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TIANNENG POWER INTERNATIONAL LIMITED

天能動力國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00819)

Interim results announcement for the six months ended 30 June 2009

FINANCIAL HIGHLIGHTS

- Revenue decreased by 23.5% to approximately RMB971.1 million
- Gross profit margin increased by 5.7 percentage points from 23.2% to 28.9%
- Profit attributable to shareholders increased by 4.4% to approximately RMB126.4 million
- Basic earnings per share increased by 4.1% to approximately RMB12.6 cents

INTERIM RESULTS

The board of directors (the "Board" or the "Directors") of Tianneng Power International Limited ("Tianneng" or the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2009, together with the comparative figures for the same period in 2008. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's independent external auditors and the audit committee of the Company (the "Audit Committee").

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	NOTES	Six months ended 30 June	
		2009	2008
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Turnover	3	971,095	1,269,875
Cost of sales		(690,856)	(975,283)
Gross profit		280,239	294,592
Other income	4	42,780	18,569
Selling and distribution costs		(86,792)	(76,458)
Administrative expenses		(43,379)	(39,963)
Research and development costs		(25,696)	(14,678)
Other operating expenses		(4,086)	(12,003)
Finance costs		(8,377)	(16,224)
Profit before taxation	5	154,689	153,835
Taxation	6	(28,322)	(32,796)
Profit and total comprehensive income for the period		126,367	121,039
Earnings per share	8		
– Basic		RMB12.6 cents	RMB12.1 cents
– Diluted		RMB12.6 cents	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

	NOTES	30.6.2009 RMB'000 (unaudited)	31.12.2008 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	666,014	593,512
Prepaid lease payments	9	36,790	37,203
Deferred tax assets	10	18,915	22,611
		<u>721,719</u>	<u>653,326</u>
Current assets			
Inventories		392,244	338,716
Bills, trade and other receivables	11	273,540	144,829
Prepaid lease payments	9	915	915
Restricted bank deposits	16	355,285	–
Bank balances and cash		546,400	530,408
		<u>1,568,384</u>	<u>1,014,868</u>
Current liabilities			
Bills, trade and other payables	12	323,887	233,524
Amount due to a related company		13	6
Taxation payable		10,577	6,802
Bank borrowings	13	640,000	171,580
		<u>974,477</u>	<u>411,912</u>
Net current assets		<u>593,907</u>	<u>602,956</u>
Total assets less current liabilities		<u>1,315,626</u>	<u>1,256,282</u>
Non-current liabilities			
Bank borrowings	13	20,000	20,000
		<u>1,295,626</u>	<u>1,236,282</u>
Capital and reserves			
Share capital	14	99,037	99,037
Reserves		1,196,589	1,137,245
Total equity		<u>1,295,626</u>	<u>1,236,282</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting ("HKAS 34") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group's interim financial information is presented in Renminbi ("RMB") which is also the functional currency of the Company.

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared under the historical cost basis.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by HKICPA, which are effective for the Group's financial year beginning on 1 January 2009.

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC)-Int 13	Customer loyalty programmes
HK(IFRIC)-Int 15	Agreements for the construction of real estate
HK(IFRIC)-Int 16	Hedges of a net investment in a foreign operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008 except for the application of HKAS 23 (Revised 2007) Borrowing Costs (see below).

HKAS 23 (Revised 2007) Borrowing Costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option available under the previous version of the Standard to recognise all borrowing costs as expenses immediately and requires borrowing costs to be capitalised as part of the cost of a qualifying asset. The revised accounting policy has been applied prospectively and does not have a material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no adjustment has been recognized.

HKAS 1 (Revised 2007) Presentation of financial statements and HKFRS 8 Operating Segments

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 Segment Reporting, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, segment information reported externally was regarded as single business segment and geographical segment. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments because the financial information provided to the executive director, the chief operating decision maker, does not contain profit or loss information of each product line and the executive directors reviewed the operating results of the Group as a whole. Therefore, the operation of the Group constitutes one single reportable segment. The adoption of the other new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKFRS 2 (Amendments)	Group cash-settled share-based payment ⁴
HKAS 27 (Revised in 2008)	Consolidated and separate financial statements ¹
HKAS 39 (Amendment)	Eligible hedged items ¹
HKFRS 3 (Revised in 2008)	Business combinations ¹
HK(IFRIC)-Int 17	Distributions of non-cash assets to owners ¹
HK(IFRIC)-Int 18	Transfers of assets from customers ³

1 Effective for annual periods beginning on or after 1 July 2009.

2 Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

3 Effective for transfers on or after 1 July 2009.

4 Effective for annual periods beginning on or after 1 January 2010.

The adoption of HKFRS 3 (Revised in 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised in 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group for the current or prior accounting periods.

