*The following discussion should be read in conjunction with our audited consolidated financial information together with the accompanying notes, as set forth in the Accountants' Report in Appendix I to this prospectus. Our financial statements have been prepared in accordance with International Financial Accounting Standards ("**IFRS**").*

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties. Factors that could cause or contribute to such differences include those disclosed in the section headed "Risk Factors" in this prospectus.

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.

Our Directors believe that we are well-positioned to enhance our market position because of our product quality, production capacity, strong reputation, customer-oriented services and extensive sales network in our target markets.

For the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010, our revenue was RMB1,466.1 million, RMB2,316.9 million, RMB2,433.9 million and RMB710.5 million, respectively, of which, revenue from sales of lead-acid motive batteries for electric bikes accounted for approximately 88.5%, 88.5%, 96.0% and 97.2%, respectively. Our profit and total comprehensive income attributable to owners of our Company for the same periods was RMB84.2 million, RMB128.1 million, RMB201.9 million and RMB74.0 million, respectively.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 18 January 2010 as an exempted company with limited liability under the Cayman Islands Companies Law.

Our Company is an holding company and its subsidiaries are mainly engaged in manufacture and sales of motive batteries and other related products.

Prior to the Reorganization, Chaowei Power was a wholly owned subsidiary of United Holdings. Pursuant to the Reorganization, (1) the Company was incorporated and with various transfer of interest agreements, owned by the same shareholders of United Holdings, (2) Chaowei BVI and Chaowei HK were also incorporated and became subsidiaries of the Company and (3) United Holdings transferred its equity interest in Chaowei Power to Chaowei HK. The Company became the holding company of Chaowei Power and its subsidiaries on 9 March 2010. The Group comprising the Company and its subsidiaries resulting from the Reorganization is regarded as a continuing entity.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period include the results, changes in equity and cash flows of the companies now comprising the Group as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment or acquisition where there is a shorter period. The consolidated statements of financial position of the Group as of 31 December 2007, 2008 and 2009 has been prepared to present the consolidated assets and liabilities of the companies now comprising the Group as of 31 December 2007, 2008 and 2009 as if the current group structure had been in existence at that dates, taking into account the effective date of acquisitions of entity from outsiders.

Acquisitions of subsidiaries other than those of the Reorganization during the Track Record Period are accounted for from their respective dates of acquisitions by the purchase/acquisition method of accounting.

The Financial Information is presented in RMB, the currency of the primary economic environment in which the principal subsidiaries of our Company operate (the functional currency of the subsidiaries).

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial position have been, and will continue to be, affected by a number of factors, including:

Economic growth and level of demand for lead-acid motive products in the PRC

We derive substantially all of our revenue from sales of lead-acid motive batteries in China. Economic growth in China and the level of demand for lead-acid motive batteries in China, particularly the level of demand for lead-acid motive batteries for electric bikes, have a significant impact on all aspects of our operations, including, but not limited to, the demand for and pricing of our products, the availability and cost of raw materials, utilities, labor costs and other operating expenses.

According to the Frost & Sullivan Report, the Chinese electric bike battery industry has grown rapidly since 2005. Sales of electric bike lead-acid batteries in the Chinese market increased 400.1% to US$1,870.4 million in 2009 from US$374.0 million in 2005. Based on current market statistics, about 92.7% of rechargeable batteries used in electric bikes in China are lead-acid batteries. As a result, we believe the growth of the lead-acid battery industry in China will continue to have a direct impact on our results of operations.

Product mix

Our operating results are also affected by our product mix. Our technology know-how and production facilities enable us to switch production from one product to another in a short period of time. We are therefore able to adjust to and take advantage of changing market conditions to produce the products in highest demand. 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 84.0%, 84.7%, 92.7% and 93.4% of our revenue for the years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010, respectively. Any change in our product mix could affect our financial condition and results of operations.

Pricing

Competition and demand affect the pricing of our products. According to the Frost & Sullivan Report, there are approximately 220 electric bike battery manufacturers in China in 2009 and the lead-acid battery industry is fragmented and competitive. Due to consistent high quality and brand awareness in the market, our lead-acid motive battery products typically enjoy price premiums over products sold by most of our competitors in China. Our average selling price per battery was RMB103.5, RMB106.0, RMB89.5 and RMB93.4, respectively, during the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010. The average selling price per battery decreased from RMB106.0 in 2008 to RMB89.5 in 2009, primarily due to the decrease in our average lead purchase price per tonne (net of value-added tax) from RMB14,264 in 2008 to RMB11,837 in 2009. The average selling price per battery increased from RMB89.5 in 2009 to RMB93.4 in the three months ended 31 March 2010, primarily due to an increase in our average lead purchase price per tonne (net of valued-added tax) from RMB11,837 in 2009 to RMB13,251 in the three months ended 31 March 2010.

Sales volume

Our results of operations are directly affected by our sales volume, which in turn is largely determined by the market demand for our motive battery products, and our ability to meet that demand. Our sales volume increased across our major product segments in 2007, 2008 and 2009 primarily due to the increasing customers demand for our products. We sold approximately 12.6 million, 19.4 million, 26.2 million and 7.4 million units of lead-acid motive batteries in the years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010, respectively. With a designated annual production capacity of over 41.2 million units in 2010, we believe we are well-positioned to meet growing market demand for our products.

Production capacity and facility expansion

We have expanded our production capacity significantly in recent years through acquisition and installation of new production facilities and re-engineering and modifying our existing production lines to improve our production efficiency. Our annual production capacity was approximately 14.2 million, 23.0 million and 34.1 million units in the years ended 31 December 2007, 2008 and 2009, respectively.

Our annual production capacity reached over 41.2 million units in 2010. We believe that the increases in our production capacity in recent years have strengthened our market position and enhanced our competitiveness in the market since we are able to produce lead-acid motive battery products of higher quality. However, to the extent that we encounter difficulties in achieving increased production volumes relative to our existing capacity, it could have a material adverse effect on our business and results of operations.

Cost of raw materials

Price fluctuations of raw materials we use in our production process affect our cost of sales and could adversely impact our results of operations. Electrolytic lead and lead alloy are the principal raw materials for the production of lead-acid battery. Our profitability is dependent on our ability to secure a sufficient and constant supply of electrolytic lead and lead alloy at acceptable price levels. The prices of electrolytic lead and lead alloy are approximately the same and determined principally by supply and demand in the international and domestic commodity markets. During the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010, we had 51, 53, 50 and 14 lead suppliers, respectively, and we purchased approximately 40,323 tonnes, 72,848 tonnes, 101,054 tonnes and 12,925 tonnes of lead, respectively, during the same periods. For the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010, our cost of lead amounted to approximately RMB456.5 million, RMB803.4 million, RMB976.1 million and RMB313.0 million, respectively, representing 40.3%, 43.8%, 56.4% and 59.1%, respectively, of our total cost of sales for the same periods. Our average lead purchase price per tonne (net of value-added tax) during the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010 was approximately RMB16,401, RMB14,264, RMB11,837 and RMB13,251, respectively. The decrease in lead price from 2007 to 2009 was a result of changes in market conditions. Lead price decreased substantially during the three years ended 31 December 2007, 2008 and 2009 as a result of the economic slowdown in 2008. Lead price has gone up since the second half of 2009 as a result of the economic recovery. As a result, our average selling price per battery has increased from RMB89.5 in 2009 to RMB93.4 in the three months ended 31 March 2010.

We purchase some electrode plates from third party suppliers in the event that our production capacity is insufficient to meet our production demand at that time. During the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010, we had 9, 9, 4 and 4 third party suppliers of electrode plates, respectively, and we purchased approximately 339 million, 355 million, 294 million and 53 million units of electrode plates, respectively, during the same periods.

We typically purchase electrolytic lead and lead alloy from suppliers based on the prevailing prices on the commodity market. Electrolytic lead and lead alloy prices fluctuate over time, and the prevailing price at the time of our purchase may not be equal to the prevailing prices at the time of our sale. However, we are generally able to pass on cost increases of electrolytic lead and lead alloy to our customers through subsequent orders by increasing selling prices of our products.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENT

The discussion and analysis of our financial position and results of operations are based on the Financial Information prepared in accordance with the significant accounting policies set out in the Accountants' Report included in Appendix I to this prospectus. Preparation of Financial Information requires us to make estimates and judgments in applying certain critical accounting policies which may have a significant impact on our results. We base our estimates on historical experience and other assumptions which our management believes to be reasonable under the circumstances. Results may differ from these estimates under different assumptions and conditions. Our management has identified below the accounting policies, estimates and judgments that are most critical to our Financial Information.

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the Track Record Period are included in the consolidated statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings at the date when control is lost). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Business combinations

Business combinations prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognized at their fair values at the acquisition date.

Goodwill arising on acquisition was recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect previously recognized goodwill.

Business combinations on or after to 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(2008) are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with IFRS 5.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests was initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss.

Changes in the value of the previously held equity interest recognized in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognized when the goods are delivered and title has passed.

Deposits received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

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

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, directs labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Estimated impairment of receivables

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

In making the estimates, management considered detailed procedures have been in place to monitor this risk. In estimating whether allowance for bad and doubtful debts is required, the Group takes into consideration the ageing status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, 2008, 2009 and 31 March 2010, the carrying amounts of trade and other receivables are approximately RMB62,135,000, RMB58,508,000, RMB72,166,000 and RMB79,443,000. Details of movements of allowance for trade receivables and other receivables are disclosed in Notes 20 and 22 to the Accountants' Report included in Appendix I to this prospectus respectively.

Warranty

We provide a warranty of up to fifteen months on all lead-acid motive battery products. Under the terms of warranty, we undertake to repair or replace the battery free of charge in the event of any malfunctioning within the warranty period.

Estimated costs related to product warranty are accrued at the time of sale and are based upon past warranty claims and unit sales history and adjusted as required to reflect actual costs incurred, as information becomes available.

Taxation

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

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

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth our consolidated statements of comprehensive income for the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2009 and 2010:

	Year ended 31 December			Three months ended 31 March	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue	1,466,108	2,316,911	2,433,889	562,610	710,548
Cost of sales	(1,133,652)	(1,835,025)	(1,729,886)	(390,179)	(529,310)
Gross profit	332,456	481,886	704,003	172,431	181,238
Other income	5,745	13,268	13,721	3,947	16,253
Distribution and selling expenses	(137,892)	(212,607)	(321,906)	(79,890)	(70,590)
Administrative expenses	(64,048)	(63,068)	(83,652)	(16,614)	(22,036)
Research and development expenses	(3,504)	(10,712)	(15,754)	(3,693)	(6,315)
Other expenses	(815)	(3,533)	(4,177)	(731)	(928)
Finance costs	(22,791)	(26,189)	(9,582)	(2,662)	(4,119)
Gain on disposal of a subsidiary	–	–	3,202	–	–
Share of result of an associate	–	–	(2,151)	(158)	–
Profit before taxation	109,151	179,045	283,704	72,630	93,503
Income tax expense	(16,888)	(35,417)	(57,657)	(16,274)	(14,633)
Profit and total comprehensive income for the year/period	92,263	143,628	226,047	56,356	78,870
Profit and total comprehensive income attributable to:					
Owners of the Company	84,223	128,107	201,912	48,010	74,045
Non-controlling interests	8,040	15,521	24,135	8,346	4,825
	92,263	143,628	226,047	56,356	78,870
Earnings per share, in RMB					
Basic	0.26	0.17	0.27	0.06	0.10

Revenue

A substantial portion of our revenue is derived from the sale of lead-acid motive battery products. We also generate revenue from sales of materials and electrode plates. During the Track Record Period, we sell substantially all of our products in the PRC. The following table shows our revenue by product category for the years/periods indicated:

Product	Year ended 31 December 2007	2008	2009	Three months ended 31 March 2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Lead-acid motive batteries for electric bikes	1,297,694	2,051,324	2,335,835	520,257	690,531
Lead-acid motive batteries for electric cars and storage batteries	5,656	9,401	5,752	475	1,633
Materials [Note]	106,188	242,791	92,302	41,878	18,384
Electrode plates	56,570	13,395	–	–	–
Total	1,466,108	2,316,911	2,433,889	562,610	710,548

Note:

Materials include lead and active additives.

