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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)

**RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014**

FINANCIAL HIGHLIGHTS

- Revenue increased by 3.0% to RMB14,043.73 million.
- Gross profit decreased by 10.0% to RMB1,263.38 million.
- Loss attributable to shareholders was RMB304.92 million (2013: RMB135.30 million profit).
- Propose not to declare a final dividend.
- Basic loss per share was approximately RMB0.27.

2014 ANNUAL RESULTS

The board of directors (the “Board”) of Tianneng Power International Limited (the “Company” or “Tianneng Power”) hereby announces the results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2014 together with the previous financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
Turnover	4	14,043,731	13,635,060
Cost of sales		(12,780,351)	(12,230,675)
Gross profit		1,263,380	1,404,385
Other income		139,652	177,609
Other gains and losses		(72,657)	(56,692)
Selling and distribution costs		(651,904)	(412,985)
Administrative expenses		(351,517)	(366,955)
Research and development costs		(404,649)	(355,307)
Other operating expenses		(123,328)	(104,547)
Share of loss of an associate		—	(428)
Finance costs	5	(206,079)	(143,840)
(Loss) Profit before taxation	6	(407,102)	141,240
Taxation	7	114,115	(10,915)
(Loss) Profit and total comprehensive (expense) income for the year		(292,987)	130,325
(Loss) Profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		(304,917)	135,295
Non-controlling interests		11,930	(4,970)
		(292,987)	130,325
(Loss) Earnings per share	9		
– Basic		RMB(0.274)	RMB0.122
– Diluted		RMB(0.274)	RMB0.121

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	NOTES	2014 RMB '000	2013 RMB '000
Non-current assets			
Property, plant and equipment		3,447,318	2,893,055
Goodwill		499	499
Prepaid lease payments		199,371	233,795
Interest in an associate		—	592
Deferred tax assets		341,485	191,859
Deposit for acquisition of property, plant and equipment		103,875	45,535
		<u>4,092,548</u>	<u>3,365,335</u>
Current assets			
Inventories		1,550,782	1,857,045
Held-for-trading investments		—	3,216
Bills, trade and other receivables	10	1,274,190	1,656,787
Prepaid lease payments		5,995	6,208
Pledged bank deposits		164,926	73,100
Bank balances and cash		1,625,162	942,535
		<u>4,621,055</u>	<u>4,538,891</u>
Current liabilities			
Bills, trade and other payables	11	2,326,442	1,920,512
Amounts due to related parties		12,889	31,623
Taxation payable		22,711	61,912
Bank borrowings – current portion		2,499,604	2,142,900
		<u>4,861,646</u>	<u>4,156,947</u>
Net current (liabilities) assets		<u>(240,591)</u>	<u>381,944</u>
Total assets less current liabilities		<u>3,851,957</u>	<u>3,747,279</u>
Non-current liabilities			
Bank borrowings – non-current portion		205,373	575,694
Deferred tax liabilities		32,772	30,512
Long-term loan notes		868,172	78,806
		<u>2,745,640</u>	<u>3,062,267</u>
Capital and reserves			
Share capital		108,710	108,710
Reserves		2,565,175	2,893,732
Attributable to the owners of the Company		<u>2,673,885</u>	<u>3,002,442</u>
Non-controlling interest		71,755	59,825
Total equity		<u>2,745,640</u>	<u>3,062,267</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 16 November 2004. The addresses of the registered office and principal place of business of the Company are disclosed in the “Corporation Information” section of the annual report.

The Company is an investment holding company and its shares have been listed on The Stock Exchange of Hong Kong Limited with effect from 11 June 2007. The principal activities of its subsidiaries are set out in note 37.

The consolidated financial statements are presented in Renminbi (“RMB”) which is also the functional currency of the Company.

At 31 December 2014, the Group’s current liabilities exceed its current assets by RMB240,591,000. In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group. At 31 December 2014, the Group has unused bank facilities amounted to RMB1,781,474,000. Taking into account of the financial resources available to the Group, the directors of the Company are of the view that the Group has sufficient working capital for its present requirement for the next twelve months from the end of the reporting period and accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSS”)

(a) New and revised HKFRSs adopted during the year

The Group has applied for the first time in the current year the following amendments to HKFRSs, and a new Interpretation:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-Int 21	Levies

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities for the first time in the current year. The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out in HKFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Amendments to Hong Kong Accounting Standard ("HKAS") 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments have been applied retrospectively. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The Group has applied the amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 Fair Value Measurements.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The Group has applied the amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

The Group has applied HK(IFRIC) – Int 21 Levies for the first time in the current year. HK(IFRIC) – Int 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

HK(IFRIC) – Int 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

(b) New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 14	Regulatory Deferral Accounts ²
HKFRS 15	Revenue from Contracts with Customers ³
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ⁵
Amendments to HKAS 1	Disclosure Initiative ⁵
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ⁵
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ⁵
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions ⁴
Amendments to HKAS 27	Equity Method in Separate Financial Statements ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle ⁶
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle ⁵
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ⁵

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

³ Effective for annual periods beginning on or after 1 January 2017.

⁴ Effective for annual periods beginning on or after 1 July 2014.

⁵ Effective for annual periods beginning on or after 1 January 2016.

⁶ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the adoption of HKFRS 9 in the future will not have any significant impact on the Group's consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 36 Impairment of Assets regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group’s consolidated financial statements.

