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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 2017

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 25.25% to approximately RMB26,903.90 million.
- Profit attributable to shareholders increased by approximately 37.25% to approximately RMB1,178.37 million.
- Basic earnings per share increased by approximately 38.16% to approximately RMB1.05.
- A final dividend of HK37.00 cents per share is proposed.

2017 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 2017 together with the previous financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

		2017	2016
	NOTES	***RMB'000***	*RMB'000*
Turnover	*4*	**26,903,901**	21,480,891
Cost of sales		**(23,396,623)**	(18,505,980)
Gross profit		**3,507,278**	2,974,911
Other income		**309,325**	222,065
Other gains and losses	*5*	**(146,559)**	(124,378)
Selling and distribution costs		**(675,164)**	(587,076)
Administrative expenses		**(448,617)**	(373,203)
Research and development costs		**(882,663)**	(696,500)
Other operating expenses		**(108,088)**	(132,766)
Share of profit of an associate		**5,081**	1,493
Finance costs	*6*	**(153,005)**	(139,463)
Profit before taxation		**1,407,588**	1,145,083
Taxation	*7*	**(227,356)**	(239,561)
Profit for the year	*8*	**1,180,232**	905,522

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

For the year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Fair value gain on available-for-sale financial assets, net of income tax		**14,042**	–
Total comprehensive income for the year		**1,194,274**	905,522
Profit for the year attributable to:			
Owners of the Company		**1,178,369**	858,546
Non-controlling interests		**1,863**	46,976
		1,180,232	905,522
Total comprehensive income for the year attributable to:			
Owners of the Company		**1,192,411**	858,546
Non-controlling interests		**1,863**	46,976
		1,194,274	905,522
Earnings per share	*10*		
– Basic		**RMB 1.05**	RMB 0.76
– Diluted		**RMB 1.02**	RMB 0.74

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	**2017** **RMB'000**	2016 RMB'000
Non-current assets			
Property, plant and equipment		**3,949,384**	3,787,843
Goodwill		**499**	499
Prepaid lease payments		**240,449**	162,846
Interest in an associate		**15,574**	10,493
Available-for-sale investments		**226,000**	–
Deferred tax assets		**336,434**	333,005
Deposit for acquisition of property, plant and equipment		**63,896**	66,229
		4,832,236	4,360,915
Current assets			
Inventories		**2,132,701**	1,884,761
Held-for-trading investments		**–**	57,645
Bills, trade and other receivables	*11*	**2,392,492**	2,687,101
Amounts due from related parties		**17,096**	598
Prepaid lease payments		**7,219**	5,621
Derivative financial instruments		**–**	19,422
Pledged bank deposits		**727,562**	1,235,675
Bank balances and cash		**3,872,392**	1,878,087
		9,149,462	7,768,910
Current liabilities			
Bills, trade and other payables	*12*	**5,970,617**	5,359,924
Amounts due to related parties		**62,142**	12,457
Derivative financial instruments		**7,561**	–
Taxation payable		**123,190**	122,692
Borrowings – current portion		**1,324,561**	1,163,692
Obligations under finance leases – due within one year		**4,275**	15,006
Provisions		**449,158**	468,426
		7,941,504	7,142,197

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
At 31 December 2017

	2017	2016
	RMB'000	*RMB'000*
Net current assets	**1,207,958**	626,713
Total assets less current liabilities	**6,040,194**	4,987,628
Non-current liabilities		
Borrowings – non-current portion	**129,800**	36,000
Deferred tax liabilities	**72,567**	48,395
Obligations under finance leases		
– due after one year	**–**	4,275
Long-term loan notes	**774,341**	792,358
	976,708	881,028
	5,063,486	4,106,600
Capital and reserves		
Share capital	**109,889**	109,889
Reserves	**4,768,671**	3,821,278
Attributable to owners of the Company	**4,878,560**	3,931,167
Non-controlling interests	**184,926**	175,433
Total equity	**5,063,486**	4,106,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 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 Company is an investment holding company. The principal activities of its subsidiaries are the manufacture and sales of lead-acid batteries and battery related accessories.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

2.1 Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants for the first time in the current year:

Amendments to Hong Kong Accounting Standard ("HKAS") 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*

2.2 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 15	*Revenue from Contracts with Customers and the related Amendments*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[4]
HK(IFRIC)-Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Interpretation 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 insurance Contracts*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*[1]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*[2]

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

2 Effective for annual periods beginning on or after 1 January 2019

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for annual periods beginning on or after 1 January 2021

3. OPERATING SEGMENTS

HKFRS 8 “Operating Segments” requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive directors, the chief operating decision maker (the “CODM”), in order to allocate resources to the segments and to assess their performance. However, the financial information provided to the CODM does not contain profit or loss information of each product line or each market segment and the CODM 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 motive batteries and battery related accessories.

