

BUSINESS

OVERVIEW

We are a leading lead-acid motive battery manufacturer in the fast growing electric bike market in China. According to the Frost & Sullivan Report, for the year ended 31 December 2009, we had the largest market share by revenue in China's electric bike motive battery market, both overall and in the lead-acid motive battery segment, with market share of approximately 17.1% and 18.3%, respectively. Leveraging on our market leadership in the lead-acid battery industry, we have commenced the production of lead-acid motive batteries for electric cars and storage batteries for wind and solar energy at a small volume. Although our electric car motive batteries and storage batteries for wind and solar energy only represented a small portion, less than 1%, of our total revenue throughout the Track Record Period and are still at the early stage of development, we believe that these new products have long-term growth potential and will further help diversify our product mix.

The use of electric bikes in China is increasingly popular as an environmentally-friendly, low cost, convenient and energy-efficient mode of transportation. Motive batteries for electric bikes primarily consist of lead-acid, Ni-MH and Li-ion batteries. Currently, the lead-acid motive battery is the preferred choice for electric bike manufacturers in China, accounting for over 90% of the overall electric bike motive battery market, mainly because of its low cost and stable performance as compared to the Ni-MH battery and Li-ion battery. In view of the market demand in China, our motive battery products are primarily designed for use on electric bikes, where we are the market leader in terms of revenue. According to Frost & Sullivan, among the total consumption of lead-acid rechargeable batteries in China, the usage in electric bikes accounted for about 31.1% with total revenues of USD1.9 billion in 2009.

Our motive battery products are sold under our principal brand "CHILWEE (超威)" which has been recognized as a "Brand with the Strongest Influence in the Electrical Equipment Industry of China*" (中國電器工業最具影響力品牌)" by China Electrical Equipment Industrial Association* (中國電器工業協會) in March 2009 and a "Well-known Trademark of China*" (中國馳名商標)" by the relevant PRC authorities in March 2008. During the Track Record Period, we have achieved strong growth as illustrated by the key financial figures set out below:

	Year ended		2009	Three months		CAGR (2007-2009)
	31 December	2008		ended 31 March	2010	
	2007	2008	2009	2009	2010	(2007-2009)
Sales volume ('000)	12,594	19,444	26,161	5,771	7,410	44.1%
Revenue (RMB'000)	1,466,108	2,316,911	2,433,889	562,610	710,548	28.8%
Profit and total comprehensive income for the year/period (RMB'000)	92,263	143,628	226,047	56,356	78,870	56.5%
Profit and total comprehensive income attributable to owners of our Company (RMB'000)	84,223	128,107	201,912	48,010	74,045	54.8%

BUSINESS

We have established a nationwide sales and distribution network that covers both our primary and our secondary markets. Our extensive sales and distribution network allows us to distribute our products and provide strong after-sales services, including recycling, repairing and maintenance of batteries and the provision of spare parts for electric bikes, differentiating us from the majority of our competitors.

Our primary market focuses on the supply of products to electric bike manufacturers, including but not limited to market leaders such as Yadea, AUCMA and Bidewen, which are Independent Third Parties and among our 10 largest customers during the Track Record Period. For the three years ended 31 December 2007, 2008 and 2009 and three months ended 31 March 2010, our aggregate sales to Yadea, AUCMA and Bidewen amounted to approximately RMB100.4 million, RMB140.4 million, RMB209.9 million and RMB69.2 million, respectively, representing approximately 6.8%, 6.1%, 8.6% and 9.7%, respectively, of our total sales for the same periods.

Our secondary market focuses on the replacement battery market for electric bikes. In anticipation of the increasing demand resulting from the growing electric bike population, we have strengthened our efforts on the development of our distribution network since 2008. As of 31 March 2010, we had established one of the largest nationwide electric bike motive battery distribution networks with 421 independent distributors who distribute our lead-acid motive batteries on an exclusive basis, strategically located across our 15 sales regions covering every province, autonomous region and municipality in China.

To enhance further our service coverage and the brand awareness and recognition of our “CHILWEE (超威)” brand, we plan to launch “one-stop” service centers throughout China in cooperation with our distributors or sub-distributors. The service centers will be owned and operated by our distributors at their own cost, but will bear our logo and adopt our standard color and design scheme. The Company will provide appropriate training to the distributors or sub-distributors who own the service centers to ensure the service quality. In addition, to avoid abuse of our logo, such logo can only be used in a manner approved by us. The development of such “one-stop” service centers is still at a preliminary stage, and as of the Latest Practicable Date, we have established two such service centers in Henan province and we continue to explore opportunities to cooperate with other distributors to open similar service centers across China.

Our emphasis on research and development allows us to develop innovative high quality products. In line with our initiatives to explore new potential markets and in response to the increasing market demand for battery products with different environment-friendly applications, we have expanded our participation in the electric car motive battery market and the wind and solar energy storage battery markets. We have begun production of electric car and wind storage batteries at a small volume to prepare for growth in these markets. For electric car motive batteries, we have been cooperating with reputable PRC automobile manufacturers, including Geely and Jianghuai, in the development of prototype lead-acid motive batteries for electric cars. We have commenced production and supply of such prototype batteries to such PRC automobile manufacturers at a small volume during the Track Record Period. Currently, all five models of our motive battery for electric cars have passed the quality tests prescribed by the China North Vehicle Quality Supervision and Testing Laboratory* (中國北方汽車質量監督實驗所), a

national-level quality testing institute recognized by the China National Accreditation Service for Conformity Assessment* (中國合格評定國家認可委員會) and the Certification and Accreditation Administration of the PRC* (中國國家認證認可監督管理委員會). For wind and solar energy storage batteries, we possess the relevant production technology and have started commercial production of such batteries at a small volume.

Notwithstanding that the majority of the electric bikes are currently using lead-acid batteries and the development and application of new motive battery products, such as Li-ion and Ni-MH batteries, is still at the early stage and only accounts for less than 10% of the overall electric bike motive battery market, such new motive battery products are generally considered more environment-friendly and therefore may pose strong competition against lead-acid battery products which may potentially lead to obsolescence of lead-acid motive batteries in the longer term. As such, we have strengthened our research and development on Li-ion batteries with a view to ensuring that we will be at the forefront of the industry. We have commenced research activities together with Ningbo Engineering College* (寧波工程學院) on the development and production of key raw materials for Li-ion motive and storage batteries.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths are key factors contributing to our success to date and will enable us to continue to increase market share and capture the anticipated future growth opportunities in the lead-acid motive battery market.

Market leader with strong brand recognition and a record of rapid growth

We are a leading lead-acid motive battery manufacturer in the fast growing electric bike market in China, based on our market share by revenue. Our principal brand “CHILWEE (超威)” has been recognized as a “Brand with Strongest Influence in the Electrical Equipment Industry of China* (中國電器工業最具影響力品牌)” by the China Electrical Equipment Industrial Association* (中國電器工業協會) in March 2009 and a “Well-known Trademark of China* (中國馳名商標)” by the relevant PRC authorities in March 2008. We also experienced rapid growth in terms of our sales volume and revenue which achieved a CAGR of 44.1% and 28.8%, respectively, from 2007 to 2009.

With our market leadership position, we enjoy first-mover advantage and certain economies of scale and cost efficiencies in terms of production costs. As a forerunner in the development of the lead-acid motive battery industry in China, we have established strong relationships with major electric bike manufacturers in China, such as Yadea, AUCMA and Bidewen, who provide us with the latest market feedback on the performance and quality of our battery products. Such market feedback also supports us in our efforts to diversify our product mix for the emerging market for alternative and clean motive energy that can be used in personal transportation devices in China. As such, we are well positioned to take advantage of the continuing growth in China’s motive battery market.

The development of alternative transportation devices is encouraged by the PRC government in order to reduce reliance on oil and gas and to reduce emissions of greenhouse gases, and we expect to benefit from such state policy in the continuing expansion of our business operations.

Nationwide sales, distribution and after-sales services network, supported by strategic locations of our production facilities

We have established a nationwide sales and distribution network that covers both our primary and secondary. Our sales and distribution network allows us to distribute our products and provide strong after-sales services including recycling, repairing and maintenance of batteries and the provision of spare parts for electric bikes, differentiating us from our competitors.

For our primary market customers, namely the manufacturers of electric bikes, we have a dedicated key account customer service department (大客戶部) currently comprising 12 sales representatives who are responsible for serving our major customers in this market.

For our secondary market customers, namely, our customers in the replacement motive battery market, we have developed a distribution network of 421 independent distributors who distribute our lead-acid motive batteries on an exclusive basis, strategically located across our 15 sales regions covering every province, autonomous region and municipality in China, which provides us with extensive market coverage and customer reach in the secondary market. We select our distributors based on their scale of distribution network, track record, financial condition, creditworthiness and compatibility with our own business strategies. In addition to the sales performance targets we impose on our distributors, we also require them to follow our requirements and standards in relation to their after-sales services.

To enhance further the brand awareness and recognition of our “CHILWEE (超威)” brand and reinforce and expand our distribution network, we plan to launch “one-stop” service centers in our secondary market across China working in cooperation with distributors or sub-distributors. Details of our service center plan have been set out in the paragraph headed “Sales, Marketing and Distribution – New “one-stop” service centers” in this section. As of the Latest Practicable Date, we had established two such service centers in Henan Province.

Our production plants, located in the provinces of Zhejiang, Jiangsu, Shandong, Henan and Anhui, are each strategically located in order to serve our major markets in the most efficient way. This production base helps facilitate our extensive sales and distribution network, allowing us to offer better and quicker customer service and limit our transportation costs.

Emphasis on research and development for product innovation

Our success is to a significant extent attributable to our emphasis on product research and development. We have established a research and development center in our headquarters at Changxing, Zhejiang province, to focus on the development of innovative technologies and new, high value-added products.

Our strong research and development capabilities place us at the forefront of the lead-acid motive battery industry in the PRC. As of the Latest Practicable Date, we had registered 47 patents and applied for 18 new patents for our technological know-how in

China. Of such registered patents, eight are invention patents for our lead-acid motive battery production technologies. We were recognized as a “National Torch Program Key Enterprise in High and New Technology* (國家火炬計劃重點高新技術企業)” by the Ministry of Science and Technology of China in March 2009. Our “long life gel sealed lead-acid battery for electric vehicles* (電動車用長壽命膠體密封鉛蓄電池)” has been recognized as a “National Key New Product* (國家重點新產品)” jointly by four PRC government agencies, including the Ministry of Science and Technology and the Ministry of Environmental Protection. In view of our strong research and development capability in the lead-acid motive battery industry, we were invited to participate in formulating four national quality standards relating to lead-acid motive batteries. Details of such standards are set out in the section headed “Research and Development” in this prospectus.

We have entered into agreements with reputable PRC automobile manufacturers, including Geely and Jianghuai, to cooperate in the development of prototype lead acid motive batteries for electric cars. We have commenced production and supply of such prototype batteries to such automobile manufacturers at a small volume during the Track Record Period. All five models of motive battery products developed by us for electric cars have passed the quality tests prescribed by the China North Vehicle Quality Supervision and Testing Laboratory* (中國北方汽車質量監督實驗所), a national-level quality testing institute recognized by the China National Accreditation Service for Conformity Assessment* (中國合格評定國家認可委員會) and the Certification and Accreditation Administration of the PRC* (中國國家認證認可監督管理委員會). We also possess production technology to produce storage batteries for wind and solar energy and have commenced research into Li-ion batteries. Although our electric car motive batteries and storage batteries for wind and solar energy only represented a small portion, less than 1%, of our total revenue throughout the Track Record Period and are still at the early stage of development, we believe that these new products have long-term growth potential and will further help diversify our product mix.

We work closely with various research and academic institutions to develop new motive battery products, as well as related manufacturing techniques, including collaborations with Fuzhou University* (福州大學), National Rechargeable Batteries Quality Supervision and Testing Center* (國家蓄電池質量監督檢測中心) and Ningbo Engineering Institute* (寧波工程學院). Details of such collaborations are set out in the section headed “Research and Development” in this prospectus.

We believe that we are well-positioned to increase our market share further by providing customers with innovative technology and high value-added products through our continuous efforts in research and development.