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group’s consolidated financial statements.

Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants

The amendments to HKAS 16 and HKAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

Amendments to HKAS 27 Equity Method in Separate Financial Statements

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements

- At cost
- In accordance with HKFRS 9 Financial Instruments (or HKAS 39 Financial Instruments: Recognition and Measurement for entities that have not yet adopted HKFRS 9), or
- Using the equity method as described in HKAS 28 Investments in Associates and Joint Ventures.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 Consolidated Financial Statements and to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards.

The directors of the Company do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.
- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.
- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.
- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2010-2012 Cycle

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011-2013 Cycle

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of HKAS 40; and
- (b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2012-2014 Cycle

The Annual Improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKFRS 7 Disclosure – Offsetting Financial Assets and Financial Liabilities issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 Interim Financial Reporting.

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period.

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The directors of the Company do not anticipate that the application of these will have a material effect on the Group's consolidated financial statements.

3. OPERATING SEGMENTS

For the purposes of resources allocation and performance assessment, the chief operating decision makers, the Executive Directors, regularly review turnover for major products and market segments (note 4). However, the financial information provided to the Executive Directors does not contain profit or loss information of each product line or each market segment and the Executive Directors review the operating results of the Group on a consolidated basis. Therefore, the operation of the Group constitutes one single reportable segment, being the manufacture and sales of lead-acid batteries and battery related accessories.

Segment revenues and results

The financial information presented to the Executive Directors is consistent with the consolidated statement of profit or loss and other comprehensive income.

The Executive Directors consider the Group's losses for the year as the measurement of segment's results.

Entity-wide disclosures

All non-current assets and sales are located and generated in the PRC. No individual customer accounted for over 10% of the Group's total revenue for both years.

4. TURNOVER

	2014 RMB'000	2013 RMB'000
An analysis of turnover is as follows:		
Lead-acid motive battery products:		
Electrical Bicycle Battery	9,353,732	10,390,999
Electrical Tricycle Battery	2,958,901	2,250,829
Pure Electric Car Battery (<i>Note</i>)	956,564	511,112
Recycled lead products	426,242	220,607
Lithium battery products	180,166	123,254
Others	168,126	138,259
	14,043,731	13,635,060

Note: It includes battery products mainly for pure electric sedans, electric forklifts, electric patrol cars and special-purpose electric cars.

During the year, recycled lead products are added to the list of major products. The presentation of turnover by major products for the year ended 31 December 2013 has been reclassified to conform with the current presentation of major products.

5. FINANCE COSTS

	2014 RMB'000	2013 RMB'000
Interest on:		
– Bank borrowings wholly repayable within five years	166,881	173,474
– Bank borrowings not wholly repayable within five years	–	277
– Effective interest on long-term loan note wholly repayable within five years	31,095	213
– Effective interest on long-term loan note not wholly repayable within five years	7,649	–
– Factorised bills receivable wholly repayable within five years	36,364	5,324
Total borrowing costs	241,989	179,288
Less: amounts capitalised	(35,910)	(35,448)
	206,079	143,840

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.07% (2013: 6.24%) per annum to expenditure on qualifying assets.

6. PROFIT BEFORE TAXATION

	2014 RMB'000	2013 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments	3,750	3,651
Other staff retirement benefit scheme contributions	25,096	41,676
Other staff costs	989,326	864,900
Share-based payment expense for other staff	17,089	8,338
Total staff costs	<u>1,035,261</u>	<u>918,565</u>
Recognition of allowance for inventories (included in cost of sales)	39,974	11,170
Amortisation of prepaid lease payments	6,047	3,876
Auditor's remuneration	2,340	2,553
Cost of inventories recognised as expense	12,754,304	12,070,646
Depreciation	<u>219,773</u>	<u>187,721</u>

Share-based payment expense of approximately RMB17,269,000 (2013: RMB8,338,000) were recognised in profit or loss during the year ended 31 December 2014 in respect of share options of the Company.

7. TAXATION

The charge comprises:

	2014 RMB'000	2013 RMB'000
Hong Kong		
– Current tax	–	236
PRC Enterprise Income Tax (“EIT”):		
– Current tax	58,537	76,190
– Over provision in prior years	(28,296)	(3,115)
– Over provision of withholding tax on undistributed profits in 2012 (<i>note</i>)	–	(10,100)
	<u>30,241</u>	<u>62,975</u>
Deferred tax credit	<u>(144,356)</u>	<u>(52,296)</u>
	<u>(114,115)</u>	<u>10,915</u>

Note: During the year ended 31 December 2013, withholding tax on undistributed profits from PRC subsidiaries provided for the year ended 31 December 2012 was reversed upon the Group's obtaining an approval issued by the relevant tax bureau in the PRC for the Group to use the non-resident's claim treatment under the Double Taxation Agreement between Hong Kong and the Mainland China in respect of Tianneng Power (Hong Kong) Limited, a subsidiary of the Company. Accordingly, a reduced withholding tax rate of 5% was applied to the amount of undistributed profits from PRC subsidiaries for the year ended 31 December 2012.

Hong Kong Profits Tax is calculated at 16.5% (2013: 16.5%) of the estimated assessable profit for the year ended 31 December 2014.

Except as described below, provision for PRC Enterprise Income Tax is made 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 Regulation.

Tianneng Battery Group Co., Ltd. was recognised as a High-Tech company in 2009 and 2014 respectively and the applicable tax rate is 15% from 1 January 2010 to 27 October 2017.

