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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 2010

FINANCIAL HIGHLIGHTS

- Revenue increased by 71.1% to approximately RMB1,661.7 million
- Gross profit margin decreased by 10.6 percentage points from 28.9% to 18.3%
- Profit attributable to shareholders decreased by 18.3% to approximately RMB103.3 million
- Basic earnings per share decreased by 23.8% to approximately RMB9.6 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 2010, together with the comparative figures for the same period in 2009. 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 2010

	NOTES	Six months ended 30 June	
		2010	2009
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Turnover	3	1,661,740	971,095
Cost of sales		(1,357,980)	(690,856)
Gross profit		303,760	280,239
Other income	4	43,054	42,780
Selling and distribution costs		(121,441)	(86,792)
Administrative expenses		(55,566)	(43,379)
Research and development costs		(38,838)	(25,696)
Other operating expenses		(1,443)	(4,086)
Finance costs		(3,006)	(8,377)
Profit before taxation	5	126,520	154,689
Taxation	6	(23,247)	(28,322)
Profit and total comprehensive income for the period		103,273	126,367
Earnings per share	8		
– Basic		RMB9.6 cents	RMB12.6 cents
– Diluted		RMB9.4 cents	RMB12.6 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	NOTES	30.6.2010 RMB'000 (unaudited)	31.12.2009 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	817,600	712,656
Prepaid lease payments	9	97,399	84,397
Deferred tax assets	10	28,777	26,727
		<u>943,776</u>	<u>823,780</u>
Current assets			
Inventories		416,149	599,087
Bills, trade and other receivables	11	612,337	378,557
Prepaid lease payments	9	2,095	1,810
Restricted bank deposits	16	18,989	94,843
Bank balances and cash		337,781	360,337
		<u>1,387,351</u>	<u>1,434,634</u>
Current liabilities			
Bills, trade and other payables	12	377,425	440,220
Amount due to a related company		–	17
Amount due to a director		2,800	–
Taxation payable		10,232	15,655
Bank borrowings	13	232,400	120,000
		<u>622,857</u>	<u>575,892</u>
Net current assets		<u>764,494</u>	<u>858,742</u>
		<u>1,708,270</u>	<u>1,682,522</u>
Capital and reserves			
Share capital	14	106,377	106,085
Reserves		1,601,893	1,576,437
Total equity		<u>1,708,270</u>	<u>1,682,522</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

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 the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions
HKFRS 3 (Revised)	Business combinations
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners

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 2009 except as described below.

HKFRS 3 (Revised 2008) "Business Combinations" and HKAS 27 (Revised 2008) "Consolidated and Separate Financial Statements"

The Group applies HKFRS 3 (Revised) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

Amendment to HKAS 17 "Leases"

As part of the improvements to Hong Kong Financial Reporting Standards ("HKFRSs") issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and the Group presented the prepayment as leasehold land in the condensed consolidated statement of financial position. The amendment to HKAS 17 has removed such a requirement that leasehold land must be classified as operating leases. The amendment requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. After reassessment, the directors of the Company concluded that no reclassification was necessary.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related party disclosures ⁴
HKAS 32 (Amendment)	Classification of rights issues ²
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters ³
HKFRS 9	Financial instruments ⁵
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a minimum funding requirements ⁴
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments ³

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

² Effective for annual periods beginning on or after 1 February 2010.

³ Effective for annual periods beginning on or after 1 July 2010.

⁴ Effective for annual periods beginning on or after 1 January 2011.

⁵ Effective for annual periods beginning on or after 1 January 2013.

The directors of the Company anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. Turnover

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(unaudited)	(unaudited)
An analysis of turnover is as follows:		
Lead-acid battery products		
Electrical Bicycle Battery	1,570,165	903,784
Storage Battery	2,264	8,438
Pure Electric Car Battery (Note)	43,667	1,360
Battery for other usage	2,409	2,979
Nickel hydride and Lithium-ion battery products	33,695	17,512
Others	9,540	37,022
	1,661,740	971,095

Note: It includes pure electric cars, electric forklifts and electric patrol cars etc.

4. Other Income

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Government grants (Note)	38,657	38,680
Interest income	1,644	3,279
Others	2,753	821
	<u>43,054</u>	<u>42,780</u>

Note: The Group received subsidies and refund of value-added tax and other taxes from the relevant new development zone administrative committees and PRC Tax Authority to encourage the operations of certain PRC subsidiaries in new development zones of approximately RMB33,559,000 (1.1.2009 to 30.6.2009: RMB24,467,000).

