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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 2017

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 24.8% to approximately RMB11.362 billion
- Gross profit increased by approximately 9.1% to approximately RMB1.438 billion
- Net profit increased by approximately 13.6% to approximately RMB461 million
- Basic earnings per share increased by approximately 11.4% to approximately RMB39.0 cents

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Tianneng Power International Limited (the “**Company**”) announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2017, together with the comparative figures for the same period in 2016. 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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	NOTES	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	11,361,951	9,105,460
Cost of sales		(9,923,787)	(7,787,029)
Gross profit		1,438,164	1,318,431
Other income	4	177,693	143,804
Other gains and losses	5	(81,979)	(69,395)
Selling and distribution costs		(312,904)	(276,767)
Administrative expenses		(185,301)	(162,976)
Research and development costs		(367,472)	(275,711)
Other expenses		(47,489)	(69,792)
Share of result of an associate		2,760	33
Finance costs		(78,223)	(71,672)
Profit before taxation	6	545,249	535,955
Taxation	7	(84,005)	(130,015)
Profit and total comprehensive income for the period		461,244	405,940
Profit and total comprehensive income for the period attributable to:			
Owner of the Company		439,117	398,396
Non-controlling interest		22,127	7,544
		461,244	405,940
Earnings per share	9		
– Basic		RMB39.0 cents	RMB35.0 cents
– Diluted		RMB38.3 cents	RMB34.3 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	NOTES	30.6.2017 RMB'000 (unaudited)	31.12.2016 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	10	3,816,675	3,787,843
Goodwill		499	499
Prepaid lease payments	10	194,201	162,846
Interest in an associate		13,253	10,493
Deferred tax assets	11	318,883	333,005
Deposit for acquisition of property, plant and equipment		54,238	66,229
		<u>4,397,749</u>	<u>4,360,915</u>
Current assets			
Inventories		1,905,744	1,884,761
Held-for-trading investments	12	61,559	57,645
Bills, trade and other receivables	13	2,473,605	2,687,101
Amounts due from a related party		2,778	598
Prepaid lease payments		5,818	5,621
Derivative financial instruments		–	19,422
Pledged bank deposits		1,008,535	1,235,675
Bank balances and cash		3,480,086	1,878,087
		<u>8,938,125</u>	<u>7,768,910</u>
Current liabilities			
Bills, trade and other payables	14	5,691,838	5,828,350
Amounts due to related parties		9,819	12,457
Taxation payable		(13,720)	122,692
Bank borrowings – current portion	15	2,455,104	1,163,692
Obligations under finance leases – due within one year	16	10,074	15,006
		<u>8,153,115</u>	<u>7,142,197</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)**At 30 June 2017*

	<i>NOTES</i>	30.6.2017 RMB'000 (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Net current assets		785,010	626,713
Total assets less current liabilities		5,182,759	4,987,628
Non-current liabilities			
Bank borrowings – non-current portion	15	36,000	36,000
Deferred tax liabilities	11	52,977	48,395
Obligations under finance leases – due after one year	16	455	4,275
Long-term loan notes	17	773,515	792,358
		862,947	881,028
		4,319,812	4,106,600
Capital and reserves			
Share capital	18	109,889	109,889
Reserves		4,012,363	3,821,278
Attributable to the owners of the Company		4,122,252	3,931,167
Non-controlling interest		197,560	175,433
Total equity		4,319,812	4,106,600

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

Tianneng Power International Limited (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 and its shares are listed on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) with effect from 11 June 2007.

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

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are stated at fair value, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by HKICPA that are mandatorily effective for the current interim period.

The application of those amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE

Six months ended 30 June

2017	2016
<i>RMB'000</i>	<i>RMB'000</i>
(unaudited)	(unaudited)

An analysis of revenue is as follows:

Lead-acid motive battery products:

Electrical Bicycle Battery	7,139,003	5,727,270
Electrical Tricycle Battery	2,098,772	1,636,142
Pure Electric Car Battery (<i>note</i>)	860,283	617,744
Recycled lead products	547,817	408,716
Lithium battery products	454,961	288,931
Others	261,115	426,657
	11,361,951	9,105,460

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

4. OTHER INCOME

Six months ended 30 June

2017	2016
<i>RMB'000</i>	<i>RMB'000</i>
(unaudited)	(unaudited)

Government grants (<i>note</i>)	135,977	109,135
Interest income	27,961	22,374
Others	13,755	12,295
	177,693	143,804

Note: The government grants mainly represent unconditional subsidies from the relevant development zone administrative committees and PRC local governments to encourage the operations of certain subsidiaries. The government grants are accounted for as immediate financial support with no future related costs expected to be incurred and are not related to any assets.

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Net losses on held-for-trading investments (<i>note i</i>)	(6,767)	(9,802)
Net losses on derivative financial instruments (<i>note ii</i>)	(8,445)	–
Allowance for bad and doubtful debts, net	(58,920)	(4,540)
Written off/loss on disposal of property, plant and equipment (<i>note iii</i>)	(8,729)	(38,671)
Written off of inventories (<i>note iii</i>)	–	(8,976)
Net foreign exchange gains (losses)	882	(7,406)
	<u>(81,979)</u>	<u>(69,395)</u>

Notes:

- i. Net losses on held-for-trading investments represented losses arising on changes in fair value of equity securities.
- ii. Net losses on derivative financial instruments represented losses arising on changes in fair value of foreign currency forward contracts.
- iii. During the six months ended 30 June 2017, the carrying amount of property, plant and equipment of approximately RMB13,162,000 (1.1.2016 to 30.6.2016: RMB26,448,000) was derecognised upon disposals of property, plant and equipment with proceeds of approximately RMB4,433,000 (1.1.2016 to 30.6.2016: RMB8,886,000), resulting in a loss of approximately RMB8,729,000 (1.1.2016 to 30.6.2016: RMB17,562,000).