Tianneng Battery (Wuhu) Co., Ltd. was recognised as a High-Tech company in 2009 and 2012 respectively and the applicable tax rate is 15% from 1 January 2009 to 29 June 2015.

Zhejiang Tianneng Energy Technology Co., Ltd. was recognised as a High-Tech company in 2009 and 2012 respectively and the applicable tax rate is 15% from 1 January 2009 to 29 October 2015.

Zhejiang Tianneng Power Energy Co., Ltd. was recognised as a High-Tech company in 2014 and the applicable tax rate is 15% from 27 October 2014 to 26 October 2017.

Tianneng Battery Group (Anhui) Co., Ltd. was recognised as a High-Tech company in 2014 and the applicable tax rate is 15% from 1 January 2014 to 31 December 2016.

The taxation (credit) charge for the year can be reconciled to the (loss) profit before taxation per consolidated statement of profit or loss and other comprehensive income as follows:

	2014		2013	
	RMB'000	%	RMB'000	%
(Loss) profit before taxation	<u>(407,102)</u>		<u>141,240</u>	
Tax at the applicable income tax rate of 25% (2013: 25%) (note)	(101,776)	25.0	35,310	25.0
Tax effect of expenses not deductible for tax purposes	10,973	(2.7)	13,459	9.5
Tax effect of tax losses not recognised	3,507	(0.9)	3,769	2.7
Tax effect of deductible temporary differences not recognised	473	(0.1)	863	0.6
Utilisation of tax losses and deductible temporary differences previously not recognised	—	—	(6,735)	(4.8)
Income tax at concessionary rates	41,442	(10.2)	(3,663)	(2.6)
Over provision in prior years	(28,296)	7.0	(3,115)	(2.2)
Tax effect of applying a reduced withholding tax rate on undistributed profits retained in prior years in PRC subsidiaries	—	—	(10,100)	(7.2)
Tax effect of additional deduction related to research and development costs and certain staff costs	(49,339)	12.1	(20,973)	(14.8)
Effect of change in tax rate	7,991	(2.0)	—	—
Withholding tax on undistributed profits of PRC subsidiaries	<u>910</u>	<u>(0.2)</u>	<u>2,100</u>	<u>1.5</u>
Taxation (credit) charge and effective tax rate for the year	<u>(114,115)</u>	<u>28.0</u>	<u>10,915</u>	<u>7.7</u>

Note: The domestic income tax rate of 25% (2013: 25%) represents the PRC Enterprise Income Tax rate of which the Group's operations are substantially based.

8. DIVIDENDS

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Recognised as distribution in the consolidated financial statements:		
2013 final dividend of HK4.62 cents (equivalent to RMB3.68 cents)		
(2013: 2012 final dividend of HK23.8 cents (equivalent to RMB19.19 cents)) per ordinary share	<u>40,909</u>	<u>210,648</u>

The directors of the Company do not propose final dividend for the year ended 31 December 2014 (2013: the directors proposed HK4.62 cents (equivalent to RMB3.68 cents) per share).

9. (LOSS) EARNINGS PER SHARE

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
(Loss) earnings:		
(Loss) earnings for the purposes of calculating basic and diluted (loss) earnings per share		
– attributable to the owners of the Company	<u>(304,917)</u>	<u>135,295</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>1,111,908,000</u>	<u>1,108,535,726</u>
Effect of dilutive potential ordinary shares – share options	<u>–</u>	<u>9,967,298</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,111,908,000</u>	<u>1,118,503,024</u>

The computation of diluted loss per share for the year ended 31 December 2014 did not assume the exercise of the Company's outstanding share options as the exercise price of those options was higher than the average market price during the year. Accordingly, the diluted loss per share was same as the basic loss per share for the year ended 31 December 2014.

10. BILLS, TRADE AND OTHER RECEIVABLES

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Bills receivables	<u>583,310</u>	<u>628,830</u>
Trade receivables	346,237	485,609
Less: Allowance for bad and doubtful debts	<u>(62,637)</u>	<u>(58,043)</u>
	<u>283,600</u>	<u>427,566</u>
Other receivables	153,801	98,353
Less: Allowance for bad and doubtful debts	<u>(21,031)</u>	<u>(7,323)</u>
	<u>132,770</u>	<u>91,030</u>
Prepayments	27,941	278,007
PRC value added tax receivables	<u>246,569</u>	<u>231,354</u>
	<u><u>1,274,190</u></u>	<u><u>1,656,787</u></u>

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

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
0 to 180 days	<u><u>583,310</u></u>	<u><u>628,830</u></u>

The Group has a policy of allowing an average credit period of 45 days (2013: 45 days) for trade debtors. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
0 to 45 days	231,443	280,062
46 to 90 days	29,864	105,233
91 to 180 days	12,043	16,112
181 to 365 days	<u>10,250</u>	<u>26,159</u>
	<u><u>283,600</u></u>	<u><u>427,566</u></u>

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and will define appropriate credit limits.

Management closely monitors the credit quality of trade receivables and considers trade receivables that are neither past due nor impaired to be of a good credit quality.

Other receivables are unsecured and interest-free.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB52,157,000 (2013: RMB147,504,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss.