In addition, the Group received subsidies from the relevant PRC Government to encourage certain PRC subsidiaries adopting energy saving measures and received refunds on electricity expenses amounting to RMB1,657,000 (1.1.2009 to 30.6.2009: RMB9,526,000). There were no unfulfilled conditions attached to these grants and, therefore, the Group recognised the grants upon receipts.

5. Profit Before Taxation

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Allowance for bad and doubtful debts	837	3,345
Allowance (reversal of allowance) for inventories (Note)	696	(30,648)
Amortisation of prepaid lease payments	440	413
Depreciation of property, plant and equipment	30,303	23,078
Loss on disposal of property, plant and equipment	<u>338</u>	<u>1</u>

Note: During the period ended 30 June 2009, 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 has been recognised and included in cost of sales in that period.

6. Taxation

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(unaudited)	(unaudited)
The charge comprises:		
PRC Enterprise Income Tax	25,297	24,626
Deferred taxation (note 10)	(2,050)	3,696
	23,247	28,322

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

Except as described below, provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at 25% pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Legislation.

Starting from 1 January 2005, Tianneng Battery Group Co., Ltd (formerly "Zhejiang Tianneng Battery Co., Ltd.") ("Tianneng Battery") is exempted from PRC Enterprise Income Tax for two years starting from the first profit-making year in which profits exceed any carried forward tax losses followed by a 50% deduction in the income tax rate in the following three years. During the period ended 30 June 2009, the concessionary rate enjoyed by Tianneng Battery was 12.5%, which expired on 1 January 2010. Tianneng Battery was recognised as High-Tech company and enjoyed the tax rate of 15% starting from 1 January 2010.

Apart from Tianneng Battery, certain subsidiaries of the Company in PRC were recognised as High-Tech companies and enjoyed a tax rate of 15% starting from 1 January 2009.

7. Dividends

The directors of the Company do not recommend an interim dividend for the six months period ended 30 June 2010 (1.1.2009 to 30.6.2009: nil).

The directors of the Company declared a final dividend of RMB83,852,000 on 8 May 2010 for 2009, equivalent to approximately RMB0.078 per share based on 1,080,000,000 shares in issue as at 31 December 2009. During the period ended 30 June 2010, the Company paid RMB83,837,000 in respect of the 2009 final dividend to the entitled shareholders.

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 shareholders.

8. Earnings Per Share

	Six months ended 30 June 2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Earnings:		
Earnings for the purposes of calculating basic and diluted earnings per share	103,273	126,367
Number of shares:		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	1,081,248,017	1,000,000,000
Effect of dilutive potential ordinary shares in respect of share options	17,913,112	–
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	1,099,161,129	1,000,000,000

Note: The share options issued in the period ended 30 June 2009 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 RMB344,000 (1.1.2009 to 30.6.2009: RMB378,000) at a consideration of RMB6,000 (1.1.2009 to 30.6.2009: RMB377,000), resulting in a loss on disposal of RMB338,000 (1.1.2009 to 30.6.2009: RMB1,000).

The Group spent approximately RMB15,051,000 and RMB116,208,000 (1.1.2009 to 30.6.2009: RMB95,958,000 and RMB84,181,000) on additions of machinery and manufacturing plant and construction in progress in the PRC respectively.

During the period, the Group spent approximately RMB13,727,000 on additions of prepaid lease payments in the PRC (1.1.2009 to 30.6.2009: nil).

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	Accrued expenses RMB'000	Total RMB'000
At 1 January 2009 (audited)	11,591	6,545	4,475	22,611
Charge to profit or loss (note 6)	(3,024)	(38)	(634)	(3,696)
At 30 June 2009 (unaudited)	8,567	6,507	3,841	18,915
At 1 January 2010 (audited)	9,361	5,968	11,398	26,727
Credit (charge) to profit or loss (note 6)	144	(825)	2,731	2,050
At 30 June 2010 (unaudited)	9,505	5,143	14,129	28,777

At 30 June 2010, the Group has deductible temporary differences of approximately RMB5,421,000 (31.12.2009: RMB3,867,000). 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 2010, the Group had unused tax losses of approximately RMB41,790,000 (31.12.2009: RMB38,460,000) 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 2015 (31.12.2009: 2014).