Our products are primarily sold in the primary market and in the secondary market. The following table sets out the breakdown of our revenue from sales of lead-acid batteries for electric bikes in the primary market and in the secondary market for the years/period indicated:

	Year ended 31 December 2007		2008		2009		Three months ended 31 March 2009		2010	
	RMB'000		*RMB'000*		*RMB'000*		*RMB'000* (Unaudited)		*RMB'000*	
Sales in the primary market	986,399	76.0%	1,064,847	51.9%	688,347	29.5%	156,634	30.1%	260,535	37.7%
Sales in the secondary market	311,295	24.0%	986,477	48.1%	1,647,488	70.5%	363,623	69.9%	429,996	62.3%
Total	1,297,694	100.0%	2,051,324	100.0%	2,335,835	100.0%	520,257	100%	690,531	100%

Our sales in the primary market decreased RMB376.5 million, or 35.4%, from RMB1,064.8 million for the year ended 31 December 2008 to RMB688.3 million for the year ended 31 December 2009. The decrease was primarily because we had focused more sales efforts in the secondary market due to our tightened credit policy and associated risk controls. Our increased sales efforts in the secondary market were also in response to the increasing demand for replacement batteries with growth of the electric bike market. We usually offer credit to electric bike manufacturers in the primary market, but not to purchasers in the secondary market. Distributors are required to make a deposit with us when they enter into the distribution agreement and to make full payment for our products before or upon delivery. By increasing sales in the secondary market, we had significantly increased our liquidity and capital resources. As a result, our sales in the secondary market as a percentage of our revenue from sales of lead-acid batteries for electric bikes had increased steadily from 24.0% in 2007 to 70.5% in 2009. Our sales in the secondary market increased to RMB430.0 million in the three months ended 31 March 2010 as compared to RMB363.6 million in the same period in 2009. Our sales in the primary market increased to RMB260.5 million in the three months ended 31 March 2010 as compared to RMB156.6 million in the same period in 2009. Our sales in the primary market as a percentage of our revenue from sales of lead-acid batteries for electric bikes in the three months ended 31 March 2010 increased to 37.7% from 30.1% in the same period in 2009. The increase was primarily because sales of electric bikes increased as more people started to buy electric bikes due to the economic recovery.

We also derived revenue from sales of materials and electrode plates. This was primarily because we outsourced some production of electrode plates and lead-acid batteries to third party manufacturers because of our insufficient production capacity to meet the market demand. We had supplied lead, active additives and electrode plates to such third party manufacturers to ensure that the electrode plates and lead-acid motive batteries sold to us meet our quality standards. We did not derive any revenue from sales of electrode plates in 2009 because we had stopped outsourcing the production of lead-acid batteries to third party manufacturers since the second half of 2008 as a result of our increased production capacity.

Cost of sales

Our cost of sales primarily comprises cost of raw materials, labor, energy, and other production costs. Our raw materials primarily comprise lead, electrode plates, plastic battery casings and fiber glass dividing plates. With respect to the electrode plates and lead-acid batteries we purchased from third parties, the purchase costs of electrode plates were recognized under “raw materials” and the purchase costs of lead-acid batteries were split and recognized under “raw materials”, “labor”, “energy” and “other production costs”, respectively.

The following table sets out the breakdown of our cost of sales for the years/period indicated:

	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					
Raw materials	863,268	1,338,543	1,360,367	287,936	430,350
Labor	47,010	77,157	97,076	20,598	27,235
Energy	32,380	65,692	86,024	17,435	23,282
Other production costs (1)	50,696	99,025	113,414	24,651	31,837
	993,354	1,580,417	1,656,881	350,620	512,704
Materials (including lead and active additives)	88,779	241,491	73,005	39,559	16,606
Electrode plates (2)	51,519	13,117	–	–	–
Total	1,133,652	1,835,025	1,729,886	390,179	529,310

Notes:

(1) Other production costs include depreciation charge, other indirect production materials and other miscellaneous overhead.

(2) This refers to the cost of sales for the electrode plates sold to third parties under the processing arrangements.

Our cost of sales was RMB1,133.7 million, RMB1,835.0 million, RMB1,729.9 million and RMB529.3 million, respectively, for the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010. While our revenue increased 5.0% from RMB2,316.9 million in 2008 to RMB2,433.9 million in 2009, our cost of sales decreased 5.7% from RMB1,835.0 million in 2008 to RMB1,729.9 million in 2009. The decrease was mainly attributable to a decrease in the cost of electrode plates and a decrease in lead price. As a percentage of revenue, the cost of sales decreased to 71.1% in 2009 from 79.2% in 2008. Such decrease of percentage was mainly attributable to a decrease in the average cost of sales per battery as a result of the decrease in lead price, partially offset by a decrease in the average selling price per battery. Our cost of sales as a percentage of revenue increased to 74.5% in the three months ended 31 March 2010 from 71.1% in 2009. The increase was primarily due to an increase in the average cost of sales per battery as a result of the increase in lead price, partially offset by an increase in the average selling price per battery. The following table sets forth the breakdown of our cost of raw materials for lead-acid motive batteries for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2007		2008		2009		2009		2010	
	RMB'000		*RMB'000*		*RMB'000*		*RMB'000* (Unaudited)		*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%

Our cost of lead and electrode plates was RMB759.4 million, RMB1,143.2 million, RMB1,155.8 million and RMB371.9 million, respectively, for the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010. As a percentage of our total cost of sales, our cost of lead and electrode plates was 67.0%, 62.3%, 66.8% and 70.3%, respectively, for the same periods.

Gross profit

For the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010, our gross profit was approximately RMB332.5 million, RMB481.9 million, RMB704.0 million and RMB181.2 million, respectively. Our gross profit margin, which is equal to gross profit divided by revenue, was approximately 22.7%, 20.8%, 28.9% and 25.5%, respectively, for the same periods. The decrease in gross profit margin from 2007 to 2008 was primarily due to an increase in the average cost of sales per battery as well as an increase in cost of sales for sale of materials as a percentage of revenue from sale of materials. Our gross profit margin for sale of materials was only 0.5% in 2008, as compared to 16.4% in 2007. Such decrease was primarily due to the decrease in lead price in the last quarter of 2008 as a result of the economic slowdown. Our gross profit margin for sale of lead-acid batteries remained relatively stable at 23.8% and 23.3% in 2007 and 2008, respectively. Our gross profit margin in 2009 increased to 28.9% from 20.8% in 2008, primarily due to the decrease in the cost of sales as a percentage of revenue as discussed above. Our gross profit margin in the three months ended 31 March 2010 decreased to 25.5% from 28.9% in 2009, primarily due to the increase in the cost of sales as a percentage of revenue as discussed above.

Other income

Our other income primarily includes government grants and interest income. Government grants primarily represent subsidies for our expansion of production facilities, our expenditure in technological research and development, environmental protection measures. We also received government subsidies in recognition of the contribution we made in relation to the development of lead-acid motive battery products and the relevant technologies. These subsidies are made by the relevant local governmental authorities based on their respective policies, on a discretionary basis, and they are one-off and non-recurrent. There are no unfulfilled conditions or contingencies attached to the government subsidies currently reflected in our financial statements.

The following table sets forth a breakdown of our other income for the years/period indicated:

	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)	
Government grants					
– grants related to income	3,060	3,407	6,970	2,661	14,835
– grants related to assets	51	51	126	13	87
Interest income	2,440	6,334	3,653	1,189	514
Dividend income from available for sale investments	38	66	74	–	–
Gain on disposal of prepaid lease payments	–	1,480	–	–	–
Insurance compensation	–	1,444	80	18	11
Rental income	–	–	480	–	300
Others	156	486	2,338	66	506
	5,745	13,268	13,721	3,947	16,253

Our other income increased 133.3% from RMB5.7 million in 2007 to RMB13.3 million in 2008, primarily due to an increase in interest income from RMB2.4 million in 2007 to RMB6.3 million in 2008, gains on disposal of prepaid lease payments of RMB1.5 million and insurance compensation of RMB1.4 million we received for damages to the roof of our factorities in Zhejiang province caused by the snow disaster in 2008. The damage did not affect our production and had no material impact on our operations. Our other income increased 3.0% from RMB13.3 million in 2008 to RMB13.7 million in 2009, primarily due to the increase in government grants we received in 2009, partially offset by a decrease in our interest income. Our government grants in 2009 primarily related to (i) government grants of RMB1.3 million received by Anhui Chaowei, which became our subsidiary in 2009; (ii) government grants of RMB3.1 million received by Chaowei Power, most of which were granted as rewards or incentives for our research and development efforts and environmental protection measures. The increase in government grants in the three months ended 31 March 2010 as compared to the same period in 2009 was primarily due to government grants of RMB6.7 million and RMB5.5 million received by Shandong Chaowei and Henan Chaowei, respectively, as an incentive for their contribution to the local economy.

Distribution and selling expenses

Our distribution and selling expenses primarily comprise provision relating to product warranty, advertising expenses and marketing fees, transportation costs, commission expenses (paid to marketing and distribution staff and external sales agents) and salary of marketing and distribution staff. Distribution and selling expenses represented approximately 9.4%, 9.2%, 13.2% and 9.9%, respectively, of our total revenue for the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010. The significant increase in our distribution and selling expenses was primarily due to the increase in provision relating to product warranty, advertising expenses and marketing fees and transportation costs as a result of the significantly increased sales volume.

The following table sets forth a breakdown of our distribution and selling expenses for the years/periods indicated:

	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)	
Transportation costs	28,749	42,003	68,845	20,932	15,916
Commission expenses	23,059	17,065	21,669	8,339	10,835
Provision	61,704	95,180	123,440	26,866	35,489
Advertising expenses and marketing fees	8,279	38,016	78,376	15,249	4,299
Staff costs	1,650	1,680	5,331	772	1,184
Others	14,451	18,663	24,245	7,732	2,867
	137,892	212,607	321,906	79,890	70,590

Our distribution and selling expenses increased from RMB137.9 million in 2007 to RMB212.6 million in 2008, and further increased to RMB321.9 million in 2009. The overall increase was primarily due to increases in provision relating to product warranty, advertising expenses and marketing fees as well as an increase in transportation costs as a result of the significantly increased sales volume. Our distribution and selling expenses were RMB70.6 million in the three months ended 31 March 2010, a decrease of RMB9.3 million from RMB79.9 million in the same period in 2009. The decrease was primarily due to a decrease in advertising expenses and marketing fees as we no longer provide marketing fees to distributors as well as a decrease in transportation cost, partially offset by an increase in provision relating to product warranty. The decrease in our transportation cost was primarily because of the locations of our production plants as well as our greater bargaining power over logistics companies.