During the six months ended 30 June 2016, an aggregated carrying amount of certain property, plant and equipment of approximately RMB21,109,000 and inventories written off of approximately RMB8,976,000 were recorded due to the fire accidents occurred in certain factories. The aggregate losses from the fire accidents of approximately RMB30,085,000 were fully compensated by insurance compensation subsequently in October 2016.

6. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments	3,138	2,684
(Reversals of) allowance for inventories, net (included in cost of sales)	(7,209)	601
Write down of inventories to net realizable values (included in cost of sales)	245,032	270,813
Depreciation of property, plant and equipment	171,025	171,873
	171,025	171,873

Share-based payments expense of approximately RMB5,973,000 (1.1.2016 to 30.6.2016: RMB8,460,000) were recognised in profit or loss during the six months ended 30 June 2017 in respect of share options of the Company granted in prior years. Details of transactions are set out in note 19.

7. TAXATION

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
PRC Enterprise Income Tax (“EIT”)		
– Current tax	93,661	74,084
– (Over) under provision in prior years	(28,360)	20,659
	65,301	94,743
Deferred tax expense (<i>note 11</i>)	18,704	35,272
	84,005	130,015

7. TAXATION *(Continued)*

The income tax expense of the Group is recognised based on the PRC Enterprise Income Tax rate of 25% (1.1.2016 to 30.6.2016: 25%) during the current period except that, Tianneng Battery Group Co., Ltd. (“**Tianneng Battery**”), Zhejiang Tianneng Energy Technology Co., Ltd. (“**Zhejiang Tianneng Energy**”), Tianneng Battery Group (Anhui) Co., Ltd. (“**Tianneng Battery Anhui**”), Zhejiang Tianneng Power Energy Co., Ltd. (“**Zhejiang Tianneng Power**”), Tianneng Battery (Wuhu) Co., Ltd. (“**Tianneng Battery Wuhu**”), Anhui Zhongneng Power Supply Co., Ltd. and Tianneng Group (Henan) Energy Technology Co., Ltd, which were recognised as High-Tech companies and enjoyed a tax rate of 15% in the current period (1.1.2016 to 30.6.2016: 15% applicable for Tianneng Battery, Zhejiang Tianneng Energy, Tianneng Battery Anhui, Zhejiang Tianneng Power and Tianneng Battery Wuhu).

8. DIVIDENDS

Six months ended 30 June

2017	2016
<i>RMB'000</i>	<i>RMB'000</i>
(unaudited)	(unaudited)

Dividends recognised as distribution during the period:

1.1.2017 to 30.6.2017: 2016 final dividend of HK25.60 cents
(equivalent to RMB22.90 cents)
(1.1.2016 to 30.6.2016: 2015 final dividend
of HK31.80 cents (equivalent to
RMB26.67 cents)) per ordinary share

254,005	304,431
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The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017 and 30 June 2016.

9. EARNINGS PER SHARE

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Earnings:		
Earnings for the purposes of calculating basic and diluted earnings per share		
– attributable to the owners of the Company	439,117	398,396
Number of shares:		
Weighted average number of ordinary shares		
for the purpose of calculating basic earnings per share	1,126,546,500	1,139,351,709
Effect of dilutive potential ordinary shares – share options	20,683,823	22,232,009
Weighted average number of ordinary shares		
for the purpose of calculating diluted earnings per share	1,147,230,323	1,161,583,718

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

The Group spent approximately RMB54,497,000 and RMB158,522,000 (1.1.2016 to 30.6.2016: RMB87,390,000 and RMB180,024,000) on additions of machinery and manufacturing plant and construction in progress in the PRC respectively. The carrying amount of property, plant and equipment of approximately RMB13,162,000 (1.1.2016 to 30.6.2016: RMB26,448,000) was derecognised upon disposals of property, plant and equipment with proceeds of approximately RMB4,433,000 (1.1.2016 to 30.6.2016: RMB8,886,000), resulting in a loss of approximately RMB8,729,000 (1.1.2016 to 30.6.2016: RMB17,562,000).

During the period, the Group spent RMB34,690,000 on additions of prepaid lease payments in the PRC (1.1.2016 to 30.6.2016: nil).

During the six months ended 30 June 2017, the Group received government grants of approximately RMB20,325,000 (1.1.2016 to 30.6.2016: RMB14,443,000) and RMB10,000,000 (1.1.2016 to 30.6.2016: RMB6,952,000) in relation to certain properties, plant and equipment and land leases of the Group respectively. The Group recognised the amount as a deduction from the carrying amount of the relevant assets and will be released to profit or loss over the useful lives of the relevant assets.

As at 30 June 2017, the official legal titles of buildings with an aggregate carrying amount of approximately RMB720,633,000 (At 31.12.2016: RMB752,055,000) and land use right certificates for prepaid lease payments with carrying amounts of approximately RMB40,994,000 (At 31.12.2016: RMB6,930,000) have not been obtained by the Group.

