Certain information and statistics set out in this section and elsewhere in this prospectus relating to the PRC economy and the industry in which we operate is derived from various official government sources. No independent verification has been carried out on such information and statistics verified by us, the Sponsor, the Global Coordinator, the Underwriters, their respective directors and advisors or any other party involved in the Global Offering. We believe that the sources of the information and statistics are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. We, the Sponsor, the Global Coordinator, the Underwriters, their respective directors and advisers or any other party involved in the Global Offering make no representation as to the accuracy of such information and statistics.

INTRODUCTION

We are principally engaged in the production of motive battery products in China. Currently, our motive battery products are predominantly used in electric bikes, but they can also be used in other electric vehicles, such as electric motorcycles and electric cars.

The following sets forth an overview of the motive electric bike industry in China which is followed by an analysis of the motive electric bike battery industry in China and other growth opportunities for lead-acid battery products, all of which drive the demand for our motive battery products.

FROST & SULLIVAN REPORT

Frost & Sullivan is a global consulting firm which was founded in 1961 in New York city to engage in publication of market consulting information and intelligence on emerging high-technology and industrial markets. It offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in China includes automotive and transportation, chemical material and food, energy and power supply, environment and building technologies, automation and electronics, healthcare, and information, communication and technology.

Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the research and consulting team of Frost & Sullivan in China and an Independent Third Party, was commissioned by us in January 2010 to produce the Frost & Sullivan Report, in relation to, inter alia, the electric bike and motive batteries industries in China at a fee of US$30,000. Our payment of such fee is not contingent on the results of Frost & Sullivan's analysis.

We understand that the forecasting methodology of Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. has integrated several forecasting techniques with the market engineering measurement-based system. The forecasting methodology is a seven-step system shown as follows that maximizes the credibility and accuracy of the forecasts.

1. Market Engineering Research Process Completed

The market engineering research process provides the navigational measurements of current market position and trends, which are the basis of the forecast.

2. Measurements and Challenges Analyzed over Time

Measurements and challenges are analyzed over time to provide additional insights into their potential impact on the market size and development.

3. Identification of Market Drivers and Restraints

The analyst specifies the factors that drive the market forward in terms of revenue and determines the elements that inhibit growth.

4. Expert-Opinion Integration with Analyst Team

The interview process includes a variety of industry experts, competitors and key customers. These experts' opinions on the direction of the market are integrated with the data and analysis already created.

5. Forecasts Calculated

Analysts collect the market data which are required needed to create the initial forecast scenarios. Each scenario is assessed to determine the most probable outcome for the market size. For example, the forecasts are matched to the leading economic indicators and drivers for each specific industry.

6. Delphi Technique Integration, If Needed

If the data collected contradicts the forecast scenarios, it is necessary to discuss again the market forecasts with the industry experts who have already interviewed in the research process.

7. Quality Control within Research Department

Once the forecasts are integrated into the market section, they are verified by other team members in the industry research group, and the research director. The forecasts are also ensured for mathematical accuracy and internal consistency by the final review preparation department and the editing department.

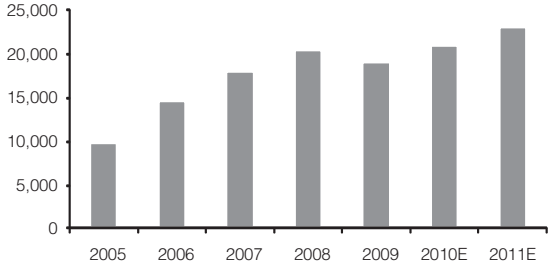
OVERVIEW OF THE PRC ELECTRIC BIKE INDUSTRY

Electric bikes provide low cost, convenient, and relatively energy-efficient transportation to a large population in the PRC. They are quickly becoming one of the dominant travel modes in the PRC especially in the lower tier cities where transportation networks are not as developed as in the major cities. Electric bike are developed from traditional bicycles which at their most fundamental level. They are traditional bicycles equipped with a battery-powered motor which provides on-demand motorized power and either operates concurrently with pedaling or independently. Variations on this basic structure and successive levels of sophistication and performance can be found in the market.