In addition, the Group granted share options to the Directors and its employees for which the details are disclosed in the note 15 to the condensed consolidated financial statements. The accounting policy for the share-based payment transactions are summarized as below:

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

3. Turnover

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(unaudited)	(unaudited)
An analysis of turnover is as follows:		
Lead-acid battery products		
Electrical Bicycle Battery	903,784	1,228,710
Storage Battery	8,438	35
Pure Electric Car Battery	1,360	–
Battery for other usage	2,979	2,970
Nickel hydride battery products	17,512	22,480
Others	37,022	15,680
	<u>971,095</u>	<u>1,269,875</u>

4. Other Income

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Government grants (Note)	38,680	15,923
Interest income	3,279	2,532
Others	821	114
Total	<u>42,780</u>	<u>18,569</u>

Note: Government grants include various government subsidies received by the Group's subsidiaries granted by a number of government authorities including State Tax Bureau of Changxing County, Finance Bureau of Changxing County, Management Committee of Shuyang Economic Development Zone, Finance Bureau of Shuyang County, Comprehensive Service Bureau of Wuhu Economic and Technological Development Area to encourage capital investment and development of high-technology products; to encourage the Group to adopt energy saving measures and to provide incentives to employ handicapped workers. All government grants and subsidies were recognized at the time the Group met the relevant granting conditions, and the amount of subsidies set out above represents the actual amount of such grants and subsidies received by the Group during that period.

5. Profit Before Taxation

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Allowance for bad and doubtful debts	3,345	7,505
(Reversal of) allowance for inventories (Note)	(30,648)	170
Amortisation of prepaid lease payments	413	395
Depreciation of property, plant and equipment	23,078	16,008
Loss on disposal of property, plant and equipment	1	1,671

Note: During the year, there was a significant increase in the net realisable value of inventory due to the increased market demand. As a result, a reversal of allowance for inventories of RMB30,648,000 (1.1.2008 to 30.6.2008: nil) has been recognised and included in cost of sales in the current period.

6. Taxation

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(unaudited)	(unaudited)
The charge comprises:		
PRC Enterprise Income Tax	24,626	35,241
Deferred taxation (note 10)	3,696	(2,445)
	28,322	32,796

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in nor is derived from Hong Kong.

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable to the period ended 30 June 2008 and 30 June 2009.

Pursuant to the relevant laws and regulations in the PRC, the Company's subsidiary, Zhejiang Tianneng Battery Co., Ltd., is entitled to exemption from PRC Enterprise Income Tax for the two years commencing from 2005 and 50% reduction for the following three years.

According to the notice (Circular of the State Tax Bureau on the Pilot Project of Further Adjusting Tax Preferential Policies of Current Welfare Enterprise) dated 25 September 2006 issued by the Ministry of Finance People's Republic of China and State Tax Bureau, effective from 1 October 2006, Zhejiang Changxing Tianneng Power Supply Co., Ltd., as a welfare enterprise, was entitled to a tax benefit which a portion of its taxable profits, representing 200% of the salaries paid to staff with physical disability, would be exempted from the PRC Enterprise Income Tax under the Law of the People's Republic of China on Enterprise Income Tax by Order No. 63 of the President of the People's Republic of China which was promulgated on 16 March 2007.

7. Dividends

The Directors do not recommend an interim dividend for the six months period ended 30 June 2009 (1.1.2008 to 30.6.2008: nil).

The Directors declared a final dividend of RMB68,663,400 on 9 May 2009 for 2008, equivalent to approximately RMB0.07 per share based on 1,000,000,000 shares in issue as at 31 December 2008. During the period ended 30 June 2009, the Company paid RMB68,650,000 in respect of the 2008 final dividend to the entitled shareholders.