Administrative expenses

Our administrative expenses primarily comprise salary of administrative staff, staff retirement benefits, depreciation costs, bad debt provisions and other expenses. Other expenses mainly represented tax payment for stamp duty, land and buildings, rental payment and bank charges.

The following table sets forth a breakdown of our administrative expenses for the years/periods indicated:

	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)	
Staff costs	27,105	36,322	45,386	9,775	11,275
Depreciation and amortization	4,600	5,190	7,851	1,493	1,966
Travelling expenses	3,068	1,903	3,191	436	1,088
Entertainment expenses	3,299	2,328	3,089	663	1,383
Office supplies and utilities	7,178	5,715	7,846	2,161	2,341
Allowance for trade or other receivables	2,123	55	1,413	254	554
Consultation fee	7,070	2,781	2,730	412	1,163
Other expenses	9,605	8,774	12,146	1,420	2,266
	64,048	63,068	83,652	16,614	22,036

Our administrative expenses decreased 1.4% from RMB64.0 million in 2007 to RMB63.1 million in 2008. The decrease was primarily due to a decrease in consultation fee from RMB7.1 million in 2007 to RMB2.8 million in 2008, a decrease in allowance for trade and other receivables and a decrease in office supplies and utilities. The decrease was partially offset by an increase in our staff costs from RMB27.1 million in 2007 to RMB36.3 million as a result of an increase in our average headcount from 676 in 2007 to 717 in 2008. Our consultation fee in 2007 was primarily related to our attempt to list our ordinary shares on the Alternative Investment Market of the London Stock Exchange, which did not happen due to (1) the market conditions in 2007; and (2) our decision to list our ordinary shares on the Hong Kong Stock Exchange. We did not file any registration statement or any other document with the London Stock Exchange.

Our administrative expenses increased 32.6% from RMB63.1 million in 2008 to RMB83.7 million in 2009. The increase was primarily due to an increase in staff costs from RMB36.3 million in 2008 to RMB45.4 million in 2009 as a result of an increase in our average headcount from 717 in 2008 to 906 in 2009, an increase in allowance for trade and other receivables, office supplies and utilities and entertainment expenses. The increase in our administrative expenses was in line with our business expansion. Our consultation fees in 2008 and 2009 primarily included internet service fees, professional valuation fees, professional advisory fees and audit fees. The professional advisory fees incurred in 2008 and 2009 amounted to approximately RMB2.2 million and RMB1.8 million, respectively, which included advisory fees for listing and advisory fees for compliance, internal control and other matters in connection with our business operation. The professional valuation fees incurred in 2008 and 2009 amounted to approximately RMB0.2 million and RMB0.6 million, respectively, which included property valuation fees and other evaluation fees such as environmental evaluation fees.

Our administrative expenses were RMB22.0 million in the three months ended 31 March 2010, an increase of RMB5.4 million from RMB16.6 million in the same period in 2009. The increase was primarily due to an increase in staff costs from RMB9.8 million in the three months ended 31 March 2009 to RMB11.3 million in the same period in 2010, an increase in depreciation and amortization and travelling expenses. The increase in our administrative expenses was in line with our business expansion. Included in allowance for trade or other receivables in 2009 represented allowance for trade receivable of RMB2.5 million and reversal of allowance for other receivables of RMB1.1 million. Reversal of allowance for other receivables represented the recovery of bad debt for the loan to a transportation company in prior years.

Research and development expenses

Our research and development expenses primarily comprise cost of research materials and salary of research and development staff.

Other expenses

Our other expenses primarily comprise charity donations and loss on disposal of property, plant and equipment.

Finance costs

Finance costs consist of interest payments on bank loans and other borrowings and interest expenses on finance leases.

Taxation

Our effective tax rate for each of the three years ended 31 December 2007, 2008 and 2009 was approximately 15.5%, 19.8% and 20.3%, respectively. Our effective tax rate was lower in 2007 as compared to 2008 and 2009 because Chaowei Power was granted a tax exemption in 2007, but only a half reduction in the tax rate for 2008 and 2009 (the actual tax rate after half reduction for 2008 and 2009 was 12.5%). If we are subsequently classified as a resident enterprise by the PRC tax authorities under the New Enterprise Income Tax Law, we will be subject to PRC income tax at a tax rate of 25%. Please see the section headed "Risk Factors – The tax benefits currently enjoyed by us may not continue in the future and any future change to the PRC tax laws could adversely affect our financial position and results of operations". As advised by Zong Heng Law Firm, our legal adviser on PRC Law, whether our Company will be treated as a resident enterprise in the PRC is subject to the decision of relevant PRC tax authorities. As at the date of this prospectus, we are not identified as a resident enterprise in the PRC.

Under the New Enterprise Income Tax Law, withholding tax is imposed on dividends declared to foreign investors in respect of profit earned by PRC subsidiaries from 1 January 2008 onward. No deferred taxation has been provided in respect of undistributed profits of our PRC subsidiaries as the dividends declared in March 2010 and the dividends to be declared to foreign investors in the foreseeable future were or will be paid out of the retained profit of our PRC subsidiaries accumulated before 1 January 2008. We may also use the available share premium of our Company to pay dividends in the future.

PRC income tax

The fluctuations in our effective tax rate are primarily due to changes in tax adjustments during the Track Record Period. The tax rate applicable to our PRC subsidiaries can be found at Note 11 to Appendix I to this prospectus. There are recent changes in the PRC tax laws which took effect as of 1 January 2008. For details of the effect of the new PRC tax laws, see "Risk Factors – Risks Relating to Our Business – The tax benefits currently enjoyed by us may not continue in the future and any future change to the PRC tax laws could adversely affect our financial position and results of operations".

The following table sets forth the tax rates applicable to our PRC subsidiaries for the years indicated:

	Year ended 31 December			
	2007	**2008**	**2009**	**2010**
Changxing Zhongcheng	33%	25%	25%	25%
Chaowei Power	Exempt	12.5%	12.5%	12.5%
Jiangsu Chaowei	33%	25%	25%	25%
Henan Chaowei	33%	25%	25%	25%
Shandong Chaowei	33%	25%	25%	25%
Anhui Chaowei *Note*	N/A	N/A	15.0%	15.0%

Note:

Anhui Chaowei was acquired by us in April 2009.

Cayman Islands profits tax

We are not subject to Cayman Islands profits tax as we had no assessable income arising in or derived from the Cayman Islands during the Track Record Period.

Hong Kong profits tax

We are not subject to Hong Kong profits tax as we had no assessable income arising in or derived from Hong Kong during the Track Record Period.

Three months ended 31 March 2010 compared to the three months ended 31 March 2009

Revenue

Our revenue increased 26.3% from RMB562.6 million in the three months ended 31 March 2009 to RMB710.5 million in the same period in 2010. The increase was primarily attributable to an increase sales volume from 5.8 million units to 7.4 million units as well as an increase in the average selling price per battery from RMB90.2 to RMB93.4. The increase in the average selling price per battery was primarily due to the increase in lead price. Our average lead purchase price per tonne (net of value-added tax) during the three months ended 31 March 2009 and 2010 was RMB9,960 and RMB13,251, respectively.

Cost of sales

Our cost of sales increased 35.6% from RMB390.2 million in the three months ended 31 March 2009 to RMB529.3 million in the same period in 2010, primarily due to increased sales volume as well as an increase in lead price. Our cost of sales as a percentage of revenue increased to 74.5% in the three months ended 31 March 2010 from 69.4% in the same period in 2009. The increase was primarily due to an increase in the average cost of sales per battery as a result of the increase in lead price, partially offset by an increase in the average selling price per battery.

Gross profit

Our gross profit increased 5.1% from RMB172.4 million in the three months ended 31 March 2009 to RMB181.2 million in the same period in 2010, primarily as a result of increased sales volume. Our gross profit margin decreased from 30.6% in the three months ended 31 March 2009 to 25.5% in the same period in 2010, primarily due to the increase in cost of sales as a percentage of revenue for the reasons discussed above.

Other income

Our other income increased 317.9% from RMB3.9 million in the three months ended 31 March 2009 to RMB16.3 million in the same period in 2010. The increase was primarily attributable to an increase in government grants we received from RMB2.7 million in the three months ended 31 March 2009 to RMB14.8 million in the same period in 2010, partially offset by a decrease in our interest income from RMB1.2 million in the three months ended 31 March 2009 to RMB0.5 million in the same period in 2010. The increase in government grants was primarily due to government grants of RMB6.7 million and RMB5.5 million received by Shandong Chaowei and Henan Chaowei, respectively, as an incentive for their contribution to the local economy.

Distribution and selling expenses

Our distribution and selling expenses were RMB70.6 million in the three months ended 31 March 2010, a decrease of RMB9.3 million from RMB79.9 million in the same period in 2009. The decrease was primarily due to a decrease in advertising expenses and marketing fees as we no longer provide marketing fees to distributors as well as a decrease in transportation cost, partially offset by an increase in provision relating to product warranty. The decrease in our transportation cost was primarily because of the locations of our production plants as well as our greater bargaining power over logistics companies.

Administrative expenses

Our administrative expenses were RMB22.0 million in the three months ended 31 March 2010, an increase of RMB5.4 million from RMB16.6 million in the same period in 2009. The increase was primarily due to an increase in staff costs from RMB9.8 million in the three months ended 31 March 2009 to RMB11.3 million in the same period in 2010, an increase in depreciation and amortization and travelling expenses. The increase in our administrative expenses was in line with our business expansion.

Research and development expenses

Research and development expenses increased 70.3% from RMB3.7 million in the three months ended 31 March 2009 to RMB6.3 million in the same period in 2010. The increase was primarily due to the increase in the cost of research materials as a result of an increased number of research projects.

Other expenses

Our other expenses increased 28.6% from RMB0.7 million in the three months ended 31 March 2009 to RMB0.9 million in the same period in 2010. Our other expenses in the three months ended 31 March 2010 primarily related to charity donations.

Finance costs

Our finance costs increased 51.9% from RMB2.7 million in the three months ended 31 March 2009 to RMB4.1 million in the same period in 2010. The increase was primarily due to the an increase in interest expenses on our bank and other borrowings as a result of the increase in our average bank borrowings, partially offset by a decrease in interest expenses on finance leases.

Profit before taxation

For the above reasons, our profit before tax increased 28.8% from RMB72.6 million in the three months ended 31 March 2009 to RMB93.5 million in the same period in 2010.

Taxation

Our income tax expenses decreased 10.4% from RMB16.3 million for the three months ended 31 March 2009 to RMB14.6 million for the same period in 2010. The decrease was primarily because the tax rates for Chaowei Power and Anhui Chaowei, the most profitable two subsidiaries in the three months ended 31 March 2010, were only 12.5% and 15.0%, respectively.

