TRADING RECORD DURING THE TRACK RECORD PERIOD

The following tables summarised our audited results during the Track Record Period which were extracted from the accountants' report set out in appendix I to this prospectus. Prospective investors should read this section in conjunction with the accountants' report set out in appendix I to this prospectus.

Selected profit and loss accounts data

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

Selected balance sheet data

	As at 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Inventories	57,236	88,272	235,166
Trade and other receivables	68,755	93,243	168,244
Total current assets	365,726	412,380	647,311
Total non-current assets	126,190	251,142	317,101
Trade and other payables	116,908	88,375	260,902
Total current liabilities	270,948	358,899	492,661
Total non-current liabilities	112,297	124,105	25,000
Net current assets	94,778	53,481	154,650
Equity attributable to equity holders of the Company	96,826	180,518	446,751

Financial ratios

	Financial year ended 31 December		
	2004	2005	2006
Gross profit margin	35.03%	31.10%	26.70%
Net profit margin(1)	14.92%	13.44%	14.48%
Effective tax rate	23.86%	3.14%	3.82%
Current ratio(2)	1.35	1.15	1.31
Trade receivables turnover days(3)	43.93	42.87	28.62
Inventory turnover days(4)	64.79	73.87	78.98
Trade payables turnover days(5)	65.30	51.62	53.86
Gearing ratio(6)	47.22%	58.49%	26.05%

Notes:—

1. The net profit margin is calculated by dividing the profit for the year of our Company by the turnover of the year.

2. The current ratio is calculated by dividing the end of year current assets by the end of year current liabilities.

3. The trade receivables turnover days is calculated by dividing the average of the beginning of year and end of year trade receivables (excluding other receivables) by turnover of the year, multiplied by the number of days in the year.

4. The inventory turnover days is calculated by dividing the average of the beginning of year and end of year inventory by cost of sales of the year, multiplied by the number of days in the year.

5. The trade payables turnover days is calculated by dividing the average of the beginning of year and end of year trade payables (excluding other payables) by cost of sales of the year, multiplied by the number of days in the year.

6. The gearing ratio is calculated by dividing the end of year total debts by end of year total assets multiplied by 100 per cent.

MANAGEMENT DISCUSSION AND ANALYSIS

Investors should read the following discussion and analysis in conjunction with the consolidated financial information of the Group during the Track Record Period set forth in the accountants' report set out in appendix I to this prospectus.

Overview

We are a leading motive battery producer in China's personal transportation devices market. Currently, our motive battery products are predominantly used in electric bikes for sale and distribution in China as well as overseas markets. We had the largest market share in the electric bike battery market by sales in 2005, accounting for approximately 12.44 per cent. of the total sales of motive batteries for electric bikes in China that year, which was almost twice the share accounted for by the Group's closest competitor in terms of market share by sales.

The sale of our lead-acid motive batteries accounted for approximately 90.01 per cent., 88.48 per cent. and 88.14 per cent. of our total turnover for each of the financial year ended 31 December 2004, 2005 and 2006, respectively. In addition to our core lead-acid motive battery products, we are also engaged in the production and sales of a series of complementary electrical equipments such as chargers, controllers and motors for electric bikes.

Our turnover grew from approximately RMB370.96 million for the financial year ended 31 December 2004 to approximately RMB521.69 million for the financial year ended 31 December 2005 and to approximately RMB1,019.56 million for the financial year ended 31 December 2006, representing a year on year increase of approximately 40.63 per cent. and 95.43 per cent., respectively. Our net profit grew from approximately RMB55.35 million for the financial year ended 31 December 2004 to approximately RMB70.10 million for the financial year ended 31 December 2005 and to approximately RMB147.66 million for the financial year ended 31 December 2006, representing a year on year increase of approximately 26.64 per cent. and 110.65 per cent., respectively. At the same time, our profit attributable to equity holders grew from approximately RMB49.93 million for the financial year ended 31 December 2004 to approximately RMB68.68 million for the financial year ended 31 December 2005 and to approximately RMB147.66 million for the financial year ended 31 December 2006, representing a year on year increase of approximately 37.55 per cent. and 114.99 per cent., respectively.

Turnover

Our turnover is principally derived from the sale of lead-acid motive battery products and complementary electrical equipment for electric bikes including chargers, controllers and motors. Our turnover represents sales value net of sales tax. During the Track Record Period, almost all of our products were sold in China.

The table below summarises our breakdown of turnover by products:—

Analysis of our turnover by products for each of the Track Record Period

	Financial year ended 31 December					
	2004		2005		2006	
	RMB million	*per cent.*	*RMB million*	*per cent.*	*RMB million*	*per cent.*
Lead-acid motive battery products	333.93	90.01	461.59	88.48	898.60	88.14
Chargers, controllers and motors	24.87	6.71	21.47	4.11	51.26	5.03
Others *(Note)*	12.16	3.28	38.63	7.41	69.70	6.83
Total	370.96	100.00	521.69	100.00	1,019.56	100.00

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

Our turnover is mainly affected by the market size of electric bikes in China. According to the Frost & Sullivan Report, demand for electric bikes in China grew from 0.58 million units in 2001 to 8.50 million units in 2005; whereas market size of electric bikes in China grew from 0.58 million units in 2001 to 21.36 million units in 2005. The growth in the market size of electric bikes has driven the demand for electric bike batteries, both in new electric bikes and as replacement batteries in existing electric bikes. According to the Frost & Sullivan Report, demand for electric bike batteries in China grew from 1.74 million units in 2001 to 51.35 million units in 2005. To capitalise this increasing demand, we expanded our production capacity, especially for lead-acid motive battery products.

In 2004, we have expanded the production facilities in our Changxing production plant. In 2005, we have expanded our production facilities in Tianneng Power. In addition, we have, since October 2005, commenced moving the production line of electrode plates from our Changxing production plant to our new Wuhu production plant, which allowed us to free up areas in our Changxing production plant to increase the number of electricity charging bay, and thus, expanded our overall production capacity in 2006. Set out below is the production capacity of our production facilities during the Track Record Period:—

	Financial year ended 31 December		
Product	**2004**	**2005**	**2006**
	(units in million)	*(units in million)*	*(units in million)*
Lead-acid motive battery products	4.9	6.8	12.4
Chargers	0.30	0.40	0.42
Controllers	0.065	0.09	0.12
Motors	0.065	0.09	0.20

With the increased production capacity, we are able to sell more units of lead-acid motive batteries. The number of lead-acid motive batteries sold by us has increased from approximately 4.71 million units in 2004 to 6.47 million units in 2005 and 11.06 million units in 2006. As a result, we recorded continuous growth in our turnover during the Track Record Period.