The following is an aged analysis of trade receivables which are past due but not impaired:

	2014 RMB'000	2013 <i>RMB'000</i>
46 to 90 days	29,864	105,233
91 to 180 days	12,043	16,112
181 to 365 days	10,250	26,159
	<u>52,157</u>	<u>147,504</u>

Based on the historical experience of the Group, trade receivables which are past due for less than one year but not impaired are generally recoverable. The Group does not hold any collateral over these balances.

The Group has no significant concentration of credit risk on bills, trade and other receivables, with exposure spreading over a large number of counterparties and customers.

The Group has provided fully for trade and other receivables over 1 year which are expected to be not recoverable because historical experience is such that receivables that are past due beyond 1 year are generally not recoverable. Impairment for trade receivables over 45 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience and objective evidences of impairment.

Movement in the allowance for doubtful debts – trade receivables

	2014 RMB'000	2013 <i>RMB'000</i>
1 January	58,043	55,400
Allowance for bad and doubtful debts	4,743	6,136
Reversal of bad and doubtful debts	(149)	(3,493)
31 December	<u>62,637</u>	<u>58,043</u>

Movement in the allowance for doubtful debts – other receivables

	2014 RMB'000	2013 <i>RMB'000</i>
1 January	7,323	5,703
Allowance for bad and doubtful debts	15,110	1,620
Reversal of bad and doubtful debts	(1,402)	—
31 December	<u>21,031</u>	<u>7,323</u>

In determining the recoverability of the trade and other receivables, the Group reassesses the credit quality of the trade and other receivables from the date credit was initially granted up to the reporting date. Based on the historical experience of the Group, the directors believe that no further allowance is required.

11. BILLS, TRADE AND OTHER PAYABLES

	2014 RMB'000	2013 RMB'000
Trade payables	735,522	772,145
Bills payables	202,114	183,500
Other payables and accrued charges (<i>note</i>)	1,388,806	964,867
	<u>2,326,442</u>	<u>1,920,512</u>

Note:

The Group provided a warranty of up to 15 months on all lead-acid battery products. For lead-acid battery products found to be defective under the terms of the warranty, the Group undertakes to replace the battery free of charge for products returned within 8 months from the date of sale, and to repair the battery free of charge for products returned between the 9th month to the 15th month after the date of sale. A warranty expense is estimated and accrued at the time of sale and is based upon various factors including the estimated net realisable value of products replaced, estimated volume of warranty claims with reference to prior experience and number of products sold. The amount of accrued warranty is adjusted to reflect the actual costs incurred when information becomes available.

At 31 December 2014, included in the other payables and accrued charges is a warranty provision of RMB229,179,000 (2013: RMB203,132,000) which represents management's best estimate of the Group's liability within the 15-month warranty period granted on the Group's lead-acid battery products. Details of the movement in the warranty provision are set out as below:

	2014 RMB'000	2013 RMB'000
At 1 January	203,132	43,103
Provision in the year	461,085	537,652
Utilisation of provision	<u>(435,038)</u>	<u>(377,623)</u>
At 31 December	<u>229,179</u>	<u>203,132</u>

The Group normally receives credit terms of 5 days to 90 days (2013: 5 days to 90 days) from its suppliers. The following is an aged analysis of trade payables at the end of the reporting period, presented based on the invoice date:

	2014 RMB'000	2013 RMB'000
0 to 90 days	608,114	657,919
91 to 180 days	85,368	66,303
181 to 365 days	25,137	32,634
1 to 2 years	13,281	8,199
Over 2 years	<u>3,622</u>	<u>7,090</u>
	<u>735,522</u>	<u>772,145</u>

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

During the year, motive battery industry in China was full of challenges, and the Group recorded a net loss for the first time. However, this is also a rare opportunity for the firm to make a comprehensive review in order to create secure foundation in this year for further sustainable development of the Company in the vibrant new energy industry and electric vehicle industry fully supported by the Chinese government.

As a review of the operations of the year, “transformation and upgrading” which comprises “three transformations” and “four upgradings” are the major achievements. The details are listed as below respectively:

1st transformation: accelerating transformation to motive lithium battery

After many years of research and development in motive lithium battery, the Group has already attained various technologies such as lithium iron phosphate battery, ternary materials and manganese-based graphite lithium. In this year, the Group has boosted its overall production capacity of motive lithium battery to 1.25GWH, successful placing itself among the leading providers of motive lithium battery in China, and the sales has recorded an increase of 46.2% compared to 2013. Thus, many electric vehicle manufacturers in China seek to negotiate and cooperate with us actively.

2nd transformation: further transformation into mini electric car motive battery

With continuous verification by the market on our mini electric car motive battery from initial samples to final big orders, this business segment of the Group has gained high market recognition. During this year, sales of this business amounted to RMB957 million, up by 87.2% greatly as compared with the last year and accounted for 6.8% (2013: 3.8%) of the Group’s sales turnover. According to IPSOS Report of Electric Car Industry 2014 (the “IPSOS REPORT”), market share of the Group in relevant industry further increased to 55% and became the first industry brand.

3rd transformation: deepening transformation to used battery recycling industry

The Group began to develop its used battery recycling business in 2008, and now has two production bases which are located in Eastern and Northern China respectively. The recycling base in Eastern China has been put into operation for more than two years, its production has become more mature in the year, contributing a sales of RMB426 million with a substantial increase of 93.2% compared with the last year, and has been the Group’s fastest-growing business segment. The construction of the recycling base in Northern China has been completed basically in this year, and is expected to gain sales contribution in 2015.