Profit and total comprehensive income for the period

For the above reasons, our profit and total comprehensive income for the period increased 39.9% from RMB56.4 million in the three months ended 31 March 2009 to RMB78.9 million in the same period in 2010. Our net profit margin increased from 10.0% for the three months ended 31 March 2009 to 11.1% for the same period in 2010.

Profit and total comprehensive income for the period attributable to owners of the Company

Our profit and total comprehensive income for the period attributable to owners of our Company was RMB74.0 million in the three months ended 31 March 2010, an increase of 54.2% from RMB48.0 million in the same period in 2009.

Non-controlling interests

Our profit and total comprehensive income for the period attributable to non-controlling interest was RMB4.8 million in the three months ended 31 March 2010, a decrease of 42.2% from RMB8.3 million in the same period in 2009. The decrease was mainly due to a decrease in the net profit of Henan Chaowei.

Year ended 31 December 2009 compared to year ended 31 December 2008

Revenue

Our revenue increased 5.0% from RMB2,316.9 million in 2008 to RMB2,433.9 million in 2009. The increase was primarily attributable to the increase in sales volume from 19.4 million units in 2008 to 26.2 million units in 2009, partially offset by a decrease in the average selling price per battery from RMB106.0 to RMB89.5. The decrease in the average selling price per battery was primarily due to a decrease in lead price. Our average lead purchase price per tonne (net of value-added tax) decreased from RMB14,264 in 2008 to RMB11,837 in 2009.

Cost of sales

Our cost of sales decreased 5.7% from RMB1,835.0 million in 2008 to RMB1,729.9 million in 2009, primarily due to the decrease in the cost of electrode plates and a decrease in lead price. The decrease in the cost of electrode plates was primarily because we purchased electrode plates from Jiuhua Power in 2008 but we acquired Jiuhua Power in 2009 and it became our subsidiary and changed its name to Anhui Chaowei. As a percentage of revenue, the cost of sales decreased to 71.1% in 2009 from 79.2% in 2008. Such decrease of percentage was mainly attributable to a decrease in the average cost of sales per battery as a result of the decrease in lead price, partially offset by a decrease in the average selling price per battery.

Gross profit

Our gross profit increased 46.1% from RMB481.9 million in 2008 to RMB704.0 million in 2009 primarily as a result of the significant increase in our sales volume. Our overall gross profit margin increased from 20.8% in 2008 to 28.9% in 2009, primarily due to the decrease in the cost of sales as a percentage of revenue for the reasons discussed above.

Other income

Our other income increased 3.0% from RMB13.3 million in 2008 to RMB13.7 million in 2009. The increase was primarily attributable to an increase in government grants we received from RMB3.4 million in 2008 to RMB7.0 million in 2009, partially offset by a decrease in our interest income from RMB6.3 million in 2008 to RMB3.7 million in 2009 and a decrease in insurance compensation we received from RMB1.4 million in 2008 to RMB80,000 in 2009. Our government grants in 2009 primarily related to (i) government grants of RMB1.3 million received by Anhui Chaowei, which became our subsidiary in 2009; (ii) government grants of RMB3.1 million received by Chaowei Power, most of which were granted as rewards or incentives for our research and development efforts and environmental protection measures. The insurance compensation we received in 2008 was for damages to the roof of our factories in Zhejiang province caused by the snow disaster in 2008. The damage did not affect our production and had no material impact on our operations.

Distribution and selling expenses

Our distribution and selling expenses increased 51.4% from RMB212.6 million in 2008 to RMB321.9 million in 2009. The increase was primarily due to an increase in provision relating to product warranty from RMB95.2 million in 2008 to RMB123.4 million in 2009, an increase in advertising expenses and marketing fees from RMB38.0 million in 2008 to RMB78.4 million in 2009, as well as an increase in transportation costs from RMB42.0 million in 2008 to RMB68.8 million in 2009. The increases in provision relating to product warranty, advertising expenses and marketing fees and transportation costs were primarily attributable to an increase in our sales volume from 19.4 million units in 2008 to 26.2 million units in 2009.

Administrative expenses

Our administrative expenses increased 32.6% from RMB63.1 million in 2008 to RMB83.7 million in 2009. The increase was primarily due to an increase in staff costs from RMB36.3 million in 2008 to RMB45.4 million in 2009 as a result of an increase in our average headcount from 717 in 2008 to 906 in 2009, an increase in allowance for trade and other receivables, office supplies and utilities and entertainment expenses. The increase was in line with our business expansion.

Research and development expenses

Research and development expenses increased 47.7% from RMB10.7 million in 2008 to RMB15.8 million in 2009. The increase was primarily due to the increase in the cost of research materials as a result of an increased number of research projects. Our research projects in 2009 primarily related to the development of storage batteries for solar and wind energy, gel batteries and li-on batteries. Our research projects in 2008 primarily related to the development of storage batteries for solar and wind energy.

Other expenses

Our other expenses increased 20.0% from RMB3.5 million in 2008 to RMB4.2 million in 2009, primarily due to the increase in our charity donations from RMB1.1 million in 2008 to RMB2.1 million in 2009, partially offset by a decrease in losses on disposal of property, plant and equipment from RMB2.3 million in 2008 to RMB0.6 million in 2009.

Finance costs

Our finance costs decreased 63.4% from RMB26.2 million in 2008 to RMB9.6 million in 2009. The decrease was primarily due to the significant decrease in interest expenses on our bank and other borrowings as a result of the decrease in our average bank and other borrowings in 2009 as well as a decrease in interest expenses on finance leases.

Profit before taxation

For the above reasons, our profit before tax increased 58.5% from RMB179.0 million in 2008 to RMB283.7 million in 2009.

Taxation

Our income tax expense increased 63.0% from RMB35.4 million in 2008 to RMB57.7 million in 2009. We paid more taxes in 2009 mostly because of the increased profit before taxation.

Profit and total comprehensive income for the year

For the above reasons, our profit and total comprehensive income for the year increased 57.4% from RMB143.6 million in 2008 to RMB226.0 million in 2009 and our net profit margin increased from 6.2% in 2008 to 9.3% in 2009.

Profit and total comprehensive income for the year attributable to owners of the Company

Our profit and total comprehensive income for the year attributable to owners of our Company was RMB201.9 million in 2009, an increase of 57.6% from RMB128.1 million in 2008.

Non-controlling interests

Our profit and total comprehensive income attributable to non-controlling interests increased 55.5% from RMB15.5 million in 2008 to RMB24.1 million in 2009. The increase was primarily due to the increase in the net profit of Henan Chaowei.

Year ended 31 December 2008 compared to year ended 31 December 2007

Revenue

Our revenue increased 58.0% from RMB1,466.1 million in 2007 to RMB2,316.9 million in 2008. The increase was primarily attributable to a significant increase in sales volume from 12.6 million units in 2007 to 19.6 million units in 2008, as well as an increase in the average selling price per battery from RMB103.5 in 2007 to RMB106.0 in 2008.

Cost of sales

Our cost of sales increased 61.9% from RMB1,133.7 million in 2007 to RMB1,835.0 million in 2008. The increase was primarily due to a significant increase in our sales volume. As a percentage of revenue, the cost of sales increased to 79.2% in 2008 from 77.3% in 2007. Such increase of percentage was mainly attributable to an increase in the average cost of sales per battery as well as an increase in cost of sales for sale of materials as a percentage of revenue from sale of materials.

Gross profit

Our gross profit increased 44.9% from RMB332.5 million in 2007 to RMB481.9 million in 2008 as a result of the significant increase in our sales volume. Our gross profit margin decreased from 22.7% in 2007 to 20.8% in 2008. The decrease in gross profit margin from 2007 to 2008 was primarily due to an increase in the average cost of sales per battery as well as an increase in cost of sales for sale of materials as a percentage of revenue from sale of materials. Our gross profit margin for sale of materials was only 0.5% in 2008, as compared to 16.4% in 2007. Such decrease was primarily due to the decrease in lead price in the last quarter of 2008 as a result of the economic slowdown. Our gross profit margin for sale of lead-acid batteries remained relatively stable at 23.8% and 23.3% in 2007 and 2008, respectively.

Other income

Our other income increased 133.3% from RMB5.7 million in 2007 to RMB13.3 million in 2008. The increase was primarily attributable to (i) an increase in interest income from RMB2.4 million in 2007 to RMB6.3 million in 2008, and (ii) a RMB1.4 million insurance compensation we received for the operating loss as a result of the snow disaster in 2008. The insurance compensation we received in 2008 was for damages to the roof of our factories in Zhejiang province caused by the snow disaster in 2008. The damage did not affect our production and had no material impact on our operations. Our government grants in 2007 primarily related to (i) government grants of RMB1.5 million received by Chaowei Power, most of which were for our research and development efforts; (ii) government grants of RMB1.0 million received by Henan Chaowei as an incentive for its contribution to the local economy; and (iii) government grants of RMB0.5 million received by Jiangsu Chaowei as an incentive for its contribution to the local economy.

Distribution and selling expenses

Our distribution and selling expenses increased 54.2% from RMB137.9 million in 2007 to RMB212.6 million in 2008. The increase was primarily due to an increase in provision relating to product warranty from RMB61.7 million in 2007 to RMB95.2 million in 2008, an increase in advertising expenses and marketing fees from RMB8.3 million in 2007 to RMB38.0 million in 2008, as well as an increase in transportation costs from RMB28.7 million in 2007 to RMB42.0 million in 2008. The increases in provision relating to product warranty, advertising expenses and marketing fees and transportation costs were primarily attributable to an increase in our sales volume from 12.6 million units in 2007 to 19.4 million units in 2008. The increase was partially offset by a decrease in our commission expenses from RMB23.1 million in 2007 to RMB17.1 million in 2008. The increase in our advertising expenses and marketing fees from 2007 to 2008 was because in 2008 we provided marketing fees to selected distributors.

Administrative expenses

Our administrative expenses decreased 1.4% from RMB64.0 million in 2007 to RMB63.1 million in 2008. The decrease was primarily due to a decrease in consultation fee from RMB7.1 million in 2007 to RMB2.8 million in 2008, a decrease in allowance for trade and other receivables and a decrease in office supplies and utilities. The decrease was partially offset by an increase in our staff costs from RMB27.1 million in 2007 to RMB36.3 million in 2008 as a result of an increase in our average headcount from 676 in 2007 to 717 in 2008. Our consultation fee in 2007 was primarily related to our attempt to list our ordinary shares on the Alternative Investment Market of the London Stock Exchange, which did not happen due to (1) the market conditions in 2007; and (2) our decision to list our ordinary shares on the Hong Kong Stock Exchange. We did not file any registration statement or any other document with the London Stock Exchange.

Research and development expenses

Research and development expenses increased 205.7% from RMB3.5 million in 2007 to RMB10.7 million in 2008. The increase was primarily due to the increase in the cost of research materials. Our research projects in 2007 and 2008 primarily related to the development of storage batteries for solar and wind energy.

Other expenses

Our other expenses increased significantly from RMB0.8 million in 2007 to RMB3.5 million in 2008, primarily due to an increase in losses on disposal of property, plant and equipment from RMB0.5 million in 2007 to RMB2.3 million in 2008, as well as an increase in our charity donations from RMB0.1 million in 2007 to RMB1.1 million in 2008.