In 2005, we have established a new production plant in Zhicheng Town and we have relocated our production facilities for chargers, controllers and motors from Meishan Town to this new production plant in Zhicheng Town. Due to the relocation of our production facilities, our production of chargers, controllers and motors has been slightly affected during that period. As a result, the aggregate number of chargers, controllers and motors sold by us has decreased from 371,000 units in 2004 to 234,000 units in 2005. Our turnover in chargers, controllers and motors re-picked in 2006, the aggregate number of chargers, controllers and motors sold by us has increased to approximately 432,000 units in 2006.

Our products are mainly sold to manufacturers of electric bikes comprising the primary market, and dealers of electric bikes, batteries and accessories comprising the secondary market. Set out below is our turnover in the primary and the secondary markets during the Track Record Period:—

	Financial year ended 31 December					
	2004		2005		2006	
	RMB million	*per cent.*	*RMB million*	*per cent.*	*RMB million*	*per cent.*
Sales to primary market	274.33	73.95	353.68	67.79	633.89	62.17
Sales to secondary market	84.47	22.77	129.38	24.80	315.97	31.00
Others*(Note)*	12.16	3.28	38.63	7.41	69.70	6.83
Total	370.96	100.00	521.69	100.00	1,019.56	100.00

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

The increase in our turnover in 2005 and 2006 was partly driven by the growth in our turnover in the primary market as a result of our increasing efforts in sales to electric bike manufacturers in view of securing volume sales. In response to the increasing demand for replacement batteries with the growth in the market size of electric bikes, we have in 2005, and continuing in 2006, increased our efforts in promoting our sales in the secondary market; hence, in addition to the primary market, our turnover in the secondary market also increased substantially during this period.

Cost of sales

Our cost of sales mainly comprises cost of raw materials, labour, energy, and other production costs. Our raw materials mainly comprises electrolytic lead, electrode plates, plastic battery casings, fibre glass dividing plates, and other materials.

The table below summarises the breakdown of our cost of sales:—

Analysis of our cost of sales for each of the Track Record Period

	Financial year ended 31 December					
	2004		2005		2006	
	RMB million	*per cent.*	*RMB million*	*per cent.*	*RMB million*	*per cent.*
Raw materials	173.39	71.94	289.44	80.52	614.33	82.20
Labour	24.77	10.28	26.96	7.50	37.60	5.03
Energy	17.00	7.05	17.85	4.97	18.95	2.54
Other production costs*(Note)*	25.86	10.73	25.22	7.01	76.47	10.23
Total	241.02	100.00	359.47	100.00	747.35	100.00

Note: Other production costs include depreciation charge, other indirect production materials and other miscellaneous overhead.

The substantial increase in our cost of sales during the Track Record Period was mainly due to the increase in the units of products sold by us and the increase in the cost of raw materials. The table below summarise the breakdown of our costs of raw materials:—

Analysis of our raw materials costs for each of the Track Record Period

	Financial year ended 31 December					
	2004		2005		2006	
	RMB million	*per cent.*	*RMB million*	*per cent.*	*RMB million*	*per cent.*
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 in this table 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.

Gross profit

Our gross profit was approximately RMB129.94 million, RMB162.22 million and RMB272.21 million for the financial years ended 31 December 2004, 2005 and 2006, respectively, representing a gross profit margin of approximately 35.03 per cent., 31.10 per cent. and 26.70 per cent., respectively. The fall in the gross margin of our Group was mainly due to the price of electrolytic lead, the major raw material of the Group for production of its lead-acid motive battery products, rising during the Track Record Period, which has increased our cost of sales.

Due to the worldwide elevating lead price, the selling price of electrolytic lead by our suppliers has increased by 102 per cent. from approximately RMB6,195 per ton in January 2004 to approximately RMB12,520 per ton in December 2006. Set out in the table below is the average monthly selling price of electrolytic lead by our suppliers in each of the year during the Track Record Period.

	Financial year ended 31 December		
	2004	**2005**	**2006**
	RMB/ton	*RMB/ton*	*RMB/ton*
Average price of electrolytic lead	7,506	7,952	10,239

The inflating lead price also led to increases in the cost of our electrode plates, the production material of which is lead. In addition, due to our rapid expansion, our self-produced electrode plates were not sufficient to meet our demand of electrode plates in the production of battery products. As such, we commenced purchasing electrode plates from other suppliers since 2004, and the amount of electrode plates purchased from other suppliers grew continuously in 2005 and 2006. As the price of electrode plates purchased was higher than the cost of our self-produced electrode plates, our cost of sales was further increased.

Other income

In addition to turnover, the Group also derives other income and gains which mainly include interest income, government grants and others.

The table below summarises the breakdown of our other income:

	Financial year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Interest income	574	2,069	3,538
Government grants *(Note 1)*	20,262	7,746	1,309
Others *(Note 2)*	3,129	629	1,224
Total	23,965	10,444	6,071

Notes:—

1. Government grants include various government subsidies received by our Company's subsidiaries granted by a number of government bodies including 長興縣環境保護局, 長興縣財政局, 長興縣人民政府, 長興縣科學技術局, 長興縣國土資源局, 長興縣發展改革和經濟委員會 in respect of encouragement of expansion of enterprise, encouragement of advances in technology, encouragement of enhancement in environmental protection measures, recognition of product development, recognition of technological advancement, award of Well-Known Trademark, encouragement of listing of shares etc. All the government grants and subsidies were recognised at the time the Group fulfilled the relevant granting criteria, and the amount of subsidies set out in this table represents the actual amount of such grants and subsidies received by the Group in that year. Save for the subsidies attributable to the encouragement of listing of shares amounted to approximately RMB14.39 million and RMB6.08 million received in 2004 and 2005, respectively which was granted to the Group particularly, all other government subsidies were available to all other companies who meet the qualification and requirements of the respective grants or subsidies. We were granted the subsidies for encouragement of listing of our shares amounted to approximately RMB14.39 million in 2004 by the Peoples' Government of Changxing County as we are the first enterprise in Changxing County to implement a listing plan. In 2005, the People's Government of Changxing County granted to us other listing subsidies amounted to approximately RMB6.08 million to further facilitate our listing plan in view of bringing positive impact to enterprises in Changxing County to restructure and improve their operations. The aforesaid subsidies of RMB14.39 million and RMB6.08 million in 2004 and 2005, respectively were already received by us and are not refundable in any circumstance.

