The following is the text of a report received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Prospectus.

Deloitte.
德勤

29 May 2007

The Directors
Tianneng Power International Limited
Kingsway Capital Limited

Dear Sirs,

We set out below our report on the financial information ("the Financial Information") regarding Tianneng Power International Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2006 (the "Relevant Periods"), for inclusion in the prospectus of the Company dated 29 May 2007 (the "Prospectus").

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 16 November 2004. Pursuant to a written resolution passed by the Company's shareholders on 31 August 2006, the name of the Company was changed from Tianneng International Limited to Tianneng Power International Limited. The Company is an investment holding company. Through a group reorganisation as more fully explained in the paragraph headed "Group reorganisation" in the section headed "Further information about our Company and its subsidiaries" in Appendix VI to the Prospectus (the "Group Reorganisation"), the Company has since 14 December 2004 become the holding company of the Group.

As at the date of this report, the Company has the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest of the Group	Principal activities
Tianneng International Investment Holdings Limited* ("Tianneng BVI")	British Virgin Islands 15 November 2004	Share – US$1	100%	Investment holding
浙江省長興天能電源有限公司 Zhejiang Changxing Tianneng Power Supply Co., Ltd. ("Tianneng Power")	The People's Republic of China (the "PRC") 11 March 1998	Registered capital – RMB3,000,000	100%	Manufacture and sales of storage batteries
浙江省長興天能物資回收有限公司 Zhejiang Changxing Tianneng Recycle Co., Ltd. ("Tianneng Recycle")	PRC 7 May 1999	Registered capital – RMB500,000	100%	Sales of recycled batteries

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest of the Group	Principal activities
浙江天能電池有限公司 Zhejiang Tianneng Battery Co., Ltd. ("Tianneng Battery")	PRC 13 March 2003	Registered capital – RMB10,000,000	100%	Investment holding, research and development, manufacture and sales of storage batteries and battery related accessories
浙江天能電子電器有限公司 Zhejiang Tianneng Electronic Apparatus Co., Ltd. ("Tianneng Electronic")	PRC 1 July 2004	Registered capital – RMB5,000,000	100%	Manufacture and sales of storage batteries
長興天能汽車運輸有限公司 Changxing Tianneng Vehicle Transport Co., Ltd. ("Tianneng Transport")	PRC 30 May 2005	Registered capital – RMB500,000	100%	Provision of transportation service
天能電池(蕪湖)有限公司 Tianneng Battery (Wuhu) Co., Ltd. ("Tianneng Wuhu")	PRC 21 October 2005	Registered capital – RMB10,000,000	100%	Manufacture and sales of storage batteries
浙江天能電池(江蘇)有限公司 Zhejiang Tianneng Battery (Jiangsu) Co., Ltd. ("Tianneng Jiangsu")	PRC 9 May 2005	Registered capital – RMB65,000,000	100%	Manufacture and sales of storage batteries

* *Directly held by the Company*

On 15 November 2004, Tianneng BVI was incorporated and 1 share of US$1.00 therein was issued and allotted to the Company on 26 November 2004. On 14 December 2004, the then shareholders of Tianneng Battery transferred the entire shareholdings in Tianneng Battery to Tianneng BVI. Upon completion of the Group Reorganisation, the Company became the holding company of the Group since 14 December 2004.

The statutory financial statements of the following PRC subsidiaries were prepared in accordance with relevant accounting principles and financial regulations in the PRC and were audited by the following certified public accountants registered in the PRC:

Name of subsidiary	Financial period	Auditors
Tianneng Power	Year ended 31 December 2004, 31 December 2005 and 31 December 2006	湖州天衡聯合會計師事務所
Tianneng Recycle	Year ended 31 December 2005 and 31 December 2006	湖州天衡聯合會計師事務所
Tianneng Battery	Year ended 31 December 2004, 31 December 2005 and 31 December 2006	湖州天衡聯合會計師事務所
Tianneng Electronic	Year ended 31 December 2005 and 31 December 2006	湖州天衡聯合會計師事務所
Tianneng Transport	Period from 30 May 2005 (date of establishment) to 31 December 2005 and year ended 31 December 2006	湖州天衡聯合會計師事務所
Tianneng Wuhu	Period from 21 October 2005 (date of establishment) to 31 December 2005	湖州天衡聯合會計師事務所
	Year ended 31 December 2006	安徽平泰會計師事務所
Tianneng Jiangsu	Period from 9 May 2005 (date of establishment) to 31 December 2005 and year ended 31 December 2006	宿遷天恒會計師事務所

No audited financial statements have been prepared for Tianneng BVI as it was incorporated in country where there is no statutory audit requirement. For the purpose of this report, we have, however, reviewed all the relevant transactions of this company since its date of incorporation to the date of this report and carried out such procedures as we considered necessary for inclusion of the financial information relating to this company.

No audited financial statements have been prepared for Tianneng Recycle and Tianneng Electronic since their respective dates of establishment to 31 December 2004 as they are newly established and have not carried out any business. For the purpose of this report, we have, however, reviewed all relevant transactions of these companies since their dates of establishment to 31 December 2004 and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies.

For the purpose of this report, we have audited the consolidated financial statements of the Group for the Relevant Periods which are prepared under Hong Kong Financial Reporting Standards in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

We have examined the audited consolidated financial statements referred to in the preceding paragraph for the Relevant Periods (the "Underlying Financial Statements") in accordance with the Auditing Guideline 3.340 "Prospectuses and the reporting accountant" as recommended by the HKICPA.

The consolidated balance sheets of the Group as at 31 December 2004, 2005 and 2006 and the balance sheets of the Company as at 31 December 2004, 2005 and 2006 and the consolidated results and cash flows of the Group for the Relevant Periods have been prepared from the Underlying Financial Statements on the basis set out in Note 1 to Section E below for the purposes of preparing our report for inclusion in the Prospectus. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Note 1 to Section E below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as at 31 December 2004, 2005 and 2006 and of the consolidated results and cash flows of the Group for the Relevant Periods.

A. CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December		
		2004	2005	2006
	Section E Notes	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	*7*	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	*8*	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	*9*	(4,634)	(8,191)	(11,243)
Gain on disposal of a subsidiary	*32*	610	–	–
Profit before taxation	*10*	72,695	72,374	153,518
Taxation	*12*	(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	*13*	14,183	–	–
Earnings per share	*14*			
– Basic		RMB0.08	RMB0.11	RMB0.22
– Diluted		N/A	N/A	RMB0.20