1st upgrading: upgrading of lead motive battery

After years of research and development, the Group has achieved further breakthroughs in lead motive battery in this year and developed “super lead-carbon battery” and “silicon dioxide colloid battery” respectively. Such two new batteries enjoy substantial improvement in life, energy storage and discharge, etc., and will serve as the core battery product for mini electric vehicles.

2nd upgrading: upgrading of e-commerce

During the year, the Group successfully opened an instant maintenance service network called “Xiaodianlv” and an online store “TIANNENG” on Tmall.com in order to attract new customers through O2O mode in order to cooperate with the Group’s nationwide network of distributors to add value and upgrade the entire marketing system.

3rd upgrading: upgrading in environmental protection

During the year, the Group continued to improve the levels of technology and equipment to speed up the transformation of production process, thus comprehensively enhancing the level of environmental protection. In the list of approval of environmental protection audit released by the Ministry of Environmental Protection and the list of approval of industry access audit released by the Ministry of Industry and Information Technology, a total of 5 companies under the Group were among such lists, ranking No.1 in the industry. The enhancement of environmental protection capabilities of the Group has become one of the core competitiveness for its long and mid-term development.

4th upgrading: upgrading in governance disclosure of environmental community relations

After the publication of this annual report, the Group will separately publish the first report on Environmental, Social and Governance (ESG), fully describing the Company’s work on environmental protection and social responsibility from corporate governance, market operations, working environment, community involvement, environmental protection and other aspects.

FUTURE PROSPECTS, NEW NORMAL AND NEW DRIVERS

Facing the new normal of slowdown of growth rate of electric bike and rapid growth of electric tricycle and mini electric car, the Group captured the new drivers for development of emerging industries, with a view to realize steady growth of electric car batteries business, speed up the development of three major emerging businesses, namely lithium battery, electric car batteries and used battery recycling in the future.

Electric bike, as an energy-saving, environmental-friendly and comfortable transport mode in the 21st century, well match the governmental policy of eliminating smog and promoting environmental-friendly products and will usher in enormous development opportunities in the future. According to IPSOS report, it is estimated that lead batteries will account for more than approximately 80% market share of electric bike motive batteries in the long term (2014-2020) and continue to maintain its leading position in the market. The Group will make better use of its advantage over its huge sales network, further upgrade the electric bike batteries market by playing a leading role for its peer, market and industry in terms of technology innovation, products upgrade and new models, respectively.

Strategically, the Group has invested in the research and development of electric car and electric bike lithium motive batteries and kicked off its mass production many years ago. The Group will continue to enhance its collaboration with the complete vehicle manufacturers, expand its sales channels in the secondary market and increase the proportion of sales and profit contribution of lithium battery of the Group, aiming to become the top market players in the motive lithium battery industry in China.

For new energy car motive battery business development, motor vehicle electrification has become an unalterable trend in China and the world. According to IPSOS report, the demand for mini electric car during 2014 to 2020 will grow at a CAGR of 36%. By 2020, it is estimated that the ownership of batteries for mini electric car will exceed 5 million units, which will become the major driver for the sales growth of lead motive batteries in mid-to-long term. After considering the national policy and conditions as well as the Group’s

competitive advantages, the Group will allocate more resources in the development of “mini-affordable-safe” motive battery for new energy cars by enhancing its cooperation worldwide, engaging in the formulation of industry standard, expanding downstream market and enhancing product quality.

Electric tricycles have been widely used as short-distance logistics transport as well as municipal administration and household vehicles. According to IPSOS report, it is expected that the ownership of electric tricycles in China will experience a mid-to-high speed growth in the future. By 2020, the ownership will reach approximately 100 million units. The rapid growth in electric tricycle market will boost strong demand for batteries. It is expected that, in 2020, the scale of the electric tricycle battery market will be approximate to that of the electric bike battery market, becoming another major motive batteries market in addition to electric bike. The Group will further optimize its product structure, expand its sales channel, enhance its after-sales services and strengthen its cooperation with manufacturers.

Under the guidance of the government’s policy that strongly advocates circular economy, the Group will deepen its lead battery recycling strategy in full scale. The Eastern China base obtained the only available license for handling the recycle of old batteries in Zhejiang Province. The Group will accelerate the construction of the plant in Northern China base. The trial production is expected to commence in 2015. Looking forward, by insisting environmental protection, enhancing its recycling and reproduction technology and reduction of production cost of batteries, the Group aims to become a new benchmark company in the lead recycling industry in China.

In conclusion, the Group will adhere to the main principle of progress through stability and focus on quality and efficiency. It will incorporate advance technology into traditional industries and expand the scale of emerging industries. In addition, expansion of emerging industries such as electric car battery, motive lithium battery and resources recycling will be the Group’s key strategic direction. With new material, new techniques, new skills and new equipment as its core tactics, the Group aim to further enhance the proportion of sales in emerging industries, the management efficiency and the added-value of its products, so as to increase the overall profitability of the Group in the future. Pursuing the belief of “New Energy New World” and strategically aiming at becoming the “Global Leading Green Energy Provider”, the Group will be able to achieve continuous growth by innovation with new drive under the new normal and contribute better returns to the Shareholders in the long run.

