons for the transaction

We sold products including batteries, chargers, controllers and motors to Zhejiang Changtong as its main business is the production and sale of electric bikes and motorcycles.

Sale of products to Zhejiang Changtong was part of our ordinary course of business.

Pricing basis and policy

In compliance with the Listing Rules, we have entered into an agreement dated 25 April 2007 with Zhejiang Changtong pursuant to which we will sell from time to time products including batteries, chargers, controllers and motors to Zhejiang Changtong for the period up to 31 December 2009. The prices of the products to be sold to Zhejiang Changtong will be determined between the parties on an arm's length basis and by reference to the prices quoted by us for sales of similar quantities of the same or similar products to Independent Third Parties at the relevant time when the relevant orders are placed. We sold products to Zhejiang Changtong through our sales department directly instead of through sales representatives. The sales of products to Zhejiang Changtong were and will be made at prices comparable to the *ex-factory* prices of our products which we offered to our sales representatives and exclusive distributors.

Annual transaction value

For the three financial years ended 31 December 2006, the sales of products to Zhejiang Changtong amounted to RMB13.4 million, RMB15.9 million and RMB25.8 million, respectively.

Our Directors expect sale of products by us to Zhejiang Changtong will increase during the three financial years ending 31 December 2009 and will amount to approximately RMB40.0 million, RMB60.0 million and RMB84.0 million, respectively, and such estimates are based on the historical amount of sales of products to Zhejiang Changtong and the anticipated increase in the demand of our products from Zhejiang Changtong.

Implications under the Listing Rules

Based on the annual transaction value, the applicable percentage ratios as stated in rule 14.07 of the Listing Rules will on an annual basis exceed 2.5 per cent. and that the annual consideration of the transactions with Zhejiang Changtong for sale of products will exceed the limit of HK\$10,000,000 stipulated under rule 14A.34 of the Listing Rules. Therefore, the transactions with Zhejiang Changtong for sale of products are subject to the reporting, announcement and independent Shareholders' approval requirements applicable to non-exempt continuing connected transactions under rule 14A.35 of the Listing Rules.

2. Sale and purchase of products from Nanjing Shuang Neng

Background

Nanjing Shuang Neng is a company established in China and is beneficially owned by Mr. XU Changquan as to 20 per cent., Ms. YANG Yaqin as to 20 per cent. and Mr. CHEUNG Xincheng as to 60 per cent. All sources of funding for the establishment of Nanjing Shuang Neng have been provided by its individual owners personally, and neither Mr. ZHANG Tianren nor our Directors or their respective spouses provided any funding for its establishment. Mr. XU Changquan and Ms. YANG Yaqin are a brother-in-law and the sister, respectively, of the spouse of Mr. ZHANG Tianren, our executive Director. Accordingly, Mr. XU Changquan, Ms. YANG Yaqin and Nanjing Shuang Neng are associates of Mr. ZHANG Tianren and hence our connected persons for the purpose of Listing Rules. Our Directors confirm that the daily operations of Nanjing Shuang Neng is independent from our management. The management team of Nanjing Shuang Neng has proficient management experience and the front line operation heads possess at least five years' experience in the battery industry.

Nanjing Shuang Neng was established in March 2006. It started operation in August 2006 and we commenced purchasing products therefrom since then. Nanjing Shuang Neng is one of our suppliers of electrode plates.

Reasons for the transaction

The business of Nanjing Shuang Neng is production and sale of electrode plates which are one of the essential materials of our lead-acid motive battery products. The production technology of electrode plates is also our core production know-how.

We have decided engaging Nanjing Shuang Neng as one of the main suppliers of electrode plates so as to secure and maintain the quality and standard of electrode plates and to prevent the production know-how of electrode plates being disclosed to other third parties. To guarantee the quality of these electrode plates purchased from Nanjing Shuang Neng, we sell to Nanjing Shuang Neng as well as our other suppliers of electrode plates our lead alloy which is the major production material for our electrode plates. We send technical staff to the production plant of Nanjing Shuang Neng to monitor the production process for electrode plates. In addition, we examine the electrode plates when they are delivered to us. Nanjing Shuang Neng is able to coordinate with us on our specific requirements on the electrode plates.