11. Bills, Trade and Other Receivables

	30.6.2010 RMB'000 (unaudited)	31.12.2009 RMB'000 (audited)
Bills receivables	352,746	96,960
Trade receivables	168,359	80,964
Other receivables	22,509	15,840
Prepayments	28,322	114,504
Value added tax receivables	40,401	70,289
	<u>612,337</u>	<u>378,557</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 end of the reporting period:

	30.6.2010 RMB'000 (unaudited)	31.12.2009 RMB'000 (audited)
0 to 180 days	352,396	96,821
181 to 365 days	350	139
	<u>352,746</u>	<u>96,960</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 analysis of trade receivables by age, presented based on the invoice date:

	30.6.2010 RMB'000 (unaudited)	31.12.2009 RMB'000 (audited)
0 - 45 days	149,603	57,947
46 - 90 days	13,366	12,747
91 - 180 days	4,011	7,216
181 - 365 days	1,129	3,054
1 - 2 years	250	-
	<u>168,359</u>	<u>80,964</u>

12. Bills, Trade and Other Payables

	30.6.2010 RMB'000 (unaudited)	31.12.2009 RMB'000 (audited)
Trade payables	129,264	104,706
Bills payables	39,501	136,352
Other payables and accrued charges	208,660	199,162
	377,425	440,220

The following is an analysis of trade payables by age, presented based on the invoice date:

	30.6.2010 RMB'000 (unaudited)	31.12.2009 RMB'000 (audited)
0 - 90 days	106,746	85,986
91 - 180 days	12,639	8,819
181 - 365 days	6,043	7,342
1 - 2 years	2,587	1,493
Over 2 years	1,249	1,066
	129,264	104,706

The following is an aged analysis of bills payables at the end of the reporting period:

	30.6.2010 RMB'000 (unaudited)	31.12.2009 RMB'000 (audited)
0 - 180 days	39,501	136,352

13. Bank Borrowings

	30.6.2010 RMB'000 (unaudited)	31.12.2009 RMB'000 (audited)
Secured	80,000	10,000
Unsecured	152,400	110,000
	<u>232,400</u>	<u>120,000</u>

The bank borrowings at 30 June 2010 are denominated in RMB and carry fixed interest rates ranging from 4.37% to 5.31% (31.12.2009: 4.37% to 5.31%) per annum.

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 2009, 31 December 2009, 1 January 2010 and 30 June 2010	2,000,000,000	212,780
Issued and fully paid:		
At 1 January 2009	1,000,000,000	99,037
Issue of new shares (Note a)	80,000,000	7,048
At 31 December 2009 and 1 January 2010	1,080,000,000	106,085
Issue of shares upon exercise of share options (Note b)	3,327,000	292
At 30 June 2010	1,083,327,000	106,377

Notes:

- During the year ended 31 December 2009, pursuant to a placing and subscription agreement entered into on 8 October 2009, the Company allotted and issued 80,000,000 new shares of HK\$0.10 each at the subscription price of HK\$3.50 per share to Prime Leader Global Limited, a company wholly owned by Mr. Zhang Tianren, the chairman of the Company.
- During the period ended 30 June 2010, 3,327,000 share options were exercised at a subscription price of HK\$1.22 per share, resulting in the issue of 3,327,000 ordinary shares of HK\$0.10 each in the Company.

15. Share Options

The Company has a share option scheme (the "Scheme") for eligible directors of the Company, 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 of directors 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:

	<u>Number of share options</u>
Outstanding at 1 January 2009	–
Granted to directors and employees during the year	35,310,000
Share options forfeited	<u>(1,500,000)</u>
Outstanding at 31 December 2009 and 1 January 2010	33,810,000
Share options exercised	(3,327,000)
Share options forfeited	<u>(648,000)</u>
Outstanding at 30 June 2010	<u><u>29,835,000</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 RMB2,760,000 (1.1.2009 to 30.6.2009: RMB1,640,000) in relation to share options granted by the Company.

16. Pledge of Assets

At the end of reporting period, the Group has pledged the following assets to secure the general banking facilities and bank borrowings granted to the Group.

