

INTRODUCTION

We have approximately 18 years experience in the lead-acid motive battery products industry and have therefore developed our own production know-how in the production process and the use of the lead alloy in producing electrode plates. This production know-how enables us to improve the quality of our lead-acid motive battery products for a longer life-cycle time with enhanced voltage output.

We divide our target market into primary and secondary markets. To enable us to serve both markets, we have established a network of sales representatives and exclusive distributors.

In the primary market, we sell our lead-acid motive battery products to manufacturers of electric bikes as part of the components for their products. We also supply them with specialised electric chargers, controllers and motors for use with their electric bikes.

In the secondary market, because rechargeable battery products have a limited life, we sell our battery products and other products to dealers of electric bikes, batteries and accessories for sale as replacements through our exclusive distributors.

ZHEJIANG CHANGXING STORAGE BATTERY FACTORY

Our business may be traced as originated from the business of Zhejiang Changxing Storage Battery Factory (浙江長興蓄電池廠) (“**Changxing Battery**”), a collectively-owned enterprise established by the Villagers’ Commission of Louxia Village in Meishan Town (the “**Commission**”) in 1986 in Meishan Town, Changxing County, Zhejiang Province, China. Changxing Battery was principally engaged in the production of electrode plates and storage ignition battery products for motorcycles. Mr. ZHANG Tianren, our executive Director, was the factory manager of Changxing Battery since 1989. The Commission and Mr. ZHANG Tianren entered into an agreement pursuant to which the Commission leased all the factory premises, machinery and equipment of Changxing Battery to Mr. ZHANG Tianren in 1995. During the term of the lease, Mr. ZHANG Tianren was responsible for all liabilities and debts of Changxing Battery. Pursuant to the agreement, Mr. ZHANG Tianren had an option to purchase all the assets of Changxing Battery upon the expiry of the lease period. Changxing Battery was subsequently sold to Mr. ZHANG Tianren for a total consideration of RMB600,000 and converted into a private enterprise wholly-owned by Mr. ZHANG Tianren in June 2002. As Changxing Battery was not a limited liability company, Tianneng Battery was incorporated to take over the business, assets and liabilities of Changxing Battery in March 2003. Changxing Battery was then dissolved in September 2006.

TIANNENG POWER

Electric bikes were first introduced in China market in the early 1990s and they gained popularity as a convenient and affordable means of transportation. In light of the growing market for electric bikes in China, in March 1998, Tianneng Power was established for the production of lead-acid motive battery products for electric bikes. At the time of its establishment, Tianneng Power was owned by Changxing Battery, Mr. ZHANG Tianren, Mr. ZHANG Kaihong (who is an executive Director), Mr. SHI Borong (who is an executive Director), Mr. ZHANG Zengquan (who is the cousin of Mr. ZHANG Tianren and Mr. ZHANG Aogen), Mr. YANG Huanrong (who is the husband of the elder sister of Mr. ZHANG Tianren and Mr. ZHANG Aogen), Mr. LI Jinxing (who is the husband of the sister-in-law of Mr. ZHANG Tianren), Mr. YANG Huiqiang (who is the son of Mr. YANG Huanrong and the nephew of Mr. ZHANG Tianren and Mr. ZHANG Aogen) and Mr. YANG Lianming (who is an executive Director). Changxing Battery held 70 per cent., Mr. ZHANG Tianren, Mr. ZHANG Zengquan, Mr. YANG Huanrong, Mr. LI Jinxing, Mr. YANG Huiqiang and Mr. YANG Lianming each held four per cent. and Mr. ZHANG Kaihong and Mr. SHI Borong each held three per cent. of the total equity interests in Tianneng Power. Each of Mr. ZHANG Tianren, Mr. ZHANG Kaihong, Mr. SHI Borong, Mr. ZHANG Zengquan, Mr. YANG Huanrong and Mr. YANG Lianming is currently the sole shareholder of Prime Leader Global Limited, Plenty Gold Holdings Limited, Precise Asia Global Limited, Oriental Best Trading Limited, Glorious Crest Limited and Success Zone Limited, respectively, which are the Existing Shareholders. Tianneng Power started the production and sale of lead-acid motive battery products under our “TIANNENG (天能)” brand name and “天能” trademark. As sales of lead-acid motive battery products grew substantially, Tianneng Power focused on the production of lead-acid motive battery products since 1998.