The Directors declared a final dividend of RMB60,439,080 on 19 April 2008 for 2007, equivalent to approximately RMB0.06 per share based on 1,000,000,000 shares in issue as at 31 December 2007. During the period ended 30 June 2008, the Company paid RMB57,730,000 in respect of the 2007 final dividend to the entitled shareholders.

8. Earnings Per Share

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings:		
Earnings for the purposes of calculating basic and diluted earnings per share	126,367	121,039
Number of shares:		
Weighted average number of ordinary shares for the purposes of calculating basic and diluted earnings per share (Note)	1,000,000,000	1,000,000,000

Note: The share options issued in the current period do not have a dilutive effect on earnings per share as the average market price of the shares for six months ended 30 June 2009 was lower than the adjusted exercise price of the share options after taking into account the effect of the unvested share options.

9. Movements in Property, Plant and Equipment and Prepaid Lease Payments

During the period, the Group disposed of certain plant and machinery with a carrying amount of RMB378,000 (1.1.2008 to 30.6.2008: RMB3,402,000) at a consideration of RMB377,000 (1.1.2008 to 30.6.2008: RMB1,731,000), resulting in a loss on disposal of RMB1,000 (1.1.2008 to 30.6.2008: RMB1,671,000).

The Group spent approximately RMB95,958,000 (1.1.2008-30.6.2008: RMB100,736,000) on additions of machinery and manufacturing plant in the PRC, in order to upgrade its manufacturing capabilities.

During the period, no additional prepaid lease payments in the PRC was paid by the Group (1.1.2008-30.6.2008: RMB2,429,000).

10. Deferred Taxation

The following are the major deferred tax assets recognised and movements thereon during the current and prior periods:

	Provision for inventories, trade and other receivables RMB'000	Accrued warranty fee RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008 (audited)	5,018	3,491	1,670	10,179
Credit to consolidated statement of comprehensive income for the period (note 6)	1,621	397	427	2,445
At 30 June 2008	6,639	3,888	2,097	12,624
At 1 January 2009 (audited)	11,591	6,545	4,475	22,611
Charge to consolidated statement of comprehensive income for the period (note 6)	(3,024)	(38)	(634)	(3,696)
At 30 June 2009	8,567	6,507	3,841	18,915

At 30 June 2009, the Group has deductible temporary differences of approximately RMB3,143,000 (31.12.2008: RMB3,987,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At 30 June 2009, the Group had unused tax losses of approximately RMB34,673,000 (31.12.2008: RMB29,144,000) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to unpredictability of future profit streams. Such unrecognised losses will expire at various dates up to and including 2014 (31.12.2008: 2013).

11. Bills, Trade and Other Receivables

	30.6.2009 RMB'000 (unaudited)	31.12.2008 RMB'000 (audited)
Bills receivables	57,673	72,453
Trade receivables	74,197	53,298
Advance to suppliers	100,653	5,897
Other receivables	41,017	13,181
	<u>273,540</u>	<u>144,829</u>

The Group allows an average credit period of 180 days for bills receivables. The following is an aged analysis of bills receivables at the balance sheet date:

	30.6.2009 RMB'000 (unaudited)	31.12.2008 RMB'000 (audited)
0 to 180 days	57,673	71,869
181 to 365 days	–	584
	<u>57,673</u>	<u>72,453</u>

Payment terms with customers are mainly on credit. The Group allows an average credit period of 45 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	30.6.2009 RMB'000 (unaudited)	31.12.2008 RMB'000 (audited)
0-45 days	52,400	30,557
46-90 days	10,996	8,605
91-180 days	5,871	7,424
181-365 days	4,921	6,712
Over-2 years	9	–
	<u>74,197</u>	<u>53,298</u>

12. Bills, Trade and Other Payables

	30.6.2009 RMB'000 (unaudited)	31.12.2008 RMB'000 (audited)
Trade payables	93,413	82,640
Bills payables	46,785	–
Other payables and accrued charges	183,689	150,884
	<u>323,887</u>	<u>233,524</u>

The following is an aged analysis of trade payables at the balance sheet date:

	30.6.2009 RMB'000 (unaudited)	31.12.2008 RMB'000 (audited)
0-90 days	70,251	68,267
91-180 days	14,153	9,769
181-365 days	3,577	2,209
1-2 years	1,337	1,196
Over 2 years	4,095	1,199
	<u>93,413</u>	<u>82,640</u>

The following is an aged analysis of bill payables at the balance sheet date:

	30.6.2009 RMB'000 (unaudited)	31.12.2008 RMB'000 (audited)
0-180 days	<u>46,785</u>	<u>–</u>

13. Bank Borrowings

	30.6.2009 RMB'000 (unaudited)	31.12.2008 RMB'000 (audited)
Secured	430,000	100,580
Unsecured	230,000	91,000
	<u>660,000</u>	<u>191,580</u>
Carrying amounts repayable:		
On demand or within one year	640,000	171,580
More than one year, but not exceeding two years	20,000	20,000
	<u>660,000</u>	<u>191,580</u>
Less: Amount due within one year shown under current liabilities	<u>(640,000)</u>	<u>(171,580)</u>
	<u>20,000</u>	<u>20,000</u>

The bank borrowings at 30 June 2009 and 31 December 2008 are denominated in RMB and carry fixed interest rates ranging from 4.37% to 6.93% and 4.86% to 7.56% per annum, respectively.

14. Share Capital

	Number of shares	Amount RMB'000
Ordinary shares of the Company with nominal value of HK\$0.10 each		
Authorised:		
At 1 January 2008, 31 December, 2008, 1 January 2009 and 30 June 2009	<u>2,000,000,000</u>	<u>212,780</u>
Issued and fully paid:		
At 1 January 2008, 31 December, 2008, 1 January 2009 and 30 June 2009	<u>1,000,000,000</u>	<u>99,037</u>

15. Share Options

The Company has a share option scheme (the "Scheme") for eligible Directors, eligible employees of the Group and other selected participants. According to the terms of the Scheme, the consideration for the grant of the options should be HK\$1.00. The options may be exercised in accordance with the terms of the Scheme at any time during the exercise period as determined by the Board which shall in any event not be more than ten years from the date of grant. Share options are vested over a period of time up to a maximum of four years after the first anniversary of the date of grant.

All holders of options granted under the Scheme may only exercise their options in the following manner:

<u>Maximum percentage of options exercisable</u>	<u>Vesting period</u>
10% of the options	Upon the first anniversary of the date of grant
Additional 20% of the options	Upon the second anniversary of the date of grant
Additional 30% of the options	Upon the third anniversary of the date of grant
Additional 40% of the options	Upon the fourth anniversary of the date of grant

Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at 1 January 2009	–
Granted to directors and employees during the period	<u>35,310,000</u>
Outstanding at 30 June 2009	<u><u>35,310,000</u></u>

The closing price of the Company's shares immediately before 30 March 2009, the date of grant of the options was HK\$1.22 (equivalent to approximately RMB1.08) and the total estimated fair value of the share options granted on that date was HK\$18,744,000 (equivalent to approximately RMB16,593,000).

Details of the fair value of the share options determined at the date of grant on 30 March 2009 using the Binomial option pricing model ("Binomial model") are with the following inputs and based on the respective vesting period of the share options:

	30 March 2009
Stock price as at grant date	HK\$1.22
Exercise price	HK\$1.22
Expected volatility	64%
Expected life of options	7.9 years
Risk free rate	1.852%
Expected dividend yield	4.02%
Sub-optimal exercise factor for directors/ senior management/employees	2/2/1.5

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

During the period, the Group recognised total expenses of RMB1,640,000 (1.1.2008 to 30.6.2008: nil) in relation to share options granted by the Company.

16. Pledge of Assets

At the balance sheet date, the Group has pledged the following assets to secure the general banking facilities and bank borrowings granted to the Group.