B. CONSOLIDATED BALANCE SHEETS

		THE GROUP			THE COMPANY		
		At 31 December			At 31 December		
		2004	2005	2006	2004	2005	2006
	Section E Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets							
Property, plant and equipment	15	109,623	170,425	296,156	–	–	488
Prepaid lease payments	16	16,567	20,717	20,945	–	–	–
Investment in a subsidiary		–	–	–	–	–	–
Deposit paid for acquisition of land use right		–	60,000	–	–	–	–
		126,190	251,142	317,101	–	–	488
Current assets							
Inventories	17	57,236	88,272	235,166	–	–	–
Trade and other receivables	18	68,755	93,243	168,244	–	–	2,697
Prepaid lease payments	16	341	434	448	–	–	–
Amounts due from directors	19	274	–	–	–	–	–
Amounts due from related companies	20	32,254	6,718	3,741	–	–	–
Amounts due from shareholders	21	1,383	1,350	994	1,383	1,350	994
Amount due from a subsidiary	22	–	–	–	73,945	71,820	49,175
Restricted bank deposits	23	47,670	110,100	94,000	–	–	–
Bank balances and cash	23	157,813	112,263	144,718	–	–	4,045
		365,726	412,380	647,311	75,328	73,170	56,911
Current liabilities							
Trade and other payables	24	116,908	88,375	260,902	353	6,660	2,701
Amounts due to directors	25	19,085	4,862	–	–	–	–
Amounts due to related companies	26	1,321	1,154	846	–	–	–
Taxation payable		13,634	508	4,713	–	–	–
Short-term bank loans	27	119,800	253,800	226,200	–	–	–
Other loans	28	200	10,200	–	–	–	–
		270,948	358,899	492,661	353	6,660	2,701
Net current assets		94,778	53,481	154,650	74,975	66,510	54,210
Total assets less current liabilities		220,968	304,623	471,751	74,975	66,510	54,698
Non-current liabilities							
Redeemable convertible notes	29	112,297	124,105	–	112,297	124,105	–
Long-term bank loans	30	–	–	25,000	–	–	–
		112,297	124,105	25,000	112,297	124,105	–
		108,671	180,518	446,751	(37,322)	(57,595)	54,698
Capital and reserves							
Paid-in capital	31	474	474	560	474	474	560
Reserves		96,352	180,044	446,191	(37,796)	(58,069)	54,138
Equity attributable to equity holders of the Company		96,826	180,518	446,751	(37,322)	(57,595)	54,698
Minority interests		11,845	–	–	–	–	–
		108,671	180,518	446,751	(37,322)	(57,595)	54,698

C. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company												
	Paid-in capital	Share premium	Special reserve	Capital reserve	Non–distributable reserve	Statutory surplus reserve fund	Statutory public welfare fund	Discretionary surplus reserve fund	Translation reserve	Accumulated (losses) profits	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
THE GROUP													
At 1 January 2004	10,000	–	–	57,010	–	4,614	2,308	2,308	–	(2,650)	73,590	7,253	80,843
Profit for the year and total recognised income for the year	–	–	–	–	–	–	–	–	–	49,934	49,934	5,419	55,353
Transfers	–	–	–	–	–	8,710	4,355	4,355	–	(17,420)	–	–	–
Capital contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	500	500
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(1,327)	(1,327)
Arising on Group Reorganisation in December 2004	(10,000)	–	10,000	–	–	–	–	–	–	–	–	–	–
Issue of shares	474	–	–	–	–	–	–	–	–	–	474	–	474
Deemed distribution *(Section E note 36(c))*	–	–	–	–	–	–	–	–	–	(12,989)	(12,989)	–	(12,989)
Dividends paid	–	–	–	–	–	–	–	–	–	(14,183)	(14,183)	–	(14,183)
At 31 December 2004	474	–	10,000	57,010	–	13,324	6,663	6,663	–	2,692	96,826	11,845	108,671
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	2,549	–	2,549	–	2,549
Profit for the year	–	–	–	–	–	–	–	–	–	68,683	68,683	1,415	70,098
Total recognised income for the year	–	–	–	–	–	–	–	–	2,549	68,683	71,232	1,415	72,647
Acquisition of additional interests in subsidiaries from minority interests	–	–	–	–	12,460	–	–	–	–	–	12,460	(13,260)	(800)
At 31 December 2005	474	–	10,000	57,010	12,460	13,324	6,663	6,663	2,549	71,375	180,518	–	180,518
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	2,756	–	2,756	–	2,756
Profit for the year	–	–	–	–	–	–	–	–	–	147,661	147,661	–	147,661
Total recognised income for the year	–	–	–	–	–	–	–	–	2,756	147,661	150,417	–	150,417
Transfer	–	–	–	–	–	6,663	(6,663)	–	–	–	–	–	–
Issue of shares upon exercise of redeemable convertible notes	86	115,730	–	–	–	–	–	–	–	–	115,816	–	115,816
At 31 December 2006	560	115,730	10,000	57,010	12,460	19,987	–	6,663	5,305	219,036	446,751	–	446,751

	Attributable to equity holders of the Company									
	Paid-in capital	Share premium	Capital reserve	Non–distributable reserve	Statutory surplus reserve fund	Statutory public welfare fund	Discretionary surplus reserve fund	Translation reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
THE COMPANY										
Issue of shares	474	–	–	–	–	–	–	–	–	474
Loss for the period and total recognised expense for the period	–	–	–	–	–	–	–	–	(37,796)	(37,796)
At 31 December 2004	474	–	–	–	–	–	–	–	(37,796)	(37,322)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	2,549	–	2,549
Loss for the year	–	–	–	–	–	–	–	–	(22,822)	(22,822)
Total recognised expense for the year	–	–	–	–	–	–	–	2,549	(22,822)	(20,273)
At 31 December 2005	474	–	–	–	–	–	–	2,549	(60,618)	(57,595)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	2,756	–	2,756
Loss for the year	–	–	–	–	–	–	–	–	(6,279)	(6,279)
Total recognised expense for the year	–	–	–	–	–	–	–	2,756	(6,279)	(3,523)
Issue of shares upon exercise of redeemable convertible notes	86	115,730	–	–	–	–	–	–	–	115,816
At 31 December 2006	560	115,730	–	–	–	–	–	5,305	(66,897)	54,698

The special reserve of the Group represents the difference between the nominal amount of the shares issued by Tianneng BVI and the aggregate amount of paid-in capital of the subsidiaries acquired by Tianneng BVI pursuant to the Group Reorganisation in preparation for the listing of the Company's shares.

The capital reserve of the Group arose in June 2003 when the major shareholder, Mr. Zhang Tianren, transferred 26.3% of his shares in Tianneng Battery to the key management personnel of the Group. The Group recognised the share-based payment expenses of approximately RMB57,010,000 on 15 June 2003 which represented the difference between the fair value of those shares of approximately RMB71,388,000 and the consideration received by Mr. Zhang Tianren from the key management personnel of approximately RMB14,378,000.

The non-distributable reserve of the Group represents the difference between the consideration paid for acquisitions of additional interests in subsidiaries from minority shareholders who are associates of Mr. Zhang Tianren, the major shareholder of the Company, and the minority interests' share of net assets of the subsidiaries at the date of the acquisition. For details please see Section E note 36(d).

As stipulated by the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are required to maintain three reserves, being a statutory surplus reserve fund, a statutory public welfare fund and a discretionary surplus reserve fund which are non-distributable. Appropriations to such reserves are made out of profit after taxation of the statutory financial statements of the PRC subsidiaries while the amount and allocation basis are decided by their board of directors annually. The statutory surplus reserve fund and the discretionary surplus reserve fund can be used to make up its prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue. Prior to 1 January 2006, the statutory public welfare fund could only be utilised on capital nature items for collective welfare of employees. Starting from 1 January 2006, the requirement to maintain statutory public welfare fund has been cancelled and the Group's statutory public welfare fund can be utilised at the discretion of the directors of the relevant entities. The balance of the Group's statutory public welfare fund was transferred to statutory surplus reserve fund.

D. CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Operating activities			
Profit before taxation	72,695	72,374	153,518
Adjustments for:			
Interest income	(574)	(2,069)	(3,538)
Interest expenses	4,634	8,191	11,243
Depreciation	5,602	8,145	14,191
Amortisation of prepaid lease payments	207	281	454
Loss on disposal of property, plant and equipment	33	615	441
Change in fair value of redeemable convertible notes carried at fair value through profit or loss	33,844	20,572	(1,194)
Allowance for bad and doubtful debts	–	2,877	3,764
Allowance for inventories	–	–	378
Gain on disposal of a subsidiary	(610)	–	–
Operating cash flows before movements in working capital	115,831	110,986	179,257
Increase in inventories	(29,546)	(31,036)	(147,272)
Increase in trade and other receivables	(30,499)	(27,365)	(78,765)
(Increase) decrease in amounts due from related companies with trade nature	(704)	(255)	1,952
Increase (decrease) in trade and other payables	66,837	(24,759)	169,123
Increase (decrease) in amounts due to related companies with trade nature	948	(711)	474
Cash generated from operations	122,867	26,860	124,769
Interest paid	(4,634)	(8,191)	(21,971)
PRC Enterprise Income Tax paid	(18,359)	(15,402)	(1,652)
Net cash from operating activities	99,874	3,267	101,146

		Year ended 31 December		
		2004	2005	2006
	Section E Note	*RMB'000*	*RMB'000*	*RMB'000*
Investing activities				
Purchase of property, plant and equipment		(48,105)	(68,170)	(132,677)
Prepaid lease payments paid		(14,686)	(4,524)	(696)
Deposit (paid) refunded for acquisition of land use right		–	(60,000)	60,000
Disposal of a subsidiary (net of cash and cash equivalents disposed of)	*32*	(383)	5,582	148
Decrease in amounts due from directors		6,304	274	–
(Advance to) repayment from related companies		(21,397)	20,209	877
(Advance to) repayment from shareholders		(909)	33	356
Interest received		574	2,069	3,538
Proceeds from disposal of property, plant and equipment		114	1,608	2,107
Payment for acquisition of additional interests in subsidiaries from minority shareholders		–	(500)	(300)
(Increase) decrease in restricted bank deposits		(34,520)	(62,430)	16,100
Net cash used in investing activities		(113,008)	(165,849)	(50,547)
Financing activities				
Dividends paid		(14,183)	–	–
Repayments of bank loans		(104,800)	(218,100)	(494,700)
Repayment of other loans		–	–	(18,219)
Advance from (repayment to) related companies		244	244	(482)
Advance from (repayment to) directors		19,085	(14,223)	(4,862)
Deemed distribution upon Group Reorganisation		–	(12,989)	–
Bank loans raised		163,800	352,100	492,100
Other loans raised		–	10,000	8,019
Proceeds on issue of redeemable convertible notes, net of issuing expense		78,627	–	–
Capital contributions from minority shareholders of subsidiaries		500	–	–
Net cash from (used in) financing activities		143,273	117,032	(18,144)
Net increase (decrease) in cash and cash equivalents		130,139	(45,550)	32,455
Cash and cash equivalents at the beginning of the year		27,674	157,813	112,263
Cash and cash equivalents at the end of the year		157,813	112,263	144,718
Analysis of the balances of cash and cash equivalents, representing bank balances and cash		157,813	112,263	144,718

E. NOTES TO THE FINANCIAL INFORMATION

The Group's Financial Information is presented in Renminbi ("RMB"), the currency in which the majority of the Group's transactions is denominated.

1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Pursuant to the assets transfer agreement entered on 20 April 2003, Tianneng Battery acquired the subsidiaries, Tianneng Power, 浙江省長興天力電池有限公司 (Zhejiang Changxing Tianli Battery Co., Ltd.) ("Tianli Battery") and Tianneng Recycle, and the assets and liabilities of Zhejiang Changxing Storage Battery Factory from Mr. Zhang Tianren.

On 15 November 2004, Tianneng BVI was incorporated in British Virgin Islands and 1 share of US$1.00 therein was issued and allotted to the Company. On 14 December 2004, the then shareholders of Tianneng Battery transferred the entire equity interests in Tianneng Battery to Tianneng BVI at a consideration of approximately RMB74,945,000, the Company has become the holding company of the Group since 14 December 2004.

For the purpose of presenting the Financial Information of the Group, the Company, Tianneng BVI, Tianneng Battery and its subsidiaries, as a result of the Group Reorganisation, are considered as a continuing entity. The consolidated income statements and consolidated cash flow statements for each of the periods referred to in this report included the results and cash flows of the companies now comprising the Group, as if the current group structure upon the completion of the Group Reorganisation other than the changes discussed below had been in existence throughout the Relevant Periods or since their respective dates of incorporation or establishment, where there is a shorter period, or up to the date of disposal. The consolidated balance sheets of the Group as at 31 December 2004, 2005 and 2006 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure other than the changes discussed below had been in existence as at those dates. The Group has accounted for such business combinations involving entities and business under common control by the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting under Common Control Conditions" issued by the HKICPA.

The Group acquired additional interests in subsidiaries, 10% equity interest in Tianneng Power and 10% equity interest in Tianneng Electronic, during the year ended 31 December 2005. The above acquisitions were accounted for under the purchase method of accounting.

In addition, the Group disposed of its entire equity interest in Tianli Battery during the year ended 31 December 2004. Details of the disposal are set out in note 32.

A former wholly owned subsidiary, Changxing Xintian Real Estates Development Co., Ltd. which was established on 5 April 2006, was dissolved on 9 August 2006.

All significant intra-group transactions and balances have been eliminated on consolidation.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

Since 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKAS"s) and Hong Kong Financial Reporting Standards ("HKFRS"s) and Interpretations ("INT") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005, 1 December 2005 or 1 January 2006. For the purposes of preparing and presenting the Financial Information of the Relevant Periods, the Group has early adopted all these new HKFRSs.

The HKICPA has issued the following new standards, amendment and interpretations that are not yet effective. The Group has considered the following new standards, amendment and interpretations but does not expect they will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-INT 8	Scope of HKFRS 2[4]
HK(IFRIC)-INT 9	Reassessment of embedded derivatives[5]
HK(IFRIC)-INT 10	Interim financial reporting and impairment[6]
HK(IFRIC)-INT 11	HKFRS 2 – Group and treasury share transactions[7]
HK(IFRIC)-INT 12	Service concession arrangements[8]

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 January 2009.

3 Effective for annual periods beginning on or after 1 March 2006.

4 Effective for annual periods beginning on or after 1 May 2006.

5 Effective for annual periods beginning on or after 1 June 2006.

6 Effective for annual periods beginning on or after 1 November 2006.

7 Effective for annual periods beginning on or after 1 March 2007.

8 Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost convention except for certain financial instruments which are measured at fair values and in accordance with accounting policies set out below which conform with HKFRSs. The principal accounting policies adopted consistently throughout the Relevant Periods are as follows:

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the 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 the 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 the 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.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for revenue earned in the normal course of business.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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.

Land use rights

Land use rights in the PRC are accounted for as operating leases. The costs are charged to the consolidated income statement on a straight line basis over the period for which the relevant land use rights have been granted/acquired to the Group.

Leases

Leases are classified as operating leases whenever the terms of the lease do not transfer substantially all the risks and rewards of ownership to the lessee.

Rentals payable under operating leases are charged to the consolidated income statement on a straight line basis over the terms of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

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.

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of financial assets are set out below.