Pricing basis and policy

In compliance with the Listing Rules, we have entered into an agreement dated 25 April 2007 with Nanjing Shuang Neng pursuant to which we will sell from time to time lead alloy to, and purchase electrode plates from, Nanjing Shuang Neng for the period up to 31 December 2009.

The prices of the products to be purchased from Nanjing Shuang Neng were determined with reference to the prices of our lead alloy sold to them (or the lowest lead price as quoted at the website of Shanghai Nonferrous Metals 上海有色金屬網 (www.smm.com.cn) if we were unable to sell our lead alloy to them) plus a premium representing the processing fee of such electrode plates as agreed between us and Nanjing Shuang Neng. Such premium was determined by reference to the processing fee of our purchase of similar quantities of the same or similar products from Independent Third Parties at the relevant time when the relevant orders are placed. This pricing policy is similar to those of electrode plates we purchased from other Independent Third Parties.

The prices of lead alloy to be sold by us to Nanjing Shuang Neng will be determined between the parties on an arm's length basis and by reference to the prices quoted by us for sales of similar quantities of the same or similar products to Independent Third Parties at the relevant time when the relevant orders are placed.

Annual transaction value

Nanjing Shuang Neng only started operation in August 2006 and for the period from its commencement of operation to 31 December 2006, the amount of transaction with Nanjing Shuang Neng (including sale of lead alloy to and purchase of electrode plates from Nanjing Shuang Neng) was approximately RMB20.3 million.

For the financial years ended 31 December 2005 and 2006, our total purchase of electrode plates amounted to approximately RMB51.8 million and RMB292.3 million, respectively. In terms of quantity purchased, our total purchase of electrode plates in 2005 and 2006 was approximately 1.4 million sets and 6.8 million sets, respectively. Our Directors expect our purchase of electrode plates for the financial years ending 31 December 2007, 2008 and 2009 will amount to approximately RMB433 million, RMB447 million and RMB512 million, respectively, which represents approximately 8.4 million sets, 8.7 million sets and 10.0 million sets, respectively. Our Directors estimate our purchase of the products from Nanjing Shuang Neng in the three financial year ending 31 December 2009 will amount to RMB87 million, RMB108 million and RMB123 million, respectively. Such estimate is based on the expected demand for our battery products, the amount of electrode

plates required, the expected amount of electrode plates produced by us and the expected amount of purchase from other suppliers. We had, since the last quarter of 2006, commenced purchasing electrode plates from Nanjing Shuang Neng. However, Nanjing Shuang Neng only commenced operation in August 2006 and its production volume, though increasing, was not optimized, the amount of purchases from Nanjing Shuang Neng therefore represented only a relatively smaller percentage of our total purchase of electrode plates in 2006. However, we expect that the percentage of our purchase from Nanjing Shuang Neng would increase gradually. For the purpose of determining the annual cap in 2007, 2008 and 2009, we assume that 20 per cent., 24 per cent. and 24 per cent. respectively, of the total amount of electrode plates which are required to be purchased from suppliers of electrode plates will be purchased from Nanjing Shuang Neng.

Our Directors also estimate the sale of lead alloy by us to Nanjing Shuang Neng in each of the three financial years ending 31 December 2009 will amount to RMB28.0 million, RMB35.0 million and RMB40.0 million, respectively. As we sell lead alloy to Nanjing Shuang Neng for their production of our electrode plates, such estimate of sale of lead alloy to Nanjing Shuang Neng are based on the expected amount of electrode plates to be purchased from Nanjing Shuang Neng.

Implications under the Listing Rules

Pursuant to the estimate made by our Directors, the applicable percentage ratios as stated in Rule 14.07 of the Listing Rules will on an annual basis exceed 2.5 per cent. and the annual consideration of the transactions with Nanjiang Shuang Neng for purchase and sale of products will exceed the limit of HK\$10,000,000 stipulated under rule 14A.34 of the Listing Rules. Therefore, the transactions with Nanjing Shuang Neng for purchase and sale of products are subject to the reporting, announcement and independent Shareholders' approval requirements applicable to non-exempt continuing connected transactions under rule 14A.35 of the Listing Rules.