11. DEFERRED TAXATION

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

	Deferred income	Withholding tax on undistributed profit	Fair value adjustment on property, plant and equipment and prepaid lease payments arising from acquisition of subsidiaries	Interest capitalisation	Fair value change of held-for-trading investments	Provision for inventories, trade and other receivables	Accrued warranty	Fair value changes of derivative financial instruments	Accrued expenses	Impairment loss on property, plant and equipment	Tax losses	Others	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
At 1 January 2016 (audited)	54,396	(14,300)	(1,493)	(29,030)	43	26,958	57,364	–	109,662	6,246	74,548	(5,430)	278,964
Credit (charge) to profit or loss	596	(11,600)	(50)	(1,026)	(43)	920	1,242	–	(10,388)	(1,984)	(13,069)	130	(35,272)
Reversal on payment of withholding tax	–	20,300	–	–	–	–	–	–	–	–	–	–	20,300
At 30 June 2016	<u>54,992</u>	<u>(5,600)</u>	<u>(1,543)</u>	<u>(30,056)</u>	<u>–</u>	<u>27,878</u>	<u>58,606</u>	<u>–</u>	<u>99,274</u>	<u>4,262</u>	<u>61,479</u>	<u>(5,300)</u>	<u>263,992</u>
At 1 January 2017 (audited)	<u>69,804</u>	<u>(7,900)</u>	<u>(1,594)</u>	<u>(30,671)</u>	<u>(147)</u>	<u>23,930</u>	<u>76,864</u>	<u>(2,913)</u>	<u>112,125</u>	<u>4,631</u>	<u>45,651</u>	<u>(5,170)</u>	<u>284,610</u>
Credit (charge) to profit or loss	<u>(8,504)</u>	<u>(6,500)</u>	<u>(50)</u>	<u>(976)</u>	<u>147</u>	<u>6,517</u>	<u>(6,246)</u>	<u>2,913</u>	<u>(8,772)</u>	<u>(1,927)</u>	<u>9,382</u>	<u>129</u>	<u>(18,704)</u>
At 30 June 2017	<u>61,300</u>	<u>(14,400)</u>	<u>(1,644)</u>	<u>(31,647)</u>	<u>–</u>	<u>30,447</u>	<u>70,618</u>	<u>–</u>	<u>103,353</u>	<u>2,704</u>	<u>55,033</u>	<u>(5,041)</u>	<u>265,906</u>

The following is the analysis of the deferred tax balances for financial reporting purposes:

	30.6.2017 RMB'000 (unaudited)	31.12.2016 RMB'000 (audited)
Deferred tax assets	318,883	333,005
Deferred tax liabilities	(52,977)	(48,395)
	<u>265,906</u>	<u>284,610</u>

For the period ended 30 June 2017, the Group had unused tax losses of approximately RMB38,265,000 (At 31.12.2016: RMB16,844,000) available to offset against future profits. No deferred tax assets has been recognized in respect of such losses due to unpredictability of future profit streams. Such unrecognised losses will expire at various dates up to and including 2022 (At 31.12.2016: 2021).

11. DEFERRED TAXATION *(Continued)*

Under the PRC Enterprise Income Tax, 10% withholding income tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB2,772 million (At 31.12.2016: RMB2,463 million) as the Group has set aside such sum for non-distributable purpose, and is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

12. HELD-FOR-TRADING INVESTMENTS

At 30 June 2017, the held-for-trading investments represent equity securities amounted to RMB61,559,000 (At 31.12.2016: nil) listed in Hong Kong and nil (At 31.12.2016: RMB57,645,000) listed in mainland China. Fair values are determined with reference to quoted market bid prices.

13. BILLS, TRADE AND OTHER RECEIVABLES

	30.6.2017 RMB'000 (unaudited)	31.12.2016 RMB'000 (audited)
Bills receivables	1,205,222	1,399,111
Trade receivables	855,382	781,799
Other receivables	200,241	275,084
Prepayments	70,562	62,679
PRC value added tax receivables	142,198	168,428
	2,473,605	2,687,101

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

	30.6.2017 RMB'000 (unaudited)	31.12.2016 RMB'000 (audited)
0 to 180 days	1,054,080	1,337,100
180 to 365 days	151,142	62,011
	1,205,222	1,399,111

13. BILLS, TRADE AND OTHER RECEIVABLES *(Continued)*

No interest is charged on the trade receivables. Customers including independent third parties of batteries and battery related products are normally granted an average credit period of 45 days (At 31.12.2016: 45 days). 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:

	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
0 – 45 days	466,104	398,107
46 – 90 days	214,832	216,815
91 – 180 days	61,622	71,718
181 – 365 days	112,824	95,159
	855,382	781,799

14. BILLS, TRADE AND OTHER PAYABLES

	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Trade payables	1,708,508	1,769,406
Bills payables	1,308,766	1,402,981
Other payables and accrued charges	2,674,564	2,655,963
	5,691,838	5,828,350

14. BILLS, TRADE AND OTHER PAYABLES (Continued)

The following is an aged analysis of trade payables, presented based on invoice dates at the end of the reporting period:

	30.6.2017 RMB'000 (unaudited)	31.12.2016 RMB'000 (audited)
0 – 90 days	1,319,468	1,449,588
91 – 180 days	168,400	94,033
181 – 365 days	160,149	127,944
1 – 2 years	49,086	89,016
Over 2 years	11,405	8,825
	1,708,508	1,769,406

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

	30.6.2017 RMB'000 (unaudited)	31.12.2016 RMB'000 (audited)
0 – 180 days	1,255,612	1,402,981
181 – 365 days	53,154	–
	1,308,766	1,402,981

15. BANK BORROWINGS

	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Secured	632,000	492,000
Unsecured	1,859,104	707,692
	<u>2,491,104</u>	<u>1,199,692</u>
Carrying amounts repayable:		
Within one year	2,455,104	1,163,692
More than one year but not more than five years	36,000	36,000
	<u>2,491,104</u>	<u>1,199,692</u>
Less: Amounts due within one year shown under current liabilities	<u>(2,455,104)</u>	<u>(1,163,692)</u>
Amounts shown under non-current liabilities	<u>36,000</u>	<u>36,000</u>

Details of assets pledged by the Group at the end of the reporting period are set out in note 20.

16. OBLIGATIONS UNDER FINANCE LEASES

	30.6.2017 <i>RMB'000</i>	31.12.2016 <i>RMB'000</i>
Analysed for reporting purposes as:		
Current liabilities	10,074	15,006
Non-current liabilities	455	4,275
	<u>10,529</u>	<u>19,281</u>

It is the Group's policy to lease certain of its equipment under finance leases. The lease term is two years (at 31.12.2016: two years). Interest rate underlying the obligations under finance leases is fixed at 4.75% per annum based on the respective contract.