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, 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.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

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 the 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.

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.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

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.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial information of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss for the period in which they arise.

For the purpose of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into presentation currency of the Company (ie. RMB) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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".

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plan are equivalent to those arising in a defined contribution retirement benefit plan.

Share-based payment transactions

The fair value of services received determined by reference to the fair value of shares granted at the grant date is recognised as an expense in full at the grant date with a corresponding increase in equity (capital reserve).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made various estimates based on past experience, expectations of the future and other information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses.

The Group does not have a general provisioning policy on inventory based on ageing given the nature of inventories that are not subject to frequent wear and tear and frequent technological changes. However, operational procedures have been in place to monitor this risk as majority of working capital is devoted to inventories. Procedurewise, the sales and the marketing managers review the inventory ageing listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the Financial Information for any obsolete and slow-moving items. In addition, physical count on all inventories are carried out on a periodical basis in order to determine whether allowance need to be made in respect of any obsolete and defective inventories identified. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for obsolete and slow-moving inventories has been made in the Financial Information.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In making the judgement, management considered detailed procedures have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to trade receivables. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the ageing status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. Specific allowance is only made for trade receivables that are unlikely to be collected. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for doubtful debts has been made in the Financial Information in light of the historical records of the Group and the circumstances of the storage batteries manufacturing industry as a whole.

Fair value of redeemable convertible notes at fair value through profit or loss

The fair value of redeemable convertible notes through profit or loss is subject to the limitation of the Black Scholes model that incorporated market data and involved uncertainty in estimates used by management in the assumptions. Because the Black Scholes model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate. Details of the assumptions are disclosed in note 29.

5. FINANCIAL INSTRUMENTS

5a. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from directors, amounts due from related companies, amounts due from shareholders, restricted bank deposits, bank balances and cash, trade and other payables, amounts due to directors, amounts due to related companies, bank and other loans and redeemable convertible notes. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group collects all of its revenue in RMB and most of the expenditures as well as capital expenditures are also denominated in RMB.

RMB is not a freely convertible currency. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and supply and demand of RMB.

The redeemable convertible notes of the Group are denominated in United States Dollars ("USD"). The appreciation or devaluation of RMB against USD may have positive or negative impact on the results of operations of the Group. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

(ii) Interest rate risk

The Group's interest rate risk primarily relates to restricted bank deposits, bank balances, fixed rate bank borrowings and fixed rate redeemable convertible notes. Interest bearing restricted bank deposits and bank balances are mainly short-term nature. Therefore, any future variations in interest rates will not have a significant impact on the results of the Group. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt and derivative financial instruments.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to the Group's principal financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank loans. In addition, banking facilities have been put in place for contingency purposes.

5b. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

(i) for the fair value of redeemable convertible notes, please see note 29; and

(ii) the fair value of financial assets and financial liabilities (excluding redeemable convertible notes) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group's operation is regarded as a single segment, being the manufacture and sales of storage batteries and battery related accessories.

Geographical segments

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as they are substantially generated from or situated in the PRC.

7. TURNOVER

	Year ended 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
An analysis of turnover is as follows:			
Sales of goods			
Lead-acid motive battery products	333,929	461,591	898,604
Chargers, controllers and motors	24,876	21,467	51,256
Others	12,159	38,633	69,699
	370,964	521,691	1,019,559

8. OTHER INCOME

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

Notes:

(a) Government grants include various government subsidies received by the 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 as above 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. The Group was granted the subsidies for encouragement of listing of the shares amounted to approximately RMB14.39 million in 2004 by the People's Government of Changxing County as the Group is the first enterprise in Changxing County to implement a listing plan. In 2005, the People's Government of Changxing County granted to the Group other listing subsidies amounted to approximately RMB6.08 million to further facilitate the 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 the Group and are not refundable in any circumstance.

(b) Others include sales of scrap materials and other miscellaneous items.

9. FINANCE COSTS

	Year ended 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Interest on:			
Bank loans wholly repayable within five years	4,623	8,180	10,820
Other loans wholly repayable within five years	11	11	423
	4,634	8,191	11,243

10. PROFIT BEFORE TAXATION

	Year ended 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation has been arrived at after charging:			
Directors' remuneration *(note 11)*	211	236	393
Other staff retirement benefits scheme contributions	2,586	4,134	8,171
Other staff costs	29,468	35,797	53,464
Total staff costs	32,265	40,167	62,028
Allowance for bad and doubtful debts	–	2,877	3,764
Allowance for inventories	–	–	378
Amortisation of prepaid lease payments	207	281	454
Auditors' remuneration	1,130	900	3,056
Depreciation	5,602	8,145	14,191
Loss on disposal of property, plant and equipment	33	615	441
Research and development costs	2,076	1,878	3,808

11. DIRECTORS AND EMPLOYEES' EMOLUMENTS

Details of emoluments paid by the Group to the directors for the Relevant Periods are as follows:

	Year ended 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Directors' fees	–	–	–
Other emoluments for non-executive directors	–	–	–
Other emoluments for executive directors			
– basic salaries and allowances	194	208	358
– retirement benefits scheme contributions	17	28	35
	211	236	393

The emoluments of the directors were within the following bands:

	Number of directors		
	Year ended 31 December		
	2004	2005	2006
Nil to HK$1,000,000	9	9	10

During the Relevant Periods, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of directors has waived any emoluments during the Relevant Periods.

The five highest paid employees of the Group in the Relevant Periods are as follows:

	Year ended 31 December		
	2004	2005	2006
Directors	1	1	–
Employees	4	4	5
	5	5	5

The directors' emoluments are included in above and the other highest paid employees, not being directors, are as follows:

	Year ended 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Basic salaries and allowances	172	167	1,047
Retirement benefits scheme contributions	1	7	25
	173	174	1,072

12. TAXATION

	Year ended 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
The charge comprises:			
PRC Enterprise Income Tax			
– current year	(17,342)	(2,005)	(5,857)
– underprovision in prior year	–	(271)	–
	(17,342)	(2,276)	(5,857)

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable to each of the Relevant Periods.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in nor is derived from Hong Kong.

Taxation charge mainly consists of income tax in the PRC attributable to the assessable profits of Tianneng Battery at 33% for the year ended 31 December 2004 and at 24% for the year ended 31 December 2005 and 31 December 2006 and Tianneng Power at 33% throughout the Relevant Periods. The taxation charge is calculated at the applicable rates prevailing in the PRC.

Pursuant to the relevant laws and regulations in the PRC, the Company's subsidiary, Tianneng Battery is entitled to exemption from PRC Enterprise Income Tax for the two years commencing from 2005 and 50% reduction for the following three years.

Pursuant to notice dated 10 January 2004, 10 January 2005, 10 January 2006 and 10 December 2006 issued by the Zhejiang Provincial Tax Bureau Changxing County branch, Tianneng Power, as a welfare enterprise, is entitled to a tax waiver of 80% of the PRC Enterprise Income Tax for the year ended 31 December 2004 and 31 December 2005 and a tax waiver of 75% of the PRC Enterprise Income Tax for the nine months ended 30 September 2006. According to the notice (國家稅務總局關於進一步做好調整現行福利企業稅收優惠政策試點工作的通知) dated 25 September 2006 issued by 財政部 and State Tax Bureau (國家稅務總局), effective from 1 October 2006, the tax waiver of the PRC Enterprise Income Tax entitled by welfare enterprises was cancelled and replaced by a tax benefit where a portion of its taxable profits, representing 200% of the salaries paid to staff with physical disability, would be exempted from the PRC Enterprise Income Tax.