2. Others include sales of scrap materials and other miscellaneous items.

The significant decrease in our other income in 2005 and 2006 was mainly attributable to the decrease in government grants and subsidies received.

The significant decrease in government grants and subsidies received in 2005 was mainly due to the decrease in subsidies granted to us in relation to the encouragement of listing of shares in 2005. In addition, our Company was entitled to subsidies in relation to encouragement of expansion of enterprise in 2003 and such subsidies were received in 2004. Subsequent to the conversion of Tianneng Battery into a wholly foreign owned enterprise in December 2004, our Company no longer entitled to subsidies for encouragement of expansion of enterprise and such subsidies was discontinued in 2005.

The significant decrease in grants and subsidies received in 2006 was mainly due to the discontinuation of the subsidies in relation to the encouragement of listing of shares.

Distribution costs

Our distribution costs comprise mainly salary of marketing and distribution staff, sales commissions to sales representatives and exclusive distributors, transportation costs, promotional costs, entertainment expenses and costs of after-sales services.

Administrative expenses

Our administrative expenses comprise mainly salary of administrative staff, staff retirement benefits, depreciation costs, bad debt provisions and other expenses.

Change in fair value of redeemable convertible notes carried at fair value through profit or loss

Our Company has, on 22 December 2004, issued Redeemable Convertible Notes in an aggregate principal amount of US$9.5 million (or equivalent to approximately HK$73.91 million) bearing interests at an interest rate of eight per cent. per annum payable annually to the two investors, Power Active and Prax Capital. The Redeemable Convertible Notes will mature on 30 June 2007 and can be converted into Shares at a conversion price of HK$100 per Share initially. The Redeemable Convertible Notes were fully converted in September 2006. Details of the issuance of the Redeemable Convertible Notes are disclosed in the section headed "Business" of this prospectus.

The amount of interests payable at coupon rate for the Redeemable Convertible Notes as at 31 December 2004 and 2005 and 2006 were approximately RMB174,000, RMB6,389,000 and nil, respectively. These amounts are included in the "Trade and other payables" in the consolidated balance sheet of the Group.

According to the Hong Kong Financial Reporting Standards, the fair value of the abovementioned Redeemable Convertible Notes is required to be re-assessed in each financial year and the changes in the fair value of the Redeemable Convertible Notes would be recorded on the profit and loss accounts of our Company.

For each of the financial year ended 31 December 2004 and 2005, the loss arising from the change in fair value of Redeemable Convertible Notes were approximately RMB33.84 million and RMB20.57 million respectively; and for the financial year ended 31 December 2006, the gain arising from the change in fair value of the Redeemable Convertible Notes was approximately RMB1.19 million.

Other operating expenses

Our other operating expenses comprise mainly loss on disposal of property, plant and equipment, subsidies paid and other expenses.

Taxation

Our taxation represents PRC corporate income tax payable by our subsidiaries in China. The corporate income tax rate generally applicable in China is 33 per cent. of taxable income. Certain enterprises are eligible for preferential corporate income tax treatments. Tianneng Battery was converted into a wholly foreign owned enterprise in December 2004, which became entitled to enjoy a tax exemption under the Income Tax Law of the People's Republic of China Concerning Foreign Investment Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法) and the notice (關於外國投資者併購境內企業股權有關稅收問題的通知) granted by State Tax Bureau (國家稅務總局). Under this scheme, taxable profits of Tianneng Battery is entitled to two years' exemption from PRC foreign enterprise income tax ("FEIT") beginning from 2005, followed by a 50 per cent. reduction of the FEIT rate for the following three consecutive years.

In addition, Tianneng Power, as a welfare enterprise (民政福利企業), is entitled to a tax waiver of 80 per cent., 80 per cent. and 75 per cent. of the PRC Enterprise Income Tax during the financial years ended 31 December 2004 and 2005 and the nine months ended 30 September 2006 pursuant to the notice (減免企業所得稅的通知) issued by Zhejiang Provincial Tax Bureau Changxing County branch (長興縣地方稅煤山徵收管理局) and a tax waiver of the value added tax for the year ended 31 December 2003. According to the notice (國家稅務總局關於進一步做好調整現行福利企業稅收優惠政策試點工作的通知) dated 25 September 2006 issued by 財政部 and State Tax Bureau (國家稅務總局), effective from 1 October 2006, the tax waiver on the PRC Enterprise Income Tax entitled by welfare enterprises will be cancelled and replaced by a tax benefit where a portion of its taxable profits, representing 200 per cent. of the salaries paid to staff with physical disability, would be exempted from the PRC Enterprise Income Tax.

Our taxable profit differs from profit as reported in the consolidated income statements because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible which mainly comprise of profit/loss resulted from changes in the fair value of our Redeemable Convertible Notes.

Currently, we are not subject to Cayman Islands income tax pursuant to an undertaking obtained from the Governor in Cabinet. See "Summary of the Constitution of Our Company and the Companies Law — Cayman Islands Company Law — Taxation'' in appendix V to this prospectus.

Critical accounting policies

A summary of the principal accounting policies used in preparation of our financial statement is set forth in note 3 "Significant Accounting Policies" of the accountants' report in appendix I to this prospectus. Our reported financial performance and financial conditions are sensitive to accounting policies, assumptions and estimates that underlie the preparation of the consolidated financial statements.

In reporting our financial performance and conditions, our Directors are required to exercise their judgments based on their experience, their knowledge of other companies in the industry and on other assumptions that they consider reasonable. Our Directors believe that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Basis of consolidation

The financial information of our Company incorporate the financial statements of our Company and entities controlled by our Company (its subsidiaries). Control is achieved where our Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year, other than those of the Group Reorganisation, are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The difference between the fair value of the proceeds from the disposal of interest in a subsidiary and its attributable carrying amount as of the date of disposal is recognised in the consolidated income statement as the gain or loss on disposal of the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interests in subsidiaries

When the Group increases its interest in an enterprise that is already an entity controlled by our Company, goodwill arising on such acquisition represents the difference between the cost of the additional interest in the subsidiary and the minority interest's share of the assets and liabilities reflected in the consolidated balance sheet of our Company at the date of the acquisition of the minority interest. The assets and liabilities of the subsidiary would not be remeasured to reflect their fair values at the date of the transaction.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any identified impairment loss at the balance sheet date.