17. LOAN NOTES

	30.6.2017 RMB'000 (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Long-term guaranteed loan notes	773,515	792,358

Note:

- (1) On 11 March 2014, Tianneng Battery issued a long-term loan notes with principal amount of RMB400,000,000 at a discount and received proceed of RMB392,400,000. The long-term loan notes bear interest at 7.31% per annum and are repayable on 11 March 2019.

At 31 December 2016, the amount is stated at amortised cost with effective interest rate at 7.78% per annum.

On 11 March 2017, the Company redeemed part of the issued loan notes with principal amount of RMB20,000,000. At 30 June 2017, the amount is stated at amortised cost with effective interest rate at 7.81% per annum.

- (2) On 9 October 2014, Tianneng Battery issued a long-term loan notes with principal amount of RMB400,000,000 at a discount and received proceed of RMB395,400,000. The long-term loan notes bear interest at 8% per annum and are repayable on 9 October 2020.

At 30 June 2017 and 31 December 2016, the amount is stated at amortised cost with effective interest rate at 8.25% per annum.

18. SHARE CAPITAL

	Number of shares	Amount <i>RMB'000</i>
Ordinary shares of the Company with nominal value of HK\$0.10 each		
Authorised:		
At 1 January 2016, 31 December 2016 and 30 June 2017	2,000,000,000	212,780
Issued and fully paid:		
At 1 January 2016	1,143,768,500	111,356
Repurchase and cancellation of shares	(17,222,000)	(1,467)
At 31 December 2016 and 30 June 2017	1,126,546,500	109,889

19. SHARE OPTIONS

The Company has a share options 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, option granted must be taken up within 28 days from the date of grant, upon payment of HK\$1.00. The options may be exercised in accordance with the terms of the Scheme at any time during the exercise period 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 up to a maximum of four years after the date of grant.

The total number of shares issued and which may fall to be issued upon exercise of the options granted pursuant to the Scheme to an eligible participant in any 12-month period shall not exceed 1% of the number of shares in issue unless approved by shareholders in a general meeting. The maximum number of shares in respect of which options may be granted under the Scheme shall not in aggregate exceed 10% of the shares in issue on the date on which dealings in the shares first commence on the Hong Kong Stock Exchange, i.e. a total of 100,000,000 shares (the “**Option Limit**”). Pursuant to an annual general meeting held on 16 May 2014, the Option Limit has been refreshed to 10% of the shares in issue on the date of the annual general meeting, i.e. a total of 111,190,800 shares.

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

Maximum percentage of options exercisable	Vesting period
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

No options were granted during the six months ended 30 June 2017 (1.1.2016 to 30.6.2016: nil).

19. SHARE OPTIONS (Continued)

The following tables disclosed movements of the Company's options granted under the Scheme during the six months ended 30 June 2017 and 30 June 2016.

Category	Grant date	Exercisable period	Exercise price	Outstanding at 1.1.2017	Forfeited during the period	Outstanding at 30.6.2017
Option B	22.11.2010	22.11.2011-21.11.2020	HK\$3.18	680,000	–	680,000
Option C	16.6.2014	16.6.2015-15.6.2024	HK\$2.90	42,705,000	(1,867,500)	40,837,500
				<u>43,385,000</u>	<u>(1,867,500)</u>	<u>41,517,500</u>

Category	Grant date	Exercisable period	Exercise price	Outstanding at 1.1.2016	Forfeited during the period	Outstanding at 30.6.2016
Option B	22.11.2010	22.11.2011-21.11.2020	HK\$3.18	680,000	–	680,000
Option C	16.6.2014	16.6.2015-15.6.2024	HK\$2.90	46,019,500	(1,741,500)	44,278,000
				<u>46,699,500</u>	<u>(1,741,500)</u>	<u>44,958,000</u>

No options were exercised during the six months ended 30 June 2017 and 2016.

During the period, the Group recognised total expense of approximately RMB5,973,000 (1.1.2016 to 30.6.2016: RMB8,460,000) in relation to share options granted by the Company under the Scheme.

20. PLEDGE OF ASSETS

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

	30.6.2017 RMB'000 (unaudited)	31.12.2016 RMB'000 (audited)
Bank deposits	1,008,535	1,235,675
Bills receivables	748,859	774,195
Property, plant and equipment	126,414	136,607
Prepaid lease payments	31,711	22,770
	<u>1,915,519</u>	<u>2,169,247</u>

21. CAPITAL COMMITMENTS

	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	<u>299,200</u>	<u>240,802</u>

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of these financial assets are determined, as well as the level of the fair value hierarchy into which the fair value measurements are categorised (level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the Group's financial assets that are measured at fair value on a recurring basis *(Continued)*

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key input	Significant unobservable input	Relationship of unobservable inputs to fair value
	30.06.2017 (unaudited)	31.12.2016 (audited)				
Listed equity securities classified as held-for-trading investments in the condensed consolidated statements of financial position	Listed equity securities in Hong Kong: – Manufacturing industry – RMB61,559,000 Listed equity securities in Mainland China: – Manufacturing industry – nil	Listed equity securities in Hong Kong: – Manufacturing industry – nil Listed equity securities in Mainland China: – Manufacturing industry – RMB57,645,000	Level 1	Quoted bid prices in an active market.	N/A	N/A
Foreign currency forwards contracts classified as derivative financial instruments in the consolidated statement of financial position	Nil	Assets: RMB19,422,000	Level 2	Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates.	N/A	N/A

23. RELATED PARTY TRANSACTIONS

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

Name of related company	Nature of transactions	Six months ended 30 June	
		2017 <i>RMB'000</i> (unaudited)	2016 <i>RMB'000</i> (unaudited)
Zhejiang Changxing Xin Xin Packaging Co., Ltd. ("Xin Xin Packaging") (note i)	Purchase of consumables	233	545
Jiyuan City Wanyang Smelting (Group) Co., Ltd. ("Wanyang Group") (note ii)	Purchase of materials	489,815	331,032
	Sale of goods	178,600	48,410
	Rental expense	1,041	2,300
Changxing Jin Ling Hotel (note iii)	Hotel expense	1,254	1,159
Tianneng Yinyue (Shanghai) New Energy Material Co., Ltd. ("Tianneng Yinyue") (note iv)	Purchase of materials	<u>928,255</u>	<u>—</u>