	30.6.2009 RMB'000 (unaudited)	31.12.2008 RMB'000 (audited)
Bank deposits	355,285	–
Bills receivables	–	5,580
Property, plant and equipment	65,998	120,513
Prepaid lease payments	26,588	21,977
	<u>447,871</u>	<u>148,070</u>

17. Capital Commitments

	30.6.2009 RMB'000 (unaudited)	31.12.2008 RMB'000 (audited)
Capital expenditure in respect of the acquisition of property, plant and equipment:		
Contracted for but not provided in the financial statements	<u>119,954</u>	<u>72,407</u>

18. Related Party Transactions

During the period, the Group had the following significant transactions with its related companies:

Name of related company	Nature of transaction	Six months ended 30 June	
		2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Zhejiang Changxing Xin Xin Packaging Co., Ltd.	Purchase of consumables	145	231
Zhejiang Changtong Electric Bicycle Co., Ltd.	Sales of storage battery and other products	–	13,523
	Sales of materials	–	36
	Purchase of Electric bicycle	–	354

The related companies are controlled or beneficially owned by a Director, who is also a controlling shareholder of the Company or his family members.

The remuneration of Directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2009 RMB'000 (unaudited)	2008 RMB'000 (audited)
Short term employee benefits	1,034	1,027
Share-based payments	118	–
	<u>1,152</u>	<u>1,027</u>

The remuneration of Directors and key executives are determined by the remuneration committee and executive Directors respectively having regard to the performance of individuals and market trends.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

Being the largest electric bike motive battery supplier in the People's Republic of China ("China" or "PRC"), Tianneng is leading the industry by focusing on research and development, expanding secondary/replacement market and emphasizing on efficiency and effectiveness of operations.

The Company's Post-doctoral Scientific Research workstation is at national level. The focus of research is on storage battery products relating to the use of wind and solar power; lead-acid motive battery for pure electric cars; nickel hydride battery products and lithium-ion battery products. As at 30 June 2009, the Company's research team was consisted of 213 staff and the research and development costs increased by approximately 75.1% as compared with the same period last year. In order to speed up the development of lead-acid battery products for pure electric cars, the Company entered into various technical cooperation arrangements with certain car manufacturers such as Jiangsu Yadea, Chery and Geely.

During the six months ended 30 June 2009 ("the period under review"), the weighted average lead purchase price net of value added tax was approximately RMB10,521 per metric ton, representing a decrease of approximately 35.6% as compared with the same period last year. On the other hand, the weighted average lead-acid battery selling price net of value added tax was approximately RMB84.8, representing a decrease of approximately 24.0% as compared with the same period last year. Owing to the decline in lead price, the Company increased its gross profit margin by approximately 5.7 percentage points from approximately 23.2% to approximately 28.9%.

In recent years, due to the rapid development in the secondary or replacement market, the Company's sales and distribution strategy is to continue engaging exclusive distributors to further expand this market. As at 30 June 2009, there were a total of 519 exclusive distributors, increased by 11 from 508 as at 31 December 2008. The Company's sales and distribution network covers most parts of China. For the period under review, the sales revenue generated from secondary market accounted for approximately 74.7% of lead-acid battery turnover, against approximately 59.0% as compared with the same period last year. The financial turmoil occurred last year did impact certain electric bike manufacturers in China. In turn, it affected the Company's sales in primary market.

The Company has completed the construction of the renewable energy plant in Shuyang County of Jiangsu Province which is used to produce storage battery products using lead-acid battery production technology. It began production in June 2009 and full-scale production is expected in 2012.

Future Prospects

In order to exploit the advantages of matching the national policy of energy saving, the Company will allocate more resources on storage battery products and lead-acid motive battery products relating to pure electric cars. Foreseeing the great demand for energy saving products, the Company is confident that these products can become its revenue driver.

The Company also undertook the investment in the renewable energy and battery recycling business in Changxing Economic Development Zone. The investment is expected to produce 6,000,000 KVAH motive batteries and recycle 150,000 metric tons of used lead-acid batteries by 2014 and 2012 respectively. Further details about the investment can be referred to the announcement of the Company dated 6 June 2009.

Financial Review

Turnover

The Company's turnover for the period under review was approximately RMB971.1 million, a decrease of approximately 23.5% as compared with the same period last year. Such decrease was mainly due to the decrease in selling price.

Gross Profit

The Company's gross profit during the period under review was approximately RMB280.2 million, a decrease of approximately 4.9% as compared with the same period last year. The decrease in gross profit was mainly due to the weak sales in primary market. Gross profit margin rose by 5.7 percentage point from approximately 23.2% to approximately 28.9% due to the decrease in lead price.