3. *Product sales procurement agreements (產銷承包協議) with sales representatives and for the primary market (the "Procurement Agreements")*

Background

As stated in the section headed "Business" in this prospectus, we have engaged various sales representatives (the "**Sales Representatives**") for the sales of our products to manufacturers of electric bikes (the "**Primary Market**"). We have entered into a Procurement Agreement with each of the Sales Representatives in April 2007.

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All of the Procurement Agreements currently in force are for a term of approximately three years ending on 31 December 2009. Some of the Sales Representatives (the “**Connected Sales Representatives**”) are associates of our Directors and hence our connected persons for the purposes of the Listing Rules. A list of the Connected Sales Representatives is set out below.

Name of the Connected Sale Representatives	Name of related Directors	Relationship
1. SHE Guoqing (佘國清) ^(Note)	ZHANG Tianren (張天任)、 ZHANG Aogen (張敖根)	Cousin's husband
2. CHEN Chiming (陳池明) ^(Note)	ZHANG Tianren (張天任)、 ZHANG Aogen (張敖根)	Cousin's husband
3. SHE Peiqing (佘培清)	ZHANG Tianren (張天任)、 ZHANG Aogen (張敖根)	Cousin's husband
4. CHEN Qinzhong (陳勤忠)	ZHANG Tianren (張天任)、 ZHANG Aogen (張敖根)	Nephew
5. ZHANG Zhiming (張志明)	ZHANG Kaihong (張開紅)	Nephew
6. WANG Jindi (王金娣)	ZHANG Aogen (張敖根)	Sister-in-law
7. DU Peiqiang (杜培強)	ZHANG Aogen (張敖根)	Nephew
8. WU Fuhua (吳富華)	ZHANG Kaihong (張開紅)	Cousin
9. CHEN Zhijie (陳志杰)	ZHANG Tianren (張天任)、 ZHANG Aogen (張敖根)	Nephew
10. CHEN Zhiming (陳志明)	YANG Lianming (楊連明)	Brother-in-law
11. HU Jianqing (胡建清)	ZHANG Kaihong (張開紅)	Cousin's husband
12. CHEN Ying (陳英)	ZHANG Tianren (張天任)、 ZHANG Aogen (張敖根)	Cousin
13. DU Yueping (杜月萍)	ZHANG Aogen (張敖根)	Nephew
14. ZHANG Yan (張燕) ^(Note)	ZHANG Kaihong (張開紅)	Daughter

Note:—

SHE Guoqing, CHEN Chiming and ZHANG Yan also act as our Exclusive Distributors.

Our Directors confirm that during the Track Record Period, none of these Connected Sales Representatives, other than being our sales representatives (and exclusive distributors, as appropriate) and associates of our Directors as set out in the above table, has any other relationship with any member of the Group.

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Reason for the transaction

The electric bike motive battery market was not fully developed at the time Tianneng Battery commenced its business. While non-connected persons might not be very interested in the industry, the management of Tianneng Battery convinced the Connected Sales Representatives joining our business.

The Connected Sales Representatives primarily represented Tianneng Battery in negotiating sales transactions, coordinating the delivery of products, taking responsibility of the settlement of sales and at the same time receiving commission, and Tianneng Battery established direct relationship with the customers. During the course of their engagement and from their own development, these Connected Sales Representatives have established networks and business relationships with manufacturers in our Primary Market.

It is our strategy to adopt the business model of engaging Sales Representatives to develop our business and enhance the sale of our products in the Primary Market. As at the Latest Practicable Date, there were a total 75 Sales Representatives, out of which 14 were Connected Sales Representatives. As these Connected Sales Representatives have been working with us prior to the Proposed Listing, their long-standing experience in and understanding of our products, corporate culture and business development is important to us for our business development. However, we do not rely on these Connected Sales Representatives since all sales orders referred by these Connected Sales Representatives were ultimately placed by and invoices were issued to the customers directly.

We do not intend to employ the Sales Representatives as our staff because of the employment regulations in China. If we employ all Connected Sales Representatives, we need to establish branch offices locations which would not be necessary and may increase operational cost and risks.

Our Directors anticipate that with our business expansion, an increasing number of non-connected Sales Representatives will be engaged by us and hence, the percentage of the Connected Sales Representatives to the total number of our Sales Representatives is expected to reduce.