Details of amounts due from a related party is as follows:

Name of the related party	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Tianneng Yinyue (note iv)	<u>2,778</u>	<u>598</u>

Details of the amounts due to related parties are as follows:

Name of related parties	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Xin Xin Packaging (note i)	118	461
Wanyang Group (note ii)	9,701	11,996
	<u>9,819</u>	<u>12,457</u>

23. RELATED PARTY TRANSACTIONS (Continued)

Note:

- (i) Xin Xin Packaging (浙江長興欣欣包裝有限公司) is beneficially owned by Ms. Chen Pingping and Ms. She Fangli, who are the cousin and niece respectively of Mr. Zhang. As at 30 June 2017, 410,355,650 shares (At 31.12.2016: 410,355,650 shares) of the Company (approximately 36.42% of the total issued shares of the Company as at 30 June 2017) are held by Prime Leader Global Limited which is incorporated in the British Virgin Island and is wholly-owned by Mr. Zhang. Mr Zhang is also a director of the Company.
- (ii) Wanyang Group (濟源市萬洋冶煉(集團)有限公司) is an entity controlled by the 49% non-controlling equity holder of Jiyuan Wanyang Green Energy Co., Ltd. (濟源市萬洋綠色能源有限公司), which is itself a 51% owned subsidiary of the Group.
- (iii) Changxing Jin Ling Hotel (長興金陵大酒店) is controlled by Mr. Zhang.
- (iv) Tianneng Yinyue is a 45% owned associate of the Group.

The amount(s) due from/to Xin Xin Packaging, Wanyang Group and Tianneng Yinyue are trade nature, interest free and have no fixed repayment terms.

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Short term employee benefits	2,826	2,902
Share-based payments	46	185
	2,872	3,087

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 four major business segments in the People’s Republic of China (“**PRC**” or “**China**”), namely the research and development, production and sale of 1) lithium motive battery for new energy vehicles; 2) the lead motive batteries for mini electric cars; 3) the lead motive batteries for electric bikes and electric tricycles; and 4) used battery recycling. In 2017, the Group was ranked among “Fortune China Top 500” as selected by the Fortune magazine for five consecutive years.

REVIEW OF OPERATIONS

During the six months ended 30 June 2017, the Group continued to adhere to the main theme of making progress while maintaining stability by focusing on quality and efficiency along with innovation drivers to progress further in enterprise platform, intelligentized manufacturing and global market presence, which contributed to a healthy development of each of its principal businesses. According to the “List of Top 100 Battery Enterprises 2016, China” (《2016中國電池行業百強名單》) issued by the China Industrial Association of Power Sources in July 2017, the Group ranked top in revenue in domestic battery industry.

During the Reporting Period, the Group recorded revenue of approximately RMB11,362 million and net profit of approximately RMB461 million, representing an increase of 24.8% and 13.6% as compared with the same period last year respectively, hitting historical highs mainly attributable to overall strong demand from domestic electric vehicle industry. Revenue from new energy vehicle lithium battery was approximately RMB455 million, representing an increase of 57.5% as compared with the same period last year; external revenue from recycled lead products was approximately RMB548 million, representing an increase of 34.0% as compared with the same period last year; revenue from pure electric car battery was approximately RMB860 million, representing an increase of 39.3%; and revenue from electric bicycle and electric tricycle battery were approximately RMB7,139 million and RMB2,099 million, representing an increase of 24.7% and 28.3% as compared with the same period last year, respectively.

I. Advanced Lead Battery

Lead battery has been a legend principal business of the Group. It recorded revenue of approximately RMB10,098 million during the Reporting Period, representing an increase of 26.5% as compared with the same period last year.

The Group was admitted as a “National System Integration Project of Green Manufacturing” (國家綠色製造系統集成項目) by the Ministry of Industry and Information Technology (MIIT) during the Reporting Period, one out of the only two enterprises in the industry.

The Group was granted as a “National Quality Benchmarking Enterprise” by the MIIT. In addition to efforts in achieving clean manufacturing, the Group proactively implemented intelligentized reconstruction projects, with new technologies, equipments and processes, including casting and rolling and green container formation, widely applied at each production base, whereby the Group successfully established an entirely automatic production line. Meanwhile, it actively implemented recycling policy on used batteries, solid wastes, waste water, electric power and waste acid. Together with its informatised management and focus on the establishment as an independent operator, both of the Group’s production efficiency and product quality were significantly improved.

The Group’s balance technology greatly maximizes the lifespan of a battery by achieving balance in six key areas, enabling various active substances in the battery to make their fullest play. The balance technology has been approved as a national patent and certified by the Patent Cooperation Treaty (PCT). The Group’s product portfolio includes rare earth gel batteries, lead carbon batteries, graphene batteries, boutique batteries and balance batteries of all specifications and functions. Meanwhile, the Group has expanded the application scope of its lead batteries by addition of production facilities for industrial battery, energy storage battery and start-stop battery production.

Driven by various demands arising from improved traffic condition and moderate consumption upgrade in China, electric bicycles, electric tricycles and mini electric cars have become major traffic tools in the third and fourth tier cities as well as in wide rural areas, with students and new business practitioners playing as a new consumer group. As forecasted in the Ipsos Industry Reports, the market of electric bicycle and tricycle battery and mini electric car battery in China will be valued over US\$10 billion and 9 billion respectively by 2025. During the Reporting Period, with support of the Group’s graphene batteries, the LEVDEO electric car successfully completed its ride along the Great Wall; the Group began to supply electric tricycle batteries to SF Express on an exclusive basis; and the Group’s mini electric car battery continued to lead the market.