Construction in progress is stated at cost which includes all development expenditure and other direct costs attributable to such projects. Construction in progress is not depreciated until the construction is completed and the properties and assets are ready for intended use. The cost of completed construction works is transferred to the appropriate category of property, plant and equipment.

Depreciation is provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives, after taking into account of their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from directors, amounts due from related companies, amounts due from shareholders and amount due from a subsidiary, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to directors, amounts due to related companies, bank loans and other loans are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the terms of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Redeemable convertible notes at fair value through profit or loss

Redeemable convertible notes that will or may not be settled other than by the exchange of a fixed amount of cash for a fixed number of our Company's own equity instruments are financial liabilities with embedded derivatives. Derivatives embedded in a financial instrument are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss.

The redeemable convertible notes with embedded derivatives as a whole is designated as financial liabilities at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, the entire redeemable convertible notes with embedded derivatives are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Transaction costs that are directly attributable to the issue of the redeemable convertible notes designated as financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as "other income".

Financial year ended 31 December 2006 compared to financial year ended 31 December 2005

Turnover

For the year ended 31 December 2006, our turnover increased by approximately 95.43 per cent. to approximately RMB1,019.56 million from approximately RMB521.69 million in 2005. In 2006, the turnover generated from our lead-acid motive battery products increased by 94.68 per cent. to approximately RMB898.60 million; while the turnover generated from our chargers, controllers and motors increased by 138.77 per cent. to approximately RMB51.26 million. The increase in our turnover was mainly due to the increase in the demand of electric bike batteries resulted from the growth in the market size of electric bike market in China, and the increase in our production capacity for lead-acid motive battery to 12.4 million units in 2006 from 6.8 million units in 2005, which enabled us to capture the growth in the overall demand of electric bike lead-acid motive batteries in China. The increase in the demand of electric bike in China also lead to an increase in the sales of our other electric bike accessories including chargers, controllers and motors. In addition, we have raised the average unit price of our lead-acid motive batteries during the year as compared to that in 2005 due to the increasing cost of our raw materials. The average unit price of our lead-acid motive batteries in 2006 increased by approximately 14 per cent. to RMB81.2 from approximately RMB71.4 in 2005.

Cost of sales

Our cost of sales in 2006 was approximately RMB747.35 million, representing an increase of approximately 107.90 per cent. compared to that in 2005. Such increase was generally in line with the increase in our turnover.

Gross profit

Our gross profit in 2006 was approximately RMB272.21 million, representing an increase of approximately 67.80 per cent. compared to that in 2005.

Our gross profit margin declined to approximately 26.70 per cent. from approximately 31.10 per cent. The decrease in gross profit margin was mainly due to the increase in the cost of raw materials, in particular, the cost of our electrolytic lead and electrode plates, resulted from the increasing lead price worldwide. In 2006, 82.20 per cent. of our cost of sales was attributed to the cost of raw materials; and during the year, the average monthly selling price of electrolytic lead by our suppliers has increased to approximately RMB10,239 per ton as compared to that of approximately RMB7,952 per ton in 2005.

Other income

Our other income in 2006 was approximately RMB6.07 million, compared to approximately RMB10.44 million in 2005. Such decrease was mainly due to the decrease in government grants received by us, and partly off-set by the increase in interest income in 2006. We have received non-recurring government subsidies amounted to RMB6.08 million in 2005 in relation to the encouragement for the listing of our shares, but no such type of government subsidies were received in 2006.

Distribution costs

Our distribution costs in 2006 increased by approximately 62.61 per cent. to approximately RMB58.02 million. Such increase was mainly due to the increase in sales commission paid to our sales representatives and the increase in transportation costs resulted from the increased turnover. The product warranty expenses, which grew in line with our turnover, also attributed to the increase in our distribution costs.

Administrative expenses

Our administrative expenses in 2006 increased by approximately 79.79 per cent. to approximately RMB55.29 million. The increase in administrative expenses was mainly due to the increases in salary expenses, entertainment expenses and social insurance expenses for our staff resulted from the increase in the number of staff during the year. During the year, the number of our administrative and related staff (which include staff from all other business divisions whose salaries were recorded under administrative expenses) increased to 620 as compared to that of 519 in 2005 and such increase was mainly driven by the commencement of operation of Tianneng Jiangsu and the expansion of our operation. The establishment of our Wuhu plant and the plant of Tianneng Electronic in 2005 also led to increases in office equipment and overheads which resulted in increases in our depreciation charge for the year. In addition, we have incurred more expenses in relation to the listing of the Shares of our Company during the year. These further increased our administrative expenses in 2006.

Change in fair value of redeemable convertible notes carried at fair value through profit or loss

In 2006, we have recorded a gain from the change in fair value of the Redeemable Convertible Notes of approximately RMB1.19 million as compared to a loss of approximately RMB20.57 million in 2005 based on the independent valuation on the fair value of our redeemable convertible notes conducted by Vigers Appraisal & Consulting Limited.

Other operating expenses

In 2006, our other operating expenses decreased by approximately 72.35 per cent. to approximately RMB1.41 million. We experienced one off losses from damage of property, plant and equipment amounted to approximately RMB2.3 million and subsidy given out to children with excessive blood lead level in Meishan Town, Changxing County amounted to RMB1 million in 2005 whereas no such expenses were incurred in 2006.

Finance costs

In 2006, our finance costs increased by approximately 37.26 per cent. to approximately RMB11.24 million. The increase in finance costs was mainly resulted from the increase in our bank loans to finance the establishment of our Wuhu production plant and Shuyang production plant since late 2005. During the year, the People's Bank of China has increased the interest rate for loans with a term ranging from six months to a year from 5.58 per cent. to 6.12 per cent. which has further increased our finance cost. However, as some of the bank loans were repaid prior to the year end, the outstanding bank loans as at 31 December 2006 was lowered.

Taxation

Our taxation in 2006 was approximately RMB5.86 million. Our effective tax rate was approximately 3.82 per cent. which is about the same as approximately 3.14 per cent. in 2005.