In 1999 and 2000, Tianneng Power was appointed as the exclusive supplier of the National Electric Bike Competition in China. As the official sponsor in 1999 and 2000, Tianneng Power provided the lead-acid motive battery products for the electric bikes participating in the competition.

In August 2000, the registered capital of Tianneng Power was increased from RMB1 million to RMB3 million which was fully paid. Tianneng Power was owned by Changxing Battery, Mr. ZHANG Tianren, Mr. ZHANG Kaihong, Mr. SHI Borong, Mr. ZHANG Zengquan, Mr. YANG Huanrong, Mr. LI Jinxing, Mr. YANG Huiqiang, Mr. YANG Lianming, Mr. ZHANG Aogen (who is an executive director and the sole shareholder of Top Benefits International Limited, an Existing Shareholder), Mr. ZHANG Shuiquan (who is the brother of Mr. ZHANG Zengquan and the cousin of Mr. ZHANG Tianren and Mr. ZHANG Aogen) and Mr. HU Jianqiang (who was then an employee of Changxing Battery and is currently an assistant supervisor of Tianneng Jiangsu). Changxing Battery held 90 per cent., Mr. ZHANG Tianren, Mr. ZHANG Kaihong and Mr. SHI Borong each held 1.33 per cent., Mr. ZHANG Zengquan, Mr. YANG Huanrong, Mr. LI Jinxing, Mr. YANG Lianming and Mr. ZHANG Aogen each held one per cent. and Mr. YANG Huiqiang, Mr. ZHANG Shuiquan and Mr. HU Jianqiang each held 0.33 per cent. of the total equity interests in Tianneng Power. Following the

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takeover of the business, assets and liabilities of Changxing Battery by Tianneng Battery, in May 2003, Changxing Battery transferred its 90 per cent. equity interest in Tianneng Power to Tianneng Battery for a total consideration of RMB2.7 million, being 90 per cent. of the registered capital of Tianneng Power, and the other shareholders of Tianneng Power transferred their respective equity interests in Tianneng Power to Ms. ZHANG Meier (the sister of Mr. ZHANG Tianren) for a total consideration of RMB0.3 million, being 10 per cent. of the registered capital of Tianneng Power, which were negotiated on an arm's length basis.

In May 2005, Ms. ZHANG Meier transferred her 10 per cent. equity interest in Tianneng Power to Tianneng Electronic for a total consideration of RMB0.3 million, being 10 per cent. of the registered capital of Tianneng Power. As at the Latest Practicable Date, Tianneng Battery held 90 per cent. and Tianneng Electronic held 10 per cent. equity interest in Tianneng Power.

TIANNENG RECYCLE

In May 1999, Tianneng Recycle was established by Changxing Battery as to 60 per cent. and Tianneng Power as to the remaining 40 per cent. of its equity interest. Tianneng Recycle was principally engaged in the recycling and sale of used storage lead-acid motive battery products. Pursuant to completion of the transfer of business, assets and liabilities of Changxing Battery to Tianneng Battery, Tianneng Battery was interested in 60 per cent. of the equity interest of Tianneng Recycle. As at the Latest Practicable Date, Tianneng Battery held 60 per cent. and Tianneng Power held 40 per cent. equity interest in Tianneng Recycle.

TIANNENG BATTERY

In March 2003, Tianneng Battery was established by Mr. ZHANG Tianren as to 90 per cent. and Ms. ZHANG Meier as to the remaining 10 per cent. of its equity interest. As Changxing Battery was not a limited liability company, Tianneng Battery was established for the purpose of taking over the business, assets and liabilities of Changxing Battery. Such transfer was completed in May 2003. As an appreciation for the contribution of the employees and an encouragement for further advancement, Mr. ZHANG Tianren, in June 2003, transferred his 26.3 per cent. equity interest in Tianneng Battery to (a) Mr. ZHANG Kaihong as to 5.7 per cent., (b) Mr. ZHANG Aogen as to 4.2 per cent., (c) Mr. SHI Borong as to 5.3 per cent., (d) Mr. GAO Xinkun (who is the sole shareholder of Super View Investments Limited, an Existing Shareholder) as to 2.1 per cent., (e) Mr. CHEN Minru as to 1.5 per cent., (f) Mr. HU Shijin as to 1.5 per cent., (g) Mr. YANG Lianming as to 1.5 per cent., (h) Mr. ZHANG Zengquan as to 1.5 per cent., (i) Mr. SHE Rensong as to one per cent., (j) Mr. ZHOU Jianzhong as to one per cent. and (k) Mr. YANG Huanrong as to one per cent., at RMB7.12 per share for a total consideration of RMB18.725 million. Such consideration was determined on arm's length basis and was fully settled.