Pricing basis and policy

The principal terms and conditions of the Procurement Agreements with Connected Sales Representatives are identical with those entered into with non-connected Sales Representatives. The commission we pay to our Connected Sales Representatives is determined by reference

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to the difference between our uniform *ex-factory* prices and the prices charged to our customers based on the pricing negotiated between the Sales Representative and the customers. Such commission policy is identical to that of our non-connected Sales Representatives.

Annual transaction values

For the three financial years ended 31 December 2006, the total amount of commission payable to the Connected Sales Representatives amounted to approximately RMB4.7 million, RMB7.3 million and RMB7.8 million, respectively. The respective sales conducted through the Connected Sales Representatives amounted to approximately RMB79.4 million, RMB100.9 million and RMB135.6 million during the Track Record Period.

Our Directors expect that the commissions to be paid to the 14 Connected Sales Representatives will increase in the three financial years ending 31 December 2009 and are expected to be approximately RMB12.0 million, RMB16.0 million and RMB20.0 million, respectively.

The proposed annual caps for this transaction are based on (i) the historical amounts and the growth of this transaction; (ii) our projected growth of business in the near future to capture the growing demand for electric bike batteries in China, justified by the increase in production capacity of the Group at an average annual growth rate of approximately 49 per cent., reaching an annual production capacity of approximately 41 million lead-acid motive batteries in 2009; and (iii) an expected decrease in the proportion of our sales to be conducted through the Connected Sales Representatives.

Implications under the Listing Rules

In respect of the commission to be received by the 14 Connected Sales Representatives, our Directors expect that the applicable percentage ratios as stated in rule 14.07 of the Listing Rules will on an annual basis exceed 2.5 per cent. and the annual commission to be paid to the 14 Connected Sales Representatives will exceed the limit of HK\$10,000,000 stipulated under rule 14A.34 of the Listing Rules. Therefore, the transactions with the 14 Connected Sales Representatives are subject to the reporting, announcement and independent Shareholders' approval requirements applicable to non-exempt continuing connected transactions under rule 14A.35 of the Listing Rules.

4. Engagement of exclusive distributors for sales to dealers

Background

We have engaged various exclusive distributors (the "**Exclusive Distributors**") for sale of lead-acid motive battery products to dealers or repairing shops of electric bikes which then re-sell the same as replacements in the retail market in China (the "**Secondary Market**").

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The Exclusive Distributors carry on their business in respect of the distribution and sale of products in two ways: (i) introducing purchasers of the products to enter into sale and purchase transactions (the “**Agent Sale Transactions**”) direct with us and receiving a commission and/or (ii) purchasing the products from us at our *ex-factory* prices and then re-selling those products to customers (the “**Direct Sale Transactions**”), and the difference between the *ex-factory* prices and the selling prices represent the profit earned by the Exclusive Distributor.

Certain Exclusive Distributors are associates of our Directors and hence our connected persons for the purposes of the Listing Rules (the “**Connected Exclusive Distributors**”). A list of the Connected Exclusive Distributors is set out below:

Name of the Connected Exclusive Distributors	Name of related Directors	Relationship
1. SHE Guoqing (佘國清) ^(Note)	ZHANG Tianren (張天任)、 ZHANG Aogen (張敖根)	Cousin’s Husband
2. CHEN Chiming (陳池明) ^(Note)	ZHANG Tianren (張天任)、 ZHANG Aogen (張敖根)	Cousin’s Husband
3. CHEN Huichi (陳會池)	YANG Lianming (楊連明)	Brother-in-law
4. CHEN Haichi (陳海池)	YANG Lianming (楊連明)	Brother-in-law
5. YANG Lianzhen (楊連成)	YANG Lianming (楊連明)	Brother
6. SHE Boxing (佘伯興)	SHI Borong (史伯榮)	Son-in-law
7. FAN Suliang (范蘇良)	CHEN Minru (陳敏如)	Nephew
8. DU Peiming (杜培明)	ZHANG Aogen (張敖根)	Nephew
9. ZHANG Jinfeng (張金豐)	ZHANG Kaihong (張開紅)	Son
10. ZHANG Kaiming (張開明)	ZHANG Kaihong (張開紅)	Cousin
11. ZHANG Yan (張燕) ^(Note)	ZHANG Kaihong (張開紅)	Daughter
12. ZHANG Zhifeng (張志峰)	ZHANG Kaihong (張開紅)	Nephew
13. CHEN Chunhua (陳春華)	ZHANG Kaihong (張開紅)	Brother-in-law

Note:—

SHE Guoqing, CHEN Chiming and ZHANG Yan also act as our Sales Representatives.