Segment revenues and results

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

The CODM consider the Group’s profit 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

	2017	2016
	RMB'000	*RMB'000*
An analysis of turnover is as follows:		
Electrical Bicycle (Tricycle) Battery *(note i)*	**21,706,836**	17,114,809
Special-purpose Battery *(note ii)*	**2,053,741**	1,954,102
Recycled lead products	**1,492,224**	955,055
Lithium battery products	**1,222,933**	615,500
Others	**428,167**	841,425
	26,903,901	21,480,891

Note:

i. It includes battery products mainly for electrical bicycle and electrical tricycle.

ii. It includes battery products mainly for pure electric car battery, tubular battery, lead-acid starter battery, energy storage battery and standby battery.

5. OTHER GAINS AND LOSSES

	2017	2016
	RMB'000	*RMB'000*
Net gains on held-for-trading investments *(note i)*	**9,679**	22,700
Net (losses) gains on foreign currency forward contracts *(note ii)*	**(15,722)**	19,422
Net losses on commodity derivative contracts *(note iii)*	**(28,525)**	–
Allowance for bad and doubtful debts	**(82,743)**	(71,338)
Written off/loss on disposal of property, plant and equipment	**(28,651)**	(85,362)
Impairment loss recognised in respect of property, plant and equipment	**–**	(2,517)
Net foreign exchange losses	**(597)**	(7,283)
	(146,559)	(124,378)

Note:

i. Net gains on held-for-trading investments included dividend income of approximately RMB1,186,000 (2016: RMB3,192,000), and gains arising on changes in fair value of RMB8,493,000 (2016: RMB19,508,000), which were earned on these held-for-trading investments during the year ended 31 December 2017.

ii. Net (losses) gains on foreign currency forward contracts represented realised losses of RMB8,445,000 (2016: nil) and unrealised losses of RMB7,277,000 (2016: gains of RMB19,422,000) on changes in fair value of foreign currency forward contracts.

iii. Net losses on commodity derivative contracts represented realised losses of RMB28,241,000 (2016: nil) and unrealised losses of RMB284,000 (2016: nil) arising on changes in fair value of commodity derivative contracts.

6. FINANCE COSTS

	2017	2016
	RMB'000	*RMB'000*
Interest on:		
– Borrowings	**90,237**	60,764
– Effective interest on long-term loan note	**62,408**	63,473
– Factorised bills receivable	**21,636**	22,419
– Finance lease	**550**	374
Total borrowing costs	**174,831**	147,030
Less: amounts capitalised	**(21,826)**	(7,567)
	153,005	139,463

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.32% (2016: 4.57%) per annum to expenditure on qualifying assets.

7. TAXATION

The charge comprises:

	2017	2016
	RMB'000	*RMB'000*
Hong Kong		
– Current tax	**2,723**	–
PRC Enterprise Income Tax ("EIT"):		
– Current tax	**239,908**	203,225
– (Over) under provision in prior years	**(28,360)**	21,682
	211,548	224,907
Deferred tax:		
Current year	**(18,770)**	14,654
Attributable to a change in tax rate	**31,855**	–
	227,356	239,561

The Company was incorporated in the Cayman Islands and is exempted from income tax.

Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profit for the year ended 31 December 2017.

Pursuant to the Enterprise Income Tax Law and Implementation Regulations of the Law of the PRC (the "New PRC Tax Law") which became effective on 1 January 2008, the applicable tax rate of the PRC subsidiaries is 25% during the year ended 31 December 2017 except that, Tianneng Battery Group Co., Ltd. ("Tianneng Battery"), Tianneng Battery Group (Anhui) Co., Ltd. ("Tianneng Battery Anhui"), Zhejiang Tianneng Energy Technology Co., Ltd. ("Zhejiang Tianneng Energy"), Zhejiang Tianneng Power Energy Co., Ltd. ("Zhejiang Tianneng Power"), Tianneng Battery (Wuhu) Co., Ltd. ("Tianneng Battery Wuhu"), Anhui Zhongneng Power Supply Co., Ltd., Tianneng Group (Henan) Energy Technology Co., Ltd, Jiyuan Wanyang Green Energy Co., Ltd. ("Jiyuan Wanyang"), and Tianneng Battery Group Jiangsu Technology Co., Ltd which were recognised as High-Tech companies and enjoyed a tax rate of 15% for the year ended 31 December 2017 (1.1.2016 to 31.12.2016:15% applicable for Tianneng Battery, Zhejiang Tianneng Energy, Tianneng Battery Anhui, Zhejiang Tianneng Power and Tianneng Battery Wuhu).