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In June 2004, Ms. ZHANG Meier transferred 10 per cent. equity interest in Tianneng Battery to Mr. ZHANG Tianren as to five per cent. and Mr. RUAN Mansheng (who is the sole shareholder of Easy Express Limited, an Existing Shareholder) as to five per cent. for a total consideration of RMB7.12 million. Such consideration was determined based on arm's length basis.

In March 2005, Tianneng Battery established an electrical appliance manufacturing branch company in Changxing County which is principally engaged in the manufacture and sale of accessories for electric bikes such as chargers, controllers and motors.

TIANLI BATTERY

Tianli Battery was established in 2001 by Independent Third Parties and was engaged in the production of electrode plates and storage battery products. In order to increase the production capacity within a short period of time and at a lower cost, Changxing Battery acquired 58 per cent. of the registered capital of Tianli Battery by way of subscribing for the increased registered capital of Tianli Battery in September 2002. Nevertheless, Changxing Battery disposed of its 58 per cent. of the registered capital of Tianli Battery to our Shareholders of Tianli Battery in March 2003 as it was unable to reach consensus with the other shareholders of Tianli Battery in respect of the expansion, reformation and improvement of the production facilities which were deficient at that time. The then shareholders of Tianli Battery did not have sufficient financial resources to continue the operation of Tianli Battery, and in April 2003, Tianneng Battery purchased 79.42 per cent. equity interest in Tianli Battery from a then shareholder of Tianli Battery, an Independent Third Party for cash consideration of RMB3,025,200. At the same time, Zhejiang Changtong purchased the remaining 20.58 per cent. equity interest in Tianli Battery. Our Directors including Mr. ZHANG Tianren, Mr. ZHANG Aogen, Mr. ZHANG Kaihong, Mr. SHI Borong, Mr. CHEN Minru and a former director of Tianneng Battery, namely Mr. GAO Xinkun were then appointed as directors of Tianli Battery.

On 6 November 2003, Changxing Environmental Protection Bureau notified Tianli Battery that pursuant to an examination of the production facilities of Tianli Battery conducted on 29 September 2003, Tianli Battery did not have the required environmental protection facilities and as such, a fine of RMB48,000 was imposed and that the production activities were required to suspend until passing another examination. On 8 December 2003, Changxing Environmental Protection Bureau further notified Tianli Battery that pursuant to an examination of Tianli Battery conducted on 20 November 2003, the required facilities of Tianli Battery for environmental protection were established, Tianli Battery was therefore allowed to commence trial production and would be allowed to commence official production after passing a full examination on compliance of environmental protection.

After further assessment of the issues in respect of and the resources required for the full reformation of the facilities of Tianli Battery, we decided not to proceed with the reformation but dispose of our equity interest in Tianli Battery. We sold all our equity interest in Tianli Battery to Mr. NI Danqing, a brother-in-law of Mr. ZHANG Tianren, in November 2004 for cash consideration of RMB5.73 million which was based on the net asset value of Tianli Battery as at 31 October 2004. Mr. NI Danqing was the only willing buyer of Tianli Battery at that time. Pursuant to the transfer agreement, Mr. NI Danqing acquired the equity interest of Tianli Battery from 1 November 2004.

TIANNENG ELECTRONIC

In March 2004, we started the research and development of Ni-MH battery products. In July 2004, upon substantially completing our research and development, Tianneng Electronic was established by Tianneng Battery as to 90 per cent. and Zhejiang Changtong as to the remaining 10 per cent. of its equity interest. Tianneng Electronic established a new production plant in Zhicheng Town, Changxing County, Zhejiang Province, the PRC and started commercial production of Ni-MH battery products in June 2005. In May 2005, Zhejiang Changtong transferred its 10 per cent. equity interest in Tianneng Electronic to Tianneng Power for a consideration of RMB500,000, being 10 per cent. of the registered capital of Tianneng Electronic which was fully paid. As at the Latest Practicable Date, Tianneng Battery held 90 per cent. and Tianneng Power held 10 per cent. equity interest in Tianneng Electronic.