Our Directors confirm that during the Track Record Period, none of these Connected Exclusive Distributor, other than being our exclusive distributors (and sales representatives, as appropriate) and associates of our Directors as set out in the above table, has any other relationship with any member of the Group except that two of them have been the Group's staff for less than three months.

Reasons for the transaction

The electric bike motive battery market was not fully developed at the time Tianneng Battery commenced its business. While non-connected persons might not be very interested in the industry, the management of Tianneng Battery convinced the Connected Exclusive Distributors joining the business.

The Connected Exclusive Distributors are primarily authorised by Tianneng Battery to sell products within a specified region. However, the demand for products in the particular region does not depend on the Connected Exclusive Distributors. During the course of their engagement and from their own development, these Connected Exclusive Distributors have established networks and business relationships with dealers and shops in our Secondary Market.

It is our strategy to continue engaging Exclusive Distributors to further expand the Secondary Market of batteries for electric bikes. As at the Latest Practicable Date, there were a total 247 Exclusive Distributors, out of which 13 were Connected Exclusive Distributors. As these Connected Exclusive Distributors have been working with us for long time, their long-standing experience in and understanding of our products, corporate culture and business development is important for our business development. However, we do not rely on these Connected Exclusive Distributors since purchases made by these Connected Exclusive Distributors from us for their onward selling to customers (i.e. sales order placed by Connected Exclusive Distributors with us directly) represented only approximately 4.89 per cent., 2.71 per cent. and 2.35 per cent. of our total sales for each of the three financial years ended 31 December 2006, respectively.

We do not intend to employ the Sales Representatives as our staff because of the employment regulations in China. If we employ all Connected Exclusive Distributors, we need to establish branch offices at various locations which would not be necessary and may increase our operational cost and risks.

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Our Directors anticipate that with our business expansion, an increasing number of non-connected Exclusive Distributors will be engaged by us and hence, the percentage of the Connected Exclusive Distributors to the total number of our Exclusive Distributors is expected to reduce.

Pricing basis and policy

The prices offered by us to the Connected Exclusive Distributors, in the case of the Direct Sale Transactions, are the Group's uniform *ex-factory* prices and are the same as those offered to the Exclusive Distributors who are Independent Third Parties.

In the case of the Agent Sale Transactions, the commission paid to our Connected Exclusive Distributors is determined by reference to the difference between our uniform *ex-factory* price and the price charged to our customers based on the prices negotiated for us by the Exclusive Distributors.

Our Company has entered into a contract (the “**After Sale Contract**”) with each of the Exclusive Distributors in April 2007 for a term of approximately three years ending on 31 December 2009 for the purposes of supporting them in their role as distributors to provide after sale services to customers. All the Exclusive Distributors will also receive a fixed amount of monthly subsidy from us as a remuneration of their after sale services provided to customers. The principal terms and conditions of all the After Sale Contracts, including the amount of subsidies and the aforesaid pricing and commission policy, are identical, no matter whether they are connected or non-connected Exclusive Distributors.

Annual transaction values

For the three financial years ended 31 December 2006, (i) the total amount of commission paid to the Connected Exclusive Distributors in the Agent Sale Transactions was approximately RMB0.63 million, RMB0.25 million and RMB0.39 million, respectively, (ii) the fixed amount of annual subsidy paid to the Connected Exclusive Distributors under the After Sale Contracts was approximately RMB0.08 million, RMB0.15 million and RMB0.14 million, respectively, and (iii) the transaction price paid in the Direct Sale Transactions by the Connected Exclusive Distributors were approximately RMB11.9 million, RMB11.2 million and RMB19.4 million respectively,.