The Government encourages the lead-acid battery industry to develop in a healthy and orderly manner, while imposing regulations and controls over the industry. Up to the Reporting Period, the MIIT announced three batches of lists (a total of 113 enterprises) conforming with the “Standardized Conditions of the Industry of Lead-Acid Batteries” (《鉛蓄電池行業規範條件》). At an executive meeting of the State Council, it was resolved to cancel the ex ante licensing for rechargeable battery production and implement mandatory certification (CCC) in line with prevailing international rules instead, reflecting a higher industry threshold, a more concentrated market and more benefits from consolidation to expect.

II. Lithium Battery

The lithium battery business, one of the most rapidly developed businesses of the Group, recorded revenue of approximately RMB455 million in the Reporting Period, representing an increase of 57.5% as compared with the same period last year. According to statistics from the China Association of Automobile Manufacturers, sales of pure electric vehicles in China increased 26% in the first half of 2017.

According to the “List of Top 20 Lithium Battery Enterprises 2016, China” (《2016年度中國動力鋰離子電池20強企業名單》) issued by the China Industrial Association of Power Sources in February 2017, the Group’s lithium battery of ternary materials ranks fourth in sales volume. The Group has been the only enterprise in the industry with its lithium battery business being selected as a “2017 Manufacturing and Internet Integration Pilot Project” (2017製造業與互聯網融合發展試點示範項目) by the MIIT. Meanwhile, the Group led and participated in the preparation of “Standards of Green Design of Lithium Battery Products” (《鋰離子電池綠色設計產品評價團體標準》) with the China Electrical Equipment Industry Association.

In relation to technical research and development, leveraging on its two independent proprietary technologies, i.e. LFP and NCM ternary technology, the Group has produced a wide range of products including prismatic LFP cells, ternary 18650 cells, battery management systems and PACK battery packs. During the Reporting Period, the Group launched ternary pouch cell products, which support heavy-current charge and discharge with higher power and energy density over 200Wh/kg. Besides, the Group has engaged leading technical experts worldwide to build its R&D team, which currently comprises of over 1,000 members, including 3 academicians, 4 experts of the national “Thousand Talents Plan”, 10 foreign experts and 33 professors and doctors. It has also cooperated with nearly 10 domestic and overseas universities in establishing platforms for production, study and research, facilitating sustainable support to its scientific research of lithium batteries in the future.

In respect of broadening of client base, during the Reporting Period, the Group has supplied its products to various well-known new energy auto companies in China, such as Chery Automobile Co., Kandi Electric Vehicles Group, Lifan Motors, ZOTYE Auto, Brilliance Auto Group, Holley Worldwide Holdings, and Nanjing Golden Dragon Bus Co., Ltd., and has accumulated 100 client resources ranging from mini electric car manufacturers, high-end electric bicycle manufacturers to shared electric bicycle manufacturers so as to promote its lithium batteries in multiple dimensions and at multiple levels, and embrace a booming market readily.

For production capacity, the Group's newly established new energy vehicle motive (energy storage) lithium battery project in Changxing, Zhejiang Province with a total capacity of 3GWh has commenced production in phases. It adopts international leading intelligent and full automatic lithium battery production line and production process, ensuring the consistency, yield rate and safety of its products. During the year, the project will continue to make full use of its capacity and aims to reach a total lithium battery production capacity of 5.5GWh.

III. Resources Recycling

During the Reporting Period, external revenue of recycled lead was approximately RMB548 million, representing an increase of 34.0% as compared with the same period last year, further mitigating the effect of lead price movements. The engagement in used battery recycling business can reduce the cost of production effectively, control raw material risk and make profit contribution. After years of development, profitability of the used battery recycling business began to show up and has maintained growth both in economic efficiency and social benefit.

During the Reporting Period, the used battery recycling capacity of the Group's bases in Eastern China and Northern China after capacity expansion are expected to reach 300,000 tons and 100,000 tons per annum respectively, totaling 400,000 tons per annum, posing the Group as the largest benchmarking and demonstrating enterprise in waste and used lead battery recycling business in China. The Group's bases in Eastern China was recognised as a "National Advanced Enterprise for Comprehensive Utilization of Resources" (全國資源綜合利用先進企業), "Pilot Enterprise for the National Circular Economy" (國家循環經濟標準化試點企業) and "Key Technological Modification Project for National Industrial Revitalization" (國家產業振興重點技術改造項目) by the National Development and Reform Commission (NDRC), a "Key Promoting Project of Integration of Informatization and Industrialization for Promoting Energy-Saving and Emission Reduction in China" (國家兩化融合促進節能減排重點推進項目) by the MIIT and a "National Science and Technology Supporting Program" (國家科技支撐計劃項目) by the Ministry of Science and Technology (MOST) respectively.

It is provided in the "Conditions for Standardisation of Lead Recycling Industry" (《再生鉛行業規範條件》) issued by the MIIT that the size for pretreatment project of waste lead batteries and pretreatment-smelting project for recycled lead must at least reach 100,000 tons and 60,000 tons per annum respectively. It also imposes more strict requirements on energy consumption and solid, liquid and gas waste management. Give a vast market potential, higher industry threshold and more concentrated production capacity will bring more benefits to the Group's development in the long run.

IV. Energy Storage Battery

The Group has proactively explored energy storage market in response to national strategies, reflected by (1) the establishment of its lead-carbon storage laboratory in 2010, currently with several proprietary intellectual property rights; (2) a sufficient capacity of vehicle motive (energy storage) battery (15 million KVAh) and new energy vehicle motive (energy storage) lithium battery (3GWh); and (3) nationwide sales networks capable of addressing subsequent replacement issues independently and resource recycling business capable of recycling and treatment of energy storage batteries independently. In March 2017, the National Energy Administration issued the “Guiding Opinions on Promotion of Energy Storage Technology and Industry Development (Exposure Draft)” (《關於促進儲能技術與產業發展的指導意見(徵求意見稿)》), which, for the first time, clearly expresses the strategic position of energy storage in domestic energy industry and specifies that the transition of energy storage from research and development and demonstration stage to initial commercialization and then shift to scale development are the primary objectives for energy storage during the “13th Five-Year Period” and the “14th Five-Year Period” respectively.