Finance costs

Our Finance costs increased 14.9% from RMB22.8 million in 2007 to RMB26.2 million in 2008, primarily due to an increase in interest expenses on our bank and other borrowings as a result of an increase in our average bank and other borrowings in 2008 as well as an increase in interest expenses on finance leases.

Profit before taxation

For the above reasons, our profit before tax increased 63.9% from RMB109.2 million in 2007 to RMB179.0 million in 2008.

Taxation

Our income tax expense increased 109.5% from RMB16.9 million in 2007 to RMB35.4 million in 2008. The increase was primarily because (i) our profit before taxation increased significantly in 2008 and (ii) Chaowei Power was granted a tax exemption in 2007 but only a half reduction in the tax rate in 2008 (the actual tax rate after half reduction for 2008 was 12.5%).

Profit and total comprehensive income for the year

For the above reasons, our profit and total comprehensive income for the year increased 55.6% from RMB92.3 million in 2007 to RMB143.6 million in 2008 and our net profit margin decreased from 6.3% in 2007 to 6.2% in 2008.

Profit and total comprehensive income for the year attributable to owners of the Company

Our profit and total comprehensive income for the year attributable to owners of our Company was RMB128.1 million in 2008, an increase of 52.1% from RMB84.2 million in 2007.

Non-controlling interests

Our profit and total comprehensive income attributable to non-controlling interests increased 93.8% from RMB8.0 million in 2007 to RMB15.5 million in 2008. The increase was primarily due to the increase in the net profit of Shandong Chaowei and Henan Chaowei.

DESCRIPTION OF CERTAIN BALANCE SHEET ITEMS

Inventories

The following table sets out a breakdown of our inventories as of the dates indicated:

	As of 31 December			As of 31 March
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	38,703	53,925	220,680	95,205
Work in process	151,301	145,319	219,461	198,086
Finished goods	25,143	28,091	30,593	31,230
Total	215,147	227,335	470,734	324,521

Our total inventories increased from RMB215.1 million as of 31 December 2007 to RMB227.3 million as of 31 December 2008, and further increased to RMB470.7 million as of 31 December 2009. The overall increase was primarily due to an increase in raw material purchases as a result of increased production volume as well as our anticipation of an increase in lead price. We usually purchase more lead when we anticipate that lead price will increase in the future.

Our total inventories decreased from RMB470.7 million as of 31 December 2009 to RMB324.5 million as of 31 March 2010. The decrease was primarily due to a decrease in our raw material purchases as we did not expect the lead price to rise substantially in the second quarter of 2010.

As of 30 April 2010, all of our total inventories as of 31 March 2010 had been used or sold.

The following table sets forth our average inventory turnover days for the periods indicated:

	Year ended 31 December			Three months ended 31 March
	2007	**2008**	**2009**	**2010**
Average Inventory Turnover (Days) [Note]	58	44	74	68

Note:

Average inventory equals inventory at the beginning of the year/period plus inventory at the end of the year/period, divided by two. Turnover of average inventory (in days) equals average inventory divided by cost of sales for the relevant year and then multiplied by 365 days for each of the three years ended 31 December 2009. Average turnover days for three months ended 31 March 2010 equals average inventory divided by cost of sales for the relevant year and then multiplied by 90 days and the average inventory was calculated based on the inventory as of 1 January 2010 plus the inventory as of 31 March 2010 divided by two.

Our average inventory turnover days decrease from 58 days in 2007 to 44 days in 2008, primarily due to the increase in our cost of sales as a result of increased sales volume. Our average turnover days increased from 44 days in 2008 to 74 days in 2009, primarily due to the increase in our raw material purchases as a result of increased production volume as well as our anticipation of an increase in lead price. We usually purchase more lead when we anticipate that lead price will increase in the future. Our average inventory turnover days decreased from 74 days in 2009 to 68 days for the three months ended 31 March 2010, primarily due to a decrease in our raw material purchases as we did not expect the lead price to rise substantially in the second quarter of 2010.

Trade receivables

Our trade receivables primarily represent receivables from our primary market customers. We normally have a policy allowing a credit period of 15 days for most of our electric bike manufacturer customers with proven credit history. An extended credit period would be granted to customers on a case by case basis upon reviewing their settlement history, relationship with us and credibility. Trade receivables at the respective reporting dates mainly comprise amounts receivable from sales of our products to such customers. We do not offer a credit period to our distributors save in exceptional circumstances. Our distributors are otherwise required to make a deposit with us when they enter into the distribution agreement and to make full payment for our products before or upon delivery. No interest is charged on the trade receivables.

The following table sets out an aging analysis of trade receivables (net of allowance for doubtful debts) as of the dates indicated:

	At 31 December			At 31 March
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 15 days	43,550	22,167	14,643	36,530
16 – 90 days	8,409	11,782	2,697	4,673
91 – 180 days	3,905	2,787	1,478	1,094
181 – 365 days	199	413	550	758
	56,063	37,149	19,368	43,055

Our trade receivables decreased by 33.9% from RMB56.1 million as of 31 December 2007 to RMB37.1 million as of 31 December 2008, and further decreased by 47.7% to RMB19.4 million as of 31 December 2009. The overall decrease was primarily because we have tightened our credit policy and associated risk controls by focusing more sales efforts in the secondary market as we only exceptionally offer credit to purchasers in the secondary market. As a result, our sales in the secondary market as a percentage of our revenue increased significantly from 21.2% in 2007 to 42.6% in 2008, and further increased to 67.7% in 2009. By increasing sales in the secondary market, we have increased our liquidity and capital resources.

Our trade receivables were RMB43.1 million as of 31 March 2010, an increase of RMB23.7 million from RMB19.4 million as of 31 December 2009. The increase was primarily due to increase sales in March 2010 as compared with December 2009, in particular increased sales in the primary market as we offer a credit period of 15 days to electric bike manufacturer customers with proven credit history.

As of 30 April 2010, approximately RMB32.4 million, or 75.1%, of our trade receivables as of 31 March 2010 had been settled.

The following table sets out average turnover days for our trade receivables for the periods indicated:

	Year ended 31 December			Three months ended 31 March
	2007	**2008**	**2009**	**2010**
Trade Receivable Turnover (Days) *Note*	9	7	4	4

Note:

Average trade receivables equal trade receivables at the beginning of the year/period plus trade receivables at the end of the year/period divided by two. Trade receivables turnover days equal average trade receivables divided by revenue and multiplied by 365 for each of the three years ended 31 December 2007, 2008 and 2009. Trade receivables turnover days for the three months ended 31 March 2010 equal average trade receivables divided by revenue and multiplied by 90 days and the average trade receivables were calculated based on the trade receivables as of 1 January 2010 plus the trade receivables as of 31 March 2010 divided by two.

Our average trade receivable turnover days decreased from 9 days in 2007 to 7 days in 2008, and further decreased to 4 days in 2009. The overall decrease was primarily a result of the decrease in our trade receivables due to (1) we have tightened our credit policy and associated risk controls; and (2) we only exceptionally grant credit to distributors and sales to distributors as a percentage of our revenue increased significantly from 21.2% in 2007 to 42.6% in 2008, and further to 67.7% in 2009. Our average trade receivable turnover days were 4 days for the three months ended 31 March 2010, remaining stable as compared to 4 days in 2009.

Bills receivables

The following table sets out an aging analysis of our bills receivables as of the dates indicated:

	At 31 December			At 31 March
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 90 days	98,582	47,039	10,362	169,115
91 – 180 days	118,638	114,900	165,968	80,299
	217,220	161,939	176,330	249,414

Our bills receivables decreased 25.5% from RMB217.2 million as of 31 December 2007 to 161.9 million as of 31 December 2008, primarily due to (1) we have tightened our credit policy and associated risk controls; and (2) we only exceptionally grant credit to distributors and sales to distributors as a percentage of our revenue increased significantly from 21.2% in 2007 to 42.6% in 2008. Our bills receivables increased slightly from RMB161.9 million as of 31 December 2008 to RMB176.3 million as of 31 December 2009, primary due to increased sales in the fourth quarter of 2009 as compared to the same period of 2008.

Our bills receivables were RMB249.4 million as of 31 March 2010, an increase of RMB73.1 million from RMB176.3 million as of 31 December 2009. The increase was primarily due to increased sales in March 2010 as compared with December 2009.

As of 30 April 2010, approximately RMB37.0 million, or 14.8%, of our bills receivables as of 31 March 2010 had been settled.

Prepayment and other receivables

The following table sets forth our prepayments and other receivables as of the dates indicated:

	At 31 December			At 31 March
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments to suppliers	62,449	40,950	31,752	46,334
Other receivables	6,072	21,359	52,798	36,388
	68,521	62,309	84,550	82,722

The following table sets forth a breakdown of our other receivables as of the dates indicated:

	At 31 December			At 31 March
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Value-added tax recoverable	–	8,951	46,296	18,987
Prepayments to employees	2,087	1,123	2,068	3,244
Loans receivable	679	6,073	2,197	–
Others	3,306	5,212	2,237	14,157
	6,072	21,359	52,798	36,388

Our prepayments decreased 34.3% from RMB62.4 million as of 31 December 2007 to RMB41.0 million as of 31 December 2008, and further decreased 22.4% to RMB31.8 million as of 31 December 2009. The overall decrease in prepayments was primarily because of our greater bargaining power to negotiate with suppliers which enables us to reduce our prepayment to suppliers.

Our prepayments were RMB46.3 million as of 31 March 2010, an increase of RMB14.5 million from RMB31.8 million as of 31 December 2009. The increase was primarily due to more deposit paid for the purchase of raw materials in April 2010.

As of 30 April 2010, approximately RMB40.8 million, or 88.1%, of our prepayments to suppliers as of 31 March 2010 had been recognized as purchases.

Our other receivables increased 250.8% from RMB6.1 million as of 31 December 2007 to RMB21.4 million as of 31 December 2008, and further increased 146.7% to RMB52.8 million as of 31 December 2009. The overall increase was primarily due to the significant increase in value-added tax recoverables. The increase in value-added tax recoverables was primarily due to an increase in raw material purchases as well as a change in PRC's tax policy which allows the input value-added tax incurred for purchase of fixed assets to be offset and deducted from output value-added tax.

Some of our PRC subsidiaries recorded loans receivable in the years ended 31 December 2007, 2008 and 2009. The loans receivable primarily related to loans to suppliers and Beijing Li Xian Feng which were unsecured, interest-free. As at 28 February 2010, all such loans had been settled, and there are no other similar loans or obligations between the Company's PRC subsidiaries and independent third parties. Accordingly, the Company believes that there is no dispute or controversy or legal risk relating to such loans or obligations between its PRC subsidiaries and independent third parties. Zong Heng Law Firm, our legal advisers on PRC laws, has confirmed that such loans or obligations were in compliance with the Contract Law of the People's Republic of China and all other applicable PRC laws and regulations. Since such loans had been settled and all obligations been fulfilled as of 28 February 2010, there is no dispute or controversy relating to such loans or obligations between the Company's PRC subsidiaries and independent third parties and there is no legal risks relating to the same.

Our Directors confirm that we will not provide similar borrowings to third parties after the Global Offering.