Profit for the year and profit attributable to equity holders

In 2006, our profit for the year was approximately RMB147.66 million, representing an increase of approximately 110.65 per cent. as compared to the profit for the year of approximately RMB70.10 million in 2005. Our profit attributable to equity holders was approximately RMB147.66 million in 2006, representing an increase of approximately 114.99 per cent. compared to the profit attributable to equity holders of approximately RMB68.68 million in 2005. Our net profit margin in 2006 was 14.48 per cent., compared to that of 13.44 per cent. in 2005. The improvement in our net profit margin was a result of the combined effect of the abovementioned analysis.

Current ratio

Our current ratio was approximately 1.31 in 2006 compared to approximately 1.15 in 2005. The increase in current ratio was mainly due to the decrease in short-term bank loan and the increase in bank balances and cash attributable to our profit for the year during 2006. Although the ending inventory and trade and other receivables have increased, the effect has been off-set by the increase in trade and other payables which is in line with the strong growth of the Group.

Trade receivables turnover days

Our trade receivables turnover days were approximately 28.62 days in 2006, which decreased from approximately 42.87 days in 2005. The percentage of our sales generated from the secondary market increased from approximately 24.80 per cent. in 2005 to approximately 31.00 per cent. in 2006. As our sales to the secondary market were mostly settled at delivery without any credit period, our increasing sales to the secondary market has lowered our average trade receivables turnover days. Further, we have increased our efforts in receivables collection in the primary market. Hence, our trade receivables turnover days decreased significantly in 2006.

Inventory turnover days

Our inventory turnover days were approximately 78.98 days in 2006, which increased from approximately 73.87 days in 2005. The slight increase in our inventory turnover days was mainly due to the increase in inventory level to meet the anticipated increasing demand of our products.

Trade payables turnover days

Our trade payables turnover days were approximately 53.86 days in 2006, which is similar to that of approximately 51.62 days in 2005.

Gearing ratio

Our gearing ratio, being our total debts divided by total assets, decreased to approximately 26.05 per cent. in 2006 from approximately 58.49 per cent. in 2005. Such decrease in gearing ratio was mainly due to the full conversion of the Redeemable Convertible Notes into Shares during the year which largely decreased the total level of our debts.

Financial year ended 31 December 2005 compared to financial year ended 31 December 2004

Turnover

For the year ended 31 December 2005, our turnover increased by approximately 40.63 per cent. to approximately RMB521.69 million from approximately RMB370.96 million in 2004. In 2005, the turnover generated from our lead-acid motive battery products increased by 38.23 per cent. to approximately RMB461.59 million; while the turnover generated from our chargers, controllers and motors dropped by 13.70 per cent. to approximately RMB21.47 million. The increase in turnover generated from our lead-acid motive battery products was mainly due to (i) the growth in the overall market size and demand of electric bike lead-acid motive batteries in China driven by the increasing demand of electric bike in China as described in the Frost and Sullivan Report; and (ii) the increase in our annual production capacity for lead-acid motive batteries to 6.8 million units in 2005 from 4.9 million units in 2004 which allowed us to capture the increased demand for our battery products. In 2005, the average unit price of our lead-acid motive batteries was approximately RMB71.4, which is about the same of approximately RMB70.9 in 2004.

Cost of sales

Our cost of sales in 2005 increased by 49.14 per cent. to approximately RMB359.47 million from approximately RMB241.02 million in 2004. Such increase was generally in line with the increase in our turnover.

Gross profit

Our gross profit in 2005 increased by 24.84 per cent. to approximately RMB162.22 million from approximately RMB129.94 million in 2004. Our overall gross profit margin declined slightly to approximately 31.10 per cent. from approximately 35.03 per cent. The decline in gross profit margin was mainly due to the surge in the cost of raw materials.

During the year, 80.52 per cent. of our cost of sales was attributed to the cost of raw materials. The monthly average purchase price of lead by our Company has increased from approximately RMB7,506 per ton in 2004 to approximately RMB7,952 per ton in 2005. The increase in lead price also increased the cost of our electrode plates, the major production material of which is lead. During 2005, our self-produced electrode plates are not sufficient to meet our demand of electrode plates in the production of battery products. As such, we increased our purchase of electrode plates from other suppliers from approximately RMB18.85 million in 2004 to approximately RMB51.81 million in 2005. Since the price of electrode plates we purchased was higher than the cost of our self-produced electrode plates, our cost of sales was further increased in 2005. Hence, our gross profit margin declined slightly.

Other income

Our other income in 2005 decreased by approximately 56.42 per cent. from approximately RMB23.97 million to approximately RMB10.44 million. The significant decrease in our other income in 2005 was mainly due to the decrease in government grants received. We have received government grants of non-recurring nature amounted to approximately RMB14.39 million as subsidy in 2004, and no such type of government grants were received in 2005.

Distribution costs

Our distribution costs in 2005 increased by approximately 26.03 per cent. to approximately RMB35.68 million. The increase in distribution costs was resulted from the increase in sales commissions paid to our sales agents and transportation costs which were mainly driven by the increase in our turnover.

Administrative expenses

Our administrative expenses in 2005 increased by approximately 119.62 per cent. to approximately RMB30.76 million. Such increase was mainly resulted from the increase in our salary and staff benefits as a result of additional staff hired to cope with the establishment of Tianneng Wuhu and the commencement of operation of Tianneng Electronic. In 2005, the number of our administrative and related staff (which include staff from all other business divisions whose salaries were recorded under administrative expenses) increased to 519 as compared to that of 354 in 2004. The establishment of Tianneng Electronic has also led to an increase in our administrative expenses. During the year, we have bad debts provision of approximately RMB2.9 million, which further increased our administrative expenses.

Change in fair value of redeemable convertible notes carried at fair value through profit or loss

In 2005, we have recorded a loss from the change in fair value of Redeemable Convertible Notes of approximately RMB20.57 million as compared to a loss of approximately RMB33.84 million in 2004 based on the independent valuation on the fair value of our Redeemable Convertible Notes conducted by Vigers Appraisal & Consulting Limited.

Other operating expenses

Our other operating expenses in 2005 increased by approximately 393.80 per cent. from approximately RMB1.03 million to approximately RMB5.10 million. Such increase was mainly due to the loss from damages of property, plant and equipment of approximately RMB2.3 million and the subsidy amounted to RMB1 million paid to the children with excessive blood lead level in Meishan Town, Changxing County after the incident happened in August 2005 (details of which is set out under the section headed "Business" in this prospectus).