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

	2017		2016	
	RMB'000	*%*	*RMB'000*	*%*
Profit before taxation	**1,407,588**		1,145,083	
Tax at the applicable income tax rate of 25% (2016: 25%)	**351,897**	**25.0**	286,271	25.0
Tax effect of expenses not deductible for tax purposes	**6,870**	**0.5**	1,817	0.2
Tax effect of tax losses not recognised	**16,364**	**1.2**	3,551	0.3
Tax effect of deductible temporary differences not recognised	**9,752**	**0.7**	(324)	(0.1)
Utilisation of tax losses previously not recognised	**(3,824)**	**(0.3)**	(1,974)	(0.2)
Income tax at concessionary rates	**(102,605)**	**(7.3)**	(13,056)	(1.1)
Effect of change in tax rate	**31,855**	**2.3**	–	–
(Over) under provision in prior years	**(28,360)**	**(2.0)**	21,682	1.9
Tax effect of additional deduction related to research and development costs and certain staff costs	**(70,665)**	**(5.0)**	(72,306)	(6.3)
Effect of different tax rates of subsidiary operating in other jurisdiction	**(1,403)**	**(0.1)**	–	–
Withholding tax on undistributed profits of PRC subsidiaries	**17,475**	**1.2**	13,900	1.2
Taxation charge and effective tax rate for the year	**227,356**	**16.2**	239,561	20.9

8. PROFIT FOR THE YEAR

	2017	2016
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**342,706**	347,456
Amortisation of prepaid lease payments	**6,098**	4,506
Total depreciation and amortisation	**348,804**	351,962
Capitalised in inventories	**(264,923)**	(275,127)
	83,881	76,835
Auditor's remuneration	**2,340**	2,270
(Reversal) recognition of allowance for inventories (included in cost of sales)	**(6,406)**	3,292
Directors' emoluments	**4,603**	3,909
Other staff retirement benefit scheme contributions	**33,409**	41,394
Other staff costs	**1,344,472**	1,208,282
Share-based payment expense for other staff	**8,967**	15,111
Total staff costs	**1,391,451**	1,268,696
Cost of inventories recognised as expense	**23,396,623**	18,505,980

Share-based payment expense of approximately RMB8,987,000 (2016: RMB15,143,000) were recognised in profit or loss during the year ended 31 December 2017 in respect of share options of the Company.

9. DIVIDENDS

	2017	2016
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year: 2017: 2016 final dividend of HK25.60 cents (equivalent to RMB22.90 cents) per ordinary share (2016: 2015 final dividend of HK31.80 cents (equivalent to RMB26.67 cents))	**254,005**	304,430

A final dividend of HK37.00 cents (equivalent to RMB30.93 cents) (2016: HK25.60 cents (equivalent to RMB22.90 cents)) in respect of the year ended 31 December 2017 per ordinary share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. EARNINGS PER SHARE

	2017	2016
	RMB'000	*RMB'000*
Earnings for the purposes of calculating basic and diluted earnings per share – attributable to the owners of the Company	**1,178,369**	858,546
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,126,546,500**	1,133,770,145
Effect of dilutive potential ordinary shares – share options	**23,224,559**	20,886,482
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,149,771,059**	1,154,656,627

11. BILLS, TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Bills receivables	**1,186,894**	1,399,111
Trade receivables	**906,569**	885,044
Less: Allowance for bad and doubtful debts	**(181,947)**	(103,245)
	724,622	781,799
Other receivables	**242,257**	293,817
Less: Allowance for bad and doubtful debts	**(18,597)**	(18,733)
	223,660	275,084
Prepayments	**126,254**	62,679
PRC value added tax receivables	**131,062**	168,428
	2,392,492	2,687,101