Our other receivable as of 31 December 2009 had been subsequently settled in February 2010.

Our other receivables were RMB36.4 million as of 31 March 2010, a decrease of RMB16.4 million from RMB52.8 million as of 31 December 2009. The decrease was primarily due to settlement of value-added tax recoverable against the value-added tax payable arising from sales of batteries during the three months ended 31 March 2010.

As of 30 April 2010, all of our value-added tax recoverable as of 31 March 2010 had been settled.

Trade payables

Our trade payables represent amounts payable in connection with the purchases of materials necessary for our production and other raw materials from various suppliers. The average credit period taken for the settlement of trade purchases is 30 days.

The following table sets forth an aging analysis of trade payables as of the dates indicated:

	At 31 December			At 31 March
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 30 days	40,751	43,094	72,047	71,982
31 – 90 days	35,106	49,209	68,010	60,066
91 – 180 days	42,129	59,789	66,503	55,669
181 – 365 days	2,659	4,208	9,142	10,050
1 – 2 years	2,017	2,893	2,717	4,427
Over 2 years	–	17	1,740	1,877
	122,662	159,210	220,159	204,071

Our trade payables increased 29.7% from RMB122.7 million as of 31 December 2007 to RMB159.2 million as of 31 December 2008. The increase was primarily because (1) we purchased more raw materials as a result of increased sales volume; and (2) approximately RMB59.9 million and RMB27.5 million of our bills receivables were endorsed with recourse to third parties as of 31 December 2007 and 2008, respectively, and correspondingly RMB59.9 million and RMB27.5 million were included in the consolidated statements of financial position as trade payables as of 31 December 2007 and 2008, respectively. Under the relevant PRC law, for bills receivable endorsed to other third parties, the holder may exercise the right of recourse against the endorser, drawer or other debtors of the draft upon a refusal of payment to a draft. Based on relevant accounting standards, financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and a company has transferred substantially all the risks and rewards of ownership of the financial assets. If a company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognize the financial asset. For bills receivables endorsed with recourse to other third parties to settle its trade payable, as those bills receivables could not be derecognized based on the above-mentioned reason, the corresponding trade payables were still included in the consolidated statements of financial position.

Our trade payables further increased 38.3% from RMB159.2 million as of 31 December 2008 to RMB220.2 million as of 31 December 2009, primarily because approximately RMB101.3 million of our bills receivables were endorsed with recourse to third parties as of 31 December 2009 and correspondingly RMB101.3 million were included in the consolidated statement of financial position as trade payables as of 31 December 2009.

Our trade payables were RMB204.1 million as of 31 March 2010, a decrease of RMB16.1 million from RMB220.2 million as of 31 December 2009. Approximately RMB94.0 million of our bills receivables were endorsed with recourse to third parties as of 31 March 2010 and correspondingly RMB94.0 million were included in the consolidated statement of financial position as trade payables as of 31 March 2010.

As of 30 April 2010, approximately RMB122.8 million, or 60.2%, of our trade payables as of 31 March 2010 had been settled.

The following table sets forth average turnover days for our trade payables for the periods indicated:

	Year ended 31 December			Three months ended 31 March
	2007	**2008**	**2009**	**2010**
Trade Payable Turnover (Days) *Note*	35	28	40	36

Note:

Average trade payables equal trade payables at the beginning of the year/period plus trade payables at the end of the year/period divided by two. Trade payables turnover days equal average trade payables divided by cost of sales and multiplied by 365 for each of the three years ended 31 December 2007, 2008 and 2009. Trade payables turnover days for the three months ended 31 March 2010 equal average trade payables divided by cost of sales and multiplied by 90 days and the average trade payables were calculated based on the trade payables as of 1 January 2010 plus the trade payables as of 31 March 2010 divided by two.

Our average trade payable turnover days decreased from 35 days in 2007 to 28 days in 2008, primarily due to the increase in our cost of sales from RMB1,133.7 million in 2007 to RMB1,835.0 million in 2008. Our average trade payable turnover days increased from 28 days in 2008 to 40 days in 2009, primarily because approximately RMB101.3 million of our bills receivables were endorsed with recourse to third parties as of 31 December 2009 and correspondingly RMB101.3 million were included in the consolidated statements of financial position as trade payables as of 31 December 2009. Our average trade payables turnover days in 2007 and 2009 and the three months ended 31 March 2010 were longer than the 30-day credit period normally granted by our suppliers, primarily because approximately RMB59.9 million, RMB101.3 million and RMB94.0 million of our bills receivables as of 31 December 2007 and 2009 and 31 March 2010, respectively, were endorsed with recourse to third parties and correspondingly RMB59.9 million, RMB101.3 million and RMB94.0 million were included in the consolidated statement of financial position as trade payables as of 31 December 2007 and 2009 and 31 March 2010, respectively.

Other payables

The following table sets forth a breakdown of our other payables as of the dates indicated:

	At 31 December			At 31 March
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits received from distributors and others	2,991	22,531	38,466	38,359
Other payables *Note*	16,091	49,921	41,573	20,664
Advance from customers	5,690	25,788	32,594	30,871
Accrued payroll and welfare	11,635	17,833	25,072	12,418
Other tax payable	4,623	8,641	2,108	10,799
Interest payable	51	259	226	433
	41,081	124,973	140,039	113,544

Note:

Other payables primarily include accrued commission expenses, advertising expenses and marketing fees and other accruals.

As of 30 April 2010, approximately RMB0.5 million, or 1.9%, of deposits received from distributors as of 31 March 2010 and approximately RMB28.7 million, or 93.0%, of advances from customers as of 31 March 2010 had been recognized as revenue.

Amounts due from/to related parties

	As at 31 December			As at 31 March
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from related entities:				
Trade nature				
– Henan Yifeng	3,295	2,045	342	5,855
Non-trade nature				
– Chai Chenglei (1)	70	421	1,698	–
– Qian Haichun (1)	–	–	2,379	–
	3,365	2,466	4,419	5,855
Amount due from a director				
– Zhou Mingming (3)	–	5,646	30	–
Total	3,365	8,112	4,449	5,855

All amounts due from related parties were denominated in RMB, unsecured and interest free.

	As at 31 December			As at 31 March
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to related entities:				
Non-trade nature				
– Henan Yifeng	3,616	–	–	–
– Henan Gaoyuan	595	585	–	–
– United holdings (2)	–	71	71	60
– Chai Chenglei	2,500	1,000	–	–
– Li Jie	2,000	2,000	–	–
– Qian Haichun (1)	–	–	2,000	–
Total	8,711	3,656	2,071	60

All amounts due to related parties are unsecured, interest free and to be settled in accordance with agreed credit term or payable on demand.

Notes:

(1) The amount due to/from related parties that were non-trade nature had been fully settled by the Group/relevant related parties before 31 March 2010.

(2) The amount due to United holdings had been fully repaid in April 2010.

(3) The amount due from a director had been fully settled before 31 March 2010.

LIQUIDITY AND CAPITAL RESOURCES

Based on our current and anticipated levels of operations and conditions in the markets and industry, we believe that our proceeds from this Global Offering, our cash and bank deposits, cash flow from operations, our banking relationships and future financings will enable us to meet our working capital, capital expenditures, and other funding requirements for the foreseeable future. However, our ability to fund our working capital needs, repay our indebtedness and finance other obligations depend on our future operating performance and cash flow, which are in turn subject to prevailing economic conditions, the level of spending by our customers and other factors, many of which are beyond our control. Any future significant acquisition or expansion may require additional capital, and we cannot assure you that such capital will be available to us on acceptable terms, if at all.

In general, we have the ability to generate adequate cash from our operations to fund our ongoing operating cash needs and the continuing expansion of our business. We may use short-term bank borrowings to finance operations and repay bank borrowings once our funding position is in surplus. We have not experienced and do not expect to experience any difficulties meeting our obligations as they become due. We will use part of the proceeds from the Global Offering to fulfill our capital commitments for future expansion.

Our net cash and cash equivalents as of 31 December 2007, 2008 and 2009 and 31 March 2010 were RMB70.7 million, RMB177.1 million, RMB150.8 million and RMB345.7 million, respectively.

Our net current assets as of 31 December 2007, 2008 and 2009 and 31 March 2010 were RMB207.2 million, RMB232.8 million, RMB404.3 million and RMB541.0 million, respectively.

Net current assets/liabilities

The following table sets forth the breakdown of our current assets and liabilities as of the dates indicated:

	At 31 December			At 31 March	At 30 April
	2007	**2008**	**2009**	**2010**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)
CURRENT ASSETS					
Inventories	215,147	227,335	470,734	324,521	369,018
Trade receivables	56,063	37,149	19,368	43,055	69,574
Bills receivable	217,220	161,939	176,330	249,414	260,415
Prepayments and other receivables	68,521	62,309	84,550	82,722	116,169
Amounts due from related parties	3,365	8,112	4,449	5,855	5,505
Prepaid lease payments-current portion	425	932	1,451	1,472	1,472
Money market funds	–	100,000	–	–	–
Restricted bank deposits	82,407	119,006	7,861	200	200
Bank balances and cash	70,682	177,087	150,842	345,667	204,635
	713,830	893,869	915,585	1,052,906	1,026,988
CURRENT LIABILITIES					
Trade payables	122,662	159,210	220,159	204,071	208,527
Bills payable	3,895	106,157	7,070	–	–
Other payables	41,081	124,973	140,039	113,544	97,539
Amounts due to related parties	8,711	3,656	2,071	60	–
Income tax payable	8,597	14,312	29,017	19,604	18,133
Dividend payable	–	–	–	65,000	32,500
Obligations under finance leases-current portion	5,596	6,174	–	–	–
Deferred income-current portion	984	1,451	350	350	350
Provision	33,542	45,164	57,539	64,280	70,955
Bank borrowings-due within one year	150,080	116,000	55,000	45,000	30,000
Other borrowings	131,511	83,985	–	–	–
	506,659	661,082	511,245	511,909	458,004
NET CURRENT ASSETS	207,171	232,787	404,340	540,997	568,984

Cash flow

We conduct all of our operations through our operating subsidiaries in China. Cash flows generated by our operating subsidiaries on a stand-alone basis may differ significantly from that presented in our consolidated statements of cash flows.

The following table sets forth certain information regarding our consolidated statements of cash flows for the periods indicated:

	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)	
Net cash (used in) from operating activities	(52,319)	488,318	13,935	54,974	82,262
Net cash (used in) from investing activities	(126,829)	(237,253)	14,759	79,486	(48,921)
Net cash from (used in) financing activities	222,866	(144,660)	(54,939)	22,341	161,484
Cash and cash equivalents at beginning of year/period Note	26,964	70,682	177,087	177,087	150,842
Cash and cash equivalents at end of year/period Note	70,682	177,087	150,842	333,888	345,667

Note:

The balances represented our bank and cash balances as of each of the relevant dates during the three years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2009 and 2010.

Net cash generated from (used in) operating activities

We derive our net cash inflow from operating activities primarily through the receipt of payments for the sale of our lead-acid motive battery products. Our cash outflow from operating activities is used primarily for raw material purchases, payment of utilities, selling and distribution costs, and staff salaries.