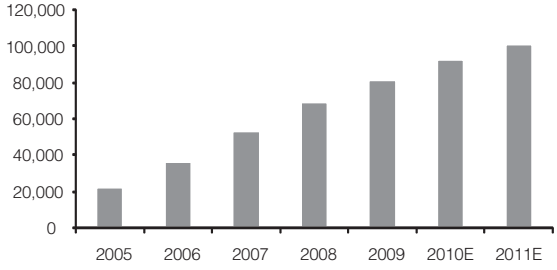
The electric bike development in China has a fairly long history since 1960s but the demand has only been rapidly increased since 2004 due to government support according to Frost & Sullivan. As China has initiated to, by 2020, reduce its carbon intensity by 40-45% from the levels in 2005 and increase the share of non-fossil energy in its primary energy consumption to around 15%, it is generally believed that the use of environmental friendly, low cost, convenient and energy-efficient mode of transportation such as electric bikes, will continue to increase. Compared with other transportation means such as motorcycle, electric bikes perform very well on almost all metrics in terms of environmental protection. It is generally believed that electric bikes could replace a portion of transportation means such as motorcycles the emissions levels of which could be several times higher than those of an electric bike.

According to the Frost & Sullivan Report, the diagram below illustrates the cumulative market size of electric bikes in China from 2005 to 2009, as well as the forecast demand from 2010 to 2011:

Market demand of electric bikes in China ('000 units)



Accumulative market size of electric bikes in China ('000 units)



Source: Frost & Sullivan Report, March 2010

Note: The Frost & Sullivan projection is computed based on the consideration of the historical data and estimated forecast indicated by key electric bike manufacturers, key electric bike battery manufacturers and industry associations, and the Frost & Sullivan methodology stated in this section.

Based on the above, the cumulative market size of electric bikes in China grew from 22.5 million in 2005 to 81.4 million in 2009, representing a CAGR of 38.0%, and it is expected to grow further to 100.8 million in 2011, representing a CAGR of 11.3% from 2009 to 2011. In 2009, the new demand of electric bike has experienced a decrease due to the global economic downturn that affected the relevant sales.

The fast growth in the PRC electric bike market can be attributed to:

(a) Increase in urbanization and disposable income

The increase in disposable income of the general population provides incentives for the general population to switch traditional bicycle to electric bike, a transportation means which is functionally sound yet retains simplicity and low cost;

(b) Environment concern increases the need for electric bike

The low emission, purchase price and maintenance cost and convenience natures of the electric bikes provide a solution to various considerable problems associated with its high pollution, population, congestion and under-developed infrastructure in the PRC; and

(c) Traffic conditions and under-develop infrastructure

Traffic conditions such as congestion and under-developed infrastructure (especially in lower tier cities) will stimulate the use of electric bike which is a convenient means of transportation.

(d) Home Appliance Subsidy Program in Rural Areas of the PRC

The Chinese government started trial implementation of the home appliance subsidy program in rural areas (家電下鄉補貼計劃) on 1 December 2007 in Shandong province, Henan province and Sichuan province and then extended this program to the entire country as from 1 February 2009. The program applies to the peasants and employees of State-owned farms and forest farms. The program is temporarily scheduled to be valid for four years till 31 January 2013. A total of nine types of products are included in the catalogue of the program, including color television, refrigerator, cellphone, washing-machine, computer, air conditioner, water heater (including electric heater, gas water heater, solar water heater), microwave oven and induction cooker. Each household can purchase a maximum of two products in each product category at the most.

On 23 March 2010, the Ministry of Finance, the Ministry of Commerce and the Ministry of Industry and Information Technology of the PRC issued a notice on relevant issues regarding, the Implementation Plan of Enlarging the Products Catalogue under Home Appliance Subsidy Program in Rural Areas* (新增家電下鄉補貼品種實施方案) pursuant to which 10 provinces of the PRC, including but not limited to Shandong province, Jiangsu province and Hebei province, can add electric bike to the product catalogue under the program, and each household in these 10 provinces who purchases electric bike can enjoy a maximum subsidy of RMB260.