OPERATING RESULTS

Turnover

With the overall goal of strengthening the industry leading status, the Group’s turnover increased from approximately RMB13.6 billion in 2013 to approximately RMB14 billion in 2014, representing an increase of approximately 3.0% as compared to the previous year. Except electric bike motive batteries, the Group recorded substantial growth in sales of all business sectors, details of which set out below:

In respect of the sales of electric bike motive batteries, the Group targeted at reducing the industry capacity with the price elasticity and enhancement of marketing model as its main strategy during the year. According to IPSOS REPORT, in 2014, the industry demands reduced by 9% comparing with last year. The Group’s turnover from electric bike lead motive batteries was RMB9.354 billion in this year, representing a decrease of 10.0% as compared to the previous year, mainly due to decrease in price. However, our market share remained at approximately 35%, broadly similar to that in 2013, market share of the majority of other competitors was only 6% or less. The Group had a total of 1,806 secondary market exclusive distributors as at 31 December 2014, increased by 112 from 1,694 as at 31 December 2013. Secondary market sales and distribution network of the Group is covering most parts of China.

In respect of the electric tricycle motive batteries, the Group aimed at grasping the opportunity of explosive market growth and urbanization and seizing market shares, by upholding the main strategy to expand the strategic cooperation with customers, strengthen product promotion to the new market in rural towns and utilize its comprehensive distribution network of electric bikes lead motive battery. According to IPSOS REPORT, in 2014, the industry demands recorded an annual growth rate of approximately 27%. The Group's turnover from electric tricycle lead motive batteries was RMB2.959 billion in this year, representing an increase of approximately 31.5% as compared to the previous year, 4.5 percentage points higher than the industry growth.

In respect of the electric car motive batteries, in this year, the Group led industry players and government sectors related to mini electric vehicles to the accelerating development of relevant administrative measures. Meanwhile, it conducted lots of strategic cooperative research with electric vehicle manufacturers in regions where the fastest growth of the mini electric car industry in China were recorded (including Shandong, Henan and Anhui province, etc.), as well as maintained and built strategic partnership with Kandi Auto, Shifeng Group, Chery Automobile and Shandong Tangjun and other electric vehicle manufacturers. The Group's turnover from electric car motive batteries was RMB957 million in this year, representing a substantial increase of approximately 87.2% as compared to the previous year. According to IPSOS REPORT, in 2014, the Group was ranked No. 1 in the low-speed electric vehicle battery industry with a market share of 55%, significantly outperformed the other competitors..

The Group's turnover from products of used lead battery recycling was RMB426 million in this year, representing a substantial increase of 93.2% as compared to the previous year, mainly due to further improvement of production capacity utilization in Eastern China base and industry recognition for the Group's products. The used lead battery recycling has become the fastest-growing business sector in the Group.

The Group's turnover from motive lithium batteries was RMB180 million in this year, representing a substantial increase of 46.2% as compared to the previous year, mainly due to strong market demands for motive lithium battery and substantial increase in production capacity of the Group in the fourth quarter of 2014.

In respect of research and development, in order to maintain product competitiveness, the Group made extensive investment in research and development. The Group's research and development activities focused on developing clean, durable and environmental-friendly new energy battery products. The Group currently has a State-Certified Enterprise Technology Center, Postdoctoral Scientific Research Workstation and Zhejiang Academician and Expert Workstation. In 2014, the Group was recognized as Model Enterprise of Technology Innovation in the PRC by the Ministry of Industry and Information Technology of the PRC, and was granted the title of motive batteries and materials engineering technology research and development center by the Science and Technology Department of Zhejiang Province. Zhejiang Tianneng Energy Technology Co., Ltd., a subsidiary of the Group, was elected as National Torch Plan Key High and New Technology Enterprise (國家火炬計劃重點高新技術企業), while Tianneng Battery Group Co., Ltd., another subsidiary was included in the first tranche of pilot training enterprises in Zhejiang Province, which is one of the three enterprises in this program. Meanwhile, the Group's recycling base in Eastern China was rated as Demonstration Project of Recycled Nonferrous Metal Utilization by China Non Ferrous Metals Industry Association and a pilot agent for the nation's circular economy standardization by Standardization Administration of the PRC and the National Development and Reform Commission. The application of clean production technology for industrial use in 2014 of recycling base in Northern China was also approved.

Leveraging its advanced science research platform and its strong research and development team, the Group launched three new products in 2014, namely graphite manganese lithium batteries, super lead-carbon batteries and intelligent cloud batteries. Among which, super lead-carbon batteries was rated as “National New Product”, the lithium batteries with manganese have also passed the new product appraisal of Zhejiang Province and the intelligent cloud batteries have entered into strategic collaboration with the Ministry of Public Security of Zhejiang Province. At the same time, the Group has also invented a number of new products, including automotive start-and-stop batteries and lithium-ion battery with low temperature resistance features for military use. With the strong research and development capabilities, the Group is able to meet the demand for new products from different industry and different manufacturers, and take the lead in the new development of the industry with its advanced technology.

Gross Profit

The Group’s gross profit and gross profit margin in 2014 were approximately RMB1.26 billion and 9.0% respectively (2013: approximately RMB1.4 billion and 10.3% respectively), representing a decrease of approximately 10.0% and 1.3 percentage point respectively. Despite the Group’s effort in proportion reduction of OEM production, optimization of production management and lower unit price of “lead”, thereby the unit production cost declined by approximately 5%; the unit selling price falling by 4% - 9% for different lead battery products specifications, finally resulting in a decline in gross profit margin as a whole.