V. Global Trade

The Group’s products have been sold across the globe along with China’s “One Belt, One Road” initiative. The Group mainly sells its products to Southeast Asia, Middle East, Europe and South America.

Electrification of traffic tools has been a rising global trend. Characterized by low price and convenience, electric bicycle becomes a key replacement of motorcycle and has been widely used in developing counties in Southeast Asia and South America. Overseas energy storage markets are primarily concentrated in the USA, the European Union and Australia. According to the latest research report issued by the P&S Market Research, a research institution of global energy market, global energy storage market was approximately US\$2,663 million in 2016, and by 2022, it is expected to reach US\$26,137 million, representing a compound annual growth rate (CAGR) of 46.3%.

FUTURE PROSPECTS

Looking forward, the Group will continue to adhere to the main theme of making progress while maintaining stability by focus on quality and efficiency to create solutions to advanced lead battery system, high energy lithium battery system, integrated recycling economy industry chain and energy storage battery system, and establish itself as an industry-leading international new energy group receiving social respects and to the satisfaction of its employees.

I. Solution to Advanced Lead Battery System

The Group will secure the opportunity arising from consolidation to stabilise its market shares and improve profit contribution. It aims to play the roles as an industry leader and a rule-maker by means of intelligentized manufacturing and lean management to improve production efficiency and reduce management costs.

II. Solution to High Energy Lithium Battery System

In line with government policies and industry trends, the Group will highlight technology research and talents introduction to develop ternary batteries of high energy density and various specifications as well as new battery technologies. Meanwhile, it will broaden its client base to expand the application scope of its products and speed up the application test of lithium batteries together with electric auto manufacturers. Besides, the Group will make a master plan on production capacity and implement it in stages to gradually release capacity pursuant to the Group's strategic steps in an orderly manner.

III. Solution to Integrated Recycling Economy Industry Chain

The Group will continue to improve the utilization rate of its existing recycling capacity and explore opportunities to establish new recycling bases of lead batteries and plan to develop recycling business of lithium batteries in other provinces into new growth points of profit for economic efficiency and social benefits.

IV. Solution to Energy Storage Battery System

The Group will put great efforts in promoting the application of lead-carbon battery and lithium battery in power energy storage and household energy storage and expand it into the overseas market, such as America, Europe, Australia and Asia-Pacific, via “One Belt, One Road” initiative. The Group will be prepared in aspect of technology, client and production capacity to embrace a booming market growth readily.

Driven by the mission of “New Energy, New World” and determined to become “a world leading new energy solution provider”, the Group will continue to make further reformation and renovation to bring sustainable returns to its shareholders.

FINANCIAL REVIEW

Turnover

The Group’s turnover for the period under review was approximately RMB11,362 million, representing an increase of approximately 24.8% as compared with the same period last year.

Gross profit

The Group’s gross profit and gross profit margin for the period under review were approximately RMB1,438 million and approximately 12.7% respectively, representing an increase of approximately 9.1% and a decrease of 1.8 percentage points as compared with the same period last year, mainly attributable to the increase in sales income.

Other income

The Group’s other income for the period under review was approximately RMB177.69 million (for the six months ended 30 June 2016: approximately RMB143.80 million), representing an increase of 23.6% as compared with the same period last year. It was mainly attributable to the increase in government grants.

Selling and distribution costs

Selling and distribution costs increased from approximately RMB277 million in the same period last year to approximately RMB313 million for the period under review, which was mainly attributable to the increase in transportation cost.

Administrative expenses

Administrative expenses increased from approximately RMB163 million in the same period last year to approximately RMB185 million for the period under review, which was mainly attributable to the increase in depreciation and amortisation costs and consultancy expenses.

Research and development (“R&D”) costs

Research and development costs increased from approximately RMB276 million in the same period last year to approximately RMB367 million for the period under review, which was mainly attributable to the increase in the number of R&D projects and optimization of the R&D team.

Finance costs

Finance costs increased from approximately RMB71.67 million in the same period last year to approximately RMB78.22 million for the period under review, which was mainly due to the increase in interest bearing loans.

Operating activities cash flow

The net cash generated from operating activities of the Group decreased from RMB781 million in the same period last year to approximately RMB638 million for the period under review. It was mainly attributable to the increase in inventories and cash paid for income tax.

CAPITAL STRUCTURE, FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2017, the shareholders’ equity of the Company amounted to approximately RMB4,122 million (31 December 2016: approximately RMB3,931 million). The Group’s capital structure is the equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

As at 30 June 2017, the Group had total assets of approximately RMB13.336 billion (31 December 2016: approximately RMB12.130 billion), representing an increase of approximately RMB1,206 million, or approximately 9.94%. As at 30 June 2017, total current assets of the Group were approximately RMB8,938 million (31 December 2016: approximately RMB7,769 million), accounting for approximately 67.02% of total assets and representing an increase of approximately 2.98 percentage points as compared with those as at 31 December 2016. Total non-current assets were approximately RMB4,398 million (31 December 2016: approximately RMB4,361 million), representing an increase of approximately RMB37 million and accounting for approximately 32.98% of total assets.

As at 30 June 2017, total liabilities of the Group were approximately RMB9,016 million (31 December 2016: approximately RMB8,023 million), representing an increase of approximately RMB993 million, or approximately 12.37%. As at 30 June 2017, total current liabilities of the Group were approximately RMB8,153 million (31 December 2016: approximately RMB7,142 million), representing an increase of approximately RMB1,011 million and accounting for approximately 90.43% of total liabilities, and representing an increase of approximately 1.41 percentage points as compared with those as at 31 December 2016. Total non-current liabilities of the Group were approximately RMB863 million (31 December 2016: approximately RMB881 million), representing a decrease of approximately RMB18 million and accounting for approximately 9.57% of total liabilities.

