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HONG KONG RESEARCH

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## Main Board Listing – Research

### 超威動力控股有限公司

Chaowei Power Holdings Limited [Stock Code: 00951]

**Sponsor, Global Coordinator, Bookrunner  
and Lead Manager**

: BNP Paribas Capital (Asia Pacific)

**Sector** : Auto Components

**Business** : A leading lead-acid motive battery manufacturer in electric bike market in China

<p><b>Total share offer:</b> <u>250,000,000</u> shares (25% of the enlarged share capital)</p> <p><b>Public Offer:</b> 25,000,000 shares (10%)</p> <p><b>Placing:</b> 225,000,000 shares (90%)</p> <p><b>Greenshoe:</b> 37,500,000 shares (15%)</p>	<p><b><u>Business of Chaowei Power (“Chaowei” or “the Company”)</u></b></p>
<p><b>Price:</b> HK\$2.18 – HK\$2.90 per share</p> <p><b>Market Cap:</b> HK\$2,180 million – HK\$2,900 million</p> <p><b>Adjusted NTA per share:</b> HK\$1.31 – HK\$1.48</p> <p><b>Staffing:</b> 9,727 (as of 31<sup>st</sup> March 2010)</p>	<p>Chaowei Power is a leading lead-acid motive battery manufacturer in the electric bike market in China, with market share of 18.3% in 2009. Besides, the Company also produces lead-acid motive batteries for electric cars as well as storage batteries for wind and solar energy.</p>
<p><b>HK Public Offer period:</b> 24<sup>th</sup> June 2010 – 29<sup>th</sup> June 2010 noon</p> <p><b>Receiving banks:</b> Standard Chartered Bank</p> <p><b>Share registrar:</b> Computershare Hong Kong Investor Services</p> <p><b>Listing date:</b> 7<sup>th</sup> July 2010</p>	<p>As of 31<sup>st</sup> March 2010, Chaowei established one of the largest nationwide electric bike motive battery distribution networks, with 421 independent distributors who distributed its lead-acid motive batteries on an exclusive basis. They were strategically located across the Company’s 15 sales regions, covering both of its primary and secondary markets. The Company’s primary market focuses on the supply of products to electric bike manufacturers such as Jiangsu Yadea Technical Development Company Limited, AUCMA (Yi Nan) New Energy Electric Vehicles Company Limited, and Shandong Bidewen Power Technology Company Limited, which are independent third parties, whilst its secondary market focuses on the replacement battery market for electric bikes.</p> <p>The Company’s production plants are strategically located in the provinces of Zhejiang (浙江), Jiangsu (江蘇), Shandong (山東), Henan (河南) and Anhui (安徽).</p>

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### Shareholders after Listing (Assuming the over-allotment option is not exercised)

Great State, wholly owned by Mr. Zhou Mingming (Chairman of the Company)	34.56%
Castle Lead, wholly owned by Hony Capital and was a special purpose company incorporated for the purpose of investing in the Company, where Legend Holdings Limited, the controlling shareholders of Lenovo Group, is the single largest investor of Hony Capital.	15.00%
Other shareholders*	25.44%
Public shareholders	25.00%
	100.00%

Remark: (\*) Jolly Pride, owned by Mr. Zhou Mingming (7.14%); High Joy, owned by Mr. Zhou Longrui (the father of Mr. Zhou Mingming, 3.62%); Shiny Century, owned by Ms. Yang Yunfei (the mother of Mr. Zhou Mingming, 3.62%); Wide Fame owned by Mr. Gao Xinkun (senior management team member of the Company, 1.1%); and companies owned by independent third parties (9.97%).

### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$560.3 million (based on an offer price of HK\$2.54, being the mid-point of the indicative price range and assuming the over-allotment option is not exercised)

	HK\$ million
For expansion of production capabilities	308.2
For acquisition(s) of other motive battery manufacturers	112.1
For enhancement of the Company's research and development activities	56.0
For promotion and strengthening of the Company's "Chilwee 超威" brand-name	28.0
For working capital and general corporate purposes	56.0