Our net cash flow generated from operating activities reflects our profit before taxation, as adjusted for non-cash items, such as depreciation, and the effects of changes in working capital, such as increases or decreases in trade and other receivables, accruals and other payables, and income tax payment.

Our net cash generated from operating activities was RMB82.3 million for the three months ended 31 March 2010, primarily as a result of operating profits of RMB93.5 million adjusted by an increase in non-cash item of RMB16.6 million, a decrease in inventories of RMB142.1 million, partially offset by an increase in receivables, deposits and prepayments of RMB97.7 million, a decrease in payables, deposits received and accrued charges of RMB50.1 million and an income tax payment of RMB23.4 million.

Our net cash generated from operating activities in 2009 was RMB13.9 million, primarily as a result of operating profits of RMB283.7 million adjusted by an increase in non-cash item of RMB37.4 million, as well as an increase in provision of RMB12.4 million, partially offset by an increase in inventories of RMB221.6 million, a decrease in payables, deposits received and accrued charges of RMB54.0 million and an income tax payment of RMB47.9 million.

Our net cash generated from operating activities in 2008 was RMB488.3 million, primarily as a result of operating profits of RMB179.0 million adjusted by an increase in non-cash item of RMB46.3 million, an increase in payables, deposits received and accrued charges of RMB222.8 million and a decrease in receivables, deposits and prepayments of RMB85.7 million, partially offset by an increase in inventories of RMB18.9 million and an income tax payment of RMB39.6 million.

Our net cash used in operating activities in 2007 was RMB52.3 million, primarily as a result of operating profits of RMB109.2 million adjusted by an increase in non-cash item of RMB37.6 million, an increase in payables, deposits received and accrued charges of RMB44.6 million, an increase in provision of RMB19.8 million and a decrease in amounts due from related companies of RMB9.5 million, partially offset by an increase in receivables, deposits and prepayments of RMB177.8 million, and increase in inventories of RMB73.2 million and an income tax payment of RMB21.7 million.

Net cash used in investing activities

Our net cash used in investing activities was RMB48.9 million for the three months ended 31 March 2010, which pertained mainly to the payment for purchases of property, plant and equipment of RMB60.3 million and addition to prepaid lease payments of RMB1.0 million, partially offset by a decrease in restricted bank deposits of RMB7.7 million, repayment of advance to loans receivable of RMB2.2 million and repayment from related parties of RMB1.9 million.

Our net cash generated from investing activities in 2009 was RMB14.8 million, which pertained mainly to proceeds on disposal of money market funds of RMB257.0 million and a decrease in restricted bank deposits of RMB111.1 million, partially offset by the payment for purchases of property, plant and equipment of RMB168.1 million, the purchases of money market funds for RMB157.0 million and the acquisition of subsidiaries for RMB50.6 million.

Our net cash used in investing activities in 2008 was RMB237.3 million, which pertained mainly to the purchases of money market funds for RMB265.0 million, the payment for purchases of property, plant and equipment of RMB73.3 million, an increase in restricted bank deposits of RMB36.6 million and the addition to prepaid lease payments of RMB25.1 million, partially offset by the proceeds on disposal of money market funds of RMB165.0 million.

Our net cash used in investing activities in 2007 was RMB126.8 million, which pertained mainly to the payment for purchases of property, plant and equipment of RMB73.1 million, an increase in restricted bank deposits of RMB62.4 million, partially offset by the proceeds on disposal of property, plant and equipment of RMB4.5 million.

Net cash generated from (used in) financing activities

Our net cash generated from financing activities was RMB161.5 million for the three months ended 31 March 2010, which pertained mainly to new bank borrowings raised of RMB120.0 million and advances from related parties of RMB54.9 million, partially offset by repayment of bank borrowings of RMB10.0 million, interest payment of RMB3.7 million and repayment to related parties of RMB2.0 million.

Our net cash used in financing activities in 2009 was RMB54.9 million, which pertained mainly to repayment of bank borrowings of RMB352.0 million and repayment of other borrowings of RMB184.0 million, partially offset by new bank borrowings raised of RMB445.0 million and new other borrowings raised of RMB100.0 million.

Our net cash used in financing activities in 2008 was RMB144.7 million, which pertained mainly to repayment of other borrowings of RMB358.7 million and repayment of bank borrowings of RMB220.1 million, partially offset by new other borrowings raised of RMB311.1 million and new bank borrowings raised of RMB156.0 million.

Our net cash generated from financing activities in 2007 was RMB222.9 million, which pertained mainly to new other borrowings raised of RMB316.0 million and new bank borrowings raised of RMB290.4 million, partially offset by repayment of bank borrowings of RMB279.4 million and repayment of other borrowings of RMB214.8 million.

Our investment in money market funds

As at 31 December 2008, the Group had money market funds of RMB100.0 million, which represented investment in money funds of a few regulated financial institutions in the PRC. These investments were redeemable based on quoted market price and were carried at fair value at the end of each reporting period.

We had purchased short-term low-risk money market funds when there was a surplus of fund. Our investment strategy was to only invest in short-term low-risk money market funds. In the opinion of our Directors, the purpose of the investment in such money market funds was to provide the Company with a safe place to invest in easily accessible assets which was characterized as low-risk and low-return investment. In order to control the risk, the management had designated our investment manager to be responsible for investment in money market funds or other capital-preserved financial products. Before investing in such money market funds, our investment manager had explained to our Directors the risks of the underlying assets associated with such funds. Our Directors then evaluated the risks and decided whether to invest in such funds or not. We never suffered any losses with respect to such funds and have stopped investing in such short-term capital-preserved money market funds since the end of 2009. We will no longer invest in such money market funds after listing.

Our return from the investment in money market funds was approximately RMB0.2 million and RMB0.7 million in 2008 and 2009, respectively.

Working capital

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

Financial ratios

The following table sets forth our current ratio, gearing ratio, quick ratio, return on equity and return on assets as of the dates indicated:

	As of 31 December			As of 31 March
	2007	2008	2009	2010
Current ratio[(1)]	1.41	1.35	1.79	2.06
Gearing ratio[(2)]	0.36	0.18	0.15	0.20
Quick ratio[(3)]	0.98	1.01	0.87	1.42
Return on equity[(4)]	25.1%	28.0%	31.1%	9.9%
Return on assets[(5)]	10.1%	12.2%	16.0%	4.9%

Notes:

(1) Current ratio is calculated based on current assets divided by current liabilities.

(2) Gearing ratio is calculated based on total debt divided by total assets.

(3) Quick ratio is calculated based on current assets less inventories and then divided by current liabilities.

(4) Return on equity is calculated based on net profit divided by total equity.

(5) Return on assets is calculated based on net profit divided by total assets.

Current ratio

Our current ratio was 1.41, 1.35, 1.79 and 2.06 as of 31 December 2007, 2008 and 2009 and 31 March 2010, respectively. Our current ratio decreased from 1.41 as of 31 December 2007 to 1.35 as of 31 December 2008, primarily due to an increase in current liabilities mainly as a result of an increase in trade payables, bills payable and other payables as a result of increased sales, partially offset by an increase in current assets as a result of increases in our restricted bank deposits, bank balances and cash and our investment in money market funds. Our current ratio increased from 1.35 as of 31 December 2008 to 1.79 as of 31 December 2009, primarily due to (1) a decrease in current liabilities mainly as a result of a decrease in bills payable and a significant decrease in our short-term borrowings; and (2) an increase in current assets resulting from an increase in our total inventories. In 2009 we settled part of our short-term borrowings and draw down the long-term bank borrowings to support the further expansion of our production facilities and to maintain sufficient working capital. The increase in our total inventories as of 31

December 2009 was primarily due to an increase in raw material purchases as a result of increased production volume as well as our anticipation of an increase in lead price. We usually purchase more lead when we anticipate that lead price will increase in the future.

Our current ratio increased from 1.79 as of 31 December 2009 to 2.06 as of 31 March 2010, primarily due to an increase in bank balances and cash and bills receivable as a result of increased sales, partially offset by a decrease in total inventories. We increased our long-term borrowings in the first quarter of 2010 to support the further expansion of our production facilities and to maintain sufficient working capital. The decrease in our total inventories was primarily due to a decrease in our raw material purchases as we did not expect the lead price to rise substantially in 2010.

Gearing ratio

Our gearing ratio was 0.36, 0.18, 0.15 and 0.20 as of 31 December 2007, 2008 and 2009 and 31 March 2010, respectively. Our gearing ratio decreased from 0.36 as of 31 December 2007 to 0.18 as of 31 December 2008, primarily due to a decrease in our total bank and other borrowings as well as an increase in our current and non-current assets. The increase in our non-current assets as of 31 December 2008 was primarily due to our purchases of more property, plant and equipment as a result of our production facility expansion. The increase in our current assets as of 31 December 2008 was primarily due to increases in our restricted bank deposits, bank balances and cash and our investment in money market funds. Our gearing ratio decreased from 0.18 as of 31 December 2008 to 0.15 as of 31 December 2009, primarily due to an increase in our current and non-current assets, partially offset by an increase in our total bank and other borrowings. The increase in our non-current assets as of 31 December 2009 was primarily due to our purchases of more property, plant and equipment as a result of our production facility expansion. The increase in our current assets as of 31 December 2009 was primarily due to an increase in our inventories as a result of increased production and sales volumes.

Our gearing ratio increased from 0.15 as of 31 December 2009 to 0.20 as of 31 March 2010, primarily due to an increase in our long-term bank borrowings to fund the further expansion of our production facilities and to maintain sufficient our working capital, partially offset by an increase in our total assets resulting mainly from our purchases of more property, plant and equipment as well as an increase in our bank balances and cash.

Quick ratio

Our quick ratio was 0.98, 1.01, 0.87 and 1.42 as of 31 December 2007, 2008 and 2009 and 31 March 2010, respectively. Our quick ratio remained relatively stable in 2007 and 2008. Our quick ratio decreased to 0.87 as of 31 December 2009 from 1.01 as of 31 December 2008, primarily due to the usage of more fund to purchase raw materials as a result of increased production volume as well as our anticipation of an increase in lead price. We usually purchase more lead when we anticipate that lead price will increase in the future. Our quick ratio increased from 0.87 as of 31 December 2009 to 1.42 as of 31 March 2010, primarily due to an increase in current assets mainly as a result of an increase in bank balances and bills receivable resulting from increased sales, as well as a decrease in our total inventories. The decrease in our total inventories was primarily due to a decrease in our raw material purchases as we did not expect the lead price to rise substantially in 2010.

Return on equity

Our return on equity was 25.1%, 28.0% and 31.1% for the three years ended 31 December 2007, 2008 and 2009, respectively. The overall increase in our return on equity was primarily due to an increase in our net profit, partially offset by an increase in our total equity. Our return on equity was 9.9% for the three months ended 31 March 2010. This was primarily due to an increase in our net profit as a result of increased sales volume and an increase in our average selling price per battery, partially offset by an increase in our average cost of sales per battery.

Return on assets

Our return on assets was 10.1%, 12.2% and 16.0% for the three years ended 31 December 2007, 2008 and 2009, respectively. The overall increase in our return on assets was primarily due to an increase in our net profit, partially offset by an increase in our total assets. Our return on assets was 4.9% for the three months ended 31 March 2010. This was primarily due to an increase in our net profit as a result of increased sales volume and an increase in our average selling price per battery, partially offset by an increase in our average cost of sales per battery.