The taxation charge for the year can be reconciled to the profit before taxation per consolidated income statement as follows:

	Year ended 31 December					
	2004		**2005**		**2006**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit before taxation	72,695		72,374		153,518	
Tax at the applicable income tax rate of 33%	(23,989)	(33.0)	(23,883)	(33.0)	(50,661)	(33.0)
Tax effect of expenses not deductible for tax purposes *(note)*	(13,366)	(18.4)	(8,349)	(11.5)	(3,605)	(2.3)
Tax effect of income not taxable for tax purposes	6,223	8.6	–	–	146	–
Tax effect of tax losses not recognised	–	–	(1,124)	(1.5)	(2,171)	(1.4)
Effect of tax exemptions granted to subsidiaries	13,779	18.9	32,891	45.4	53,541	34.9
Deferred tax assets not recognised	(125)	(0.2)	(1,584)	(2.2)	(3,026)	(2.0)
Underprovision in prior year	–	–	(271)	(0.4)	–	–
Others	136	0.2	44	0.1	(81)	–
Taxation charge and effective tax rate for the year	(17,342)	(23.9)	(2,276)	(3.1)	(5,857)	(3.8)

Note: Expenses not deductible for tax purposes mainly include expenses of investment holding companies which operate in jurisdictions with capital gain tax exemption, change in fair value of redeemable convertible notes carried at fair value through profit or loss, donation not deductible for tax purpose and expense exceeding taxable allowance.

At 31 December 2004, 31 December 2005 and 31 December 2006, the Group has deductible temporary differences of approximately RMB380,000, RMB5,181,000 and RMB14,352,000 respectively. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At 31 December 2005 and 31 December 2006, the Group had unused tax losses of approximately RMB3,406,000 and RMB9,985,000 respectively available to offset against future profits. No deferred tax assets has been recognised in respect of such losses due to unpredictability of future profit streams. Such unrecognised losses will expire at various dates up to and including 2011 and 2012 respectively.

13. DIVIDENDS PAID

No dividend was declared by the Company since its incorporation. However, during the Relevant Periods, Tianneng Battery had distributed dividends to its then owners prior to the Group Reorganisation.

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Dividends paid by Tianneng Battery to its then owners	14,183	–	–

The rates of dividends and the number of share ranking for the above dividends are not presented as such information is not meaningful having regard to the purpose of this report.

The directors of the Company declared a final dividend of RMB44,298,000 in April 2007 for 2006, equivalent to approximately RMB8.36 per share based on 5,296,439 shares in issue at 31 December 2006.

14. EARNINGS PER SHARE

The calculations of basic earnings per share are based on the profit attributable to equity holders of the Company for each year in the Relevant Periods and the weighted average number of 630,423,574, 630,423,574 and 664,167,058 shares for the year ended 31 December 2004, 2005 and 2006, respectively, assuming the capitalisation issue as described in the section headed "Statutory and General Information" in Appendix VI to the Prospectus occurred on the first day of the Relevant Periods.

No diluted earnings per share has been presented for the year ended 31 December 2004 and 2005 as the inclusion of the effect of potential ordinary shares would increase the profit per share for the year ended 31 December 2004 and 2005. The calculation of the diluted earnings per share for the year ended 31 December 2006 is based on the profit attributable to equity holders of the Company of RMB147,661,000, after adjusting for the change in fair value of redeemable convertible notes of RMB1,194,000, resulting in adjusted earnings of RMB146,467,000 and the weighted average number of 750,000,000 shares for the year ended 31 December 2006.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvement	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
THE GROUP							
COST							
At 1 January 2004	33,177	24,442	4,728	1,226	–	31,580	95,153
Additions	1,035	15,229	1,611	746	–	29,484	48,105
Transfer	18,705	39	–	–	–	(18,744)	–
Disposals	–	(264)	(115)	–	–	–	(379)
Disposal of a subsidiary	(6,861)	(3,920)	(314)	(38)	–	(7,190)	(18,323)
At 31 December 2004	46,056	35,526	5,910	1,934	–	35,130	124,556
Additions	1,987	15,147	2,270	1,374	–	50,392	71,170
Transfer	43,088	15,137	–	26	–	(58,251)	–
Disposals	(923)	(2,255)	(528)	(105)	–	–	(3,811)
At 31 December 2005	90,208	63,555	7,652	3,229	–	27,271	191,915
Additions	620	12,406	1,090	1,977	1,332	125,045	142,470
Transfer	79,813	30,972	–	373	160	(111,318)	–
Disposals	(36)	(3,396)	–	(79)	–	–	(3,511)
At 31 December 2006	170,605	103,537	8,742	5,500	1,492	40,998	330,874
DEPRECIATION							
At 1 January 2004	3,228	4,552	1,803	378	–	–	9,961
Provided for the year	1,391	3,066	900	245	–	–	5,602
Eliminated on disposals	–	(153)	(79)	–	–	–	(232)
Eliminated on disposal of a subsidiary	(68)	(266)	(54)	(10)	–	–	(398)
At 31 December 2004	4,551	7,199	2,570	613	–	–	14,933
Provided for the year	2,397	4,187	1,097	464	–	–	8,145
Eliminated on disposals	(388)	(1,062)	(121)	(17)	–	–	(1,588)
At 31 December 2005	6,560	10,324	3,546	1,060	–	–	21,490
Provided for the year	5,061	6,938	1,247	693	252	–	14,191
Eliminated on disposals	(5)	(939)	–	(19)	–	–	(963)
At 31 December 2006	11,616	16,323	4,793	1,734	252	–	34,718
CARRYING AMOUNT							
At 31 December 2004	41,505	28,327	3,340	1,321	–	35,130	109,623
At 31 December 2005	83,648	53,231	4,106	2,169	–	27,271	170,425
At 31 December 2006	158,989	87,214	3,949	3,766	1,240	40,998	296,156
THE COMPANY							
COST							
At 1 January 2004, 31 December 2004 and 2005	–	–	–	–	–	–	–
Additions	–	–	–	163	325	–	488
At 31 December 2006	–	–	–	163	325	–	488
DEPRECIATION							
At 1 January 2004, 31 December 2004 and 2005 and 2006	–	–	–	–	–	–	–
CARRYING AMOUNT							
At 31 December 2004 and 2005	–	–	–	–	–	–	–
At 31 December 2006	–	–	–	163	325	–	488

The estimated useful lives of each category of property, plant and equipment are as follows:

Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	5 – 10 years
Leasehold improvement	5 years

16. PREPAID LEASE PAYMENTS

	At 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Non-current	16,567	20,717	20,945
Current	341	434	448
	16,908	21,151	21,393

The amount represents prepayment of rentals for land use rights situated in the PRC for a period of 50 years.