	30.6.2010 RMB'000 (unaudited)	31.12.2009 RMB'000 (audited)
Bank deposits	18,989	94,843
Property, plant and equipment	66,410	10,088
Prepaid lease payments	17,142	1,565
	<u>102,541</u>	<u>106,496</u>

17. Capital Commitments

	30.6.2010 RMB'000 (unaudited)	31.12.2009 RMB'000 (audited)
Capital expenditure in respect of the acquisition of property, plant and equipment:		
Contracted for but not provided in the financial statements	105,823	84,785

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	
		2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Zhejiang Changxing Xin Xin Packaging Co., Ltd.	Purchase of consumables	-	145
Changxing Jin Ling Hotel	Hotel expense	1,257	-

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	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Short term employee benefits	956	1,034
Share-based payments	324	118
	1,280	1,152

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

Tianneng Power International Limited ("Tianneng" or the "Company" and together with its subsidiaries, the "Group") is principally engaged in the production and sale of motive batteries. Its motive battery products are sold under its own brand name "TIANNENG" and are predominantly used in the electric bikes, electric motorcycles and electric cars sold and distributed in the People's Republic of China ("PRC" or "China"). The Group also manufactures storage battery for new energy, mainly for wind and solar power generation system. The Group's products are focusing on lead-acid motive battery for the electric vehicle market in China. Currently, the Company is one of the leading lead-acid motive battery producers for the electric vehicle market in China.

Review of Operations

Being the leading electric bike motive battery supplier in China, the Group is leading the industry by focusing on research and development ("R & D"), capturing premium customers in primary market, expanding sales network of secondary market and emphasizing on efficiency of operations.

The electric bike industry has been developing rapidly for over a decade in China, with ever increasing industrial consolidation accordingly. The market strategy of the Group in 2010 is to capture premium customers in primary market. The Group had actively established strategic alliance with electric bike manufacturers, and sales revenue generated from primary market increased by 173% as compared with the same period last year and accounted for approximately 39% of the turnover of lead-acid motive battery, as compared with approximately 25% in the same period last year.

With the increasing number of electric bikes in the market, and the rapid development of the demand in the secondary market, i.e. the replacement market, in China, the Group's sales and distribution strategy is to continue engaging exclusive distributors to further expand this market. As at 30 June 2010, there were a total of 696 exclusive distributors, an increase of 76 from 620 as at 31 December 2009. The Group's sales and distribution network covers most parts of China. For the six months ended 30 June 2010, the sales revenue from secondary market was up by 41% as compared with the same period last year.

The pure electric car motive battery developed by the Group has been commercialized. A number of small lots of this kind of battery were supplied to car manufacturers such as Chery, SAIC and Zoyte etc. For the six months ended 30 June 2010, the Group generated approximately RMB43 million revenue from the sale of the pure electric car battery, which accounted for approximately 2.63% of the Group's sales turnover.

Note: The pure electric car motive battery is mainly used in electric cars, electric petrol cars and electric forklifts etc.

The Company's Post-doctoral Scientific Research workstation is at national level. The focus of research is on lithium-ion motive battery, nickel hydride motive battery and Rare-Earth Silicon-Gel motive battery for pure electric cars and hybrid electric cars; storage battery relating to the use of wind and solar power; and the recycling technology of non-ferrous scrap metal relating to the recycling of resources.

As at 30 June 2010, the Group's research team consisted of 376 staff and the R & D costs increased by 51% as compared with the same period last year.

The project of the commercialization of high-motive-type lithium iron phosphate battery for electric vehicle ("EV") undertaken by Zhejiang Tianneng Energy Technology Co., Ltd., a subsidiary of the Group, was listed as a "National Torch Plan" by the Ministry of Science and Technology of China.

In May 2010, the 18650-type high-motive lithium-ion iron phosphate battery developed by the Group was awarded the certificate of "National New Project".

Future Prospects

The Group is committed to the R & D, production and sales of motive battery for electric cars and electric bikes, storage battery for wind and solar power, nickel hydride and lithium-ion new battery. The Group believes that the Chinese government would actively promote electric bike Subsidy Program in Rural Areas and also continues to encourage the development of new energy motor vehicles and new energy power generation. All these would stimulate great demand for such products and these products can become the revenue driver of the Company.

The Company also undertook the investment in the renewable energy and battery recycling business in Changxing Economic Development Zone in China. 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 RMB1,661.7 million, an increase of approximately 71.1% as compared with the same period last year. Such increase was mainly due to the market expansion strategy of the Group in 2010.

Gross Profit

The Company's gross profit during the period under review was approximately RMB303.8 million, an increase of approximately 8.4% as compared with the same period last year. The increase in gross profit was mainly due to the increased sales of lead-acid motive battery. As the price of lead had increased, and the price of the products of the Company had not been raised correspondingly, it resulted in a significant decrease in gross profit margin to 18.3% in the first half of 2010 from 28.9% in the same period last year.

Other income

The other income of the Company for the period under review was approximately RMB43.1 million (for the six months ended 30 June 2009: approximately RMB42.8 million). It's more or less the same as compared with the same period last year.