Other income

The other income of the Company for the period under review was approximately RMB42.8 million (six months ended 30 June 2008: approximately RMB18.6 million), an increase of approximately 2.3 times as compared with the same period last year. Such increase was mainly due to the VAT refund, bank interest income, government grants and refund of electricity charges.

Selling and distribution costs

Selling and distribution costs increased from approximately RMB76.5 million in the same period last year to approximately RMB86.8 million, mainly due to the increase in warranty expenses.

Administrative expenses

Administrative expenses increased from approximately RMB40.0 million in the same period last year to approximately RMB43.4 million, mainly due to the increase in payroll expenses and payroll-related expenses.

Finance costs

Finance costs decreased from approximately RMB16.2 million in the same period last year to approximately RMB8.4 million, mainly due to the decrease in bank interest rate.

Capital structure, financial resources and liquidity

As at 30 June 2009, the shareholders' equity of the Company amounted to approximately RMB1,295.6 million (31 December 2008: approximately RMB1,236.3 million). The Group's capital structure is the equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profit. The Group has total assets of approximately RMB2,290.1 million (31 December 2008: approximately RMB1,668.2 million), representing an increase of approximately RMB621.9 million, or approximately 37.3%. As at 30 June 2009, total current assets of the Group were approximately RMB1,568.4 million (31 December 2008: approximately RMB1,014.9 million), representing an increase of approximately 54.5% as compared with the financial year ended 31 December 2008 and accounting for approximately 68.5% of total assets. Total non-current assets were approximately RMB721.7 million (31 December 2008: approximately RMB653.3 million), representing an increase of approximately RMB68.4 million and accounting for approximately 31.5% of the total assets.

As at 30 June 2009, total liabilities of the Group were approximately RMB994.5 million (31 December 2008: approximately RMB431.9 million), which represented an increase of approximately 2.3 times as compared with the financial year ended 31 December 2008. Total current liabilities were approximately RMB974.5 million (31 December 2008: approximately RMB411.9 million), whereas total non-current liabilities were approximately RMB20.0 million (31 December 2008: approximately RMB20.0 million).

As at 30 June 2009, the cash and bank balances of the Group was approximately RMB546.4 million (31 December 2008: approximately RMB530.4 million). As at 30 June 2009, the Group has short-term bank borrowings of approximately RMB640.0 million (31 December 2008: approximately RMB171.6 million). The short-term bank borrowings are repayable within one year. All short-term bank borrowings are denominated in Renminbi with interest rates between 4.37% to 6.93% per annum (31 December 2008: 4.86% to 7.56% per annum).

As at 30 June 2009, the long-term bank borrowings of the Group amounted to approximately RMB20.0 million with fixed interest rates at 6.56% (31 December 2008: approximately RMB20.0 million with interest rates between 6.93% to 7.56% per annum). All long-term bank borrowings are denominated in Renminbi and was repaid in full in 2009.

Pledge of Assets

As at 30 June 2009, the bank facilities and bank borrowings of the Group were secured by bank deposits, property, plant and equipment and land use rights. The aggregate net book value of the assets pledged amounted to approximately RMB447.9 million (31 December 2008: approximately RMB148.1 million).

Gearing ratio

The Group's gearing ratio, defined as total debts as percentage of total assets, was approximately 28.8% (31 December 2008: approximately 11.5%).

Exposure in exchange rate fluctuations

As the Group's operations were mainly conducted in China and the majority of the sales and purchases were transacted in Renminbi, the Directors are of the view that the Group's operating cash flow and liquidity are not subject to significant foreign exchange rate risks.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2009 (31 December 2008: Nil).

Capital commitments

For details, please refer to note 17 to the notes to the Condensed Consolidated Financial Statements.

Employees and remuneration policies

As at 30 June 2009, the Group employed a total of 7,652 employees. Staff cost of the Group for the first half of 2009 was approximately RMB75.0 million (six months ended 30 June 2008: approximately RMB65.5 million). The cost included basic salaries and staff benefits such as discretionary bonus, medical and insurance plans, pension scheme, unemployment insurance plan etc. Competitive remuneration packages were offered to employees. The Company has adopted incentive programs to encourage employees' performance and a range of training programs for the development of its staff.

Interim Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2009.