17. INVENTORIES

	At 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	11,849	14,841	67,870
Work-in-progress	38,367	70,779	159,077
Finished goods	7,020	2,652	8,219
	57,236	88,272	235,166

18. TRADE AND OTHER RECEIVABLES

	THE GROUP			THE COMPANY		
	At 31 December			At 31 December		
	2004	2005	2006	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	50,338	72,206	87,673	–	–	–
Other receivables	18,417	21,037	80,571	–	–	2,697
	68,755	93,243	168,244	–	–	2,697

Payment terms with customers are mainly on credit. The Group has a policy of allowing an average credit period of 45 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

Age	At 31 December 2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
0 to 45 days	20,135	28,001	43,659
46 to 90 days	14,392	23,649	17,328
91 to 180 days	7,657	12,142	13,053
181 to 365 days	7,346	4,975	10,095
1 – 2 years	721	3,330	2,255
Over 2 years	87	109	1,283
	50,338	72,206	87,673

The directors consider the carrying amount of trade and other receivables approximates its fair value.

19. AMOUNTS DUE FROM DIRECTORS

Details of the amounts due from directors are as follows:

Name of director	At 31 December			Maximum amounts outstanding during the year ended 31 December		
	2004	2005	2006	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Zhang Tianren	–	–	–	6,578	–	–
Mr. Zhang Kaihong	194	–	–	194	194	–
Mr. Zhang Aogen	80	–	–	80	410	–
	274	–	–			

The amounts represented loans and advances to directors of the Company. The amounts were unsecured and interest-free. The directors considered the carrying amount of amounts due from directors approximated its fair value.

20. AMOUNTS DUE FROM RELATED COMPANIES

Details of the amounts due from related companies are as follows:

Name of related company	At 31 December			Maximum amounts outstanding during the year ended 31 December		
	2004	2005	2006	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
浙江省暢通電動車有限公司 (Zhejiang Changtong Electric Bicycle Co., Ltd.) ("Zhejiang Changtong") *(Note a)*	14,079	5,693	3,741	49,704	46,710	50,941
Tianli Battery *(Note a)*	11,953	–	–	13,195	21,279	–
Changxing Storage Battery *(Note b)*	492	14	–	492	492	33
沭陽新天電源材料有限公司 (Shu Yang Xin Tian Power Materials Co., Ltd.) ("Shu Yang Xin Tian") *(Note c)*	–	863	–	–	863	4,695
倪丹青 (Ni Danqing) *(Note d)*	5,730	148	–	5,730	5,730	148
	32,254	6,718	3,741			

Included in the balances above are amounts due from related companies with trade nature of RMB5,438,000, RMB5,693,000 and RMB3,741,000 at 31 December 2004, 2005 and 2006, respectively, and the amounts have no fixed terms. The following is an aged analysis at the balance sheet date:

Age	At 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
0 to 90 days	960	3,089	3,198
91 to 180 days	4,478	–	543
181 to 365 days	–	2,604	–
	5,438	5,693	3,741

Notes:

(a) These related companies are controlled by Mr. Ni Danqing, the brother-in-law of Mr. Zhang Tianren, director of the Company.

(b) This related company is controlled by Mr. Zhang Tianren, a director of the Company.

(c) The related company is controlled by Mr. Yang Huiqiang and Mr. Ni Danqing, the nephew and brother-in-law of Mr. Zhang Tianren, director of the Company.

(d) Mr. Ni Danqing is the brother-in-law of Mr. Zhang Tianren, director of the Company.

The amounts with non-trade nature represented loans and advances to related companies. The amounts were unsecured, interest-free and were fully repaid in 2006.

The directors consider the carrying amount of amounts due from related companies approximates its fair value.

21. AMOUNTS DUE FROM SHAREHOLDERS

The amounts represented advances to shareholders of the Company. The amounts were unsecured, interest-free and were fully repaid in January 2007. The directors consider the carrying amount of the amounts due from shareholders approximates its fair value.

Included in the balances are amounts due from shareholders which are also entities controlled by the directors of the Company. Particulars of these amounts disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

	At 31 December			Maximum amounts outstanding during the year ended 31 December		
Name of shareholder	**2004**	**2005**	**2006**	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Plenty Gold Holdings Limited *(Note a)*	80	79	61	80	80	79
Precise Asia Global Limited *(Note b)*	75	73	58	75	75	73
Prime Leader Global Limited *(Note c)*	900	879	553	900	900	879
Profit Best International Limited *(Note d)*	26	25	28	26	26	28
Success Zone Limited *(Note e)*	26	25	28	26	26	28
Super View Investments Limited *(Note f)*	34	33	33	34	34	33
Top Benefits International Limited *(Note g)*	61	59	49	61	61	59
	1,202	1,173	810			

Notes:

(a) The Company is beneficially owned by Mr. Zhang Kaihong, a director of the Company.

(b) The Company is beneficially owned by Mr. Shi Borong, a director of the Company.

(c) The Company is beneficially owned by Mr. Zhang Tianren, a director of the Company.

(d) The Company is beneficially owned by Mr. Chen Minru, a director of the Company.

(e) The Company is beneficially owned by Mr. Yang Lianming, a director of the Company.

(f) The Company is beneficially owned by Mr. Gao Xinkun, a former director of Tianneng Battery.

(g) The Company is beneficially owned by Mr. Zhang Aogen, a director of the Company.

22. AMOUNT DUE FROM A SUBSIDIARY

The amount was unsecured, interest-free and repayable on demand. The directors consider the carrying amount of amount due from a subsidiary approximates its fair value.

23. OTHER FINANCIAL ASSETS

Restricted bank deposits represent bank deposits pledged to banks to secure banking facilities granted to the Group.

Bank balances and cash comprise cash at bank and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

The restricted bank deposits and certain bank balances and cash of approximately RMB202,762,000, RMB222,313,000 and RMB232,678,000 at 31 December 2004, 2005 and 2006 respectively were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

The directors consider the carrying amount of the restricted bank deposits and bank balances and cash approximates its fair value.

24. TRADE AND OTHER PAYABLES

	THE GROUP			THE COMPANY		
	At 31 December			At 31 December		
	2004	2005	2006	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	65,827	35,846	184,715	–	–	–
Other payables	51,081	52,529	76,187	353	6,660	2,701
	116,908	88,375	260,902	353	6,660	2,701

Included in other payables are interest payable at coupon rate for the redeemable convertible notes of approximately RMB174,000, RMB6,389,000 and nil at 31 December 2004, 2005 and 2006 respectively.

The following is an aged analysis of trade payables at the balance sheet date:

	At 31 December		
Age	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
0 to 90 days	63,350	32,574	105,571
91 to 180 days	1,270	1,556	75,459
181 to 365 days	446	252	1,464
1 to 2 years	223	344	1,673
Over 2 years	538	1,120	548
	65,827	35,846	184,715

The directors consider the carrying amount of trade and other payables approximates its fair value.

25. AMOUNTS DUE TO DIRECTORS

Details of the amounts due to directors are as follows:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Mr. Zhang Tianren	19,011	4,862	–
Mr. Shi Borong	74	–	–
	19,085	4,862	–

The amounts represented loans and advances from directors of the Company. The amounts were unsecured and interest-free. The directors considered the carrying amount of amounts due to directors approximated its fair value.