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

	2017	2016
	RMB'000	*RMB'000*
0 to 180 days	**1,183,019**	1,337,100
180 to 365 days	**3,875**	62,011
	1,186,894	1,399,111

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 (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:

	2017	2016
	RMB'000	*RMB'000*
0 to 45 days	**508,715**	398,107
46 to 90 days	**163,153**	216,815
91 to 180 days	**24,564**	71,718
181 to 365 days	**28,190**	95,159
	724,622	781,799

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

The trade receivable balances of RMB508,715,000 (2016: RMB398,107,000) are neither past due nor impaired at the end of the reporting period for which the Group has not provided for impairment loss since they have no default history and of good credit quality.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB215,907,000 (2016: RMB383,692,000) 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:

	2017	2016
	RMB'000	*RMB'000*
46 to 90 days	**163,153**	216,815
91 to 180 days	**24,564**	71,718
181 to 365 days	**28,190**	95,159
	215,907	383,692

Management closely monitors any change in the credit quality of trade receivables. Based on the historical experience of the Group and the assessment of the management, 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 fully provided 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

	2017	2016
	RMB'000	*RMB'000*
1 January	**103,245**	51,954
Allowance for bad and doubtful debts	**82,906**	71,088
Reversal of bad and doubtful debts	**(32)**	(329)
Amounts written off as uncollectible	**(4,172)**	(19,468)
31 December	**181,947**	103,245

Other receivables are unsecured and interest-free.

Movement in the allowance for doubtful debts – other receivables

	2017	2016
	RMB'000	*RMB'000*
1 January	**18,733**	18,377
Allowance for bad and doubtful debts	**–**	775
Reversal of bad and doubtful debts	**(131)**	(196)
Amounts written off as uncollectible	**(5)**	(223)
31 December	**18,597**	18,733

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.

12. BILLS, TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**2,386,628**	1,769,406
Bills payables	**1,079,484**	1,402,981
Other payables and accrued charges	**2,504,505**	2,187,537
	5,970,617	5,359,924

The Group normally receives credit terms of 5 days to 90 days (2016: 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:

	2017	2016
	RMB'000	*RMB'000*
0 to 90 days	**1,888,639**	1,449,588
91 to 180 days	**208,838**	94,033
181 to 365 days	**201,448**	127,944
1 to 2 years	**67,095**	89,016
Over 2 years	**20,608**	8,825
	2,386,628	1,769,406

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

	2017	2016
	RMB'000	*RMB'000*
0 to 180 days	**1,079,484**	1,402,981

BUSINESS REVIEW

The Group has five major businesses in the People's Republic of China (the "PRC"), including the R&D, production and sales of: 1) new energy lithium motive battery; 2) special purpose lead motive battery; 3) lead motive battery for electric bicycles; 4) used battery recycling; and 5) smart energy.

Review of Operations

In 2017, the Group adhered to the stable progress as the overall tone. With the deepened transformation and innovation, the operation and management were gradually strengthened, and the quality and efficiency were continuously optimized. As a result, all major businesses achieved the remarkable results and the high-quality and sustainable development was realized.

During the reporting period, the Group recorded a revenue of approximately RMB26,904 million (2016: approximately RMB21,481 million) and a net profit of approximately RMB1,180 million (2016: approximately RMB906 million), both hitting historical highs. Revenue from lithium-ion batteries for new energy vehicles was approximately RMB1,223 million, representing an increase of 98.68% year-on-year and accounting for 4.55% of total revenue; revenue from special purpose batteries was approximately RMB2,054 million, representing an increase of 5.10% year-on-year and accounting for 7.63% of total revenue; revenue from lead motive batteries for electric bicycles and electric tricycles was approximately RMB21,707 million, increasing by 26.83% year-on-year and accounting for 80.68% of total revenue.

I. Steady growth of traditional industry

The lead batteries continued to be the mainstream and provide a solid cash flow to the Group. During the year, revenue from batteries for electric bicycles and electric tricycles was approximately RMB21,707 million, increasing by 26.83% year-on-year. Revenue from special purpose batteries was approximately RMB2,054 million, representing an increase of 5.10% year-on-year.

The Group continued to consolidate its leading position with the steadily rising market share in the industry of electric bicycles and electric tricycle motive batteries. It actively worked with the government and enterprises in the same industry to strengthen self-discipline and standardized management to jointly safeguard the order of the industry. With the development and implementation in succession of the new national standards for electric bicycles, the electric vehicles industry will surely develop in a more healthy and orderly direction.