CONNECTED TRANSACTIONS

The Directors expect that in the three financial years ending 31 December 2009, (i) the commission to be paid to the Connected Exclusive Distributors in the Agent Sale Transactions will be approximately RMB0.56 million, RMB0.75 million and RMB0.80 million, respectively; (ii) the fixed amount of monthly subsidy to be paid to the Connected Exclusive Distributors under the After Sale Contracts will be approximately be RMB0.19 million for each of the three years; and (iii) the transaction price paid in the Direct Sale Transactions by the 13 Connected Exclusive Distributors will increase to approximately RMB28.0 million, RMB38.0 million and RMB49.0 million, respectively.

The proposed annual caps are based on (i) the historical amounts and the growth of the Agent Sale Transactions and the Direct Sale Transactions and (ii) our projected growth of business in the near future, justified by the increasing production capacity of the Group at an average annual growth rate of approximately 49 per cent. reaching an annual production capacity of approximately 41 million lead-acid motive batteries in 2009; and (iii) an expected decrease in the proportion of our sales to be conducted through the Connected Exclusive Distributors.

Implications under the Listing Rules

In respect of the commission and the monthly subsidies to be paid to the Connected Exclusive Distributors, our Directors expect that the applicable percentage ratios as stated in rule 14.07 of the Listing Rules will on an annual basis be less than 2.5 per cent. and the aggregate amount of the commission and the subsidy will be less than HK\$1,000,000 for each of the three financial years ended 31 December 2009. Therefore, the commission to be paid to the Connected Exclusive Distributors in the Agent Sale Transactions and the monthly subsidies to be paid to the Connected Exclusive Distributors under the After Sale Contracts are exempt from the reporting, announcement and independent Shareholders' approval requirements under rule 14A.31 of the Listing Rules.

In respect of the transaction price paid in the Direct Sale Transactions by the 13 Connected Exclusive Distributors, our Directors expect that the applicable percentage ratios as stated in rule 14.07 of the Listing Rules will on an annual basis exceed 2.5 per cent. and the amount will exceed the limit of HK\$10,000,000 stipulated under rule 14A.34 of the Listing Rules. Therefore, the Direct Sale transactions with the 13 Connected Exclusive Distributors are subject to the reporting, announcement and independent Shareholders' approval requirements applicable to non-exempt continuing connected transactions under rule 14A.35 of the Listing Rules.

CONNECTED TRANSACTIONS

WAIVER FROM THE STOCK EXCHANGE

Under the Listing Rules, any transaction between the Group and any of the chief executive, directors or substantial shareholders of our Company or any of the subsidiaries or an associate of any of them which is carried out on a continuing or recurring basis and is expected to extend over a period of time is considered to be a “continuing connected transaction” so long as the other transaction party remains our connected person, and will require reporting, announcement and/or independent Shareholders’ prior approval when it arises unless it falls within any of the exceptions set out in the Listing Rules.

Following the Proposed Listing, each of the above transactions as described under “Continuing connected transactions” above (collectively referred as the “**Transactions**”) will constitute continuing connected transactions for our Company for the purposes of the Listing Rules.

Our Company has applied to the Stock Exchange for a waiver under rule 14A.42(3) of the Listing Rules from compliance with the independent Shareholders’ approval requirement and announcement requirement in respect of the Transactions; and the Stock Exchange has granted such waiver. Save for the foregoing, we will comply with all applicable rules set out in Chapter 14A of the Listing Rules in relation to the Transactions.

With regard to rules 14A.35(2) and 14A.36(1) of the Listing Rules, the maximum aggregate annual value of each of the Transactions for each of the three financial years ending 31 December 2009 shall not exceed the relevant cap amount set forth below (the “**Cap Amount**”):—

Continuing connected transactions — expenditure nature

Paragraph	Historical transaction amount Financial year ended 31 December			Cap amount Financial year ending 31 December		
	2004	2005	2006	2007	2008	2009
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
A1 ^(Note 2)	10.5 <i>(Note 2)</i>	8.5 <i>(Note 2)</i>	5.2 <i>(Note 3)</i>	3.7	Nil <i>(Note 4)</i>	Nil
B2 ^(Note 5)	Nil	Nil	15.8	87.0	108.0	123.0
B3 ^(Note 6)	4.7	7.3	7.8	12.0	16.0	20.0

Notes: —

- Our Company engaged Changxing Changshun as one of their suppliers of plastic cases for motive battery products since 2006.
- Historical figures provided are based on the amount of purchase from Meishan Xing Da, which has been shifted to Changxing Changshun since the cease of business and the de-registration of Meishan Xing Da on 28 July 2006.
- The historical transaction amount for the financial year ended 31 December 2006 is based on the purchase from both Meishan Xing Da of approximately RMB0.3 million and Changxing Changshun of approximately RMB4.9 million.