### Financial Highlights

	Year ended 31 <sup>st</sup> December			Three months ended	
	2007	2008	2009	31 <sup>st</sup> March 2009	31 <sup>st</sup> March 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,466,108	2,316,911	2,433,889	562,610	710,548
Gross profit	332,456	481,886	704,003	172,431	181,238
Operating profit	131,942	205,234	293,286	75,292	97,622
<b>Comprehensive income attributable to shareholders</b>	<b>84,223</b>	<b>128,107</b>	<b>201,912</b>	<b>48,010</b>	<b>74,045</b>
Gross profit margin	22.7%	20.8%	28.9%	30.6%	25.5%
Operating profit margin	9.0%	8.9%	12.1%	13.4%	13.7%
Net profit margin	5.7%	5.5%	8.3%	8.5%	10.4%

### Breakdown of revenues by business segment

	FY2007		FY2008		FY2009		3MFY2009		3MFY2010	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Lead-acid motive batteries for electric bikes	1,297,694	88.5%	2,051,324	88.5%	2,335,835	96.0%	520,257	92.5%	690,531	97.2%
Lead-acid motive batteries for electric cars and storage batteries	5,656	0.4%	9,401	0.4%	5,752	0.2%	475	0.1%	1,633	0.2%
Materials <sup>^</sup>	106,188	7.2%	242,791	10.5%	92,302	3.8%	41,878	7.4%	18,384	2.6%
Electrode plates	56,570	3.9%	13,395	0.6%	-	0.0%	-	0.0%	-	0.0%
<b>Total</b>	<b>1,466,108</b>	<b>100.0%</b>	<b>2,316,911</b>	<b>100.0%</b>	<b>2,433,889</b>	<b>100.0%</b>	<b>562,610</b>	<b>100.0%</b>	<b>710,548</b>	<b>100.0%</b>

Remarks: (^) Including lead and active additives

**Peer valuation comparison**

	<b>Chaowei Power (00951)</b>		<b>Tianneng Power (00819)</b>		<b>BYD Company (01211)</b>	
	FY2009	FY2010E	FY2009	FY2010E	FY2009	FY2010E
P/E ratio	10.80x –14.36x	N.A.	9.98x	10.70x	30.22x	22.05x

*Sources: Reuters***Strengths/Opportunities**

- ✓ Chaowei is expected to benefit from the strong growth potential in the lead-acid motive battery industry amid its industry leading position. Total sales of electric bike batteries in China is expected to grow to USD2.9 billion in 2011, representing a compound annual growth rate (CAGR) of 24.1% from 2009 to 2011. Meanwhile, the Company has estimated profit of not less than RMB113 million in 1H FY2010, compared with the profit of some RMB74 million in 1Q FY2010, representing a 52.7% quarterly growth in 2Q.
- ✓ The Company has started to produce new products (lithium ion and nickel hydroxide) which are believed to have long-term growth potential (as they are more environment-friendly) and can diversify the income stream of the Company.
- ✓ The Company plans to increase its production capacity through upgrade of its existing production facilities as well as construction of new production facilities. Its annual production capacity is estimated to increase to 53.7 million units in 2011 from 34.1 million units in 2009, representing a CAGR growth of 25.5%. Three new production facilities have been scheduled to be operated in Zhejiang, Henan and Anhui Provinces in Q1 2010 – Q1 2011.

**Weaknesses/Threats**

- × The Company may face continuous competition from both domestic and foreign new entrants who may be attracted by the strong growth potential in the lead-acid battery industry. This may threaten the Company's leading position in the sector.
- × The Company is too depended on sales of lead-acid motive battery products. Its operation performance would be adversely affected, should there be any unanticipated fluctuation in the conditions of the market for the products. These may include any price war and decrease in demand for lead-acid motive batteries.
- × The Company may be subject to additional stricter requirements or laws of the PRC government on environmental, health and safety concerns, resulting in higher capital expenditures and operating costs of the Company.
- × The Company's labor costs accounted for just 5.1% of the total costs of sales in 3MFY2010. Nevertheless, the Company's staff costs are likely to increase amid the recent wave of salary hikes in China, resulting in its near term profits squeezed. Additionally, the Company's business has highly affected by lead price. Compared with the same period last year, it registered some five percentage points lower in its gross profit margin in 3MFY2010 on higher lead price, despite there had been increased in the average selling price per battery. Tianneng Power, another manufacturer of motive battery products issued profit warning for its 1H results on significant higher lead price in the first five months of 2010, compared with the same period last year.

**Recommendation: Neutral**



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