Advanced technological know-how and stringent quality control to produce high quality products

We apply our proprietary technological know-how to produce high-quality motive battery products that yield consistent performance over an extended product life cycle. These features are crucial to motive battery products as they are expected to perform steadily and provide uninterrupted power supply to transportation vehicles. We believe that the high quality of our products is well-recognized in the lead-acid motive battery industry in China.

We have obtained various awards and certifications in relation to our lead-acid motive battery products, including the certificate of “National Key New Product” for our “long life gel sealed lead-acid battery for electric vehicles (電動車用長壽命膠體密封鉛蓄電池)” in recognition of its advanced technology and high quality as compared to other lead-acid motive batteries of its kind produced in China.

We have also emphasized product quality by implementing stringent quality control measures throughout our operation, extending from raw material procurement to production and delivery processes, including careful selection and inspection of raw materials and regular inspection and maintenance of production equipment. We have applied the standards of ISO 9001 throughout our quality control system and obtained such ISO certifications for our quality control management at all of our production facilities.

As a result, we are able to meet the stringent technical specifications and quality standards of our customers on a consistent basis. During the Track Record Period, we have not encountered any material claims or incidents in relation to product defect or safety issues concerning our products.

Focus on environment-friendly production process

Due to the increasing awareness of environmentally responsible practices among consumers and manufacturers, our Directors believe that our ability to implement effective, environmentally responsible practices and high environmental standards in our production process sets us apart from the majority of other motive battery manufacturers in China. This includes the adoption of the enclosed battery formation process (內化成工藝) in all the existing production facilities in Jiangsu province and part of the existing production facilities in Zhejiang province and our plan to employ this process in all new production facilities constructed by us in the future. As compared to the traditional battery formation process, our enclosed battery formation process (內化成工藝) substantially reduces our water usage and discharge of sulphuric acid fumes and waste water in the production process. Our Directors believe that we are one of the few major lead-acid motive battery manufacturers in China to have adopted the enclosed battery formation process (內化成工藝) in our production process. We have also received ISO 14001:2004 certifications for all of our production plants in recognition of their environmental compliance standards.

We also engaged Atkins China to perform an environmental assessment at our production plants in 2010, in order, among other things, to assess our compliance with the applicable national environmental standards. According to Atkins China, based on the records of the monitoring procedures performed by the relevant local environmental authorities pursuant to the relevant PRC laws and regulations for the period from 2007 to 2009 (except for Anhui Chaowei which kept such records for a shorter period prior to our acquisition in 2009), all of our production facilities have complied with the relevant national standards in respect of air emission and waste water discharge as well as the national standards and requirements for other relevant environmental matters, such as noise and general waste management, except for two incidents of minor deviation from certain national standards for air emission and domestic sewage discharge in relation to our production facilities in Zhejiang province and Shandong province, respectively, in which the level of air emission and waste water discharge slightly exceeded the prescribed

national standards. Save for such two incidents, no recorded deviation by us from the relevant national standards in relation to environmental protection was reported by Atkins China. The deviation relating to our production facility in Zhejiang province in February 2008 mainly as a result of inadvertent oversight of our staff was rectified shortly afterwards and the re-examinations showed satisfactory results. The deviation relating to our production facility in Shandong province in October 2009 during the course of the upgrade of our domestic sewage discharge facilities was considered minor and acceptable by the local environmental authority as stated in its report. Atkins China proposed certain measures to us in relation to compliance with more stringent international standards and we intend to follow their recommendations in order to enhance further our environmental safety.

We have received confirmations in 2010 from the relevant local environment protection authorities that all of our PRC operating subsidiaries (i) had complied with the relevant PRC environmental laws and regulations; (ii) had not been subject to any penalty or punishment as a result of any breach of any relevant PRC environmental laws and regulations; and (iii) had not been subject to any investigation by the relevant local environment protection authorities in respect of environmental issues, since their establishment. Furthermore, Zong Heng Law Firm, our legal adviser on PRC laws, has confirmed that all of our PRC operating subsidiaries have complied with all the relevant PRC environmental laws and regulations. During the Track Record Period, we did not encounter any material claims, or any administrative action or penalty by the relevant PRC authorities, in relation to environmental and occupational health and safety issues.

Experienced management team with significant industry expertise

We are led by a strong team of highly experienced and dedicated professionals with relevant industry, financial and strategic planning experience. Our senior management team is led by our founder, Mr. Zhou, who also serves as our president and chairman, and his parents, Mr. Zhou Longrui and Ms. Yang Yunfei, who have rich experience in the lead acid battery industry. Mr. Zhou has more than 15 years of industry experience and has been responsible for providing corporate strategic direction and overseeing our significant growth in recent years. Other highly qualified members of our senior management team include Mr. Gao Xinkun, our vice-president for corporate and strategic planning, with more than 10 years' experience in financial planning, and Professor Chen Tixian, our head of research and development, with more than 30 years' experience of research in the lead-acid motive battery industry. Our senior management team possesses an average of more than 10 years of relevant experience. Our Directors believe that our experienced and committed management team enhances our ability to develop and implement our strategies quickly in response to market changes.

OUR STRATEGIES

We aim to strengthen our leading position in the motive battery industry in China and to become the world's leading manufacturer of motive battery products. We will continue to strive to achieve sustainable growth of our business and ensure that we remain competitive.

BUSINESS

To achieve these objectives, we intend to focus on the following strategies:

Expand our production capacity to increase our market share

Our sales volume increased from approximately 12.6 million units in 2007 to approximately 26.2 million units in 2009, representing a CAGR of 44.1%. Our revenue increased from RMB1,466.1 million in 2007 to approximately RMB2,433.9 million in 2009, representing a CAGR of 28.8%. As a result, we became a leading lead-acid motive battery manufacturer (by revenue) in the PRC for the year ended 31 December 2009. According to the Frost & Sullivan Report, the total sales revenue of electric bike batteries in China is expected to continue to grow to approximately US\$2,881.9 million in 2011, representing a CAGR of 24.1% from 2009 to 2011. As a leading electric bike battery manufacturer in China based on our market share by revenue, we are well positioned to benefit from the future growth of China's electric bike battery market, and we will therefore continue to focus on investing our resources to expand our production scale in order to enhance our leadership position further and increase our market share in this fast growing market.

Our annual designed production capacity as of 31 December 2009 was approximately 34.1 million units. We intend to increase our production capacity through the improvement and upgrade of our existing production facilities and the construction of new production facilities. We have commenced trial operation of (i) the first of the two phases of our new production facilities in Zhejiang province in February 2010, (ii) the new production facilities in Henan province in March 2010, and (iii) the new production facilities in Anhui province in June 2010. We expect to commence trial operation of the second phase of our new production facilities in Zhejiang province in March 2011. The following table sets out details relating to our production capacity expansion plan:

Location of Production Facilities	Date/Expected Date of Commencement of Trial Operation	Expected Date of Commencement of Full Operation	Designed Annual Production Capacity ⁽¹⁾		
			As of 31 December		
			2009 (million units)	2010 (million units)	2011 (million units)
Existing production facilities in the provinces of Anhui, Jiangsu, Henan, Shandong and Zhejiang	-	-	34.1	34.8	36.0
First phase of new production facilities in Zhejiang province ⁽²⁾	February 2010	September 2010	-	3.0 ⁽⁵⁾	5.9
Second phase of new production facilities in Zhejiang province ⁽²⁾	March 2011	November 2011	-	-	1.4 ⁽⁶⁾
New production facilities in Henan province ⁽³⁾	March 2010	December 2010	-	2.7 ⁽⁵⁾	8.9
New production facilities in Anhui province ⁽⁴⁾	June 2010	August 2010	-	0.7 ⁽⁵⁾	1.5
Total:			34.1	41.2	53.7

BUSINESS

Notes:

- (1) The designed annual production capacity is based on the annual capacity of the relevant production facility, or the throughput capacity, which is calculated by estimating the number of days in a calendar year that such production facility is expected to operate (which in our case is estimated to be 330 days) taking into account downtime for regular maintenance, and multiplying that by an amount equal to such production facility's optimal daily output or throughput.
- (2) The designed annual production capacity is expected to be approximately 6.6 million units upon full operation.
- (3) The designed annual production capacity is expected to be approximately 9.9 million units upon full operation.
- (4) The designed annual production capacity is expected to be approximately 1.7 million units upon full operation.
- (5) The designed production capacity for the relevant year is calculated on a pro rata basis as follows:

$$\frac{\text{Designed annual production capacity}}{12} \times \left(\frac{\text{Actual full operation period (months)}}{12} + \frac{\text{Actual trial operation period (months)}}{12} \times 30\% \right)$$

We intend to apply approximately 55%, or approximately HK\$308.2 million, of our net proceeds from the Global Offering on the construction of the new production facilities in Zhejiang province, Henan province and Anhui province, of which we intend to spend approximately 60%, 32% and 8% of such amount on the new production facilities in Zhejiang province, Henan province and Anhui province, respectively.

Participate in the market consolidation by pursuing strategic acquisitions

As a leading player in the fragmented electric bike battery market in China, we intend to participate in the consolidation of such market by pursuing, on an opportunistic basis, the strategic acquisitions of motive battery manufacturers which can provide synergy with our operations, with a view to increasing our market share and our production capacity. We have entered into letters of intent with two lead-acid motive battery manufacturers located at Changxing county in Zhejiang province in relation to the establishment of joint ventures in that county, to be engaged in the production of lead-acid motive batteries. Pursuant to the letter of intent, we shall have the controlling interest in the joint ventures. The letters of intent are not legally binding on the parties and are subject to further negotiations and formally executed contracts.

Enhance research and development capabilities to improve product quality and develop new battery products for markets with high growth potential

The electric bike market in China continues to experience rapid growth and the future development of the electric transportation device market will increase the demand for motive battery products. High-performance and environment friendly motive battery products for electric bikes will continue to be our mainstream battery products. Electric transportation devices reduce reliance on oil and gas and produce less greenhouse gas emissions and noise than internal combustion vehicles. As a result, the use of electric

transportation devices (including electric bikes, motorcycles and cars) is expected to increase in China and other countries, and our Directors believe that the market for a wide range of motive batteries for electric transportation devices will grow significantly in China. We have commenced, on a small scale, the production and supply of prototype lead-acid motive batteries for electric cars to various PRC automobile manufacturers, including Geely and Jianghuai. We intend to develop battery products for different types of electric transportation device in order to capture emerging business opportunities, including the development of Li-ion batteries as an alternative to lead-acid batteries. In addition, given the trend towards a clean energy environment, we expect to see business opportunities for storage batteries for solar and wind energy. We have started producing and supplying storage batteries for solar energy and we intend to expand our research and development efforts into this area.

Accordingly, we will continue to focus on product research and development to enhance our product quality and launch new products. We intend to recruit experienced researchers and technical personnel and invest in advanced facilities so as to strengthen our research and development capability.

Enhance our distribution network coverage and brand-building

The electric bike motive battery market in China may be categorized into the primary market and secondary market, comprising manufacturers of electric bikes and distributors of motive batteries for replacement purposes, respectively. The Directors believe, and the Frost & Sullivan Report estimates, that the demand for motive battery products in the secondary market will grow at a faster pace than the primary market and therefore we will continue to expand our existing distribution network in the secondary market. We intend to enhance the reach of our existing distribution network by increasing market coverage and attracting and retaining quality distributors and strengthening our cooperation with our existing distributors. In addition, in order to enhance the brand recognition of our “CHILWEE (超威)” brand further as well as to reinforce and expand our distribution network, we intend to continue launching “one-stop” service centers in our secondary market across China, working in cooperation with our distributors or sub-distributors. Our Directors believe that such a focused branding strategy will enable our products to be readily distinguishable and lay the foundation for us to expand our presence in the secondary market. In addition, we hope to raise the profile of our “CHILWEE (超威)” brand by devoting further resources to advertising and marketing campaigns.

Pursue strategic cooperation with suppliers of lead

Lead is our primary raw material and our ability to source quality grade lead at competitive prices in a timely manner is crucial to our production. Currently, we seek to minimize any adverse effect which may arise from any significant fluctuation in the supply, quality and price of lead primarily through inventory control. We intend to pursue strategic cooperation with lead suppliers in order to secure a stable supply of lead, reduce our cost of raw materials and enhance our competitiveness.