CONNECTED TRANSACTIONS

4. Our Directors expect an increase in the production capacity of our plastic production division and its increasing capability to produce plastic cases for more models of our battery products.
5. Our Company engaged Nanjing Shuang Neng as one of their main suppliers of electrode plates, which are one of the essential materials of the lead-acid motive battery products produced by our Company. Historical figures represent our purchases of electrode plates from Nanjing Shuang Neng during the Track Record Period.
6. Our Company entered into the Procurement Agreements with various sale representatives for the sales of their products to manufacturers of electric bikes. Historical figures represent commissions paid to the Connected Sales Representatives during the Track Record Period.

Continuing connected transactions — revenue nature

Paragraph	Historical transaction amount Financial year ended 31 December			Cap amount Financial year ending 31 December		
	2004	2005	2006	2007	2008	2009
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
B1 ^(Note 1)	13.4	15.9	25.8	40.0	60.0	84.0
B2 ^(Note 2)	Nil	Nil	4.6	28.0	35.0	40.0
B4 ^(Note 3)	11.9	11.2	19.4	28.0	38.0	49.0

Notes: —

1. Our Company sold products including batteries, chargers, controllers and motors to Zhejiang Changtong as one of their major customers, whose main business is the production and sale of electric bikes and motorcycles. Historical figures represent our sales of products to Zhejiang Changtong during the Track Record Period.
2. In order to secure and maintain the quality of electrode plates, our Company also sells lead alloy to Nanjing Shuang Neng for their production of electrode plates to us. Historical figures represent our sales of lead alloy to Nanjing Shuang Neng during the Track Record Period.
3. Our Company engaged various exclusive distributors for the sales of lead-acid motive batteries to dealers or repairing shops of electric bikes which then re-sell the same in the retail market in China as replacements. These figures represent amount of sales from Direct Sales Transactions with the Connected Exclusive Distributors. Commission and monthly subsidy paid to the Connected Exclusive Distributors were of expenditure nature, which falls within the category of *de minimis* transactions under rule 14A.31 of the Listing Rules and are exempt from the reporting, announcement and independent Shareholders' approval requirements.

Based on the basis of each of the Transactions as described under the “Continuing connected transactions” above, our Directors, including the independent non-executive Directors, are of the view that the Transactions have been entered, and will be entered into, in the ordinary and usual course of business and on normal commercial terms for transactions of a similar nature and are fair and reasonable and in the interests of our Shareholders taken as a whole. The Sponsor is of the view that the Transactions were conducted, and will be conducted on normal commercial terms, in our ordinary and usual course of business and are fair and reasonable and in the interests of our Shareholders as a whole.

CONNECTED TRANSACTIONS

Our Directors consider that the Group's estimated transaction volume with connected person in the three financial years ending 31 December 2009 is based on the transaction volume with the connected person and its trend during the Track Record Period, or in accordance with the existing agreement, taking into account of the growth of operation scale, market and other factors. Therefore, our Directors, including the independent non-executive Directors, and the Sponsor are of the view that the Cap Amount is fair and reasonable and in the interests of our Shareholders as a whole. In addition, we will comply with rules 14A.35(1), 14A.35(2) and 14A.36 to 14A.40 of the Listing Rules.

In the event that the Group enters into any new transactions or agreements with any connected persons in the future, our Company will comply with the provisions of Chapter 14A of the Listing Rules. In addition, if the four non-exempt continuing connected transactions mentioned above shall continue after the expiry of the current waivers, our Company will comply with the provisions of Chapter 14A of the Listing Rules in relation to non-exempt continuing connected transactions.