26. AMOUNTS DUE TO RELATED COMPANIES

Details of the amounts due to related companies are as follows:

Name of related company	At 31 December 2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Tianli Battery *(Note a)*	–	488	–
長興縣金陵大酒店有限公司 ("Jin Ling Hotel") *(Note b)*	105	–	6
浙江長興欣欣包裝有限公司 (Zhejiang Changxing Xin Xin Packaging Co., Ltd.) ("Xin Xin Packaging") *(Note c)*	14	39	51
長興長順塑業有限公司 (Changxing Changshun Plastic Co., Ltd.) ("Changxing Changshun") *(Note d)*	–	–	789
長興煤山興達注塑廠 (Changxing Meishan Xing Da Plastic Co., Ltd.) ("Meishan Xing Da") *(Note d)*	1,063	327	–
Zhang Meier *(Note e)*	139	300	–
	1,321	1,154	846

Included in the balances above are amounts due to related companies with trade nature of RMB1,077,000, RMB366,000 and RMB840,000 at 31 December 2004, 31 December 2005 and 31 December 2006 and the amounts have no fixed terms. The following is an aged analysis at the balance sheet date:

Age	At 31 December 2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
0 to 90 days	1,076	363	840
91 to 180 days	1	3	–
	1,077	366	840

Notes:

(a) This related company is controlled by Mr. Ni Danqing, the brother-in-law of Mr. Zhang Tianren, director of the Company.

(b) This related company is controlled by Mr. Zhang Tianren, director of the Company.

(c) The related company is beneficially owned by Ms. Chen Pingping and Mr. Chen Daqi, the cousins of Mr. Zhang Tianren, director of the Company.

(d) The related company is beneficially owned by a couple Mr. Xu Changquan and Ms. Yang Yaqin, the sister-in-law of Mr. Zhang Tianren, director of the Company.

(e) Ms. Zhang Meier is the sister of Mr. Zhang Tianren, director of the Company.

The amounts with non-trade nature represented loans and advance from, expenses payable to, payable for purchase of property, plant and equipment and payable for the consideration of acquisition of additional equity interest in a subsidiary of the Company to the related companies. The outstanding amounts as at 31 December 2006 were unsecured and interest-free and were fully settled in January 2007. The directors consider the carrying amount of amounts due to related companies approximates its fair value.

27. SHORT-TERM BANK LOANS

	At 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Secured	54,800	218,800	153,700
Unsecured	65,000	35,000	72,500
	119,800	253,800	226,200

The short-term bank loans at 31 December 2004, 2005 and 2006 are denominated in RMB and carry fixed interest rates ranging from 5.04% to 6.90%, 5.31% to 6.14% and 5.58% to 7.03% per annum, respectively. The directors consider the carrying amount of short-term bank loans approximates its fair value.

28. OTHER LOANS

At 31 December 2004 and 2005, an amount of RMB200,000 was unsecured and carried interest at rate of 5.35% per annum and was fully paid in May 2006. The remaining amount of RMB10,000,000 at 31 December 2005 was unsecured and carried interest at rate of 5.74% per annum and was fully paid in May 2006. Both amounts represented loans advanced from the independent third parties.

The directors considered the carrying amount of other loans approximated its fair value.

29. REDEEMABLE CONVERTIBLE NOTES

On 22 December 2004, the Company issued redeemable convertible notes ("Redeemable Convertible Notes") to independent third parties (the "Noteholders") in the principal amount of US$9,500,000 in accordance with a subscription agreement (the "Agreement") dated 29 November 2004 entered into between the Company and the Noteholders.

The principal terms of the Redeemable Convertible Notes are as follows:

(a) The Company shall repay the principal amount outstanding under the Redeemable Convertible Notes to the Noteholders together with all interest accrued thereon up to and including the date of repayment on 30 June 2007 (the "Maturity Date"). The conversion price is HK$100 per share subject to adjustment in the manner set out in the Agreement. The Noteholders will have the right to convert the whole or part of the principal amount of Redeemable Convertible Notes into shares at any time and from time to time, from the date of issue of the Redeemable Convertible Notes up to the Maturity Date.

(b) The Redeemable Convertible Notes bear interest at the rate of 8% per annum and interest will be payable annually in arrears in December of each year.

(c) The Noteholders were also granted a put option (the "Put Option") to require either or both of the Company and all or any of the founders to immediately repurchase/purchase all of the conversion shares and/or the Redeemable Convertible Notes from the Noteholders at a price equal to the consideration paid for such shares or notes with a rate of return per annum of 10% if the Company is not successful in qualified IPO by 30 June 2007. Qualified IPO means an initial public offering of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by 30 June 2007 or such other date as agreed by the Noteholders and issued at a price per share which shall generate an annual rate of return of not less than 30% (net of withholding tax and including dividends and interest received) on the initial investment amount of the Noteholders from the completion date of initial public offering. In the opinion of the directors, the fair value of the Put Option was immaterial at initial recognition and each subsequent balance sheet date.

Under HKAS 39, as the conversion option of the Redeemable Convertible Notes will not be settled by the exchange of a fixed amount for fixed number of equity instrument, the entire Redeemable Convertible Notes were designated as financial liabilities through profit or loss on initial recognition.

The movement of the Redeemable Convertible Notes for the Relevant Periods is set out below:

	RMB'000
As at 1 January 2004	–
Issue of redeemable convertible notes	78,627
Increase in fair value during the year	33,670
As at 31 December 2004	112,297
Currency realignment	(2,446)
Increase in fair value during the year	14,254
As at 31 December 2005	124,105
Currency realignment	(2,644)
Decrease in fair value prior to conversion	(5,645)
Converted by Noteholders to shares of the Company	(115,816)
As at 31 December 2006	–

The Redeemable Convertible Notes at fair value through profit or loss are carried at fair value at the balance sheet dates.

The fair value of the Redeemable Convertible Notes without the conversion option and the put option at fair value through profit or loss at the balance sheet date was determined based on the present value of the estimated future cash flows discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date.

The fair value of the conversion option embedded was calculated using the Black Scholes model. The inputs into the model were as follows:

	At 31 December		**At 20 September 2006 (date of conversion)**
	2004	**2005**	
Implied share price	HK$106	HK$117	HK$127
Exercise price	HK$100	HK$100	HK$100
Expected volatility	50%	50%	50%
Option life	2.5 years	1.5 years	0.8 year
Risk-free rate	1.82%	3.94%	5.00%
Expected dividend yield	0%	0%	0%

The implied share prices were estimated based on the equity value determined using the discounted cash flow approach, with reference to market comparables. The expected volatility was determined based on the annualised weekly share prices of comparable companies in the industry.

Because the Black Scholes model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

The Redeemable Convertible Notes were converted into 739,100 shares of HK$0.1 each of the Company at the conversion price of HK$100 per share in accordance with the Agreement. In addition, the audited profit after tax of Tianneng Battery was less than the guaranteed profit set out in the Agreement, an aggregate of 105,339 additional shares of the Company were issued to the Noteholders upon the conversion of the Redeemable Convertible Notes and hence, the effective conversion price of the 844,439 shares in aggregate under the Redeemable Convertible Notes was HK$87.53 per share.

30. LONG-TERM BANK LOANS

The Group's long-term bank loans are unsecured and denominated in RMB. The bank loans carry fixed interest rates ranging from 6.93% to 7.56% per annum and to be repaid in full in 2009. The directors consider the carrying amount of long-term bank loans approximates its fair value.