Finance costs

Our finance costs in 2005 increased by approximately 76.76 per cent. from approximately RMB4.63 million to approximately RMB8.19 million. Our short-term loan in 2005 has increased significantly to approximately RMB253.8 million from approximately RMB119.8 million in 2004 to finance the establishment of our production plants in Shuyang and Wuhu in 2005, and hence, our finance costs increased accordingly.

Taxation

Our taxation in 2005 declined by approximately 86.88 per cent. to approximately RMB2.28 million. The significant decrease in our taxation was mainly due to the conversion of Tianneng Battery into a wholly foreign owned enterprise on 14 December 2004 which, beginning from 2005, is entitled to an exemption from PRC foreign enterprise income tax. In addition, Tianneng Power as a welfare enterprise continued to entitle a tax waiver of 80 per cent. on its income. Accordingly, effect of tax exemptions granted to our subsidiaries increased to approximately RMB32.89 million in 2005. As such, our effective tax rate decreased to approximately 3.1 per cent. in 2005 from 23.9 per cent. in 2004.

Profit for the year and profit attributable to equity holders

For the year ended 31 December 2005, our profit for the year was approximately RMB70.10 million, representing an increase of approximately 26.64 per cent. as compared to the profit for the year of approximately RMB55.35 million in 2004. Our profit attributable to equity holders was approximately RMB68.68 million in 2005, representing an increase of approximately 37.55 per cent. as compared to RMB49.93 million in 2004. Our net profit margin in 2005 was 13.44 per cent., which was slightly decreased from that of 14.92 per cent. in 2004. The decline in our net profit margin was a result of the combined effect of the abovementioned analysis.

Current ratio

Our current ratio was approximately 1.15 in 2005 compared to approximately 1.35 in 2004. The decrease in our current ratio was mainly resulted from the combined effect of the increase in our current liabilities due to the increase in our short-term bank loan in 2005 to finance the establishment of our production plants in Shuyang and Wuhu, and the decrease in our current assets due to the deposit of RMB60 million paid in 2005 for the acquisition from 長興縣土地儲備中心 through a bidding held by the Land and Resources Ministry of Changxing Province (長興縣國土局) of land use right to a piece of land designated for commercial development. In view of focusing in our core business, the acquisition of such land use right was terminated in 2006 and the RMB60 million paid was refunded to us in 2006.

Trade receivables turnover days

Our trade receivables turnover days were approximately 42.87 days in 2005, which is about the same of approximately 43.93 days in 2004.

Inventory turnover days

Our inventory turnover days were approximately 73.87 days in 2005, which increased from approximately 64.79 days in 2004. The increase in inventory turnover days was mainly due to the increase in inventory, in particular, the increase in our work-in-progress of approximately 84.48 per cent. in 2005 to meet the anticipated increasing demand of our product.

Trade payables turnover days

Our trade payables turnover days were approximately 51.62 days in 2005, which declined from approximately 65.30 days in 2004. There was an excess demand of lead, the major raw material of our production, in China in 2005 and during the second half of 2005, our lead suppliers generally requested us to make more prepayments prior to delivery of lead and more settlement to be made in cash. As such, our trade payables decreased and our trade payables turnover days declined. In addition, a proportion of the bills payables (which were included in trade payables) fell due before the year end of 2005 and therefore, the level of trade payables was lowered at the year end of 2005 and the trade payables turnover days decreased accordingly.

Gearing ratio

Our gearing, being our total debts divided by our total assets, was approximately 58.49 per cent. in 2005, which increased from approximately 47.22 per cent. in 2004. Such increase was mainly due to the increase in our short-term bank loans in 2005 (mostly in the second half of 2005).

INDEBTEDNESS AS AT 31 MARCH 2007

Borrowings

As at the close of business on 31 March 2007, being the latest practicable date for the indebtedness statement prior to the printing of this prospectus, we had outstanding indebtedness of approximately RMB348.30 million, which comprised of short term bank loans of approximately RMB277.20 million, long term bank loans of approximately RMB50.00 million and discounted bills of approximately RMB21.10 million. Of the short term bank loans, approximately RMB68.9 million were secured by property, plant, equipment and land use rights of the Group, approximately RMB78.8 million were secured by guarantees given by the connected persons of our Company, and approximately RMB20.0 million were secured jointly by property and land use rights of the Group and guarantees given by the connected persons of our Company. The remaining RMB109.5 million were unsecured. All the long term bank loans were unsecured.

Contingent liabilities

As at 31 March 2007, we had no material contingent liabilities.

Disclaimers

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 31 March 2007.

Our Directors have confirmed that there have been no material changes in our indebtedness and contingent liabilities since 31 March 2007.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow and liquidity position

During the Track Record Period, we satisfied our working capital needs principally from cash flow from operations and bank loans. As at 31 December 2006, we have cash and cash equivalents of approximately RMB144.72 million, representing an increase of approximately 28.91 per cent. from approximately RMB112.26 million as at 31 December 2005.

The following table summarise our cash flow during the Track Record Period:—

	Financial year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Net cash from operating activities	99,874	3,267	101,146
Net cash used in investing activities	(113,008)	(165,849)	(50,547)
Net cash from (used in) financing activities	143,273	117,032	(18,144)
Cash and cash equivalent at the end of the year	157,813	112,263	144,718

Net cash flow from operating activities

Net cash flow generated from our operating activities was approximately RMB99.87 million, RMB3.27 million and RMB101.15 million for the year ended 31 December 2004, 2005 and 2006, respectively.

The decrease in the net cash flow generated from operating activities in 2005 was mainly due to the significant decrease in our trade and other payables. During the year, we have been requested by most of our suppliers of lead, the major raw material for our production, for more prepayments prior to delivery of lead, more settlement to be made in cash, as well as shortened credit periods given the shortage in supply of lead in China in that year. As a result, we have recorded significant decrease in our trade and other payables in 2005 when compared with that in 2004.

The significant improvement in our net cash flow generated from operating activities in 2006 was mainly attributable to our operating profit during the year together with a significant increase in our trade and other payables in 2005. The significant increase in trade and other payables in 2006 was mainly driven by the increase in our turnover and the increase in the price of lead. In addition, the increase in our bills payables for settlement of our purchases further increases our trade and other payables. Although our bills payables increased for the year ended 31 December 2006, the aggregate amount of bills issued only amounted to approximately RMB169 million as compared to that of approximately RMB200 million in 2005. Hence, our restricted bank deposit as at 31 December 2006 which was required for securing the issuance of bills decreased slightly as compared to that of 2005.