Selling and distribution costs

Selling and distribution costs increased from approximately RMB86.8 million in the same period last year to approximately RMB121.4 million, mainly due to the increase in sales commission and rebate expenses.

Administrative expenses

Administrative expenses increased from approximately RMB43.4 million in the same period last year to approximately RMB55.6 million, mainly due to the increase in payroll expenses and payroll-related expenses.

Finance costs

Finance costs decreased from approximately RMB8.4 million in the same period last year to approximately RMB3 million, mainly due to the decrease in bills receivables discounting charges.

Capital structure, financial resources and liquidity

As at 30 June 2010, the shareholders' equity of the Company amounted to approximately RMB1,708.3 million (31 December 2009: approximately RMB1,682.5 million). The Group's capital structure is the equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profit. The Group has total assets of approximately RMB2,331.1 million (31 December 2009: approximately RMB2,258.4 million), representing an increase of approximately RMB72.7 million, or approximately 3.2%. As at 30 June 2010, total current assets of the Group were approximately RMB1,387.4 million (31 December 2009: approximately RMB1,434.6 million), representing a decrease of approximately 3.3% as compared with the financial year ended 31 December 2009 and accounting for approximately 59.5% of total assets. Total non-current assets were approximately RMB943.8 million (31 December 2009: approximately RMB823.8 million), representing an increase of approximately RMB120 million and accounting for approximately 40.5% of the total assets.

As at 30 June 2010, total liabilities of the Group were approximately RMB622.9 million (31 December 2009: approximately RMB575.9 million), with an increase of approximately 8.2%. As at 30 June 2010 and 31 December 2009, the Group did not have any non-current liabilities, and therefore the total liabilities of the Group were equivalent to its total current liabilities.

As at 30 June 2010, the cash and bank balances of the Group was approximately RMB337.8 million (31 December 2009: approximately RMB360.3 million). As at 30 June 2010, the Group has short-term bank borrowings of approximately RMB232.4 million (31 December 2009: approximately RMB120 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 5.31% per annum (31 December 2009: 4.37% to 5.31% per annum).

Pledge of Assets

As at 30 June 2010, 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 RMB102.5 million (31 December 2009: approximately RMB106.5 million).

Gearing ratio

The Group's gearing ratio, defined as total debts as percentage of total assets, was approximately 26.7% (31 December 2009: approximately 25.5%).

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 of the Company (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 2010 (31 December 2009: Nil).

Capital commitments

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

Employees and remuneration policies

As at 30 June 2010, the Group employed a total of 9,439 employees. Staff cost of the Group for the first half of 2010 was approximately RMB129.2 million (six months ended 30 June 2009: approximately RMB75.0 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 of Directors (the "Board") does not recommend the payment of any interim dividend for the six months ended 30 June 2010.

Significant Investments Held

There were no significant investments held by the Company as at 30 June 2010.

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

For details, please refer to note 15 to the Condensed Consolidated Financial Statements.

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 2010, 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 independent external auditors and the related remuneration and appointment terms. The Audit Committee has reviewed this interim result announcement with the management of the Company and the Company's independent 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 2010.

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 were offered to the eligible participants under the Scheme. 35,310,000 share options were accepted and granted on the same day. The details movement of Company's share options during the period under review are as follows:

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK\$)	Weighted average closing price of Company's shares immediately before the date of exercise (HK\$)	Number of option outstanding as at 1 January 2010	Number of options exercised during the period	Number of options forfeited during the period	Number of options lapsed in accordance with the terms of the options or the share option scheme during the period	Number of options outstanding as at 30 June 2010	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	5.05	350,000	(35,000)	-	-	315,000	0.03%
Cheng Cheng Wen (Independent non-executive Director)	30/03/2009	30/03/2010 to 25/02/2017	1.22	5.05	350,000	(35,000)	-	-	315,000	0.03%
Huang Dongliang (Independent non-executive Director)	30/03/2009	30/03/2010 to 25/02/2017	1.22	5.05	350,000	(35,000)	-	-	315,000	0.03%
Wang Jingzhong (Independent non-executive Director)	30/03/2009	30/03/2010 to 25/02/2017	1.22	5.05	350,000	(35,000)	-	-	315,000	0.03%
Other eligible participants	30/03/2009	30/03/2010 to 25/02/2017	1.22	5.05	32,410,000	(3,187,000)	(648,000)	-	28,575,000	2.63%
					33,810,000	(3,327,000)	(648,000)	-	29,835,000	2.75%

No share option granted was granted during the period under review, no price disclosure is applicable.

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, 21 August 2010