TIANNENG JIANGSU

In May 2005, Tianneng Jiangsu was established by Tianneng Battery as to 60 per cent. and Tianneng Power as to the remaining 40 per cent. of its equity interest. Tianneng Jiangsu is engaged in the production of electrode plates and lead-acid motive battery products. Tianneng Jiangsu established a new production plant in Shuyang County Economic Development Zone, Jiangsu Province, the PRC, the trial and commercial production of which commenced in August 2006 and January 2007, respectively. As at the Latest Practicable Date, Tianneng Battery held 60 per cent. and Tianneng Power held 40 per cent. equity interest in Tianneng Jiangsu.

TIANNENG TRANSPORT

In May 2005, Tianneng Transport was established by Tianneng Power as to 90 per cent. and Tianneng Electronic as to the remaining 10 per cent. of its equity interest. Tianneng Transport is engaged in the transportation of our lead-acid motive battery products to our customers. Tianneng Transport was granted licence to provide such transportation in May 2005. As at the Latest Practicable Date, Tianneng Power held 90 per cent. and Tianneng Electronic held 10 per cent. equity interest in Tianneng Transport.

TIANNENG WUHU

In October 2005, Tianneng Wuhu was established by Tianneng Battery as to 90 per cent. and Tianneng Power as to the remaining 10 per cent. of its equity interest. Tianneng Wuhu is principally engaged in the production of electrode plates. Tianneng Wuhu established a new production plant in Wuhu, Anhui Province, the PRC and commenced commercial production in July 2006. All the electrode plates currently produced by Tianneng Wuhu are used for the production of lead-acid motive battery products at our production plants. As at the Latest Practicable Date, Tianneng Battery held 90 per cent. and Tianneng Power held 10 per cent. equity interest in Tianneng Wuhu.

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XINTIAN REAL ESTATES

In November 2005, Xintian Real Estates was established by Tianneng Battery as to 80 per cent. and Tianneng Power as to the remaining 20 per cent. of its equity interest. Xintian Real Estates was principally engaged in real estate development. As Xintian Real Estates does not form part of our core business, it was dissolved in August 2006.

TIANNENG BVI

Our Company was established in November 2004 and owned by the Existing Shareholders in proportion to their respective shareholdings in Tianneng Battery. Tianneng BVI was established in November 2004 as our wholly-owned subsidiary. Tianneng BVI then entered into an agreement dated 2 December 2004 with the Existing Shareholders to acquire their respective ownership interests in Tianneng Battery for aggregate cash consideration of RMB74,945,105.68 (equivalent to approximately US\$9,608,346), based on the net asset value of Tianneng Battery as at 31 December 2003, which was fully paid. After completion of the acquisition, Tianneng Battery was converted into a wholly foreign-owned enterprise on 14 December 2004.

SUBSCRIPTION AGREEMENT

On 29 November 2004, the Existing Shareholders, the Existing Individual Shareholders, our Company, Power Active and Prax Capital entered into the Subscription Agreement pursuant to which our Company agreed to issue the Redeemable Convertible Notes to Power Active and Prax Capital at a subscription price of US\$6,333,333 and US\$3,166,667 respectively, and the Existing Shareholders agreed to issue the Exchangeable Notes to Power Active and Prax Capital at a purchase price of US\$1,666,667 and US\$833,333 respectively. The issue of the Redeemable Convertible Notes were made in December 2004 and the issue of Exchangeable Notes were made in January 2005 and September 2006.

Power Active is a wholly-owned subsidiary of New World Liberty. The investment objective of New World Liberty is to achieve medium to long-term capital appreciation by making investments in companies situated in, or which conduct their business primarily in China. New World Liberty intends to meet its investment objective by investing in companies that have excellent potential for growth, are likely to benefit from the anticipated reforms in China or are likely to benefit from improvements in management and technology.

Prax Capital is a private equity fund established by PraxCapital GP I, which is a company incorporated in the Cayman Islands and an independent private equity firm, together with other 55 investors. PraxCapital GP I is a U.S. private equity house that invests in China growth companies in traditional sectors and acts as the manager of Prax

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Capital. The management team of PraxCapital comprises four individuals who are also the ultimate beneficial owners of PraxCapital GP I. Prax Capital assists companies by providing long-term capital to companies with high growth potential in non-cyclical industries with a strong manufacturing component.

All the ultimate beneficial owners and/or beneficiaries of Power Active, Prax Capital and PraxCapital GP I are Independent Third Parties.