Other income

Other income of the Group decreased by approximately 21.4% from approximately RMB177 million in 2013 to approximately RMB140 million in 2014. The decrease was mainly attributable to the decrease in government grants.

Selling and distribution costs

Selling and distribution costs increased by approximately 57.9% from approximately RMB413 million in 2013 to approximately RMB652 million in 2014. Such increase was mainly due to the increase in transportation cost, sales commission and advertising cost.

Administrative expenses

Administrative expenses decreased by approximately 4.2% from approximately RMB367 million in 2013 to approximately RMB352 million in 2014. Such decrease was mainly due to office expenses reduction.

Finance costs

Finance costs increased by approximately 43.3% from approximately RMB144 million in 2013 to approximately RMB206 million in 2014. Such increase was mainly due to loan restructuring during the year, leading to higher proportion of long-term borrowing in total borrowing, and interest rate of long-term borrowings is higher than that of short-term borrowings. Another reason for interests increase was due to interest increase of discounting of notes receivable.

Taxation

The Group recorded enterprise income tax expenses of approximately RMB10.92 million in 2013, and tax credit of RMB114 million in 2014, mainly because the Group recorded loss before taxation during the year.

LIQUIDITY AND FINANCIAL RESOURCES

The net cash from operating activities amounted to approximately RMB777 million in 2014 (2013: RMB938 million). Despite the annual loss brought pressure to cash flow, the Group successfully obtained additional cash flow of approximately RMB902 million by reducing the scale of inventories, reducing bills receivable, trade receivables and other receivables and expansion of the scale of bills payables, trade payables and other payables, leading to a substantial improvement to cash flow from operating activities.

Net cash used in investing activities mainly consisted of capital expenditure for the purchase of property, plant and equipment and withdrawing pledged and time bank deposits.

As at 31 December 2014, the bank balances and cash (including the pledged bank deposits) of the Group was approximately RMB1.79 billion (31 December 2013: approximately RMB1.02 billion). As at 31 December 2014, the Group obtained undrawn banks facilities of approximately RMB1.78 billion (31 December 2013: approximately RMB1.69 billion). The amount RMB1.70 billion, RMB82 million and RMB4 million of bank balances and cash (including the pledged bank deposits) are denominated in Renminbi, Hong Kong Dollars and US Dollars respectively. As the bank balances in Hong Kong Dollars could be used for the repayment of Hong Kong Dollars bank borrowings, the Company is able to control the level of currency risk.

As at 31 December 2014, the Group had no held-for-trading investments (31 December 2013: RMB3.22 million). During the year, the Group made certain related investment and recorded a profit of approximately RMB3.43 million. During the investment process, the Group fully considered the use of funds, reasonable returns, liquidity and market conditions and other factors, and effectively controlled associated risks to implementing the Group's prudent financial policies.

As at 31 December 2014, the net current liabilities of the Group were approximately RMB241 million (31 December 2013: net current assets of approximately RMB382 million). Based on the steady cash inflow from operating activities and the sufficient level of cash and bank balances, the Company believes that it will be able to meet its liabilities as and when they fall due and meet the capital required for operations. The Company is able to control the level of its liabilities and financial risks.

As at 31 December 2014, the bank borrowings and loan notes (together as "interest bearing loans") of the Group with maturity of within one year totally amounted to approximately RMB2.5 billion (31 December 2013: approximately RMB2.14 billion). The interest bearing loans of the Group with maturity of more than one year amounted to approximately RMB1.07 billion (31 December 2013: approximately RMB655 million). The amounts of RMB3.40 billion, RMB150 million and 28 million interest bearing loans are denominated in Renminbi, US Dollars and Hong Kong Dollars respectively, and carry fixed and variable interest rates ranging from 3.15% to 8.00% (2013: 3.19% to 6.77%) per annum. The Company will closely monitor the changes in interest rate and assess the interest rate risk.

The objective of the Company's financial policy is to maintain an optimal capital structure to minimize the capital cost through prudent financial management. During the period under review, the Group continued to further make use of long-term loan in order to optimize its loan structure.

FINANCIAL POSITION

Assets

As at 31 December 2014, the total assets of the Group was approximately RMB8.714 billion, representing an increase of 10.2% as compared to approximately RMB7.904 billion as at 31 December 2013. Among them, non-current assets increased by approximately 21.6% to approximately RMB4.093 billion and current assets increased by approximately 1.8% to approximately RMB4.621 billion. The major reason for the increase of non-current assets was due to the capital expenditure on production plants. The increase in current assets was mainly attributable to the increase in bank deposits.

Liabilities

As at 31 December 2014, the total liabilities of the Group was approximately RMB5.968 billion, representing an increase of approximately 23.3% from approximately RMB4.842 billion as at 31 December 2013. Among them, current liabilities increased by approximately 17.0% to approximately RMB4.862 billion, mainly due to the increase in accounts payables and short-term interests bearing loans. Non-current liabilities increased by approximately 61.5% to RMB1.106 billion, mainly due to the increase in long-term interest bearing loans.

Major financial position ratio

	2014	2013
Current ratio	0.95	1.09
Quick ratio	0.63	0.65
Interest cover (<i>Note</i>)	0.10	2.66

Note: EBITDA divided by total interest expense

Both current ratio and quick ratio decreased when compared to the beginning of the year, which were mainly due to more increase in current liabilities than current assets. The interest cover ratio decreased significantly, mainly due to the loss before taxation.