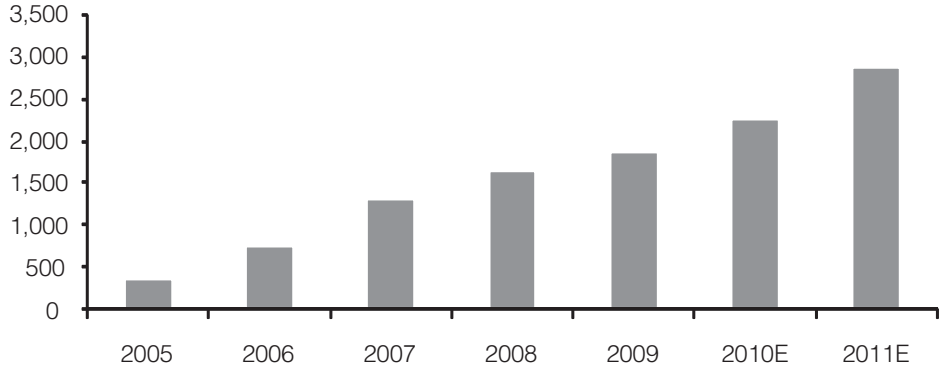
Currently, China dominates the global electric bike market and the principal growth of the global industry, mainly driven by its strong domestic demand and status as one of the key world's manufacturing centers. According to the Frost & Sullivan Report, it is estimated that approximately 72% of the total new demand in 2009 were from China.

MOTIVE BATTERY DEMAND FOR ELECTRIC BIKES

Each electric bike is generally equipped with 3-4 units of batteries and each lead-acid motive battery has a life cycle of approximately 1.5 years (actual usage life may vary considerably depending on various factors such as the application of different component parts or the users' usage pattern). Demand for electric bike motive battery is generally classified into two categories: (i) the "Primary Market" which refers to the market of batteries that are bundled with the sales of new electronic bike. The demand of this market has strong correlation to the new demand of electric bike, and (ii) the "Secondary Market" which refers to the replacement market which has strong correlation to the overall accumulative electric bike population growth.

The following diagram sets forth the sales revenue of electric bike lead-acid battery in China from 2005 to 2009, as well as the forecast from 2009 to 2011:

Revenue of electric bike lead-acid battery in China (USD million)



Source: Frost & Sullivan Report, March 2010

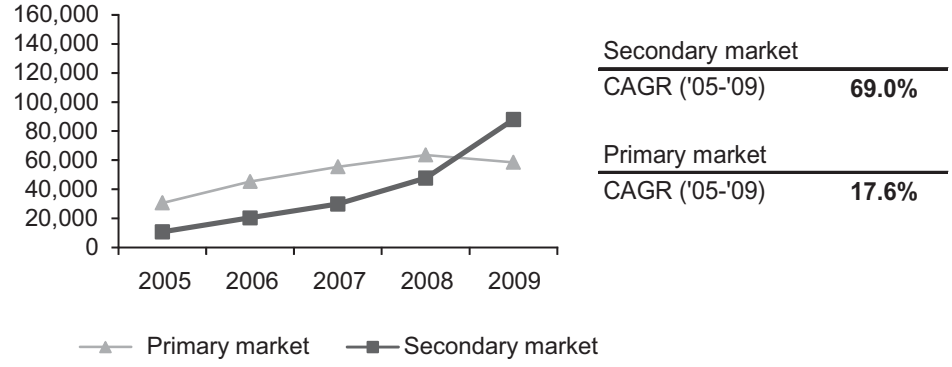
Note: The Frost & Sullivan projection is computed based on the consideration of the historical data and estimated forecast indicated by key electric bike manufacturers, key electric bike battery manufacturers and industry associations, and its methodology stated in this section.

According to the Frost & Sullivan Report, the total sales revenue of electric bike batteries in China grew from US$374.0 million in 2005 to US$1,870.4 million in 2009, representing a CAGR of 49.5%, and it is expected to grow further to US$2,881.9 million in 2011, representing a CAGR of 24.1% from 2009 to 2011.