Capital commitments

The following table represents our capital commitments to make future payments under contracts and commitments as of the dates indicated:

	As of 31 December			**As of 31 March**
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted but not provided for – acquisition of property, plant and equipment	9,505	36,191	15,325	45,655

CAPITAL EXPENDITURE

The following table sets out our capital expenditures for the years/period indicated:

	Year ended 31 December			Three months ended 31 March
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Land	–	26,289	17,072	1,044
Buildings	4,529	3,347	4,527	886
Plant and machinery	17,482	39,422	32,492	12,057
Motor vehicles	1,926	1,144	6,896	670
Furniture, fixture and equipment	3,020	4,662	2,810	1,224
Construction in progress	35,364	32,209	103,039	47,313
Total	62,321	107,073	166,836	63,194

INDEBTEDNESS

The following table sets forth our total bank and other borrowings as of the dates indicated:

	As of 31 December			As of 31 March	As of 30 April
	2007	2008	2009	2010	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)
Bank borrowings					
Secured	95,080	56,000	101,000	151,000	136,000
Unsecured	85,000	60,000	110,000	170,000	170,000
Other borrowings					
Secured	130,226	82,700	–	–	–
Unsecured	1,285	1,285	–	–	–
Total	311,591	199,985	211,000	321,000	306,000
Bank and other borrowings are repayable as follows:					
Within one year	281,591	199,985	55,000	45,000	30,000
In the second year	30,000	–	–	–	–
More than two years but not more than five years	–	–	156,000	276,000	276,000
Total	311,591	199,985	211,000	321,000	306,000

All of our bank and other borrowings were denominated in RMB. The effective weighted average annual interest rate of our bank borrowings for the years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010 was 6.87%, 7.46%, 4.66% and 5.03% per annum, respectively. Our secured other borrowings carried interest at fixed rates ranging from 4.20% to 6.89% and 2.86% per annum for the years ended 31 December 2007 and 2008, respectively. We discounted bills receivable of approximately RMB130.2 million and RMB82.7 million as of 31 December 2007 and 2008, respectively, to third parties with full recourse. We continued to recognize the full carrying amount of such bills receivables with the cash received on the discounting as other borrowings. As at 31 March 2010, we did not discount any bills receivables and thus no other borrowings was recognized.

Unsecured other borrowings are repayable to local county government, which are on demand, carried interest rate of 12% per annum and were fully repaid during the year ended 31 December 2009.

As of 30 April 2010, we had unutilized banking facilities of approximately RMB292.0 million.

Except as described above, as of 30 April 2010, being the latest practicable date for determining our indebtedness, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Our Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of our Group since 30 April 2010.

CONTINGENT LIABILITIES

As at the Latest Practicable Date, we do not have any material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we do not have any material off-balance sheet arrangements.

MARKET RISK

Our activities expose us primarily to the financial and market risks such as interest rate risk, credit risk and inflation. Market risk exposures are measured by sensitivity analysis. There has been no change to our exposure to market risks or the manner in which we manage and measure the risk during the Track Record Period. Details of each type of financial and market risks are described below.

Interest rate risk

We are exposed to interest rate risks resulting from our long-term and short-term borrowings. We undertake borrowings for general corporate purposes and our expansion needs. Our borrowings are subject to both fixed rates and floating rates. Borrowings at fixed rates expose us to fair value interest rate risk and borrowings at floating rates expose us to cash flow interest rate risk, respectively. Our fair value interest rate risk relates primarily to our fixed-rate bank and other borrowings subject to negotiation on an annual basis. Our cash flow interest rate risk relates primarily to the restricted bank deposits, bank balances and cash, floating interest rate bank borrowings and obligations under finance lease. We currently do not use any derivative contracts to hedge our exposure to interest rate risk. However, our management will consider hedging significant interest rate exposure should the need arise.

The sensitivity analyses below have been determined based on our exposure to interest rates for non-derivative instruments at the end of each reporting period. For variable-rate bank borrowings and restricted bank deposits, bank balances and cash and obligations under finance lease, the analysis is prepared assuming the amount of liability outstanding at the end of each reporting period was outstanding for the whole year. A 27 basis points increase or decrease is used which represents our management's assessment of the reasonably possible change in interest rates.

If interest rates had been 27 basis points higher/lower and all other variables were held constant, our profit for the year ended 31 December 2007, 2008 and 2009 would have increased/decreased by RMB375,000, RMB772,000, RMB20,000, respectively.

The effective weighted average annual rate of our bank borrowings for the years ended 31 December 2007, 2008 and 2009 were 6.87%, 7.46% and 4.66% per annum respectively. The terms of our borrowings are disclosed in section B, note 31 and 32 to the Accountants' Report of our Company set forth in Appendix I to this prospectus.

Credit risk

Our credit risk is primarily attributable to our trade receivables, bills receivable, other receivables, amounts due from related parties, bank balances and deposits. At the end of each reporting period, our maximum exposure to credit risk which will cause a financial loss to us due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets stated in the consolidated statements of financial position.

In order to minimize the credit risk, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our directors consider that our credit risk is significantly reduced.

We have no significant concentration of credit risk on bills and trade receivables, with exposure spread over a large number of counterparties and customers. Our credit risk on liquid funds is limited because the counterparties are authorized banks in the PRC.

Inflation

According to National Bureau of Statistics of China, China's overall national inflation rate, as represented by changes in the general consumer price index, was approximately 4.8%, 5.9% and -0.7% for the years ended 31 December 2007, 2008 and 2009, respectively. Inflation has not had a significant effect on our business during the Track Record Period. However, there can be no assurance as to the impact of a sustained increase in inflation on our business, financial condition, results of operations and prospects.

PROFIT FORECAST FOR THE SIX-MONTH PERIOD ENDING 30 JUNE 2010

Forecast consolidated profit attributable to owners of the Company [(1)]	not less than RMB113.0 million (approximately HK$128.4 million)
Unaudited pro forma forecast earnings per Share [(2)(3)]	RMB0.113 (approximately HK$0.128)

Notes:

1. The bases and assumptions on which the forecast consolidated profit for the six-month period ending 30 June 2010 attributable to owners of the Company has been prepared are summarized in Appendix III to this prospectus.

2. The calculation of the unaudited pro forma forecast earnings per share is based on the forecast consolidated profit for the six-month period ending 30 June 2010 attributable to owners of the Company and assuming the Global Offering had been completed on 1 January 2010 and a total of 1,000,000,000 Shares had been in issue throughout the six-month period ending 30 June 2010. No account has been taken of any additional income we may have earned from the estimated net proceeds from the Global Offering, any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option, or the options granted under the Share Option Schemes.

3. The unaudited pro forma forecast earnings per Share are converted into Hong Kong dollars at an exchange rate of RMB0.88 to HK$1.00.

4. We have undertaken to the Hong Kong Stock Exchange that our interim report for the six-month period ending 30 June 2010 will be audited pursuant to Rule 11.18 of the Hong Kong Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an unaudited pro forma statement of adjusted net tangible assets of the Group which is based on the audited consolidated net tangible assets of the Group attributable to the owners of our Company as of 31 March 2010 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, adjusted as described below. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial position of our Group.

	Audited consolidated net tangible assets of the Group attributable to owners of our Company as of 31 March 2010	Estimated net proceeds from the Global offering	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(1)	*(2)*		*(3)*	*(4)*
Based on the Offer Price of HK$2.18 per Share	729,177	417,911	1,147,088	1.15	1.31
Based on the Offer Price of HK$2.90 per Share	729,177	568,377	1,297,554	1.30	1.48

Notes:

1. The audited consolidated net tangible assets attributable to the owners of our Company as of 31 March 2010 are based on audited consolidated net assets attributable to the owners of our Company as of 31 March 2010 of approximately RMB744,133,000 as set out in Appendix I to this prospectus after deducting goodwill of approximately RMB14,956,000.

2. The estimated net proceeds from the Global Offering are based on 250,000,000 shares at the Offer Price of lower limit and upper limit of HK$2.18 and HK$2.90 per Share, respectively, after deduction of estimated related fees and expenses and do not take into account of any Share that may be issued pursuant to the exercise of the Over-allotment Option.

3. The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company per Share has been arrived at after making the adjustments referred to in this section and on the basis of a total of 1,000,000,000 Shares in issue immediately following completion of the Global Offering. It does not take into account of any Share which may be issued upon exercise of the Over-allotment Option.

4. The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company per Share are converted into Hong Kong Dollars at an exchange rate of RMB0.88 to HK$1.00.

5. By comparing the valuation of our property interests as set out in Appendix IV to this prospectus the net valuation surplus is approximately RMB69.4 million as compared to the carrying amounts of the Group's property interests as of 31 March 2010, which has not been included in the above consolidated net tangible assets attributable to owners of our Company. The valuation surplus of our property interests will not be incorporated in our consolidated financial statements for the six-month period ending 30 June 2010. If the valuation surplus were to be included in our consolidated financial statements, an additional depreciation charge of approximately RMB2,934,000 per annum would be incurred.

DIVIDEND AND DIVIDEND POLICY

The recommendation of the payment of dividend is subject to the discretion of the Board, and, after the Listing, any declaration of final dividend for the year will be subject to the approval of the Shareholders. On 30 May 2007, Chaowei Power declared dividend in the total amount of RMB23,480,000 to its shareholders and the dividend was paid in October 2007. On 5 March 2010, Chaowei Power declared dividend in the total amount of RMB65,000,000 to its shareholders and had paid RMB32,500,000 in April 2010. The remaining RMB32,500,000 will be paid in the second half of 2010. Our Directors may recommend a payment of dividend in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of the dividend will be subject to our constitutional documents and the Cayman Islands Companies Law, including the approval of the Shareholders of our Company. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

Future dividend payments will also depend upon the availability of dividends received from our subsidiary in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiary may also be restricted if it incurs debt or losses or pursuant to any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries and associated companies may enter into in the future.

Subject to the factors above, our Directors currently intend to recommend a distribution to all Shareholders in an amount representing not less than 30% of the profit and total comprehensive income attributable to the owners of our Company in each of the financial years following the Listing (that is, for the avoidance of doubt, for 2010 and thereafter) by way of dividend. Any dividend declared will be in Hong Kong dollars with respect to our Shares on a per share basis, and our Company will pay such dividend in Hong Kong dollars. Our Directors believe that our dividend policy mentioned above will not adversely affect the working capital position of our Group.

DISTRIBUTABLE RESERVES

We had no reserves available for distribution to the Shareholders of our Company as of the Latest Practicable Date.

PROPERTY INTERESTS

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued the property interests attributable to us, as of 31 March 2010 at approximately RMB318.1 million. The text of its letter, summary of valuation and valuation certificates are set out in "Appendix IV – Property Valuation" to this prospectus.

Property interests include the land use rights to the parcels of land and the building ownerships of the completed buildings, the structures and the buildings under construction.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 31 March 2010 being the date to which our latest audited financial statements were prepared.

DISCLOSURE UNDER CHAPTER 13 OF THE HONG KONG LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, there are no circumstances which would give rise to a disclosure obligation under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.