BUSINESS

PRODUCTS

Our motive battery products for electric bikes are exclusively of the lead-acid variety. During the Track Record Period, we also manufactured and sold, on a small scale, wind and solar energy storage batteries and lead-acid batteries for electric cars. All of our products are produced and sold by us under our principal brand “CHILWEE (超威)”.

The following table sets out an analysis of our revenue by our principal product segments for the Track Record Period:

Product	Year ended 31 December						Three months ended 31 March			
	2007		2008		2009		2009		2010	
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
	(Unaudited)									
Lead-acid motive batteries for electric bikes	1,297,694	99.6%	2,051,324	99.5%	2,335,835	99.8%	520,257	99.9%	690,531	99.8%
Lead-acid motive batteries for electric cars and storage batteries	5,656	0.4%	9,401	0.5%	5,752	0.2%	475	0.1%	1,633	0.2%
Total	1,303,350	100%	2,060,725	100%	2,341,587	100%	520,732	100%	692,164	100%

Lead-acid motive battery products

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

BUSINESS

As of the Latest Practicable Date, we had produced the following 12 models of lead-acid motive batteries for electric bikes and electric motorcycles:

Lead-acid batteries for electric bikes

Model	Dimension (mm)	Weight (kg)	Power output (w)	Estimated hours required per charge	Estimated hours of use per charge	Estimated travelling distance per charge (km)	Estimated life span (number of charges)
6-DZM-10 	L 151±2 W 99±1 H 94±2	4.2	180~350	6~10	2~2.5	45~80	≥350
6-DZM-12 	L 151±2 W 99±1 H 97±2	4.4	180~350	6~10	2~2.5	50~90	≥350
6-DZM-14 	L 181±2 W 77±1 H 134±2	5.5	200~350	6~10	2~2.5	50~80	≥350
6-DZM-16 	L 151±2 W 99±1 H 123±2	5.8	350~500	6~10	2~2.5	50~80	≥350
6-DZM-17 	L 181±2 W 77±1 H 167±2	6.5	350~500	6~10	2~2.5	50~90	≥350
6-DZM-20 	L 181±2 W 77±1 H 170±2	7.2	350~500	6~10	2~2.5	50~100	≥350

BUSINESS






Model	Dimension (mm)	Weight (kg)	Power output (w)	Estimated hours required per charge	Estimated hours of use per charge	Estimated travelling distance per charge (km)	Estimated life span (number of charges)
6-DZM-24 	L 166±2 W 175±2 H 126±2	9.5	350~500	6~10	2~2.5	60~110	≥350
6-DZM-25 	L 320±2 W 81±1 H 118±2	9.2	350~500	6~10	2~2.5	60~120	≥350
6-DZM-27 	L 196±2 W 130±1 H 154±2	9.8	750~900	6~10	2~2.5	40~60	≥350
8-DZM-14 	L 201±2 W 112±1 H 100±2	6.9	350~500	6~10	2~2.5	50~80	≥350
8-DZM-18 	L 250±2 W 100±1 H 126±2	9	350~500	6~10	2~2.5	60~90	≥350
6-DZM-7 	L 116±2 W 86±1 H 102±2	2.9	150~180	6~10	2~2.5	40~60	≥350

Our lead-acid motive batteries are generally assembled and sold in a package of three or four units for one electric bike or electric motorcycle, as generally required by our customers. All the lead-acid motive battery products produced by us are re-chargeable and can be recharged around 500 times. They are standardized and can be used in electric bikes and electric motorcycles produced by different manufacturers.



BUSINESS

We have also produced lead-acid batteries for electric vehicles including electric cars and storage batteries. As of the Latest Practicable Date, we had produced seven models of lead-acid batteries for electric vehicles and four models of storage batteries:

Lead-acid batteries for electric vehicles




Model	Dimension <i>(mm)</i>	Weight <i>(kg)</i>	Power output <i>(w)</i>	Estimated hours required per charge	Estimated hours of use per charge	Estimated travelling distance per charge <i>(km)</i>	Estimated life span <i>(number of charges)</i>
3DM150 	L 260 W 180 H 273	30	Average: 6,000 Maximum: 35,000	6~10	3	100~120	≥400
3DM180 	L 260 W 180 H 273	35	Average: 6,000 Maximum: 40,000	6~10	3	120~150	≥400
4DM135 	L 260 W 180 H 280	35	Average: 4,000 Maximum: 30,000	6~10	3	110~140	≥400
6DM100 	L 332 W 176 H 218	35	Average: 4,000 Maximum: 22,000	6~10	3	80~110	≥400
6DM120 	L 407 W 174 H 233	42	Average: 4,000 Maximum: 26,000	6~10	3	100~130	≥400

BUSINESS

Model	Dimension (mm)	Weight (kg)	Power output (w)	Estimated hours required per charge	Estimated hours of use per charge	Estimated travelling distance per charge (km)	Estimated life span (number of charges)
6DM150 	L 485 W 170 H 241	53.5	Average: 4,000 Maximum: 30,000	6~10	3	120~150	≥400
6DM70 	L 330 W 168 H 162	26.0	Average: 2,500 Maximum: 12,000	6~10	3	40~80	≥400

Note: Models 3DM180, 6DM70, 6DM100, 6DM120 and 6DM150 are lead-acid batteries for electric cars.

Storage batteries

Model	Dimension (mm)	Weight (kg)	Estimated hours required per charge	Estimated hours of use per charge
6-CN-40 	L 197 W 165 H 166	13.5	3~10	10~120
6-CN-100 	L 406 W 174 H 208	37	3~10	10~120
6-CN-150 	L 500 W 208 H 212	56	3~10	10~120

BUSINESS

Model	Dimension (mm)	Weight (kg)	Estimated hours required per charge	Estimated hours of use per charge
6-CN-200	L 496 W 258 H 227	75	3~10	10~120



Presently our product mix primarily consists of four models of lead-acid batteries for electric bikes (6-DZM-10, 6-DZM-12, 6-DZM-17 and 6-DZM-20), storage batteries and lead-acid batteries for electric cars. Sales of the above four models of lead-acid batteries for electric bikes accounted for over 80% of our revenue during the Track Record Period. The following table sets out our average selling price of the above four models of lead-acid batteries during the Track Record Period:

Model	Year ended 31 December			Three months ended
	2007	2008	2009	31 March 2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
6-DZM-10	92.5	91.5	73.0	75.6
6-DZM-12	95.2	93.0	75.4	79.3
6-DZM-17	135.0	153.5	118.1	121.9
6-DZM-20	147.8	136.6	125.1	128.1

The fluctuations in our average selling price of the above four models of lead-acid batteries during the Track Record Period were mainly due to the fluctuations in the price of lead.

PRODUCTION FACILITIES, PROCESS AND TECHNOLOGIES

We currently have production facilities located in Changxing county in Zhejiang province, Binhai county in Jiangsu province, Qingyang county in Anhui province, Qinyang City in Henan province and Ningyang county in Shandong province.

BUSINESS

Production capacity and average utilization rate

The following table sets out the annual designed production capacity and the average utilization rate of our production facilities for lead-acid motive battery products for the three years ended 31 December 2007, 2008 and 2009:

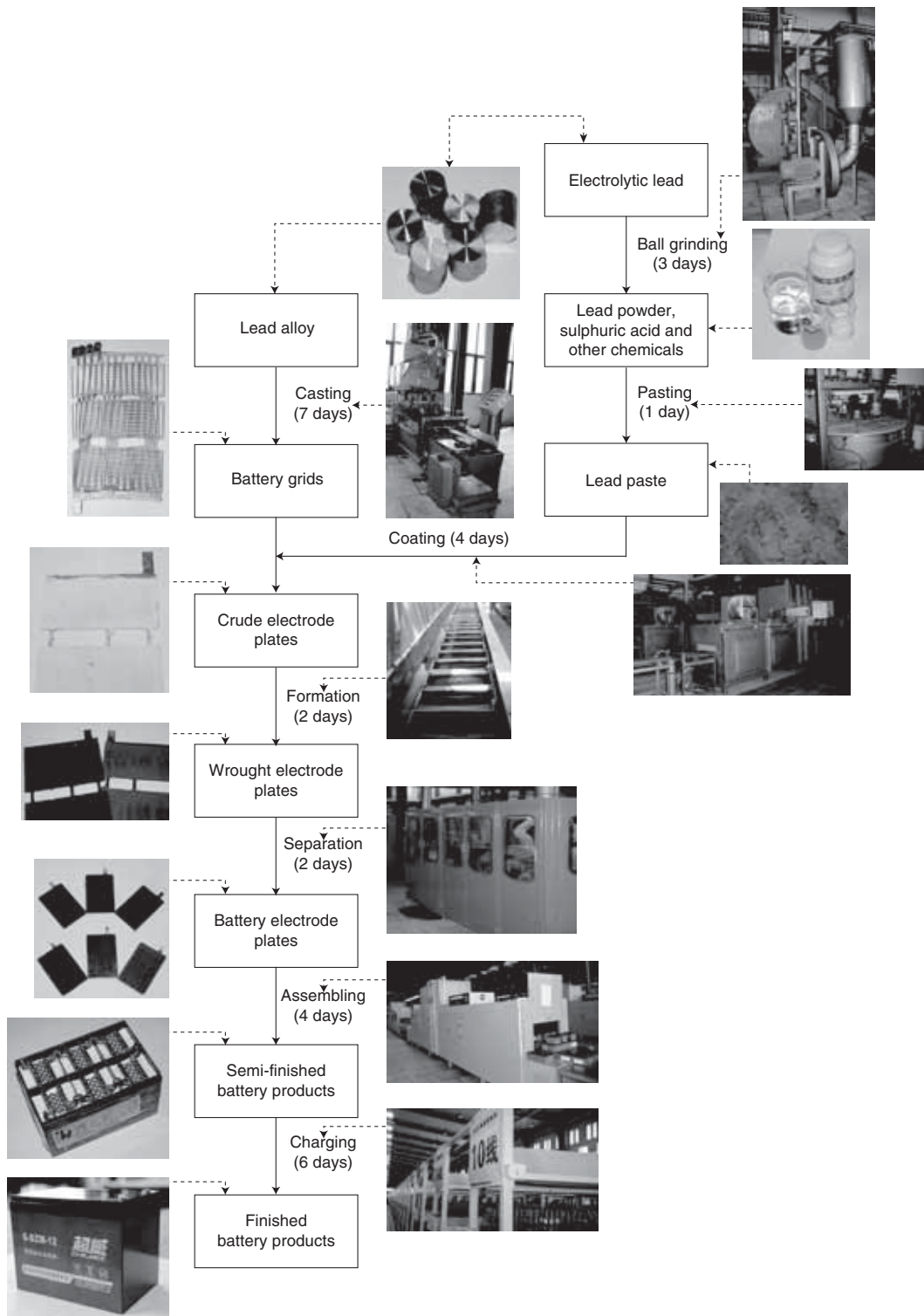
Location of production facilities	2007			Year ended 31 December 2008			2009		
	Designed annual production capacity ⁽¹⁾ (million units)	Actual annual production volume (million units)	Utilization rate	Designed annual production capacity ⁽¹⁾ (million units)	Actual annual production volume (million units)	Utilization rate	Designed annual production capacity ⁽¹⁾ (million units)	Actual annual production volume (million units)	Utilization rate
Changxing county, Zhejiang province	7.3	6.3	86.3%	7.5	6.4	85.3%	8.8	7.1	80.7%
Ningyang county, Shandong province	3.1	2.6	83.9%	8.1	7.1	87.7%	12.3	11.0	89.4%
Qinyang City, Henan province	2.3	1.9	82.6%	4.9	4.3	87.8%	6.4	5.8	90.6%
Binhai county, Jiangsu province	1.5	1.3	86.7%	2.5	2.2	88.0%	4.6	3.4	73.9% ⁽²⁾
Qinyang county, Anhui province ⁽³⁾	-	-	-	-	-	-	2.0	1.2	60.0%
Total	14.2	12.1	85.2%	23.0	20.0	87.0%	34.1	28.5	83.6%

Notes:

- (1) Designed annual production capacity is based on the annual capacity of the relevant production facility, or the throughput capacity, which is calculated by estimating the number of days in a calendar year that such production facility is expected to operate (which in our case, is estimated to be 330 days) taking into account downtime for regular maintenance, and multiplying that by an amount equal to such production facility's optimal daily output or throughput.
- (2) The decrease in our utilization rate at our production facilities at Binhai county, Jiangsu province for the year ended 31 December 2009 was due to our efforts to renovate and upgrade the production facilities.
- (3) We acquired the 85% equity interest in Anhui Chaowei in April 2009. Accordingly, its actual production volume for the period from April to December 2009 is included in calculating the utilization rate of the production facilities in Anhui Province for the year ended 31 December 2009.

BUSINESS

Production process of lead-acid motive battery products



Note: Taking into account the normal lead time required for switching among steps during the production process, it generally takes approximately 35 days to produce a finished battery product.

Casting

The lead alloy ingots are melted into liquid and cast into battery grids in a furnace. Different amount of lead alloy ingredients together with different amount of lead paste ingredients will produce positive or negative electrode plates. Battery grids are produced in different sizes for use in lead-acid motive battery products with different storage capacity and power output.

Coating

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

(1) Ball grinding

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

(2) Pasting

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

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

Formation

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

Separation

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

Wrapping and assembling

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

BUSINESS

Charging

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

RAW MATERIALS, UTILITIES AND SUPPLIERS

Raw materials

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

	Year ended 31 December						Three months ended 31 March			
	2007		2008		2009		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Lead	456,534	52.9%	803,383	60.0%	976,066	71.8%	211,357	73.4%	312,960	72.7%
Electrode plates	302,893	35.1%	339,823	25.4%	179,694	13.2%	31,939	11.1%	58,971	13.7%
Plastic battery castings	56,081	6.5%	98,682	7.4%	108,628	8.0%	23,214	8.1%	28,651	6.7%
Fiber glass dividing plates	19,033	2.2%	36,572	2.7%	39,559	2.9%	8,478	2.9%	10,390	2.4%
Other materials	28,727	3.3%	60,083	4.5%	56,420	4.1%	12,948	4.5%	19,378	4.5%
Total	863,268	100%	1,338,543	100%	1,360,367	100%	287,936	100%	430,350	100%

During the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010, we purchased approximately 40,323 tonnes, 72,848 tonnes, 101,054 tonnes and 12,925 tonnes of lead from a total of 51, 53, 50 and 14 suppliers, respectively.

The supply and the price of lead may be subject to significant fluctuations as a result of changes in market conditions both domestically in China and internationally. Such fluctuations will have a direct impact on the supply and prices of electrolytic lead and lead alloy. During the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010, the average selling price of lead (inclusive of value added tax) quoted by Shanghai Metals Market, a non-ferrous metal market information service provider in China, was approximately RMB19,552 per tonne, RMB17,374 per tonne, RMB14,931 per tonne and RMB16,007 per tonne, respectively, while our average purchase price of lead (net of value added tax) was approximately RMB16,401 per tonne, RMB14,264 per tonne, RMB11,837 per tonne and RMB13,251 per tonne, respectively. We

BUSINESS

believe our purchase of large amounts of lead on an on-going basis has facilitated our securing the supply of lead at a price lower than the market price.

The decrease in the price of lead was a result of changes in market conditions; it decreased substantially as a result of the economic slow down in 2008.

We currently purchase all our supplies of electrolytic lead and lead alloy in China.

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

Another key component used in the production of lead-acid motive battery products is electrode plates. We obtain electrode plates required for our production of lead-acid motive battery products mainly through our own production. In the event that our production capacity is insufficient to meet our production demand at any time, we also purchase electrode plates from external suppliers. The table below sets out the respective amounts and proportions of electrode plate costs that were spent on manufacture by us and on sourcing from third party suppliers and the respective average cost during the Track Record Period:

	Year ended 31 December						Three months ended 31 March					
	2007		2008		2009		2009		2010			
	RMB'000	Average cost (RMB/piece)	RMB'000	Average cost (RMB/piece)	RMB'000	Average cost (RMB/piece)	RMB'000	Average cost (RMB/piece)	RMB'000	Average cost (RMB/piece)	RMB'000	Average cost (RMB/piece)
Manufacturing cost of electrode plates manufactured by us	477,269	61.2%	919,518	73.0%	1,211,218	87.1%	212,851	87.0%	367,607	86.2%		
Purchase of electrode plates sourced from external suppliers	302,893	38.8%	339,823	27.0%	179,694	12.9%	31,939	13.0%	58,971	13.8%		
	<u>780,162</u>	<u>100%</u>	<u>1,259,341</u>	<u>100%</u>	<u>1,390,912</u>	<u>100%</u>	<u>244,790</u>	<u>100%</u>	<u>426,578</u>	<u>100%</u>		

During the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010, we purchased approximately 339 million, 355 million, 294 million and 53 million units of electrode plates, from a total of 9, 9, 4 and 4 third party suppliers, respectively.

BUSINESS

The following table sets out the annual designed production capacity and the average utilisation rate of our production facilities for electrode plates for the three years ended 31 December 2007, 2008 and 2009:

Location of production facilities	Year ended 31 December								
	2007			2008			2009		
	Designed annual production capacity	Actual annual production volume	Utilization rate	Designed annual production capacity	Actual annual production volume	Utilization rate	Designed annual production capacity	Actual annual production volume	Utilization rate
	(million pieces)	(million pieces)		(million pieces)	(million pieces)		(million pieces)	(million pieces)	
Changxing county, Zhejiang province ⁽¹⁾⁽²⁾	241.0	206.4	85.6%	263.5	226.7	86.0%	266.3	225.5	84.7%
Ningyang county, Shandong province ⁽²⁾	373.2	237.5	63.6% ⁽⁴⁾	703.2	627.0	89.2%	999.9	902.7	90.3%
Qinyang City, Henan province ⁽²⁾	304.8	253.1	83.0%	459.2	359.7	78.3% ⁽⁶⁾	433.1	419.4	96.8%
Binhai county, Jiangsu province ⁽³⁾	227.0	84.8	37.4% ⁽⁵⁾	208.8	169.3	81.1%	261.0	244.3	93.6%
Qingyang county, Anhui province ⁽²⁾	-	-	-	-	-	-	333.6	209.9	62.9% ⁽⁷⁾
Total	1,146.0	781.8	68.2%	1,634.7	1,382.7	84.6%	2,293.9	2,001.8	87.3%

Notes:

- (1) The production facilities are located at three different factories, among which only one factory has electrode plate production capacity. The other two factories mainly purchased electrode plates from third parties to meet their production demand.
- (2) The designed annual production capacity is based on the annual capacity of the relevant production facility, or the throughput capacity, which is calculated by estimating the number of days in a calendar year that such production facility is expected to operate (which in this case is estimated to be 342 days) taking into account downtime for regular maintenance, and multiplying that by an amount equal to such production facility's optimal daily output or throughput.
- (3) See note (2) above, except that the number of days in a calendar year that such production facility is expected to operate is in this case estimated to be 330 days.
- (4) The production facilities only commenced full operation in May 2007.
- (5) The production facilities were still in trial operation.
- (6) The production facilities undertook an improvement and upgrading in the first half of 2008.
- (7) We acquired the 85% equity interest in Anhui Chaowei in April 2009. Accordingly, its actual production volume for the period from April to December 2009 is included in calculating the utilization rate of the production facilities in Anhui Province for the year ended 31 December 2009. In addition, the electrode plates produced by the production facilities in Anhui Province were also provided to our two factories in Jiangsu province which do not have electrode production capacity.

Utilities

Electricity and water are the principal utilities used in our production process. We obtain electricity from the local power grid companies and water from the local water suppliers, river and underground water, which are located close to our production facilities. During the Track Record Period, we did not encounter any material interruption in our supply of electricity and water.

Suppliers

We purchase all our raw materials from suppliers in China. We maintain at least three suppliers for each of the key raw materials required for our production. All our purchases are paid for in Renminbi. In the year ended 31 December 2009, approximately 29.1% of our purchases of raw materials was made on credit terms, with credit periods normally 30 days, whilst the remainder was settled by way of cash on delivery. We have not experienced any material disruption to the supply of any of the key raw materials required for our production. For the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010, our five largest suppliers together accounted for approximately 43.2%, 46.4%, 44.1% and 36.6% and our largest supplier accounted for approximately 12.2%, 19.9%, 13.1% and 8.0% of our purchase of raw materials.

None of our Directors or their associates nor any person who to the knowledge of our Directors owned 5% or more of our issued share capital as of the Latest Practicable Date had any interest in any of our five largest suppliers for the Track Record Period, save for Pufa Power which is a connected person of our Group. Details of its relationship are set out under the section headed “Connected Transactions – Connected Persons – Pufa Power” in this prospectus. During the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 December 2010, purchase of electrode plates from Pufa Power amounted to approximately nil, RMB78.0 million, RMB93.8 million and RMB29.8 million, respectively, representing approximately nil, 4.0%, 4.9% and 7.5%, respectively, of our total purchase of raw materials for the same periods.

SALES, MARKETING AND DISTRIBUTION

Overview

We currently sell almost all of our products in China and almost all of our sales are settled in RMB.

Our products are sold to electric bike manufacturers primarily for use in the primary market and to distributors and retailers of electric bikes, batteries, spare parts and accessories primarily for use in the secondary market, being the replacement battery

BUSINESS

market for electric bikes. The following table sets out an analysis of our revenue from sales of lead-acid batteries for electric bikes in the primary market and in the secondary market during the Track Record Period:

	Year ended 31 December									Three months ended 31 March					
	2007			2008			2009			2009			2010		
	units (million)	RMB'000	%	units (million)	RMB'000	%	units (million)	RMB'000	%	units (million)	RMB'000	%	units (million)	RMB'000	%
Sales in the primary market ⁽¹⁾	9.6	986,399	76.0%	9.7	1,064,847	51.9%	7.9	688,347	29.5%	1.7	156,634	30.1%	2.9	260,535	37.7%
Sales in the secondary market ⁽²⁾	3.0	311,295	24.0%	9.7	986,477 ⁽³⁾	48.1% ⁽³⁾	18.2	1,647,488	70.5%	4.1	363,623	69.9%	4.5	429,996	62.3%
Total	12.6	1,297,694	100%	19.4	2,051,324	100%	26.1	2,335,835	100%	5.8	520,257	100%	7.4	690,531	100%

Notes:

- (1) Sales in the primary market refers to sales to electric bike manufacturers which are primarily for use in the primary market.
- (2) Sales in the secondary market refers to (i) prior to 2008, sales through local retail outlets of electric bikes, batteries, spare parts and accessories; (ii) in 2008, sales through local retail outlets and to distributors which are primarily for use in the secondary market; and (iii) from 2009, sales to distributors which are primarily for use in the secondary market.
- (3) Sales in the secondary market through local retail outlets and distributors amounted to RMB264,473,000 and RMB722,004,000, representing approximately 12.9% and 35.2% of our total revenue from sales of lead-acid batteries for electric bikes, respectively, for the year ended 31 December 2008.

There is no major difference in the range of products and terms of sale (including pricing, method and timing of delivery and return policy) that we offer to our electric bike manufacturer customers and distributors save that we offer credit to certain manufacturers with whom we have established long term stable relationships, but not to distributors save in exceptional circumstances. For the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010, we supplied 76.0%, 51.9%, 29.5% and 37.7%, respectively, of our battery products for electric bikes in the primary market and 24.0%, 48.1%, 70.5% and 62.3%, respectively, in the secondary market through retailers or distributors.

Prior to 2008, our sales of our products to the secondary market were mainly made through local retailers of electric bikes, batteries, spare parts and accessories. Since 2008, we have focused more sales efforts in the secondary market due to our tightened credit policy and associated risk controls and also in response to the increasing demand for replacement batteries associated with growth of the electric bike market. Accordingly, in early 2008, we commenced establishing our distribution network comprising independent distributors who distributed our products on an exclusive basis and sub-distributors who further distributed our products to the end users. The majority of our distributors were local wholesalers or retailers of electric bikes, batteries, spare parts and accessories. As a result, the number of our distributors has grown from 317 as of 31 December 2008 to 390 as of 31 December 2009 and 421 as of 31 March 2010, and over 60.0% of our revenue is attributable to sales through such distributors.

Our customers

We attribute our success to, among other things, our ability to maintain customers' loyalty and our commitment to product quality. While we have not entered into any long-term sales agreement with any of our existing customers in primary or secondary markets, which we believe is consistent with the market practice in China, we believe that the business relationships with our customers are well established. The majority of our ten largest customers have over three years of business relationship with us.

For the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010, our five largest customers, together, accounted for approximately 12.6%, 9.3%, 12.9% and 14.4% of our turnover, and our largest customer accounted for approximately 2.7%, 2.7%, 5.1% and 6.0% of our turnover, respectively.

None of our Directors or their associates nor any person who to the knowledge of our Directors owned 5% or more of our issued share capital as of the Latest Practicable Date had any interest in any of our five largest customers for the Track Record Period.

Sales and marketing to our primary market

Our lead-acid motive battery products are sold to manufacturers of electric bikes, which represent our primary market. Our primary market focuses on the supply of products to electric bike manufacturers, including but not limited to market leaders such as Jiangsu Yadea Technical Development Co., Ltd.* (江蘇雅迪科技發展有限公司) (“**Yadea**”), AUCMA (Yi Nan) New Energy Electric Vehicles Co., Ltd. (澳柯瑪(沂南)新能源電動車有限公司) (“**AUCMA**”) and Shandong Bidewen Power Technology Co., Ltd.* (山東比德文動力科技有限公司) (“**Bidewen**”), which are Independent Third Parties. For the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 December 2010, our sales to Yadea amounted to approximately RMB23.8 million, RMB62.0 million, RMB125.0 million and RMB42.3 million, respectively, representing approximately 1.6%, 2.7%, 5.1% and 6.0%, respectively, of our total sales for the same periods; our sales to AUCMA amounted to approximately RMB39.1 million, RMB51.1 million, RMB37.5 million and RMB9.4 million, respectively, representing approximately 2.7%, 2.2%, 1.5% and 1.3%, respectively, of our total sales for the same periods; and our sales to Bidewen amounted to approximately RMB37.5 million, RMB27.3 million, RMB47.4 million and RMB17.5 million, respectively, representing approximately 2.6%, 1.2%, 1.9% and 2.5%, respectively, of our total sales for the same periods.

We have a dedicated key account customer service department (大客戶部) for such manufacturers, currently comprising approximately 12 sales representatives who are responsible for serving our major customers in this market, which are the leading electric bike manufacturers in China. It is our long term strategy to strengthen our cooperation with major electric bike manufacturers. To this end, we have focused on developing these relationships including through regular management visits, providing close customer care through our sales representatives and technological support and upgrades, and attending industry conferences and exhibitions.

Sales and marketing to our secondary market

For our secondary market, namely, the replacement motive battery market, we have developed a distribution network of independent distributors and sub-distributors across our 15 sales regions covering every province, autonomous region and municipality in China, which provides us with extensive market coverage and customer reach in the secondary market. As of 31 March 2010, we had 421 independent distributors who distributed our lead-acid motive batteries on an exclusive basis. We do not have ownership or management control over the network but have exclusive access to this large number of independent distributors.

The map below shows the geographical locations of our distributors across our 15 sales regions as of 31 March 2010.



BUSINESS

Note:

We define our sales regions for the purposes of describing our secondary market (the replacement motive battery market) in China as follows:

Anhui Region	•	Anhui province
Gan-E Region	•	Jiangxi province
	•	Hubei province
Gui-Xiang Region	•	Hunan province
	•	Guizhou province
	•	Guangxi Zhuang autonomous region
Hebei Region	•	Hebei province
Henan Region	•	Henan province
Jiangsu Region	•	Jiangsu province
Jin-Shan Region	•	Shanxi province
	•	Shaanxi province
Jing-Jin Region	•	Beijing municipality
	•	Tianjin municipality
Meng-Ning Region	•	Inner Mongolia autonomous region
	•	Ningxia Hui autonomous region
North-East Region	•	Heilongjiang province
	•	Jilin province
	•	Liaoning province
North-West Region	•	Qinghai province
	•	Gansu province
	•	Xinjiang Uyghur autonomous region
	•	Xizhang Tibet autonomous region
Shandong Region	•	Shandong province
Yue-Min Region	•	Guangdong province
	•	Fujian province
	•	Hainan province
Yun-Chuan Region	•	Chongqing municipality
	•	Sichuan province
	•	Yunnan province
Zhe-Hu Region	•	Shanghai municipality
	•	Zhejiang province

We select our distributors based on their scale of distribution network, business track record, financial condition, creditworthiness and compatibility with our own business strategies. We enter into standard distribution agreements with our distributors to regulate and incentivize their selling activities. A majority of these contracts contain agreed targets in respect of sales and market coverage and pricing terms for the distributor. Our standard distribution agreements usually have a term of one year and are renewable on a yearly basis. As such, we review the performance of our distributors under such distribution agreement on an annual basis to determine whether to renew such distribution agreement with the relevant distributor. Under such distribution agreements, either party has the right to terminate the agreement prior to its expiration in certain circumstances mainly arising from material breach of such agreements by the other party.

Under such distribution agreements, we appoint our distributors on an exclusive basis to sell our lead-acid motive battery products in their designated distribution areas, such that we are not permitted to engage another party to distribute our products in their designated areas, and they are not allowed to sell our competitors' products within their respective designated distribution areas, or sell our products outside such areas.

Distributors are required to pay us a deposit, in a sum within a range between RMB10,000 and RMB300,000 determined based on their respective credits, scale of distribution network, business track record, sales target, and relationship with us. As of 31 December 2007, 2008 and 2009 and 31 March 2010, the balance of such deposit payments received from our distributors was approximately RMB1.3 million, RMB15.6 million,

BUSINESS

RMB20.7 million and RMB24.9 million, respectively. We set annual sales targets with our distributors based on various factors, including their location, scale of distribution network, business track record, financial condition and the demand in the relevant local market. We set the annual sales targets within a range (i) between 12,000 units and 200,000 units in 2008; (ii) between 12,000 units and 500,000 units in 2009; and (iii) between 12,000 units and 600,000 units in 2010. Based on the annual sales targets, we further set the quarter sales targets with our distributors. If any distributor fails to meet the quarter target, we are entitled, according to the distribution agreement, to issue a warning, suspend supply of products, confiscate the distributors deposit or even terminate the agreement early. We provide quality assurance to our distributors, with compensation for loss arising from defective products, provided that distributors give us prompt notice and that the quality problem has not been caused by their own actions. Revenue from sale of our products is recognized when such products are delivered and title has passed. The distributors are not allowed to return any goods to us other than for quality reasons if they fail to sell them. During the Track Record Period, we did not record any such return. We have the right to regulate our distributors' resale prices to their sub-distributors or the retail prices by requiring our distributors to set their resale prices higher than the ex-factory prices of our products. Products ordered must be paid for before delivery. So far as we are aware, there was no major breach of our agreements by our distributors during the Track Record Period.

Each distributor may sell our products in its designated area directly to retail outlets and end consumers or through sub-distributors. We have implemented a tracking coding system for each of our distributors in order to prevent products being sold outside a distributor's designated coverage. The sub-distributors subsequently sell our products to retail outlets and end consumers. Sub-distributors usually have relatively smaller and more local operations. The sub-distributors are not bound to sell our products on an exclusive basis and we have no direct control over the sub-distributors and retail outlets. However, pursuant to our standard distribution agreement, we may impose penalties on our distributors for any material breach, including stopping sales to such distributors. We believe that our distributors are therefore motivated to ensure their sub-distributors also comply with such restrictions in order not to jeopardize their own position with us.

We generally assign our marketing staff to a particular sales region to monitor the performance of distributors, assist our distributors in marketing and promoting our products there, as well as to provide training in relation to our products and on sales techniques and after-sales services. We consider it important to maintain good and efficient communications with our distributors. We arrange factory visits for our key distributors to enable them to gain a good understanding of our operations and to help increase their confidence in the quality of our products and our expertise.

In formulating our marketing strategy, we collect, review and analyze data on the sales performance of our distributors as well as their general feedback on the market perception of our products on a monthly basis. The performance of each distributor is reviewed annually prior to the renewal of its distribution agreement. Whether our distributors have achieved our sales and expansion targets is a key element of our review. Furthermore, in order to prevent accumulation of inventory at distributors, since January 2009, we request our distributors to report to us on a monthly basis, through our regional marketing staff, the amount of their inventory as of the end of that month and the expected amount of their orders. Our relevant regional marketing staff who are familiar with our distributors' sales performance are responsible for verifying our distributors' inventory level and approve the monthly sales plan for each of our distributors by reference to their inventory level. We deliver products to our distributors mainly based on such approved monthly plan.

BUSINESS

As part of our efforts on developing our distribution network and promoting our sales in the secondary market in 2008, we encouraged 119 of our then employees to start up their own business and become our distributors (“**Employee-turned-distributors**”), as they were familiar with our products and the sales and distribution channels, and very experienced and familiar with the industry. With the establishment of an extensive distribution network, our sales in the secondary market increased substantially by approximately 67.0% from 2008 to 2009. Nonetheless, there was no substantial impact on our staff cost caused by such change.

We encouraged such employees to start up their own business by explaining to them the prospects for a potential substantial increase in personal income if they elected to become our distributors in contrast to being our sales staff. Over 80% of such employees had worked for us for more than two years prior to such change. Their average monthly salaries varied between approximately RMB300 and approximately RMB1,500 in 2007 and 2008. In addition to the salaries, certain Employee-turned-distributors received commissions from us (while they were our employees) in recognition of their sales performance. For the two years ended 31 December 2007 and 2008, amounts of approximately RMB2.0 million and approximately RMB4.4 million were paid to a total of 26 and 28 Employee-turned-distributors respectively. We did not provide any financial assistance or subsidies to such Employee- turned-distributors in order to encourage them to become our distributors. Such employees terminated their employment with us before they became our distributors, in order to ensure their independence. There was no employee who concurrently acted as our retailer or distributor during the Track Record Period and we will continue to take all necessary measures to ensure the independence of our distributors. We believe such Employee-turned-distributors chose to terminate their employment with us and became our distributors mainly because of (i) the well-established reputation of our products in the PRC market; (ii) the potential for growth in the sales of our products; and (iii) expected increase in personal income as a result of such change.

We adopted our standardized distribution agreements with such distributors and the material terms of sale offered to such distributors, including those relating to the sales targets, deposit payment and pricing, are consistent with those offered to other distributors. Having reviewed the transactions with the Employee-turned-distributors, we believe that our sales to the Employee-turned-distributors were carried out on normal commercial terms which were fair and reasonable to the Group and there was no conflict of interest involved therein. We have also received confirmations from each of the Employee-turned-distributors to confirm such conclusion.

Together with our other customers, the Employee-turned-distributors are eligible to participate in our Share Option Scheme. Details of our Share Option Scheme are set out under the paragraph headed “Share Option Scheme” in “Appendix VI – Statutory and General Information” in this prospectus.

The table below sets out the numbers of the retail outlets, our Employee-turned-distributors and other distributors as of the dates indicated:

	As of 31 December			As of 31 March 2010
	2007	2008	2009	
Retail outlets	653	434	–	–
Distributors	–	317	390	421
– Employee-turned-distributors	–	119	97	93
– Other distributors	–	198	293	328

Notes:

- (1) Prior to 2008, we sold our products in the secondary market through local retail outlets of electric bikes, batteries, spare parts and accessories. From early 2008, we commenced establishing our distribution network and selling our products in the secondary market through our distributors. From 2009, we sold our products in the secondary market primarily through distributors.
- (2) The number of our Employee-turned-distributors decreased from 119 as of 31 December 2008 to 97 as of 31 December 2009 and to 93 as of 31 March 2010 because we ceased to engage a total of 22 and 4 Employee-turned-distributors in the year ended 2009 and the three months ended 31 March 2010, respectively, mainly due to their unsatisfactory performance.
- (3) The number of other distributors increased from 198 as of 31 December 2008 to 293 as of 31 December 2009 as a result of the addition of 103 new distributors and the termination of distribution arrangements with 8 distributors mainly due to their unsatisfactory performance; and further increased to 328 as of 31 March 2010 as a result of the addition of 41 new distributors and the termination of 6 distributors mainly due to their unsatisfactory performance.

For the years ended 31 December 2008 and 2009 and the three months ended 31 March 2010, sales to the Employees-turned-distributors amounted to approximately RMB290.1 million, RMB577.9 million and RMB130.8 million, representing approximately 29.4%, 35.1% and 30.4% of our total sales in the secondary market for the same periods, respectively.

New “one-stop” service centers

We consider brand awareness and customer loyalty as the key to our future success in the secondary market. To enhance further the brand awareness and recognition of our “CHILWEE (超威)” brand and reinforce and expand our distribution network, we plan to launch “one-stop” service centers in our secondary market across China working in cooperation with our distributors or sub-distributors. These service centers will be owned and operated by our distributors or sub-distributors at their own cost, but will bear our logo and adopt our standard color and design scheme and sell our motive battery products on an exclusive basis. The service centers will also provide after-sales services including maintenance and repair services. We will provide products and guiding retail price to the service centers. We will also provide training and pay visits once every month to the distributors or sub-distributors who own such service centers to ensure their service quality and compliance with our cooperation arrangements. As of the Latest Practicable Date, we have established two such service centers in Henan province.

Transportation

We outsource the transportation of all of our products to third party logistics providers. These outsourcing arrangements allow us to reduce our capital investment and eliminate the risk of liability for transportation accidents, delivery delay and loss, as our logistics providers bear the risk. Our products are mainly delivered by truck from our production facilities to the places designated by our customers. We bear the entire cost of transporting products to our customers.

After-sales services and product warranty

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

BUSINESS

Our sales representatives are responsible for ensuring that each manufacturer of electric bikes to whom we sell our products receives high quality service. For these manufacturers, the focus of our after-sales services is on maintaining follow-up visits and support by our sales representatives and ensuring that their requirements and feedback on our products are promptly relayed to us and attended to.

We also provide after-sales services to electric bike end users in the secondary market through our distributors and sub-distributors. Our distributors offer a comprehensive range of after-sales services including battery recycling, repair and maintenance and provision of spare parts for electric bikes. We understand the importance of providing efficient and prompt services, and hence we require all repairs to be completed and the battery returned to the customer within 12 hours after it has been brought to our distributor for repairs. If significant repairs have to be carried out which are beyond the expertise of the exclusive distributor, the product will be sent to us. Our staff pays visits to our distributors on a random basis to monitor the quality of the after sales service provided by them.

We provide a warranty of between 10 and 15 months on all our lead-acid motive battery products. Under the terms of our warranty, we undertake to repair or replace the battery free of charge in the event of any malfunction within the warranty period.

Advertising and promotion

We also advertise our brand and products in industry journals and technical publications, and on television networks and outdoor billboards, to broaden our brand recognition and awareness.

We cooperate with distributors to advertise and market our products. As such, we paid marketing fees to selected distributors based on various factors, such as their location, scale of distribution network and the demand in the relevant local markets, in 2008 and 2009. During the two years ended 31 December 2008 and 2009, such marketing fees paid to our distributors amounted to approximately RMB32.2 million and RMB67.2 million, respectively. As we have established an extensive and stable distribution network in the secondary market, we have stopped paying such marketing fees since January 2010. For the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010, our advertising expenses and marketing fees amounted to approximately RMB8.3 million, RMB38.0 million, RMB78.4 million and RMB4.3 million, respectively.

Customer credit control

For the Track Record Period, we did not have any material bad debts from our customers. We attribute this to our strict credit control policy. Currently, we offer credit to certain manufacturers of electric bikes with whom we have established long term stable relationships, but not to distributors save in exceptional circumstances. We monitor closely the credit standing of each of our primary market customers and if necessary we will adjust the credit periods or limit the amount granted to any such customer. We have a policy of normally allowing a credit period of 15 days for most of our electric bike manufacturer customers with proven credit history. More extended credit periods may be granted to

customers on a case by case basis upon reviewing their settlement history, relationship with us and creditworthiness, and our Directors consider that this arrangement can retain customers' loyalty as well as maintain our relationship with them. Settlement is usually effected by way of cash, cheque or telegraphic transfer to our designated bank account. We do not offer credit to our distributors save in exceptional circumstances. Our distributors are required to make a deposit with us when they enter into the distribution agreement and such deposit will be returned when the agreement is terminated. Our distributors are also required to make full payment for our products before or upon delivery save in exceptional circumstances.

RESEARCH AND DEVELOPMENT

Research and Development

To improve our technologies and know-how, enhance our operating efficiency and develop new products, we have established a research and development center at our headquarters at Changxing county, Zhejiang province. As of the Latest Practicable Date, our research and development team comprised 33 staff and two persons with Ph.D degrees seconded by Fuzhou University under a joint post-doctoral work station program.

Our research and development team has developed new production technology and techniques for the production of high-quality lead-acid motive battery products that yield consistent performance over an extended product life cycle. Our "long life gel sealed lead-acid battery for electric vehicles*" (電動車用長壽命膠體密封鉛蓄電池)" has been recognized as a "National Key New Product*" (國家重點新產品)" jointly by four PRC government agencies, including the Ministry of Science and Technology and the Ministry of Environmental Protection. As of the Latest Practicable Date, we had registered 47 patents and applied for 18 new patents for our technological know-how in China. Of such registered patents, eight are invention patents for our lead-acid motive battery production technologies. We were recognized as a "National Torch Program Key Enterprise in High and New Technology*" (國家火炬計劃重點高新技術企業)" by the Ministry of Science and Technology of China in March 2009. In view of our strong research and development capability in the lead-acid motive battery industry, we were invited to participate in formulating four national quality standards for lead-acid motive batteries, namely GB/T 23577-2009 standards for the containers for lead-acid batteries (鉛酸蓄電池槽), GB/T 26636-2009 standards for the plates for lead-acid batteries (鉛酸蓄電池用極板), GB/T 18332.1-2009 standards for lead-acid batteries used for electric vehicles (電動道路車輛用鉛酸蓄電池) and GB/T 22199-2008 standards for sealed lead-acid batteries used for electric mopeds (電動助力用鉛酸蓄電池).

We have entered into agreements with reputable PRC automobile manufacturers, including Geely and Jianghuai, to cooperate in the development of prototype lead acid motive batteries for electric cars. Under such cooperation arrangements, we develop and provide prototypes of lead-acid motive batteries for such PRC automobile manufacturers pursuant to their specific requirements. Pursuant to the agreements entered into with Geely during the period from June to October 2009, we agreed to develop for, and sold to, Geely four prototype lead acid motive batteries for electric cars. Pursuant to an agreement entered into with Jianghuai on 2 November 2009, we have developed for, and sold to, Jianghuai two prototype lead acid motive batteries for electric cars.

BUSINESS

All five models of motive battery products developed by us for electric cars have passed the quality tests by the China North Vehicle Quality Supervision and Testing Laboratory* (中國北方汽車質量監督實驗所), a national-level quality testing institute recognized by the China National Accreditation Service for Conformity Assessment* (中國合格評定國家認可委員會) and the Certification and Accreditation Administration of the PRC* (中國國家認證認可監督管理委員會). We also possess production technology to produce storage batteries for wind and solar energy and have commenced research into Li-ion batteries, which, we believe, can further diversify our product mix in the long term.

We work closely with various research and academic institutions to develop new motive battery products, as well as related manufacturing techniques, including collaborations with Fuzhou University* (福州大學) which is a national key comprehensive university, Ningbo Engineering College* (寧波工程學院) which is a university focusing on engineering subjects, and National Rechargeable Batteries Quality Supervision and Testing Center* (國家蓄電池質量監督檢測中心) which is an industrial institution specializing in the quality testing of lead acid batteries.

We have set up a post-doctoral work station with Fuzhou University* (福州大學) at our headquarters in Changqing county of Zhejiang province for the research and development of technologies relating to gel lead-acid batteries. Such post-doctoral station has been recognized as a “Post-doctoral Work Station of Zhejiang Province* (浙江省博士後科研工作站)” by the relevant authority of Zhejiang province in December 2008 in recognition of our strong research and development capabilities in the lead-acid batteries area. Under our agreement with Fuzhou University* (福州大學) dated 16 March 2009, it shall lead the research and development on gel lead-acid batteries while we shall provide the venue, raw materials and equipment and pay research fees in a total amount of RMB1.75 million over a period of 5 years. Fuzhou University* (福州大學) will have the ownership of the research results but we will be granted a license to use all such research results free of additional fees.

We entered into a cooperation agreement with Ningbo Engineering Institute* (寧波工程學院) on November 2009 on research and development on the production of key raw materials for Li-ion batteries. According to such agreement, Ningbo Engineering Institute* (寧波工程學院) shall assist us to construct a production line to produce key raw materials for Li-ion motive and storage batteries and we shall jointly carry out further research and development activities to improve our production process and technologies for such materials. We shall pay Ningbo Engineering Institute* (寧波工程學院) an annual research fee in an amount of RMB1 million subject to its fulfillment of the research and development target jointly set by both parties. The agreement shall be valid for a period of five years commencing from 1 February 2010. Ningbo Engineering Institute* (寧波工程學院) shall transfer to us the title to the patents developed during our joint research and development activities for nil consideration. We also entered into training agreements with National Rechargeable Batteries Quality Supervision and Testing Center* (國家蓄電池質量監督檢測中心) on 22 December 2009 for the provision of training to our staff in charge of the quality testing of our battery products.

Furthermore, at our invitation, professors and senior engineers from such universities and institutions regularly give guidance on our research and development projects and provide training for our research and development staff.

BUSINESS

In line with our business strategy of further enhancing our research and development capability, our research and development expenses have increased gradually during the Track Record Period. Our total research and development expenses for the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010 were approximately RMB3.5 million, RMB10.7 million, RMB15.8 million and RMB6.3 million, respectively.

QUALITY CONTROL

We adhere to a strict system of quality control throughout our operation, extending from raw material procurement, production and delivery processes, and including careful selection and inspection of raw materials and regular production equipment inspection and maintenance. Our quality control team monitors every stage of our production processes and ensures consistent product quality that meets our internal quality standards and policies, and our customers' stringent requirements. We have applied the standards of ISO 9001 throughout our quality control system and obtained ISO 9001 certifications for the quality management systems of all of our production plants. The ISO certification process involves subjecting our manufacturing processes and quality management systems to annual reviews. We believe this certification process provides independent verification to our customers regarding the quality control employed in our production processes.

INVENTORY MANAGEMENT

We monitor and control our inventory levels of raw materials, work-in-progress and finished products to optimize our operations. We have inventory management procedures that monitor the planning and allocation of warehouse space and stock of raw materials and finished products to coordinate with delivery requirements and schedules. Our policy requires close coordination among our sales and marketing department and our raw materials procurement and storage teams.

We closely supervise our daily production and maintain suitable inventory levels of raw materials and finished goods in all of our production facilities. Our inventory of raw materials primarily comprises electrolytic lead and lead alloy, and our policy is to store at least seven days' supply of electrolytic lead and lead alloy.

Our practice is to keep our inventory of battery products at a level representing not more than 15 days' sales amount, principally for the purpose of meeting any unexpected demand from our major customers.

We carry out physical stock counts to monitor our inventories, including level and age of inventory. Spot checking is carried out on a monthly basis, and an overall stock count is carried out to identify damaged or obsolete inventory on a quarterly basis. It is our policy to make allowance for inventory valuation and obsolescence losses if damaged or obsolete inventory is identified.

ENVIRONMENTAL AND OCCUPATIONAL HEALTH AND SAFETY

Environmental Protection

We are subject to the national and local environmental laws and regulations in China on environmental matters, such as the discharge of exhaust fumes, waste water, and solid waste. The main pollutants generated by us are lead dust or mist and waste water which contain lead and sulphuric acid. We are required to comply with the environmental laws, rules and regulations promulgated by the PRC government. Details of such requirements are set out under the section headed “Regulatory Overview – Laws and Regulations Relating to Environmental Protection”.

Lead is the key raw material used in our production of lead-acid motive battery products. An excessive intake of lead powder and lead fumes, whether through inhaling or skin contact, would have a harmful effect on health. Lead poisoning may also result from occupations that involve close and frequent contact with or exposure to lead powder and lead fumes. Lead powder and lead fumes are generated during the lead processing process. In addition, the acid preparation and battery formation processes also produce acid fumes. We have installed ventilation systems at all our production plants to collect lead powder, lead fumes and acid fumes for treatment and disposal pursuant to the applicable environmental laws and regulations in China.

Our production process generates waste water containing lead and sulphuric acid. Such waste water is neutralized and treated to remove lead content in accordance with the applicable environmental standards in China. We have installed such waste water treatment facilities at all our production plants. Waste water generated in our production process, after the required treatment, will either be collected and reused for our production requirements or discharged to the municipal waste water collection systems for further treatment and discharge to the environment.

We have adopted the enclosed battery formation process* (內化成工藝) in all of the existing production plant in Jiangsu province and part of the existing production facilities in Zhejiang province, and intend to apply such process in all plants constructed by us in the future. As compared to the traditional battery formation process, our enclosed battery formation process* (內化成工藝) substantially reduces our water usage and discharge of sulphuric acid gas and waste water in the production process. We obtained subsidies in 2009 from the Zhejiang provincial government for construction of production lines employing the enclosed battery formation process* (內化成工藝) in recognition of its contribution to an energy-saving and sustainable economy. We have also received ISO 14001:2004 certifications in recognition of our environmental compliance standards for all of our production plants.

To enhance further the overall environmental safety and preventive measures, we established a team comprising a total of approximately 40 staff at our headquarters and at each production facility who are responsible for monitoring our compliance with various environmental and occupational health and safety requirements under the PRC laws and regulations on a regular basis and providing timely reports and advice to the management. Most of such staff have obtained hands-on knowledge and experience in the areas of

environmental protection and occupational health and safety. To improve our staff's professional knowledge on environmental protection and occupational health and safety matters, we have engaged, for an initial term of one year from 10 June 2010, Professor Wang Jia De (王家德) ("**Prof. Wang**") as an external consultant with extensive knowledge and experience in those areas to provide training to our staff on technical knowledge, practical experience and related policies, to assist us in formulating and implementing our environmental safety and protection related measures and procedures and to cooperate with us in the research and development of environmental protection solutions. Pursuant to such engagement, Prof. Wang shall provide training to our staff at least six times each year and spend two to three days each month to provide on-site technical advisory services to us. Prof. Wang is currently a professor at the College of Biological and Environmental Engineering* (生物及環境工程學院) of Zhejiang University of Technology* (浙江工業大學). Prof. Wang obtained a Ph.D degree in chemical process and mechanical engineering* (化工過程與機械工學) from Zhejiang University of Technology* (浙江工業大學) in 2006. He has strong experience in teaching and research on biology and environmental issues and specializes in areas including environmental biology, volatile organic compounds pollution control and waste water treatment and utilization. He has published various research reports and academic articles, been in charge of various major research projects at the national or provincial levels and has obtained various awards in the environmental protection arena. He has participated in the research and development of more than 10 environmental protection techniques which have been granted with patents.

During the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010, we spent RMB4.0 million, RMB6.1 million, RMB6.9 million and RMB1.7 million, respectively, on purchases of environmental protection facilities. We will continue to make investment on environmental protection in compliance with the relevant PRC laws and regulations and in line with our production facilities expansion plan. We expect to incur approximately RMB4.5 million and RMB5.0 million on compliance with the applicable environmental protection laws and regulations for the years ending 31 December 2010 and 2011, respectively.

We also engaged Atkins China, at a fee of RMB374,115, to perform an environmental assessment at our production plants in 2010, in order to, inter alia, assess our compliance with the applicable national environmental standards. According to Atkins China, based on the records of the monitoring procedures performed by the relevant local environmental authorities pursuant to the relevant PRC laws and regulations for the period from 2007 to 2009 (except for Anhui Chaowei which kept such records for a shorter period prior to our acquisition in 2009), all of our production facilities have complied with the relevant national standards in respect of air emission and waste water discharge as well as the national standards and requirements for other relevant environmental matters such as noise and general waste management, except for two incidents of minor deviation from certain national standards for air emission and domestic sewage discharge in relation to our production facilities in Zhejiang province and Shandong province, respectively, in which the level of air emission and waste water discharge slightly exceeded the prescribed national standards. Save for such two incidents, no recorded deviation by us from the relevant national standards in relation to environmental protection was reported by Atkins China. The deviation relating to our production facility in Zhejiang province in February 2008, mainly as a result of inadvertent oversight of our staff, was rectified shortly

afterwards and the re-examinations showed satisfactory results. The deviation relating to our production facility in Shandong province in October 2009 during the course of the upgrade of our domestic sewage discharge facilities was considered acceptable by the local environmental authority as stated in its report. We have not been subject to any penalty or punishment due to these two deviations.

According to Atkins China's report, pursuant to the relevant environmental impact assessment requirements under the applicable PRC laws and regulations, a buffer distance is required between residential areas and lead-acid battery production premises, and therefore the residents within 800 meters from our production premises in Ningyang county of Shandong province (the "**Local Residents**") are required to be relocated. Pursuant to the applicable PRC laws and regulations, the relevant local government is responsible for the planning and organization of such relocation. In October 2005, the local government of Ningyang county confirmed the relocation plan for the Local Residents which was scheduled for completion in October 2008. Due to the delay in such relocation, in March 2010, the local government of Ningyang county granted a grace period to the Local Residents to June 2010. We have further obtained a confirmation from the local government of Ningyang county that such relocation is in progress and is expected to be completed by December 2010. It further confirmed that we can carry on our operation on such premises without any interruption by such relocation.

Atkins proposed certain recommendations to us in relation to the further enhancement of our environmental protection and safety management, including improvement of the operation of the wastewater treatment facilities at our production facilities in Zhejiang province and investigation of whether there is a need to upgrade the wastewater treatment facilities at our factory in Shandong province. We have accepted and acted on such recommendations. Furthermore, Atkins China proposed certain measures to us in relation to compliance with more stringent international standards and we intend to follow their recommendations in order to enhance further our environmental safety.

We have received confirmations in 2010 from the relevant local environmental protection authorities that all of our PRC operating subsidiaries (i) had complied with the relevant PRC environmental laws and regulations; (ii) had not been subject to any penalty or punishment as a result of any breach of any relevant PRC environmental laws and regulations; and (iii) had not been subject to any investigation by the relevant local environment protection authorities in respect of environmental issues, since their establishment. Furthermore, Zong Heng Law Firm, our legal adviser on PRC laws, has confirmed that all of our PRC operating subsidiaries have complied with all the relevant PRC environmental laws and regulations.

During the Track Record Period, we have not encountered any material claims, or any administrative action or penalty by the relevant PRC authorities, in relation to environmental issues.

Occupational Health and Safety

The production of lead-acid batteries may cause pollution to the environment and may also affect the health of our employees. We have taken all measures required by PRC laws and regulations to protect the health and safety at work of our employees, including providing those that are exposed to lead powder, lead fumes or sulphuric acid fumes with protective clothing and accessories such as gloves, goggles and masks.

Notwithstanding such measures taken by us, exposure to lead powder and lead fumes would inevitably affect the blood and urine lead levels of the workers engaged in the production of lead-acid batteries to a certain extent. As such, we arrange for our production employees who have close contact with lead powder and lead fumes to receive medical checks twice a year and those who do not have close contact with lead powder and lead fumes to receive medical checks once a year, in order to monitor the blood and urine lead level of such employees and take remedial actions in a timely manner. The medical checks include measurement of blood and urine lead level. According to the Diagnostic Criteria of Occupational Chronic Lead Poisoning* (《職業性慢性鉛中毒診斷標準》) (GBZ37 – 2002), respectively, a person whose blood lead or urine lead level reaches or exceeds 600 µg/L or 120 µg/L is subject to lead detoxification medication and treatment.

Despite the implementation of the protective measures as mentioned above, it may not be possible to eliminate the impact of exposure to lead powder and lead fumes on the health of our employees. According to the results of medical checks conducted on our production employees, during the three years ended 31 December 2007, 2008 and 2009, we had 347, 142 and 189 positive cases of lead level exceeding such national standards, respectively, representing approximately 6.9%, 2.2% and 2.4% of our employee headcount as of the end of each relevant period. According to the results of such medical checks, the average blood and urine lead level of such affected employees was 665 µg/L and 130 µg/L, respectively. Over 80% of such affected employees were engaged in production processes with close contact to lead and were found to have excessive lead levels in the year immediately after they joined us. We have arranged proper and timely lead detoxification medication and treatment for such affected employees. We have obtained confirmations from the relevant local occupational health and safety authorities for all of our production facilities that (i) the lead levels of such affected employees have dropped to fall within the national standards following upon proper and timely medical treatment; and (ii) none of our employees has been diagnosed with long term occupational disease caused by lead poisoning. However, as the symptoms of long-term occupational diseases by prolonged exposure to lead, such as nervous disorders, are not always immediately apparent, there is no assurance that that our affected employees will not show symptoms associated with lead poisoning later. We have not encountered any claim for compensation or received any penalty in relation to such incidents. Nonetheless, to reduce such excess lead level cases and enhance the protection of our employees' occupational health and safety, we intend to enhance our overall work environment further by taking the measures mentioned above in relation to environmental protection and strengthen the education and training of our employees in relation to occupational health protection.

BUSINESS

We have also arranged commercial medical and life insurance cover against work-related accidents for our employees engaged in production. We have also obtained an undertaking from Mr. Zhou that he will keep us fully indemnified for any loss suffered by us that would not be covered by our medical and life insurance in relation to any work-related accidents of our employees.

We have received certification in 2010 for all of our production plants in recognition of the compliance of our occupational health and safety management system with the GB/T28001-2001 standards. We have received confirmations in 2010 from the relevant local occupational health and safety authorities that all of our PRC operating subsidiaries have complied with the relevant PRC laws and regulations in respect of occupational health and safety and have not been subject to any penalty or punishment as a result of any breach of any such PRC laws and regulations since their establishment. Zong Heng Law Firm, our legal adviser on the PRC laws, has confirmed that all of our PRC operating subsidiaries have complied with all the relevant PRC laws and regulations in respect of occupational health and safety.

During the Track Record Period, we have not encountered any material claims or incidents in relation to occupational health and safety issues or been involved in any accident causing death or serious bodily injury in the course of our business operations.

INSURANCE

We maintain insurance policies with insurance companies in China which cover our equipment, facilities, buildings and their improvements, and vehicles. These insurance policies cover losses (including loss of potential profit) arising from fire, lightning and explosion.

However, in line with the usual industry practice, we do not maintain product liability insurance, as it is not required under the PRC laws and regulations.

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

We also contribute to social insurance for our employees as required by the PRC social security regulations, including a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a maternity insurance plan and a work-related injury insurance plan for our employees.

COMPETITION

As we sell almost all of our products in China, our major competitors are PRC based motive battery product manufacturers. According to the Frost & Sullivan Report, we were ranked as a leading supplier of lead-acid motive batteries for electric bikes in China in 2009 in terms of revenue, accounting for approximately 18.3% of the total market. The six largest manufacturers of lead-acid motive batteries for electric bikes in China in 2009 accounted for approximately 56.2% of the total market, and the remainder of the market is shared among numerous manufacturers in China. Both the primary and the secondary markets are fragmented. The six largest manufacturers of lead-acid batteries for electric

BUSINESS

bikes supplying the primary market and the secondary market, respectively, accounted for approximately 54.1% and 57.8% of the total revenue in these respective markets in 2009. We accounted for 13.7% and 21.3% of the total revenue in the primary and secondary markets, respectively, and we were a leading manufacturer for both of the primary and secondary markets in 2009.

Our Directors believe that competition in China's market for lead-acid motive battery products is primarily based on pricing, quality of products, ability to meet customers' requirements and after-sales services. Our Directors believe that we can compete despite the intense competition in China because of our competitive price, high quality products, ability to meet customers' requirements and comprehensive range of after-sale services.

MAJOR AWARDS AND RECOGNITION

As of the Latest Practicable Date, we had been granted the following major awards, certificates and memberships:

Award/Certificate/ Membership	Awarding/Issuing Organization	Date of Issue	Term of Validity
Certificate of National Torch Program Key Project (Long Life Gel Sealed Lead-Acid Battery For Electric Vehicles)* (國家級火炬計劃重點項目證書 (電動車用長壽命膠體密封鉛蓄電池))	Torch High Technology Industry Development Center of Ministry of Science and Technology of the PRC (中國科學技術部火炬高技術產業開發中心)	May 2005	N/A
Certificate of National Torch Program Key Project (Long Life Cycle Valve-controlled Lead-acid Motive Batteries for Locomotives)* (國家級火炬計劃項目證書(長壽命鐵路機車車輛用閥控式密封鉛蓄電池))	Torch High Technology Industry Development Center of Ministry of Science and Technology of the PRC (中國科學技術部火炬高技術產業開發中心)	May 2005	N/A
Membership (會員)	China Electrical Equipment Industry Association (中國電器工業協會)	August 2005	August 2005 to June 2010
Certificate of National Key New Product (Long-Life Cycle Lead-acid Motive Batteries in Gel Electrolyte for Electric Vehicles)* (國家重點新產品證書 (電動車用長壽命膠體密封鉛蓄電池))	Ministry of Science and Technology of the PRC (中國科學技術部) Ministry of Commerce of the PRC (中國商務部) General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中國國家質量監督檢驗檢疫總局) Ministry of Environmental Protection of the PRC (中國環境保護部)	November 2006	November 2006 to November 2009

BUSINESS

Award/Certificate/ Membership	Awarding/Issuing Organization	Date of Issue	Term of Validity
Provincial High and New Technology Research and Development Center for Environment-friendly Rechargeable Batteries* (環保型蓄電池省級高新技術研究開發中心)	Science and Technology Department of Zhejiang Province (浙江省科學技術廳)	December 2006	N/A
Certificate of Prestigious Product in Zhejiang Province* (浙江名牌產品證書)	Zhejiang Bureau of Quality and Technical Supervision (浙江省質量技術監督局)	December 2006	December 2006 to December 2009
Certificate of Well-known Trademark in Zhejiang Province* (浙江省著名商標證書)	Zhejiang Administration for Industry and Commerce (浙江省工商行政管理局)	February 2007	February 2007 to February 2010
Certificate of High and New Technology Enterprise* (高新技術企業認定證書)	Science and Technology Department of Zhejiang Province (浙江省科學技術廳)	November 2007	November 2007 to November 2009
Certificate of Conformity for Quality Control Management System – GB/T 19001-2000 idt ISO 9001:2000 Standards (質量管理體系認證證書 – GB/T 19001-2000 idt ISO 9001:2000標準)	Chaowei Power: The International Certificate Network/China Certificate Center for Quality Mark Certification Group (國際認證聯盟/中國品質認證中心方圓標志認證集團)	21 February 2008	21 February 2008 to 20 February 2011
	Jiangsu Chaowei: China Quality Certification Centre (中國質量認證中心)	2 June 2008	2 June 2008 to 1 June 2011
Certificate of Conformity for Quality Control Management System – GB/T 19001-2008 ISO 9001:2008 Standards (質量管理體系認證證書 – GB/T 19001-2008 ISO 9001:2008標準)	Chaowei Power and Changxing Zhongcheng: Beijing Zhong-Da-Hua-Yuan Certification Center (北京中大華遠認證中心)	26 January 2010	26 January 2010 to 25 January 2013
	Anhui Chaowei: Beijing Zhong-An-Zhi-Huan Certification Center (北京中安質環認證中心)	1 December 2009	1 December 2009 to 30 November 2012
	Shandong Chaowei: Beijing United Intelligence Certification Co., Ltd. (北京聯合智業認證有限公司)	26 February 2010	26 February 2010 to 25 February 2013
	Henan Chaowei: Beijing Zhong-Da-Hua-Yuan Certification Center (北京中大華遠認證中心)	22 January 2010	22 January 2010 to 21 January 2013

BUSINESS

Award/Certificate/ Membership	Awarding/Issuing Organization	Date of Issue	Term of Validity
Certificate of Conformity for Environmental Management System – GB/T 24001-2004 ISO 14001:2004 Standards (環境管理體系認證證書 – GB/T 24001-2004 ISO14001:2004 標準)	Chaowei Power and Changxing Zhongcheng: Beijing Zhong-Da-Hua-Yuan Certification Center (北京中大華遠認證中心)	26 January 2010	26 January 2010 to 25 January 2013
	Anhui Chaowei: Beijing Zhong-An-Zhi-Huan Certification Center (北京中安質環認證中心)	1 December 2009	1 December 2009 to 30 November 2012
	Shandong Chaowei: Beijing United Intelligence Certification Co., Ltd. (北京聯合智業認證有限公司)	26 February 2010	26 February 2010 to 25 February 2013
	Jiangsu Chaowei: Beijing Zhong-Da-Hua-Yuan Certification Center (北京中大華遠認證中心)	26 February 2010	26 February 2010 to 25 February 2013
	Henan Chaowei: Beijing Zhong-Da-Hua-Yuan Certification Center (北京中大華遠認證中心)	22 January 2010	22 January 2010 to 21 January 2013
Certificate of Conformity for Occupational Health and Safety System – GB/T 28001-2001 Standards (職業健康安全管理体系认证证书 – GB/T 28001-2001 標準)	Chaowei Power and Changxing Zhongcheng: Beijing Zhong-Da-Hua-Yuan Certification Center (北京中大華遠認證中心)	26 January 2010	26 January 2010 to 25 January 2013
	Anhui Chaowei: Beijing Zhong-An-Zhi-Huan Certification Center (北京中安質環認證中心)	1 December 2009	1 December 2009 to 30 November 2012
	Shandong Chaowei: Beijing United Intelligence Certification Co., Ltd. (北京聯合智業認證有限公司)	26 February 2010	26 February 2010 to 25 February 2013
	Jiangsu Chaowei: Beijing Zhong-Da-Hua-Yuan Certification Center (北京中大華遠認證中心)	26 February 2010	26 February 2010 to 25 February 2013
	Henan Chaowei: Beijing Zhong-Da-Hua-Yuan Certification Center (北京中大華遠認證中心)	22 January 2010	22 January 2010 to 21 January 2013

BUSINESS

Award/Certificate/ Membership	Awarding/Issuing Organization	Date of Issue	Term of Validity
Well-known Trademark of China* (中國馳名商標) ⁽¹⁾	Intermediate People's Court of Shangrao City of Jiangxi Province (江西省上饒市中級人民法院)	17 March 2008	N/A
Exemplary Enterprise in Patent Development and Management of Zhejiang Province* (專利示範企業)	Intellectual Property Office of Zhejiang Province (浙江省知識產權局) Economic and Trade Commission of Zhejiang (浙江省經濟貿易委員會)	August 2008	N/A
Top 100 High and New Technology Enterprise in Zhejiang Province* (浙江省高新技術企業100強)	Science and Technology Department of Zhejiang Province (浙江省科學技術廳)	September 2008	N/A
Certificate of High and New Technology Enterprise* (高新技術企業證書)	Science and Technology Department of Zhejiang Province (浙江省科學技術廳) Zhejiang Provincial Department of Finance (浙江省財政廳) State Administration of Taxation of Zhejiang Province (浙江省國家稅務局) Local Taxation Bureau of Zhejiang Province (浙江省地方稅務局)	December 2008	N/A
National Torch Program Key Enterprise in High and New Technology* (國家火炬計劃重點高新技術企業)	Torch High Technology Industry Development Center of Ministry of Science and Technology of the PRC (中國科學技術部火炬高技術產業開發中心)	March 2009	March 2009 to 31 December 2010
Brand with the Strongest Influence in the Electrical Equipment Industry of China* (中國電器工業最具影響力品牌)	China Electrical Equipment Industrial Association (中國電器工業協會)	March 2009	N/A
Excellent Research and Development Center for 2008* (優秀研究開發中心)	Science and Technology Department of Zhejiang Province (浙江省科學技術廳)	May 2009	N/A
Outstanding Member for 2005 to 2009* (2005-2009年度優秀會員)	China Industrial Association of Power Sources (中國化學與物理電源行業協會)	December 2009	N/A

Note:

The Well-known Trademark of China award serves as a recognition of our brand for our high quality products. With such recognition, an owner of China Well-known Trademark is able to enjoy certain special protection and preferential treatment under the laws and regulations in China.

INTELLECTUAL PROPERTY RIGHTS

Our intellectual property rights are of fundamental importance to our businesses since we rely to a significant extent on customer recognition of our brand name.

As of the Latest Practicable Date, we had registered (i) 10 trademarks, of which eight were registered in the PRC, one was registered in Hong Kong and one was registered in the United Kingdom, (ii) 47 patents in the PRC, and (iii) two domain names in the PRC and one domain name in Hong Kong. We had also applied for a trademark and 18 patents in China. Details of our intellectual property are set out in the section headed “Intellectual Property Rights of the Group” in Appendix VI to this prospectus.

We actively take steps to protect our intellectual property rights and have implemented a set of internal intellectual property management rules. Our intellectual property is uniformly managed by our employees in charge of new product development. Matters related to trademarks and patents are required to comply strictly with procedures as set out in our internal intellectual property management rules.

PROPERTIES

We operate our businesses through properties in the PRC. As of 31 March 2010, these properties comprised: (i) the land use rights to 12 parcels of land with a total site area of approximately 707,164 square meters; (ii) 127 buildings and units with a total gross floor area of approximately 218,267 square meters and various structures; (iii) 16 buildings and structures under construction with a total planned gross floor area of approximately 103,393 square meters; and (iv) a parcel of leased land with a total site area of approximately 166,623 square meters and 35 leased buildings and various structure with a gross floor area of approximately 61,151 square meters. Furthermore, we also held two units in an office building with a total gross floor area of approximately 1,040 square meters for investment purposes. Such properties have been leased to an Independent Third Party for a term of 38 months commencing from 13 August 2009 and expiring on 12 October 2012 at an annual rent of RMB1.2 million, exclusive of management fees, water and electricity charges. We have also entered into agreements with an Independent Third Party to purchase two units in a building which are currently vacant and have a total gross floor area of approximately 119 square meters, for a total consideration of RMB597,069; they are intended to be used as our staff quarters.

We have obtained all the required land use rights and building ownership certificates for all our properties. We have entered into valid lease agreements with lessors for all the leased properties and the lessors have obtained all the necessary title certificates for such properties and the lease agreements have been properly registered with the PRC authorities. Among such leased properties, a parcel of land with a site area of approximately 166,623 square meters and 30 buildings and various structures constructed on the land, located at Binhai county in Zhejiang province, is leased from an independent third party for a term of 10 years expiring on 31 December 2015. The lessor has further given us an option to renew the lease upon its expiration.

Please refer to the property valuation report set forth in Appendix IV to this prospectus for further details of our properties.

REGULATORY COMPLIANCE AND LEGAL PROCEEDINGS

As of the Latest Practicable Date, we were not a party to any material arbitration, litigation or administrative proceedings which could be expected to have a material adverse effect on our business or results of operations. We are not aware of any such arbitration, litigation or administrative proceedings pending or threatened against us.

All of our operations are in China. We are required to conduct our business in compliance with the PRC laws and regulations. A summary of the laws and regulations applicable to our operations in the PRC is set out in the section headed “Regulatory Overview” in this prospectus. As advised by Zong Heng Law firm, (i) as of the Latest Practicable Date, we had duly obtained the requisite approvals, permits, consents and licences for our operations in China; and (ii) we were in compliance with all relevant PRC laws and regulations during the Track Record Period. Furthermore, we are establishing internal monitoring procedures and engaging external PRC legal advisers with a view to ensuring on-going compliance with the relevant regulatory requirements.