PRIMARY AND SECONDARY MARKETS FOR ELECTRIC BIKE MOTIVE BATTERIES

As mentioned above, the demand for electric bike motive batteries is generally divided into the demand in primary and secondary markets. The following diagram illustrates the demand in the primary and secondary markets for electric bike lead-acid batteries in China:

Demand of primary and secondary markets for electric bike lead-acid batteries ('000 units)



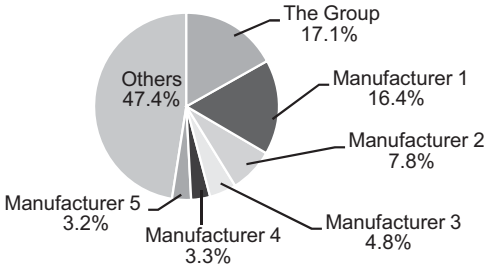
Source: Frost & Sullivan Report, March 2010

According to the Frost & Sullivan Report, the demand from both markets is expected to grow in the next five years. However, with the increase of overall population of the electric bike market and taking into consideration the current average battery life which is approximately 1.5 years, in the demand from the secondary market in China is likely to exceed that from the primary market. Based on the Frost & Sullivan Report, the total demand in the secondary market (which recorded an increase by over 84% in 2009 as compared to 2008) surpassed the demand in the primary market (which recorded a decrease by 8% in 2009 as compared to 2008 mainly due to the economic downturn) for the first time in 2009.

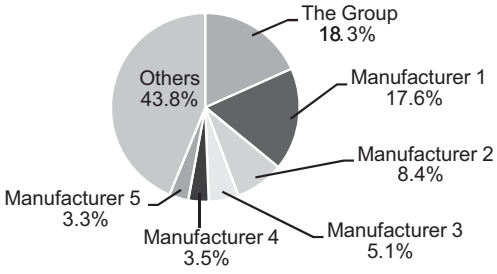
MARKET PARTICIPANTS

According to the Frost & Sullivan Report, the market share of the six largest manufacturers of lead-acid motive battery products in 2009 accounted for approximately 56.2% of the total market size and there are only two players with market share higher than 10%. Hence, the market is considered relatively fragmented with numerous relatively small manufacturers. Our Directors believe that the increasing demand for high standard batteries and the continue emphasis on environmental protection in the manufacturing process will have significant adverse impact on the operation of these relatively small manufacturers and therefore could offer more potential consolidation opportunities for established market leaders like us.

China overall electric bike motive battery market share by revenue in 2009



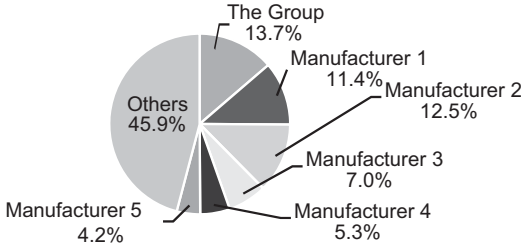
China electric bike lead-acid motive battery market share by revenue in 2009



Source: Frost & Sullivan Report, March 2010

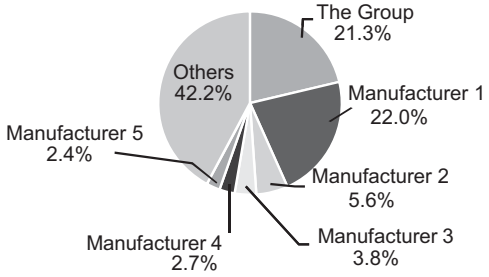
In terms of primary and secondary markets, they are also highly fragmented. The following diagrams illustrate the top six players in these two markets with their respective market shares, according to the Frost & Sullivan Report:

China primary market share for electric bike lead-acid motive battery by revenue



Source: Frost & Sullivan Report, March 2010

China secondary market share for electric bike lead-acid motive battery by revenue



Source: Frost & Sullivan Report, March 2010

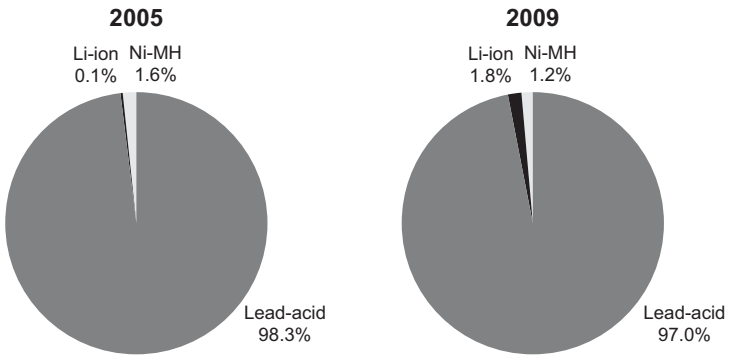
LEAD-ACID BATTERY PRODUCTS VS OTHER RECHARGEABLE BATTERY PRODUCTS

The lead-acid motive battery is currently the most commercially viable and technologically mature rechargeable battery product, which offers the best reliability even today, over a century after it was introduced. It is generally used in the automotive, motorcycle, marine and deep-cycle fields (the latter of which encompasses electric bikes).