As at 30 June 2017, the cash and bank balances of the Group (including pledged bank deposits and time deposits) were approximately RMB4,489 million (31 December 2016: approximately RMB3,114 million), of which approximately RMB110.0294 million and approximately RMB16.3626 million are denominated in Hong Kong Dollars and United States Dollars respectively. As at 30 June 2017, the bank borrowings of the Group with maturity of within one year amounted to approximately RMB2,465 million (31 December 2016: approximately RMB1,179 million). The bank borrowings and loan notes (together as “**interest bearing loans**”) with maturity of more than one year amounted to approximately RMB810 million (31 December 2016: approximately RMB833 million). The interest bearing loans amounted to approximately RMB3,101 million and approximately RMB174 million were denominated in Renminbi and Hong Kong Dollars respectively. The loans denominated in RMB with fixed interest rates ranging from 3.65% to 8% (2016: 3.55% to 8%) per annum, and the loans denominated in Hong Kong Dollars with interest rates of 1-month HIBOR plus 1.25% to 2% (2016: 1.47% to 1.49%) per annum. In conclusion, the borrowings of the Group as at 30 June 2017 remained at a healthy and controllable level. With unutilized credit facilities of RMB2,704 million, the Group will take a cautious stance and maximize the interests of the Shareholders and the Company by striking a balance between the borrowings and the funding utilization. Moreover, with continuously improving the fund structure as our financial objective in long run, the Group will optimize its loan structure with further use of long term loans.

Pledge of assets

As at 30 June 2017, the bank facilities and bank borrowings of the Group were secured by its bank deposits, bills receivables, property, plant and equipment, and land use rights. The aggregate net book value of the assets pledged amounted to approximately RMB1,916 million (31 December 2016: approximately RMB2,169 million).

Gearing ratio

As at 30 June 2017, the Group's gearing ratio, defined as the percentage of the sum of current and non-current portions of interest bearing loans against the total assets, was approximately 24.56% (31 December 2016: approximately 16.58%).

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 are of the view that the Group's operating cash flow and liquidity are not subject to significant foreign exchange rate risks 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 30 June 2017 (31 December 2016: Nil).

Capital commitments

For details, please refer to note 21 to the Condensed Consolidated Financial Statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group employed a total of 18,447 employees (30 June 2016: 18,115). Staff cost of the Group for the period under review was approximately RMB607 million (for the six months ended 30 June 2016: approximately RMB580 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 by the Group. The Company has adopted incentive programs to encourage employees' performance and a range of training programs for the development of its staff.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the period under review (for the six months ended 30 June 2016: Nil).

SIGNIFICANT INVESTMENTS HELD

During the periods under review, the Group recorded a net loss of approximately RMB6.77 million (for the six months ended 30 June 2016: net loss of approximately RMB9.80 million) for the held-for-trading investment as the capital market was under fluctuation. Save as the disclosures in note 12 to the Condensed Consolidated Statement of Financial Position conducted in accordance with the established treasury policy of the Group, during the periods under review, there were no significant investments held by the Group as at 30 June 2017 (31 December 2016: Nil).

MATERIAL ACQUISITION AND DISPOSAL

During the periods under review, the Group had no material acquisition or disposal of subsidiaries and associates.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

For details, please refer to note 19 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 report.

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. The Company has adopted and complied with the code provisions of the Corporate Governance Code ("**CG Code**") during the Reporting Period as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**"), except for the code provision A.2.1 of the CG Code. Dr. Zhang Tianren is both the chairman ("**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 an 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 Company's audit committee (inter alia) are to review the financial reporting system, the risk management and internal control systems 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 Company's audit committee has reviewed this interim report 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 report 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 confirmed that they have complied with the required standard for securities transactions set out in the Model Code throughout the six months ended 30 June 2017.

The Company has also complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules and appointed three 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. Details of the Scheme are set out in the Note 19 to the financial statements. An ordinary resolution was passed at the annual general meeting of the Company held on 16 May 2014 (the "**Annual General Meeting**") relating to the refreshment of scheme mandate limit of the Scheme as set out in the supplemental notice of Annual General Meeting.

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. On 22 November 2010, a total of 44,720,000 share options were offered and granted to Directors and eligible participants under the Scheme. After the refreshment of the Scheme, on 16 June 2014, a total of 58,660,000 options were offered and granted to Directors and eligible participants. The details movement of Company's share options during the Reporting Period are as follows:

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK\$)	Closing price of Company's shares immediately before the date of grant (HK\$)	Weighted average closing price of Company's shares immediately before the date of exercise (HK\$)	Number of option outstanding as at 1 January 2017	Number of options granted during the period	Number of options exercised during the period	Number of options cancelled during the period	Number of options with the terms of the Scheme during the period	Number of options outstanding as at 30 June 2017	Approximate shareholding percentage of the underlying shares for the options in the share capital of the Company
Huang Dongliang (Independent non-executive Director)	16/6/2014	16/6/2015 to 15/6/2024	2.90	2.89	–	90,000	–	–	–	–	90,000	0.01%
Other eligible participants	22/11/2010	22/11/2011 to 21/11/2020	3.18	3.02	–	680,000	–	–	–	–	680,000	0.06%
	16/6/2014	16/6/2015 to 15/6/2024	2.90	2.89	–	42,615,000	–	–	–	(1,867,500)	40,747,500	3.62%
						<u>43,385,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1,867,500)</u>	<u>41,517,500</u>	<u>3.69%</u>

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

Neither the Company nor any of its subsidiaries had 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 Dr. 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. GUO Konghui, Mr. HUANG Dongliang and Mr. WU Feng.

This announcement will be published on the website of the Hong Kong Stock Exchange 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, 29 August 2017