Significant Investments Held

There were no significant investments held by the Company as at 30 June 2009.

Material Acquisition and Disposal

During the period under review, the Company had no material acquisition or disposal of subsidiaries and affiliated companies.

Directors' Rights to Acquire Shares or Debentures

At no time during the six months ended 30 June 2009 was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

Important Events since the End of the Financial Period

There is no important event affecting the Group which has occurred since the end of the financial period covered by this announcement.

CORPORATE GOVERNANCE

The Company is committed to ensuring high standards of corporate governance. The Board believes that good corporate governance practices are increasingly important for maintaining and promoting investors' confidence.

Throughout the six months ended 30 June 2009, the Company has adopted and complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the code provision A.2.1. Mr. Zhang Tianren is both the Chairman and Chief Executive Officer ("CEO") of the Company who is responsible for managing the Group's business. The Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Company's business strategies and maximizes the effectiveness of its operation. With the present Board structure and scope of business, the Board considers that there is no imminent need to separate the roles into two individuals. However, the Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether the separation of the position of the Chairman and CEO is necessary.

The Company has established the Audit Committee in compliance with the Rule 3.21 of the Listing Rules. The Company's Audit Committee comprises three independent non-executive Directors. The primary duties of the Audit Committee (inter alia) are to review the financial reporting process and internal control system of the Group, and to make proposals to the Board as to appointment, renewal and resignation of the Company's external auditors and the related remuneration and appointment terms. The Audit Committee has reviewed the interim results of the Company contained in this announcement with the management of the Company and the Company's external auditors and recommended its adoption by the Board.

The interim financial information of the Company in this announcement has not been audited. However, it has been prepared in accordance with HKAS 34 "Interim Financial Reporting" and has been reviewed by the Company's independent external auditors Deloitte Touche Tohmatsu in accordance with the Hong Kong Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Having made specific enquiry, all Directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2009.

The Company has also complied with Rules 3.10(1) and 3.10(2) of the Listing Rules and appointed four independent non-executive Directors including one with financial management expertise.

SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed by the then shareholders on 26 February 2007 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group.

On 30 March 2009, a total of 36,340,000 share options (the "Options") were offered to the eligible participants under the Scheme. 35,310,000 Options were accepted and granted on the same day. Details of the options granted under the Scheme are as follows:

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK\$)	closing price of the Shares immediately before the date of granting the options (HK\$)	Number of options granted during the period	Number of options as at 1 January 2009	Number of options exercised during the period	Number of options cancelled during the period	Number of options or the share option scheme during the period	Number of options outstanding as at 30 June 2009	Shareholding percentage of the underlying shares for the options in the share capital of the Company
Ho Tso Hsiu (independent non-executive Director)	30/03/2009	30/03/2010 to 25/02/2017	1.22	1.33	350,000	-	-	-	-	350,000	0.04%
Cheng Cheng Wen (independent non-executive Director)	30/03/2009	30/03/2010 to 25/02/2017	1.22	1.33	350,000	-	-	-	-	350,000	0.04%
Huang Dongliang (independent non-executive Director)	30/03/2009	30/03/2010 to 25/02/2017	1.22	1.33	350,000	-	-	-	-	350,000	0.04%
Wang Jingzhong (independent non-executive Director)	30/03/2009	30/03/2010 to 25/02/2017	1.22	1.33	350,000	-	-	-	-	350,000	0.04%
Other eligible participants	30/03/2009	30/03/2010 to 25/02/2017	1.22	1.33	33,910,000	-	-	-	-	33,910,000	3.39%
					35,310,000	-	-	-	-	35,310,000	3.53%

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

GENERAL INFORMATION

As at the date of this announcement, the executive Directors are Mr. ZHANG Tianren, Mr. ZHANG Aogen, Mr. CHEN Minru, Mr. ZHANG Kaihong, Mr. SHI Borong and Mr. YANG Lianming; the independent non-executive Directors are Mr. HO Tso Hsiu, Dr. CHENG Cheng Wen, Mr. HUANG Dongliang and Mr. WANG Jingzhong.

This announcement will be published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk and on the Company's website at www.tianneng.com.hk.

By order of the Board
Zhang Tianren
Chairman

Hong Kong, 15 August 2009