Especially in electric bikes, the sealed lead-acid rechargeable battery has a dominant market share of over 90%. In terms of alternatives, there are other rechargeable battery products available on the market today, primarily Ni-MH and Li-ion batteries, which possess certain technological advantages over lead-acid batteries, especially Li-ion batteries which have seen their share of China's electric bike market increasing from approximately 0.1% to approximately 1.8% between 2005 and 2009. However, given the inherent price-sensitivity of the electric bike consumers, these alternative chemistries are currently considered not yet commercially popular for electric bikes due to their relatively premature stages of development and consequently less stable performance. According to the Frost & Sullivan Report, it is generally believed that sealed lead-acid rechargeable batteries will continue to dominate the Chinese market in the near future. However, their competitive advantage could be challenged by the continuing development of such alternative chemical batteries which may improve their viability, popularity and therefore market share in their application to batteries for electric bikes.

The following diagram illustrates the demand for different types of battery product for electric bikes in China in 2009. In China, over 90% of the rechargeable batteries used in electric bikes are lead-acid batteries which other chemicals combined consist of less than 10%.

Breakdown of electric bike motive battery demand



Source: Frost & Sullivan Report, March 2010

Comparison of Battery Types

According to the Asian Development Bank, valve regulated lead-acid ("**VRLA**") batteries are still the most cost-effective option. On the other hand, there are also some other advantages for other battery types such as Li-ion which its mass (kg) offers a significant advantage over lead-acid battery. If users' only option to recharge is to carry the battery indoors, they may be inclined to use Ni-MH or Li-ion. The shorter life of Ni-MH batteries may not justify the higher cost to some users. Li-ion batteries are expensive, too, but their lifetime cost is only 1.6 times as high as that of VRLA batteries. Therefore, with some price reductions, Li-ion could be cost-effective in the future, especially with regulatory pressure to reduce the weight of electric bikes.

Results	**Lead-acid**	**Ni-MH**	**Li-ion**
Cost ($)	130	270	500
Mass (kg)	26	14	8
Lifetime (yr)	1.5 (3 ideal)	2.0 (4 ideal)	4.5 (9 ideal)
Volume (L)	10	4	5
Maximum Theoretical Power (kW)	6.2	–	2.9
Recharging Safety	High	High	Low
Temperature Effects	Moderate	High	Moderate

Assumptions	**VRLA**	**Ni-MH**	**Li-ion**
Specific Energy (Wh/kg)	35	65	110
Energy Density (Wh/L)	86	235	170
Power Density (W/kg)	240	–	350
Cost ($/kWh)	130	300	560
Cycle Life (recharges)	300	400	800
Life-Cycle ($/kWh/recharge)	0.43	0.75	0.70

- = data not available, kg = kilogram, kWh = Kilowatt-hour, L = liter, Li-ion = lithium-ion, NiMH = nickel metal hydride, Wh = watt-hour, yr = years.

Source: "Electric Bikes in the People's Republic Of China" (2009), Asian Development Bank

Emissions of electric bike and environmental impacts of lead pollution

Electric bikes generate environmental impacts through several processes. Although electric bikes do not emit any "tailpipe" emissions, they require traditional grid electricity sources to recharge their batteries, like any other electronic appliances. In China, the electricity is mostly generated from coal power plants that emit traditional pollutants commonly associated with gasoline vehicles, and high sulphur dioxide because of the high sulphur levels in coal burned to generate electricity.

When considering the life-cycle environmental impacts of electric bikes, lead pollution from industrial processes stands out as a clear challenge to the environmental sustainability of this mode, even with nearly 100% recycling rates. Because the large batteries are replaced every one to two years, a medium-sized electric bike introduces 420 milligrams (mg)/km of lead into the environment through mining, smelting, and recycling. This pollution is emitted in various forms of solid, liquid, and airborne waste. Many of these emissions are the result of small-scale, informal lead-producing operations, which are difficult to regulate or monitor.