Net cash flow from investing activities

Net cash outflow used in our investing activities were approximately RMB113.01 million, RMB165.85 million and RMB50.55 million for the year ended 31 December 2004, 2005 and 2006, respectively.

In 2005, the increase in our purchase of property, plant and equipment resulted from the establishment of our new production plants in Shuyang and Wuhu and the establishment of additional production plant in Changxing, which required large investments in machinery and equipment, increased our cashflow in investing activities. In 2005, we also recorded deposit paid for acquisition of land use right of RMB60 million which resulted in a significant increase in our cashflow used in investing activities. Such deposit was subsequently refunded in 2006 as our Company ceased the proposed acquisition of such land. Although we purchased additional property, plant and equipment, the aforesaid refund of the deposit paid in respect of the proposed acquisition of land and the decrease in restricted bank deposits led to a decrease in the net cash flow used in our investing activities in 2006.

Net cash flow from financing activities

Net cash flow generated from financing activities were approximately RMB143.27 million and RMB117.03 million for the year ended 31 December 2004 and 2005; and net cash outflow used in our financing activities was RMB18.14 million for the year ended 31 December 2006.

Our net cash flow generated from financing activities in 2004 was mainly due to our bank loans for expansion of our production facilities and the issuance of the Redeemable Convertible Notes to Power Active and Prax Capital as part of our group reorganisation. Our net cash flow generated from financing activities in 2005 was mainly due to the additional bank loans obtained to finance the establishment of our new production plants in Changxing, Shuyang and Wuhu during the year. We recorded net cash outflow used in financing activities in 2006 mainly due to the larger amount of bank loans and other loans repaid as compared to the amount of new bank loans obtained in the year.

Capital commitment

As at 31 December 2006, we had commitments in respect of acquisition of property, plant and equipment of approximately RMB27.59 million which has been contracted for but not provided in the financial information. There was no capital commitment which was authorised but not contracted for as at 31 December 2006.

Capital structure

As at 31 December 2006, we had net tangible assets of approximately RMB446.75 million, comprising non-current assets of approximately RMB317.10 million (mainly comprising property, plant and equipment), non-current liabilities of RMB25.00 million and net current assets of approximately RMB154.65 million.

Banking facilities

Certain of the Group's banking facilities as at 31 December 2006 were guaranteed by the connected persons of the Company. Details of guarantees provided by the connected persons of our Company are set out in the table below:—

Bank	Amount utilised and outstanding as at 31 December 2006	Guarantees given by
	(RMB million)	
A PRC Commercial Bank, Changxing Branch	10	Mr. ZHANG Tianren *(Note 1)*
A PRC Commercial Bank, Changxing Branch	20	Mr. ZHANG Tianren *(Note 1)* and land use rights of a subsidiary of the Company
A PRC Commercial Bank, Gaoxin Branch	20	Jinling Hotel (長興縣金陵大酒店) *(Note 2)* and Mr. ZHANG Tianren
A PRC Commercial Bank, Changxing Branch	20	Mr. ZHANG Tianren *(Note 1)* and the property of a subsidiary of the Company
A PRC Commercial Bank, Changxing Branch	8.8	Mr. ZHANG Tianren *(Note 1)* and Jinling Hotel (長興縣金陵大酒店) *(Note 2)*

Notes:

1. Mr. ZHANG Tianren is a Director and the Controlling Shareholder.

2. Jinling Hotel (長興縣金陵大酒店) is beneficially owned by Mr. ZHANG Tianren.

3. As at 31 March 2007, the guarantees given by our Company's connected parties in relation to the Group's bank borrowings has increased to RMB98.8 million due to the increase in bank borrowings of RMB20 million which were guaranteed by the connected parties of our Company. In addition to the guarantees amounted to approximately RMB78.8 million in relation to our bank borrowings as at 31 December 2006, Mr. ZHANG Tianren has also provided guarantees amounted to RMB10 million to secure the other banking facilities of the Group as at 31 December 2006.

The creditor banks have agreed that the guarantees given by our Company's connected parties shall be released and replaced by a corporated guarantee to be issued by our Company upon the Proposed Listing.

Other loan

We have in 2005 obtained a loan in the amount of RMB10 million from Changxing Yongxin Construction Development Company Limited (長興永信建設開發有限公司), an Independent Third Party. The lender was introduced to us by Mr. ZHANG Tianren, a Director, and the loan was unsecured and carried an interest of 5.74 per cent. per annum. In 2005, we established Tianneng Wuhu and Tianneng Jiangsu. In view of the then capital requirement for the development of our production plants in Wuhu and Jiangsu, such loan (which did not required any security and is available without the need of going through the processing and approval procedures for loans granted by banks) provides additional financing to fund the capital requirement of the Group at that time.

According to our PRC legal advisers, the provision of the aforesaid loan to us from Changxing Yongxin Construction Development Company Limited constituted a breach of the PRC laws. The aforesaid loan was already fully repaid in May 2006. As advised by our PRC legal advisers, the loan agreement entered into between the Group and Changxing Yongxin Construction Development Company Limited is therefore invalid. As advised by our PRC legal advisers, this kind of breaches would normally be investigated by the government authority only when a claim was made against the Group and as the entire amount of the loan has already been fully repaid and there has been no dispute in respect of such loan among the respective parties, it is unlikely that a claim of such breach would be made by any party. Hence, as advised by our PRC legal advisers, our Company is unlikely to be subject to penalties as a result of receiving such loan from Changxing Yongxin Construction Development Company Limited.

Directors' opinion of the working capital

Our Directors are of the opinion that, taking into consideration the financial resources available to us including our internally generated funds, bank facilities and the estimated net proceeds from the Share Offer, the working capital available to us is sufficient for our present requirements, that is for at least the next 12 months from the date of publication of this prospectus.

DIVIDEND POLICY

Our Shareholders will share proportionally all dividends and distributions declared by our Company in accordance with the applicable laws and regulations and the relevant provisions in the Articles.

During the Track Record Period, we declared dividends of approximately RMB14.18 million in 2004. Our Directors declared a final dividend of approximately RMB44.3 million in April 2007 for the financial year ended 31 December 2006.

The amount of our Company's dividend will be determined by our Directors at their full discretion, taking into consideration of our working capital requirement, the progress and the funding requirement of our future business plans. Our Directors currently anticipate that the final dividend for the financial year ending 31 December 2007 will be not less than 30 per cent. of our Company's consolidated distributable profit for the financial year.