It was agreed in the Subscription Agreement that the proceeds arising from the issue of the Redeemable Convertible Notes were used by our Company in accordance with the following use of proceeds plan as set out in the Subscription Agreement:—

- (1) US\$9,200,000 for the purchase by Tianneng BVI of the entire shareholding of the Existing Shareholders in Tianneng Battery, which will be further applied for the following usage:
 - (i) US\$1,000,000 for the implementation of the environmental improvement plans and the improvement of workers' safety and health procedures and relevant management practice;
 - (ii) US\$1,600,000 for the expansion of production facilities of Tianneng Battery and Tianneng Power for lead-acid battery production;
 - (iii) US\$2,000,000 for establishment and development of Tianneng Electronic and its production facilities;
 - (iv) US\$3,000,000 for the establishment of a new production base in Jiangsu Province; and
 - (v) US\$1,600,000 for payment of various taxes and duties arising from the Reorganisation, and if any amounts of such tax or duties is waived in whole/ in part by the relevant PRC authorities, all such waived amounts shall be for the credit of the Group, and shall be credited to the Group promptly upon receipt.
- (2) US\$300,000 for the purchase by Tianneng BVI of the 10 per cent. minority interest in Tianneng Electronic and Tianneng Power held by Zhejiang Changtong and Ms. ZHANG Meier, respectively.

In accordance with their undertaking to Power Active and Prax Capital in the Subscription Agreement, the Existing Shareholders paid the entire amount of the consideration they received from Tianneng BVI for the acquisition of their respective ownership interests in Tianneng Battery to our Company by way of gift.

The Subscription Agreement was supplemented by the Supplemental Deeds. Pursuant to the Subscription Agreement (as amended by the Supplemental Deeds), if the audited net asset value of Tianneng Battery as at 31 December 2004 was less than the

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warranted net asset value of RMB140 million, the consideration of the Exchangeable Notes should be adjusted by the difference between RMB140 million and the audited net asset value of Tianneng Battery as at 31 December 2004. In addition, the Investors have an option to adjust the conversion price of the Redeemable Convertible Notes or to receive additional Shares if the audited profits after tax of Tianneng Battery is less than the guaranteed profits after tax of HK\$96 million for the year ended 31 December 2004.

Pursuant to the Subscription Agreement, each of Power Active and Prax Capital was also granted with a put option pursuant to which, if our Company is not successful in implementing a qualified initial public offering by 30 June 2007 (or such later date as agreed by Power Active and Prax Capital (the “**Option Extended Date**”)), Power Active and Prax Capital shall each have the right to require either or both of our Company and all or any of the Existing Individual Shareholders to immediately repurchase all, or any, of the conversion shares under the Redeemable Convertible Notes and/or the sale shares under the Exchangeable Notes from Power Active and Prax Capital which shall be exercisable within the period between 1 July 2007 to 30 June 2008 (inclusive of both dates) within 365 days from the Option Extended Date (whichever is applicable).

On 23 May 2007, Power Active, Prax Capital and our Company entered into the seventh supplemental deed pursuant to which Power Active, Prax Capital and our Company agreed to cancel the abovementioned put options of the Subscription Agreement. Save for the aforesaid, there are no other rights granted to Power Active and/or Prax Capital under the Subscription Agreement which are not afforded to other Shareholders.

Detailed terms of the Redeemable Convertible Notes, the Exchangeable Notes, and the aforesaid put option were set out under the paragraph headed “Terms and Conditions of the Exchangeable Notes and the Redeemable Convertible Notes” in appendix VI to this prospectus.

The Redeemable Convertible Notes and the Exchangeable Notes were converted and exchanged into 739,100 Shares and 194,500 Shares, respectively, in September 2006 at a conversion price and an exchange price of HK\$100 per Share in accordance with the Subscription Agreement. In addition, the audited profits after tax of Tianneng Battery was less than the guaranteed profits set out in the Subscription Agreement, an aggregate of 105,339 additional Shares were issued to the Investors upon the conversion of the Redeemable Convertible Notes and hence, the effective conversion price of the 844,439 Shares in aggregate under the Redeemable Convertible Notes was HK\$87.53 per Share.

As a result of the conversion of the Redeemable Convertible Notes and the exchange of the Exchangeable Notes into Shares, Power Active and Prax Capital became the holders of 13.08 per cent. and 6.54 per cent. of the Shares in issue immediately before completion of the Share Offer and the Capitalisation Issue, which will be diluted to 6.47 per cent. and 3.24 per cent. respectively, following completion of the Share Offer and the Capitalisation Issue (assuming that the Over-allocation Option is not exercised). The effective cost per Share for the total shares converted and exchanged amounts to HK\$0.63 per Share, which is a 57 per cent. discount to the lower end of the Offer Price of HK\$1.48 per Share.