Recycling of lead-acid motive battery

Currently, over 90% of new electric bikes use lead-acid motive batteries. As the life of each lead-acid motive battery is approximately 1.5 years, the use of such battery could generate large amount of harmful waste at disposal. Among different types of motive battery, lead-acid has the highest recycling value and according to the Frost & Sullivan report, approximately 95% of the lead in a waste lead-acid battery can be recycled.

Parties involved in lead-acid battery recycling includes the electric bike sales outlets, electric bike maintenance outlets, waste lead refineries and small traders of waste lead-acid battery which provides convenience for consumers to recycle or sell back the waste batteries.

Cost component of lead-acid motive battery

Key components of lead-acid motive battery comprises of lead, electrode plates and plastic battery castings. According to Frost and Sullivan, lead is the most crucial component and it accounts for approximately 75.0% of the total cost of a lead-acid battery. Hence the lead-acid motive battery price has a strong correlation to the lead price movement. Similar to other resources and raw materials prices, the lead price has experienced significant fluctuations between 2007 and 2009. According to the China Shanghai Changjiang lead spot price, the price has increased to over RMB25,000 in the second half of 2007 and experienced a significant decrease to fall below RMB10,000 in the second half of 2008 due to the global economic downturn that has led to a decrease in most resources and raw materials prices. Since 2008, the lead price gradually increased at

a more steadily rate and it generally remained relatively stable since 2009. The following diagram sets forth an indicative lead price movement from 1 January 2007 to 31 May 2010.

Source: China Shanghai Changjiang lead spot price

OTHER GROWTH OPPORTUNITIES FOR LEAD-ACID BATTERY PRODUCTS

Currently, we are mainly engaged in the manufacturing of electric bike lead-acid motive batteries. At the same time, we are also exploring different market opportunities. The following are some of the market opportunities that our Directors believe, could be a growth driver to the lead-acid battery industry and our business:

(a) Electric vehicle motive battery market

Electric vehicle generally consists of hybrid electric vehicles (HEVs) and electric vehicles (EVs). HEV uses a combination of gasoline and electric engines and EV is completely dependent on batteries for its operations. The market growth of HEV and EV batteries has been generally perceived as high growth due to the anticipated increasing demand for these alternative vehicles. However, unlike HEV, EV requires much higher storage electric capacity and stable performance before commercialization. According to the Frost & Sullivan report, the EV market is still in the relatively early stage of development and it is anticipated that it will take a few years before it reaches a meaningful scale. In terms of battery products, manufacturers have been exploring different battery technologies in their research and development. Currently, while Li-ion battery is expected to be utilized more in the coming years, other technologies such as lead-acid which is a more mature technology, high availability and low cost could also be applied. According to the Administrative Provisions for the Entry of New-energy Automobile Manufacturers and the Products* (《新能源汽車生產企業及產品准入管理規則》) promulgated by the Ministry of Industry and Information Technology of the PRC on 17 June 2009 and implemented on 1 July 2009, new-energy automobiles with lead-acid rechargeable battery (including hybrid passenger vehicles, hybrid commercial vehicles, pure electric passenger vehicles and pure electric commercial vehicles, etc.) as power

source are currently at the developing or mature technological stage, allowed for mass production (but their sales and use are restricted in and to approved areas, certain scopes, duration and conditions, and at least 20% of the sold products must be under real-time monitoring on running status) or under ordinary production management.

(b) Storage battery for solar and wind energy

Energy storage battery is an important component of solar photovoltaic energy and wind power generation system. With China's initiatives to reduce its carbon intensity level and increase the share of non-fossil energy consumption, it is generally expected that the industry will continue to grow. According to Frost & Sullivan, the sales revenue of energy storage battery reached RMB650 million in 2008 and it is expected to grow significantly in the future.

In terms of battery technology, the current mainstream is valve-regulated lead-acid (VRLA) battery, which accounted for more than 95% of the total sales. Although different kinds of batteries such as VRLA battery, Ni-MH battery, Ni-Cd battery, Li-ion battery and sodium-sulfur battery are available, VRLA battery still dominates the market due to its competitive advantages in price performance ratio and application maturity.