31. PAID-IN CAPITAL

	Number of shares	Amount
		equivalent to RMB'000
Shares of the Company with nominal value of HK$0.1 each		
Authorised:		
– On incorporation and as at 31 December 2004, 2005 and 2006 *(note a)*	2,000,000,000	212,780
Issued and fully paid:		
– On 2 December 2004 pursuant to the Group Reorganisation and balance at 31 December 2004 and 2005 *(note b)*	4,452,000	474
– Conversion of Redeemable Convertible Notes in September 2006 *(note c)*	844,439	86
Balance at 31 December 2006	5,296,439	560

During the Relevant Periods, the following changes in the share capital of the Company took place:

(a) The Company was incorporated in the Cayman Islands on 16 November 2004 with an authorised share capital of HK$200,000,000 divided into 2,000,000,000 ordinary shares of HK$0.10 each.

(b) On 2 December 2004, 4,452,000 shares of HK$0.10 each was issued pursuant to the Group Reorganisation.

(c) In September 2006, US$9,500,000 of the Redeemable Convertible Notes were converted into 844,439 shares of HK$0.10 each of the Company at the conversion price of HK$87.53 per share. Please see note 29(c) for Put Option on these conversion shares.

32. DISPOSAL OF A SUBSIDIARY

In October 2004, the Group disposed of the entire equity interest in Tianli Battery, to Mr. Ni Danqing, the brother-in-law of Mr. Zhang Tianren, director of the Company.

	2004
	RMB'000
Net assets disposed of:	
Property, plant and equipment	17,925
Prepaid lease payments	1,950
Inventories	400
Trade and other receivables	9,451
Bank balances and cash	383
Trade and other payables	(22,708)
Taxation payable	(954)
	6,447
Minority interests	(1,327)
Gain on disposal of a subsidiary	610
Consideration included in amounts due from related companies	5,730
Analysis of outflow of cash and cash equivalents in connection with the disposal of a subsidiary:	
Bank balances and cash disposed of	(383)

The subsidiary disposed of in 2004 contributed turnover approximately RMB24,352,000 to the Group, and a profit of approximately RMB2,347,000 to the Group's profit for the year ended 31 December 2004.

33. PLEDGE OF ASSETS

At the balance sheet date, the Group has pledged the following assets to secure the general banking facilities and bank borrowings granted to the Group.

	At 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Bank deposits	47,670	110,100	94,000
Property, plant and equipment	–	19,574	65,328
Land use rights	–	–	19,182
	47,670	129,674	178,510

34. CAPITAL COMMITMENTS

	At 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Capital expenditure in respect of the acquisition of property, plant and equipment:			
Contracted for but not provided in the Financial Information	2,143	34,265	27,594

35. RETIREMENT BENEFITS SCHEME

As stipulated by the rules and regulations in the PRC, the Group contributes to the retirement funds scheme managed by local social security bureau in the PRC. The Group contributes a certain percentage of the basic salaries of its employees to the retirement plan to fund the benefits.

The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

36. RELATED PARTY TRANSACTIONS

(a) During the Relevant Periods, the Group had the following significant transactions with its related companies:

Name of related company	Nature of transaction	Year ended 31 December 2004	2005	2006
		RMB'000	*RMB'000*	*RMB'000*
Zhejiang Changtong	Sales of storage battery and other products	13,439	15,873	25,787
	Purchase of bicycles	57	54	–
	Sales of materials	–	–	48
Tianli Battery	Purchase of consumables	593	97	112
	Purchase of property, plant and equipment	593	718	–
Jin Ling Hotel	Other expenses	753	615	1,017
Changxing Changshun	Purchase of consumables materials	–	–	4,864
Xin Xin Packaging	Purchase of consumables	14	181	468
Meishan Xing Da	Purchase of materials	10,534	8,543	275
Shu Yang Xin Tian	Subcontracting charges paid	–	–	217

The directors represented that they consider the above transactions were carried out on normal commercial terms and in the Group's ordinary and usual course of business. The directors represented that except the sales of storage battery and other products to Zhejiang Changtong and purchase of consumables materials from Changxing Changshun which will continue in future, all the above transactions are expected to be discontinued after the listing of the Company's shares on the Stock Exchange.

(b) In November 2004, the Group disposed of the entire equity interest in Tianli Battery to Mr. Ni Danqing, the brother-in-law of Mr. Zhang Tianren, director of the Company, for a consideration of RMB5,730,000 in accordance with the term of agreement entered into between Tianneng Battery and Mr. Ni Danqing. The cash consideration was fully settled by September 2006.

(c) Pursuant to the Group Reorganisation in December 2004, the shareholders of Tianneng Battery transferred the equity interest in Tianneng Battery to Tianneng BVI for a consideration of RMB74,945,000 which represented the net asset value of Tianneng Battery on 31 December 2003 based on the assets valuation report issued by 湖州天衡聯合會計師事務所. An amount of RMB61,956,000, which was after individual income tax, was contributed to the Group by the shareholders in accordance with the Group Reorganisation in December 2004. Pursuant to the relevant laws and regulations in the PRC, the shareholders of Tianneng Battery are liable to pay the individual income tax of RMB12,989,000 arising on the capital gain on the transfer of the interest and Tianneng Battery had to withhold that individual income tax. Tianneng Battery has agreed to pay the individual income tax on behalf of the shareholders without reimbursement. As the shareholders of Tianneng Battery became the shareholders of the Company after the Group Reorganisation, the amount of RMB12,989,000 was treated as deemed distribution for the year ended 31 December 2004. The amount was fully paid in 2005.

(d) In May 2005, the Group acquired an additional 10% equity interest in Tianneng Power and an additional 10% equity interest in Tianneng Electronic from the minority shareholders, Ms. Zhang Meier who is the sister of Mr. Zhang Tianren and Zhejiang Changtong which is controlled by Mr. Ni Danqing, who is the brother-in-law of Mr. Zhang Tianren, for cash consideration of RMB300,000 and RMB500,000 respectively in accordance with the terms of agreements. The amounts were fully settled in September 2006 and December 2005 respectively. The difference between the aggregate consideration of RMB800,000 and the minority interests' share of the net assets of the subsidiaries of RMB13,260,000 was RMB12,460,000 and such amount was treated as non-distributable reserve for the year ended 31 December 2005.

(e) As at 31 December 2005 and 31 December 2006, Mr. Zhang Tianren, director of the Company, provided guarantees, in aggregate, amounting to RMB88,800,000 and RMB78,800,000 respectively to the banks to secure the bank loans granted to the Group and also provided guarantees amounting to RMB30,000,000 and RMB10,000,000 respectively in addition to the pledged deposits of the Group to secure the other banking facilities of the Group. Such personal guarantees from Mr. Zhang Tianren will be released upon the listing of the Company's shares.

(f) Details of the balances with related companies are set out in notes 19, 20, 21, 25 and 26 respectively.

F. DIRECTORS' REMUNERATIONS

Save as disclosed herein, no other remuneration has been paid or is payable to the Company's directors by the Company during the Relevant Periods.

G. SUBSEQUENT EVENTS

The following events occurred subsequent to 31 December 2006:

(a) On 26 February 2007, resolutions were passed as described in the paragraph headed "Resolutions of Shareholders passed on 26 February 2007" in Appendix VI to the Prospectus.

(b) On 21 March 2007, the Group entered into an agreement for the assignment of workshops with 蕪湖市經濟技術開發區房地產開發公司 to acquire lands and buildings erected on the lands and other facilities for a consideration of RMB21,440,000. The amount was fully paid in May 2007.

(c) On 22 March 2007, the Group entered into a sale and purchase agreement to acquire a land in Wuhu for a consideration of approximately RMB7,000,000. The amount was fully paid in March 2007.

H. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2006.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong