

CONNECTED TRANSACTIONS

CONNECTED TRANSACTIONS

Our Group has entered into certain agreements with each of Pufa Power Co., Ltd. (普發電源有限公司) (“**Pufa Power**”), Henan Yifeng Electric Bikes Manufacturing Co., Ltd. (河南屹峰電動車製造有限公司) (“**Henan Yifeng E-bikes**”), and Changxing Xiante Plastics Co., Ltd. (長興先特塑業有限公司) (“**Changxing Xiante**”) which will become, or, for prudence sake and enhancement of corporate governance, shall be regarded as connected persons of our Company upon Listing. Transactions under such agreements of a continuing nature between our Group, and each of Pufa Power, Henan Yifeng E-bikes, and Changxing Xiante will constitute continuing connected transactions of our Company under Rule 14A.35 of the Hong Kong Listing Rules. Details of such agreements and such continuing connected transactions are set out below.

CONNECTED PERSONS

Pufa Power

Pufa Power is 100% owned by Mr. Zhou Xian (周賢) and Mr. Cheng Baogui (程寶貴), who are both Independent Third Parties of our Group. However, pursuant to a contracting agreement (“**Pufa Power Contracting Agreement**”) dated 18 February 2008 and entered into between Pufa Power on the one part and Ms. Ding Wei (丁偉), Ms. Zhang Lingyun (張凌雲), Mr. Wang Yijun (王益軍) Mr. Dou Changhai (竇長海) and Mr. Wang Yuxiang (王玉祥) (collectively the “**Contractors**”) on the other part, the Contractors have taken up the operations of Pufa Power in exchange for an annual payment payable to the shareholders of Pufa Power of RMB1.8 million for 2008, RMB2.0 million for 2009 and RMB2.0 million for 2010 respectively. Pursuant to a written confirmation dated 18 February 2008 signed by the Contractors, Ms. Ding Wei (丁偉) and Ms. Zhang Lingyun (張凌雲), both sisters-in-law of Mr. Zhou, the chairman and an executive director of our Company, together are required to contribute 30% of the annual fees payable to the shareholders of Pufa Power, and will be entitled to share 30% of the profits (if any) generated from the operations of Pufa Power under the Pufa Power Contracting Agreement. Under the Hong Kong Listing Rules, Ms. Ding Wei (丁偉) and Ms. Zhang Lingyun (張凌雲) will become connected persons of our Company upon Listing. Whilst Ms. Ding Wei (丁偉) and Ms. Zhang Lingyun (張凌雲) are not shareholders of Pufa Power, in view of the arrangement under the Pufa Power Contracting Agreement set out above, the Directors consider that, for prudence sake and enhancement of corporate governance, Pufa Power shall be regarded as an associate of Ms. Ding Wei (丁偉) and Ms. Zhang Lingyun (張凌雲) for the purposes of the Hong Kong Listing Rules, and accordingly shall be regarded as a connected person of our Company upon Listing.

Henan Yifeng E-bikes

Mr. Chai Chenglei (柴成雷) holds 30% of the shares of Henan Chaowei, one of the PRC subsidiaries of our Company. Under the Hong Kong Listing Rules, Mr. Chai Chenglei (柴成雷) will become a connected person of our Company upon Listing. As Mr. Chai Chenglei (柴成雷) is also the chairman of the board of directors of Henan Yifeng E-bikes and has 45% interest in Henan Yifeng E-bikes, Henan Yifeng E-bikes is an associate of Mr. Chai Chenglei (柴成雷) and accordingly will become a connected person of our Company upon Listing.

CONNECTED TRANSACTIONS

Changxing Xiante

Changxing Xiante is 52% owned by Ms. Ding Wei (丁偉) and Ms. Zhang Lingyun (張凌雲), who are both sisters-in-law of Mr. Zhou, the chairman and the executive director of our Company. Under the Hong Kong Listing Rules, Ms. Ding Wei (丁偉) and Ms. Zhang Lingyun (張凌雲) will become connected persons of our Company upon Listing and Changxing Xiante will be regarded as an associate of Ms. Ding and Ms. Zhang for the purpose of the Hong Kong Listing Rules, and accordingly shall be regarded as a connected person of our Company upon Listing.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following transactions will constitute exempted continuing connected transactions for our Group under Rule 14A.33(3) of the Hong Kong Listing Rules by reason of each of the applicable percentage ratios (other than the profits ratio) being less than 0.1% on an annual basis and accordingly, will be exempted from the reporting, announcement, annual review and independent shareholders' approval requirements stipulated under the Hong Kong Listing Rules:

Description of Transaction	Parties
1. Supply of active additives (活性物)	Chaowei Power and Pufa Power

Details of this continuing connected transaction and the principal terms of the relevant agreement are set out below. The prices charged for active additives under such agreement have been determined based on normal commercial terms between the parties, on an arm's length basis.

Supply of active additives

Pufa Power is a electrode plates manufacturer and supplies electrode plates to our Group. Active additives are a type of technology related raw materials used in the production of electrode plates. In order to ensure the quality of the electrode plates to be supplied by Pufa Power to us meets our production requirements, we may, from time to time, sell active additives which we manufactured by ourselves, to Pufa Power which they will use to manufacture electrode plates to be supplied to us from time to time.

Pursuant to an agreement (the “**Active Additives Supply Agreement**”) dated 10 June 2010 entered into between Pufa Power and Chaowei Power, Chaowei Power has agreed to supply to Pufa Power for a term of three years with retrospective effect from 1 January 2010 to 31 December 2012, renewable upon expiry (subject to compliance with the provisions under the Hong Kong Listing Rules regarding continuing connected transactions).

Pricing

Pursuant to the Active Additives Supply Agreement, Chaowei Power will supply active additives to Pufa Power at a current price of RMB38.46 per pack, excluding value-added taxes or RMB45 per pack, including value-added taxes (subject to adjustments which shall not, in any event, be lower than the price of active additives

CONNECTED TRANSACTIONS

sold by our Group to Independent Third Parties), which price is comparable to that of active additives sold to Independent Third Parties. In view of the above, the Directors consider that it is fair and reasonable and on normal commercial terms to sell activities to Pufa Power at a current price of RMB38.46 per pack.

Historical figures and annual caps

The historical transaction amounts for the three years ended 31 December 2009 and the three months ended 31 March 2010 and the annual caps for the three years ending 31 December 2012 are summarized below:

31 December 2007	Historical figures			31 March 2010	Annual caps for year ending 31 December		
	31 December 2008	31 December 2009	2010		2010	2011	2012
	(RMB)				(RMB)		
N/A	0.7 million	1.1 million	0.3 million	1.3 million	1.7 million	2.2 million	

There were no sales of active additives to Pufa Power during the year ended 31 December 2007 since Chaowei Power only began to supply active additives to Pufa Power in March 2008. The annual caps were determined based on, among other things, the historical transaction amounts and, solely for determination of the annual cap which shall not constitute any assurance or guarantee as to the future performance of our Group, the projected growth of business and our projected growth in revenue of approximately 30% per annum between 2009 to 2012, which was estimated taking into account a totality of factors, including:

- (i) the anticipated expansion of our manufacturing capacity; and
- (ii) the anticipated increase in our sales.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following transactions between members of our Group will, upon Listing, constitute non-exempt continuing connected transactions of our Company under Chapter 14A of the Hong Kong Listing Rules by reason of any of the applicable percentage ratios (other than the profits ratio) being greater than 5% on an annual basis or the annual consideration being greater than HK\$10,000,000:

Description of Transaction	Parties
1. Purchase of electrode plates (電極板)	Chaowei Power and Pufa Power
2. Supply of lead-acid batteries	Chaowei Power and Henan Yifeng E-bikes
3. Purchase of plastic battery cases (電池塑殼)	Chaowei Power and Changxing Xiante

CONNECTED TRANSACTIONS

Details of these continuing connected transactions and the principal terms of the relevant agreements are set out below. The prices charged for electrode plates, lead-acid batteries and plastic battery cases under such agreements have been determined based on commercial negotiations between the parties, in each case on an arm's length basis.

1. Purchase of electrode plates

As explained, Pufa Power is an electrode plates manufacturer. During the Track Record Period, we purchased electrode plates from third party suppliers, including Pufa Power, when our production capacity for electrode plates was insufficient to meet our production demand. Based on the information provided by Pufa Power, for the two years ended 31 December 2009 and the three months ended 31 March 2010, Pufa Power has 17, 19 and 21 production lines and 120, 150 and 195 employees respectively, with an annual production capacity of approximately 176 million, 239 million and 67 million units of electrode plates. For the two years ended 31 December 2009 and the three months ended 31 March 2010, approximately 81%, 78% and 75% of its products were supplied to Chaowei Power and Chaowei Power has been its major customer. Given that we have not come across any quality problems or late delivery in relation to the electrode plates supplied by Pufa Power since we began to source electrode plates from Pufa Power, we believe that Pufa Power has the ability to continue to supply high-quality electrode plates to us.

Pursuant to an agreement (the “**Electrode Plates Purchase Agreement**”) dated 10 June 2010 entered into between Pufa Power and Chaowei Power, Pufa Power has agreed to supply electrode plates to Chaowei Power for a term of three years with retrospective effect from 1 January 2010 to 31 December 2012, renewable upon expiry (subject to compliance with the provisions under the Hong Kong Listing Rules regarding continuing connected transactions).

Pricing

Pursuant to the Electrode Plates Purchase Agreement, Pufa Power will supply electrode plates to Chaowei Power at a price determined by reference to the lowest average price of lead quoted on the Shanghai Metals Market (www.smm.cn) and a processing fee of RMB4,400 per tonne which covers other costs of Pufa Power, such as the cost of other raw materials required for the production of electrode plates (e.g. active additives), labour, water and electricity and other miscellaneous overhead, machinery depreciation, plus a reasonable profit margin of Pufa Power. The said processing fee of RMB4,400 per tonne is calculated by reference to the prevailing market price of the above components thus will be subject to adjustment (which shall not, in any event, be higher than the processing fee charged by other suppliers of electrode plates of our Group who are Independent Third Parties). The price of electrode plates provided by Pufa Power is comparable to that from Independent Third Parties. In view of the above, the Directors consider that it is fair and reasonable and on normal commercial terms to purchase electrode plates from Pufa Power at such price.

CONNECTED TRANSACTIONS

Historical figures and annual caps

The historical transaction amounts for the three years ended 31 December 2009 and the three months ended 31 March 2010 and the annual caps for the three years ending 31 December 2012 are summarized below:

31 December 2007	Historical figures			31 March 2010	Annual caps for year ending 31 December		
2007	31 December 2008	31 December 2009		2010	2011	2012	
	<i>(RMB)</i>				<i>(RMB)</i>		
Nil	78.0 million	93.8 million	29.8 million	121.9 million	158.0 million	206.0 million	

There were no purchase of electrode plates from Pufa Power for the year ended 31 December 2007 since Pufa Power and Chaowei Power only commenced the cooperation in March 2008. The annual caps were determined based on, among other things, the historical transaction amounts, and, solely for determination of the annual cap which shall not constitute any assurance or guarantee as to the future performance of our Group, the projected growth of business of and our projected growth in revenue of approximately 30% per annum between 2009 to 2012, which was estimated taking into account a totality of factors, including:

- (i) the anticipated expansion of our manufacturing capacity; and
- (ii) the anticipated increase in our sales.

In addition, in order to ensure timely delivery and quality of electrode plates sourced from external suppliers, going forward, we expect to concentrate the sources of procurement of electrode plates from reliable suppliers and expect the number of suppliers from which we will source electrode plates will decrease. As Pufa Power has so far been a reliable supplier of our Group, we expect the purchases of electrode plates from Pufa Power may increase in future.

2. Supply of lead-acid batteries

Henan Yifeng E-bikes is a electric bikes manufacturer.

Pursuant to an agreement (the “**Lead-acid Batteries Supply Agreement**”) dated 10 June 2010 entered into between Henan Yifeng E-bikes and Chaowei Power, Chaowei Power has agreed to supply lead-acid batteries to Henan Yifeng E-bikes for a term of three years with retrospective effect from 1 January 2010 to 31 December 2012, renewable upon expiry (subject to compliance with the provisions under the Hong Kong Listing Rules regarding continuing connected transactions).

CONNECTED TRANSACTIONS

Pricing

Pursuant to the Lead-acid Batteries Supply Agreement, Chaowei Power will supply lead-acid batteries to Henan Yifeng E-bikes at market price which shall not, in any event, be lower than the price of lead-acid batteries sold by our Group to other Independent Third Parties. In view of the above, the Directors consider that it is fair and reasonable and on normal commercial terms to sell lead-acid batteries to Henan Yifeng E-bikes at such price.

Historical figures and annual caps

The historical transaction amounts for the three years ended 31 December 2009 and the three months ended 31 March 2010 and the annual caps for the three years ending 31 December 2012 are summarized below:

31 December	Historical figures			31 March	Annual caps for		2012
2007	31 December	31 December	31 December	2010	year ending 31 December		
	2008	2009	2009		2010	2011	
	(RMB)				(RMB)		
13.5 million	24.0 million	9.7 million ^{Note}	4.7 million		12.6 million	16.3 million	21.2 million

Note:

The transaction amount for the year ended 31 December 2009 decreased since compared to other suppliers of lead-acid batteries of Henan Yifeng E-bikes, our credit terms to Henan Yifeng E-bikes are more stringent and resulted in Henan Yifeng E-bikes increasing its purchases from other suppliers during the period. However, pursuant to a framework agreement dated 3 January 2010 and entered into between Chaowei Power and Henan Yifeng E-bikes, Henan Yifeng E-bikes has agreed to increase purchases of lead-acid batteries from Chaowei Power for the three years ended 31 December 2012 which are accordingly expected to increase generally on an annual basis as set out in the annual caps above. Accordingly, we expect our sales to Henan Yifeng E-bikes for the year ending 31 December 2010 will significantly increase compared to that of 2009 and will maintain a stable growth rate of approximately 30% per annum up to the period ending 31 December 2012.

The annual caps were determined based on, among other things, the historical transaction amounts, and, solely for determination of the annual cap which shall not constitute any assurance or guarantee as to the future performance of our Group, our projected growth of business and revenue of approximately 30% per annum between 2009 and 2012, which was estimated taking into account a multiplicity of factors, including:

- (i) the anticipated expansion of our manufacturing capacity; and
- (ii) the anticipated increase in our sales.

CONNECTED TRANSACTIONS

3. Purchase of plastic battery cases

Changxing Xiante is engaged in the manufacturing and the sales of plastic battery cases. Based on the information provided by Changxing Xiante, for the year ended 31 December 2009 and the three months ended 31 March 2010, Changxing Xiante owned eight and nine production lines and 34 and 35 employees respectively, with production capacity of approximately 5.9 million and 3.4 million units of plastic battery cases for the year ended 31 December 2009 and the three months ended 31 March 2010. For the year ended 31 December 2009 and the three months ended 31 March 2010, approximately 58% and 56% of the products of Changxing Xiante were supplied to Chaowei Power and Chaowei Power has been its major customer. Given that we have not come across any quality problems or late delivery in relation to the plastic battery cases supplied by Changxing Xiante, this and due to our mutual trust and strong relationship, we believe that Changxing Xiante has the ability to continue to supply high-quality plastic battery cases to us.

Pursuant to an agreement (the “**Battery Plastic Cases Purchase Agreement**”) dated 10 June 2010 entered into between Changxing Xiante and Chaowei Power, Changxing Xiante has agreed to supply plastic battery cases to Chaowei Power for a term of three years with retrospective effect from 1 January 2010 to 31 December 2012, renewable upon expiry (subject to compliance with the provisions under the Hong Kong Listing Rules regarding continuing connected transactions).

Pricing

Pursuant to the Battery Plastic Cases Purchase Agreement, Changxing Xiante will supply plastic battery cases to Chaowei Power at market price which shall not, in any event, be higher than the price of plastic battery cases sourced by our Group from Independent Third Party Suppliers. In view of the above, the Directors consider that it is fair and reasonable and on normal commercial terms to purchase battery plastics cases from Changxing Xiante at such price.

Historical figures and annual caps

The historical transaction amounts for the three years ended 31 December 2009 and the three months ended 31 March 2010 and the annual caps for the three years ending 31 December 2012 are summarized below:

31 December 2007	Historical figures			31 March 2010	Annual caps for year ending 31 December	
2007	31 December 2008	31 December 2009	31 March 2010	2010	2011	2012
	<i>(RMB)</i>				<i>(RMB)</i>	
Nil	Nil	6.2 million ^{Note}	3.5 million	15.0 million	19.5 million	25.3 million

Note:

The figure is calculated based on the transactions during the five months from August 2009 to December 2009.

CONNECTED TRANSACTIONS

There were no purchase of plastic battery cases from Changxing Xiante for the two years ended 31 December 2008 and the seven months ended 31 July 2009 since Changxing Xiante was incorporated in August 2009 and Changxing Xiante and Chaowei Power commenced the cooperation in August 2009. The annual cap for 2010 is based on the historical transaction amount for 2009. The annual caps for 2011 and 2012 were determined based on, among other things, the historical transaction amounts, and, solely for determination of the annual caps for 2011 and 2012 which shall not constitute any assurance or guarantee as to the future performance of our Group, the fact that the volume of transaction between 2009 and 2010 are expected to be substantially similar on an annual basis, the projected growth of business of and our projected growth in revenue at approximately the same level per annum between 2010 and 2012, which was estimated taking into account a totality of factors, including:

- (i) the anticipated expansion of our manufacturing capacity; and
- (ii) the anticipated increase in our sales.

WAIVERS FROM THE STOCK EXCHANGE

Confirmation from the Directors

The Directors, including the independent non-executive Directors, confirm that the transactions described above under “non-exempt continuing connected transactions” have been, and will continue to be, entered in the ordinary and usual course of business, on normal commercial terms or on terms no less favourable than those available to our Group and are fair and reasonable so far as the Shareholders as a whole are concerned and that it is in the interest of our Company and the Shareholders as a whole to continue with these transactions after Listing.

Upon Listing, such transactions will constitute non-exempt continuing connected transactions of our Company under Rule 14A.35 of the Hong Kong Listing Rules and would be subject to compliance with reporting, annual review, announcement and independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules on each occasion they arise.

As the non-exempt continuing connected transactions of our Company referred to above will continue after Listing on a recurring basis, the Directors consider that strict compliance with the announcement and independent shareholders’ approval requirements under the Hong Kong Listing Rules would be unduly burdensome and impractical. Our Company has applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the announcement and independent Shareholders’ approval requirements and the Hong Kong Stock Exchange has granted such waiver to our Company, subject to the annual cap amounts of (i) RMB121.9 million, RMB158.0 million and RMB206.0 million under the Electrode Plates Purchase Agreement; (ii) RMB12.6 million, RMB16.3 million and RMB21.2 million under the Lead-acid Batteries Supply Agreement; and (iii) RMB15.0 million, RMB19.5 million and RMB25.3 million under the Plastic Battery Cases Purchase Agreement for the three years ending 31 December 2010, 2011 and 2012 respectively.

The Directors, including the independent non-executive Directors, confirm that the annual caps set out above are fair and reasonable and in the interests of the shareholders of our Company as a whole.

CONNECTED TRANSACTIONS

The Directors have confirmed that (i) the maximum aggregate annual transaction amount of the continuing connected transactions with each of Pufa Power, Henan Yifeng E-bikes and Changxing Xiante for the three years ending 31 December 2012 are not expected to exceed the annual caps set out above; (ii) our Company will comply with the relevant requirements set out in Chapter 14A of the Hong Kong Listing Rules, including Rules 14A.35(1), 14A.35(2), 14A.36 to 14A.40 and 14A.45 of the Hong Kong Listing Rules in relation to the above-mentioned continuing connected transactions; and (iii) our Company will re-comply with Rules 14A.35(3) and (4) of the Hong Kong Listing Rules if any of the respective annual caps set out above are exceeded, or when the relevant agreement is renewed or when there is a material change to the terms of the relevant agreement.

Confirmation from the Sponsor

The Sponsor is of the view that (i) the non-exempt continuing connected transactions set out above have been entered into in the ordinary and usual course of business of our Group and have been entered into on normal commercial terms or on terms no less favourable than those available to our Group; and (ii) that the terms of the non-exempt continuing connected transactions and the annual caps set out above are fair and reasonable and in the interests of our Company and the Shareholders as a whole.