Our Directors consider that our Company's dividend policy mentioned above will not adversely affect our working capital position.

DISTRIBUTABLE RESERVES

Our Group had distributable reserves of approximately RMB334.77 million available for distribution to our Shareholders as at 31 December 2006, the date on which our latest financial statements were made up.

PROPERTY INTERESTS

Our property interests held in China

As at the Latest Practicable Date, there were 8 properties held and occupied by the Group in China, including:—

(i) An industrial complex located at Jianxia Village, Meishan Town, Changxing County, Zhejiang Province, The PRC

(ii) An industrial complex located at Industrial Park District of Meishan Town, Changxing County, Zhejiang Province, The PRC

(iii) An industrial complex located at Baoqiao Village, Baijiabang, Zhicheng Town, Changxing County, Zhejiang Province, The PRC

(iv) A dormitory complex located at Baoqiao Village, Baijiabang, Zhicheng Town, Changxing County, Zhejiang Province, The PRC

(v) An industrial complex located at Changxing Road, Tianneng Road, Shuyang County Economic Development Zone, Jiangsu Province, The PRC

(vi) A dormitory complex located at Yuhuan Road, South Area, Shuyang County Economic Development Zone, Jiangsu Province, The PRC

(vii) An industrial complex located at the junction of Lungshan Road and Fengminghu Road, Xikaihu Industrial Park, Wuhu City Economic and Technology Development Zone, Auhui Province, The PRC

(viii) A parcel of land located to the west of Fengminghu North Road, Xikaihu Industrial Park, Wuhu City Economic and Technology Development Zone, Anhui Province, The PRC

Our Company owns the land use rights and building ownership certificates for all the 8 properties set out above.

Our property interests rented by the Group in Hong Kong

As at the Latest Practicable Date, there was 1 property rented by the Group in Hong Kong, which was:—

(i) Unit No. 5509, 55th Floor, Central Plaza, No. 18 Harbour Road, Wanchai, Hong Kong

Property valuation

Vigers Appraisal & Consulting Limited, an independent valuer, has undertaken an assessment with regard to the valuation of our property interests as at 31 March 2007 as having an open market value of approximately RMB260.66 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in appendix III to this prospectus.

The table below shows the reconciliation from the audited net book value of our property interests as at 31 December 2006 to their carrying value as at 31 March 2007 as stated in appendix III to this prospectus:—

	RMB'000
Audited net book value of the property interests of the Group as at 31 December 2006 *(Note)*	180,382
Movement for the period from 1 January 2007 to 31 March 2007	
Addition of land and building	26,957
Depreciation	(2,159)
Unaudited net book value as at 31 March 2007	205,180
Valuation surplus	55,480
Valuation as at 31 March 2007, as per appendix III of this prospectus	260,660

Note: The net book value of the property interests of the Group as at 31 December 2006 represents a total net book value of prepaid lease payments for land use rights and buildings as at 31 December 2006.

LOANS TO RELATED COMPANIES

During the financial years ended 31 December 2004, 2005 and 2006, the Group has provided loans and advances to certain related companies including Tianli Battery, Zhejiang Changtong and Shu Yang Xin Tian. Amount of loans and advances provided to each of the aforesaid related companies in each year during the Track Record Period were set out in the accountants' report in appendix I to this prospectus. As at the Latest Practicable Date, all of these loans and advances have already been fully repaid by the respective related companies.

According to our PRC legal advisers, the loans and advances to these related companies constituted a breach of the PRC laws. As advised by our PRC legal advisers, this kind of breaches would normally be investigated by the government authority only when a claim was made against the Group and as all the loans and advances have already been fully repaid and there has been no dispute in respect of the interest payments of such loans and advances among the respective parties, it is unlikely that a claim of such breach would be made by any party. Hence, as advised by our PRC legal advisers, our Company is unlikely to be subject to penalties as a result of the provision of such loans and advances to the related companies.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure obligation pursuant to Rules 13.13 to 13.19 of the Listing Rules.

DIRECTORS' CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of our Company or its subsidiaries since 31 December 2006, the date on which latest audited consolidated financial statement of our Company and its subsidiaries were made up.

UNAUDITED PRO FORMA NET TANGIBLE ASSETS

The following statement of unaudited pro forma net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out here to illustrate the effect of the Share Offer on the consolidated net tangible assets of the Group as at 31 December 2006 as if they had taken place on 31 December 2006.

The unaudited pro forma net tangible assets has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of the Group following the Share Offer. It is prepared based on the consolidated net tangible assets of the Group attributable to equity holders of our Company as at 31 December 2006 as extracted from the accountants' report, the text of which is set out in appendix I to this prospectus, and adjusted as described below. The unaudited pro forma net tangible assets statement does not form part of the accountants' report.

	Audited consolidated net tangible assets of our Group as of 31 December 2006	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted net tangible assets of the Group	Unaudited pro forma net tangible assets per Share
	(Note 1)	*(Note 2)*		*(Note 3)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB*
Based on an Offer Price of HK$1.48 per Share	446,751	347,287	794,038	0.79
Based on an Offer Price of HK$1.92 per Share	446,751	453,062	889,813	0.90

Notes:

1. The audited consolidated net tangible assets as of 31 December 2006 is extracted from the accountants' report set out in appendix I to this prospectus.

2. The estimated net proceeds from the Share Offer are based on indicative Offer Prices of HK$1.48 and HK$1.92 per Share and on the basis of 250,000,000 New Shares to be offered under the Share Offer, after deduction of the underwriting fees and other related expenses payable by our Company without taking into account any Shares which may be issued upon the exercise of the Over-allocation Option.

3. The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,000,000,000 Shares were in issue after completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of the Over-allocation Option and any option which may be granted under the Share Option Scheme or any Share which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate and the Repurchase Mandate.

4. The Group's property interests were valued by Vigers Appraisal & Consulting Limited as at 31 March 2007 and the valuation report was set out in appendix III to this prospectus. The net revaluation surplus, representing the excess of market value of the property interests of RMB260.66 million over their unaudited net book value of RMB205.18 million as at 31 March 2007, is approximately RMB55.48 million. Such revaluation surplus has not been included in the Group's financial statements. Had the revaluation surplus been incorporated in the Group's financial statements, an additional depreciation charge of approximately RMB1.59 million per annum would be charged.