CAPITAL EXPENDITURE

The capital expenditure in 2014 was approximately RMB816 million (2013: approximately RMB865 million). A majority of expenditure was incurred on the construction of lithium batteries production plants, Changxing Wushan base, Puyang base in Henan, Suyang base in Jiangsu and Jieshou base in Anhui.

CAPITAL COMMITMENTS

The amount contracted for but not stated in the consolidated financial statements in respect of the acquisition of property, plant and equipment as at 31 December 2014 was approximately RMB685 million (31 December 2013: approximately RMB430 million).

GEARING RATIO

The Group's gearing ratio (which is based on the amount of total interest bearing loans divided by total assets multiplied by 100%) as at 31 December 2014 was approximately 41.0% (31 December 2013: approximately 35.4%).

EXPOSURE IN EXCHANGE RATE FLUCTUATION

As the Group's operations were mainly conducted in China and the majority of the sales and purchases were transacted in Renminbi, the Board is of the view that the Group's operating cash flow and liquidity are not subject to significant foreign exchange rate risk, and therefore no hedging arrangements were made. However, the Group will review and monitor the relevant foreign exchange exposure from time to time based on its business development requirements and may enter into foreign exchange hedging arrangements when appropriate.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2014 (31 December 2013: nil).

PLEDGE OF ASSETS

As at 31 December 2014, the bank facilities of the Group were secured by bank deposits, bills and accounts receivables, property, plant and equipment and prepaid lease payments. The aggregate net book value of the assets pledged amounted to approximately RMB518 million (31 December 2013: RMB506 million).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2014, the Group employed a total of 18,268 employees (31 December 2013: 17,846 employees). Staff costs excluding directors' emoluments of the Group for the year of 2014 amounted to approximately RMB1.032 billion (2013: RMB915 million). The costs included basic salaries and benefits as well as staff benefits such as discretionary bonus, medical and insurance plans, pension scheme (including the schemes required by the governments such as pension insurance in China and mandatory pension fund in Hong Kong), unemployment insurance plans and share option scheme etc. Competitive remuneration packages were offered to employees. The Company has adopted incentive programs (including share option scheme) to encourage employee performance and a range of training programs for the development of its staff.

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held by the Group as at 31 December 2014 (31 December 2013: nil).

ISSUE OF CORPORATE BONDS

During the year, to provide the Group with additional source of fundings for its business development, Tianneng Battery Group Co. Ltd., a wholly owned subsidiary of the Company, issued two tranches of corporate bonds in an aggregate amount of RMB800 million to PRC domestic institutional investors for terms of 5 years and 6 years respectively. Further details of the issue can be referred to the announcements dated 7 March 2014, 10 March 2014, 18 September 2014 and 26 September 2014.

MATERIAL ACQUISITION AND DISPOSAL

There was no material acquisition and disposal during the year.

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

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities during the year.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 11 May 2015 to 16 May 2015, both days inclusive, during which period no transfer of the shares of the Company will be registered. In order to qualify for attending the annual general meeting of the Company of this year, all share certificates, together with dully completed transfer forms, must be lodged with the Company's Share Registrar, Tricor Investor Services Limited at 22nd Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 8 May 2015.

AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") in accordance with the requirements of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules") for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. As at 31 December 2014, the Audit Committee comprised three independent non-executive directors, namely, Mr. Ho Tso Hsiu, Mr. Huang Dongliang and Mr. Wang Jingzhong.

The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2014.

CORPORATE GOVERNANCE CODE

The Company has adopted the provisions of the Corporate Governance Code (the "Code") during the period from 1 January 2014 to 31 December 2014 as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). For the year ended 31 December 2014, except for the code provision A.2.1 the Company has complied with the provisions set out in the Code. Mr. Zhang Tianren is both the Chairman and 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.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2014 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

COMPLIANCE WITH THE MODEL CODE OF LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the “Model Code”) as set out in Appendix 10 of the Listing Rules. Having made specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the year 2014.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held at Conference Room, 3/F, Tianneng Group Building, Huaxi Industrial Function Zone, Changxing County, Zhejiang Province, the PRC on Saturday, 16 May 2015 at 2:00 p.m.. Notice of annual general meeting will be published on the Company’s website at www.tianneng.com.hk and the website of the Stock Exchange at www.hkex.com.hk and despatched to the shareholders of the Company as soon as practicable.

PUBLICATION

The annual report containing all the information as required by Appendix 16 of the Listing Rules will be published on the Company’s website at www.tianneng.com.hk and the website of the Stock Exchange at www.hkex.com.hk as soon as practicable.

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. Zhou Jianzhong; the independent non-executive Directors are Mr. Ho Tso Hsiu, Mr. Huang Dongliang and Mr. Wang Jingzhong.

This announcement will be published on the website of the Company at www.tianneng.com.hk and the website of the Stock Exchange at www.hkex.com.hk.

By order of the Board
Zhang Tianren
Chairman

Hong Kong, 27 March 2015

As at the date of this announcement, the executive directors of the Company are Mr. ZHANG Tianren, Mr. ZHANG Aogen, Mr. CHEN Minru, Mr. ZHANG Kaihong, Mr. SHI Borong and Mr. ZHOU Jianzhong; the independent non-executive directors of the Company are Mr. HO Tso Hsiu, Mr. HUANG Dongliang and Mr. WANG Jingzhong.