Benefiting from the urbanization and development of e-commerce in China, electric bicycles and electric tricycles have become the daily traffic tools of ordinary Chinese people and delivery tools of logistics terminals. According to Ipsos Business Consulting, the demand for electric bicycles and electric tricycle batteries will reach RMB60 billion by 2025.

The Group vigorously promoted intelligent manufacturing and extensively applied the new technologies and processes of continuous casting and rolling at all production bases. The lead battery production lines were upgraded to digitalization, informationization and intelligence based on automation. The quality control in the process and on-site fine management were strengthened to improve product quality, energy conservation and emission reduction. Therefore, in the sharp fluctuations of lead prices in 2017, the sales and economic benefits of traditional business were not affected but significantly increased. Meanwhile, the Group implemented the megamarketing strategy and shared the distribution channel resources, so the number of high quality suppliers increased continuously, and the market share was steadily improved. For the first time, Tianneng named a G-series high-speed train, and the brand awareness and reputation were promoted accordingly. The market and product management were strengthened to enhance marketing service capabilities.

II. Growing emerging businesses

Revenue from lithium-ion batteries for new energy vehicles was approximately RMB1,223 million during the year, representing an increase of 98.68% year-on-year. According to the National Bureau of Statistics, 716,000 new energy vehicles were produced and sold in China in 2017, increasing by 51% year-on-year, and representing the world's largest new energy automotive market.

The lithium-ion battery business of the Group was successfully selected as the "Pilot and Demonstration Projects of Manufacturing and Internet Convergence Development 2017" and "Intelligent Manufacturing Project" by the Ministry of Industry and Information Technology. Furthermore, the Group has a key laboratory of lithium-ion battery and system in the first batch approved by China National Light Industry Council. The Group's R&D team with more than 1,000 technical staff, including 6 academicians, 4 "National One Thousand Talents", 10 foreign experts and 33 professors or doctors, established the producing-studying-researching platform with eleven domestic and overseas universities and a whole industry chain of R&D and production for lithium-ion battery materials, ternary lithium batteries, lithium iron phosphate batteries, and BMS and PACK system. With its leading technology, products, brands and services, the Group has accumulated the comprehensive customer structure, including new-energy automobile manufacturers, high-end electric bicycle manufacturer, shared electric bicycle companies and 3C digital companies, etc.. Zhejiang Tianneng Energy Technology Co., Ltd. ("Tianneng Energy"), a subsidiary of the Group, was selected as enterprise of Lithium-ion Battery Industry Standard Conditions in the second batch by the Ministry of Industry and Information Technology, and participated in the development of two national standards for lithium-ion battery industry. Tianneng Lithium Battery won the Excellent New Energy Vehicle Parts Supplier of China on December 8, 2017, at "China New Energy Vehicle Development Forum 2017" organized by China Automotive News. During the reporting period, the Group was also awarded the "Excellent Partnership Performance 2017" by Chery New Energy.

The Group actively explored the new markets for battery applications, and the new applications, including tubular batteries for electric forklifts, starting batteries for conventional vehicles and energy storage battery systems for wind and solar energy, expanded the field of application of batteries. According to China Industry Information Network, the annual logistics volume of China has exceeded RMB220 trillion, and the annual sales of forklifts is more than 370,000, of which the share of electric forklifts has risen rapidly from 11% in 2011 to 40% in 2017, with tremendous growth potential in the future. During the year, the Group established the strategic partnership with leading forklift manufacturers, including Anhui Heli (600761.SH) and Hangcha Group (603298.SH), etc., to significantly increase industry influence. Meanwhile, the starting batteries business of the Group accelerated the development of distribution channels, successfully opened up its market and set up its brand. The photovoltaic energy storage business channels were simultaneously promoted. During the year, the 1.65 MWp roof distributed photovoltaic power generation and intelligent micro-grid lead carbon energy storage project, generating 1.9 million degrees of electricity and saving 635 tonnes of standard coal, were constructed in the plant of the Group, and its integrated system of photovoltaic power generation and storage can generate and store electricity during the day, provide power at night, and offer high-quality, clean, environmentally friendly and recyclable electricity to the Group.

III. Fully promoted green development

From R&D, manufacturing to harmless treatment, the Group has created an economic system of green and low-carbon development to deeply practice the concept of "Lucid waters and lush mountains are invaluable assets" and resolutely implement green development and the producer responsibility extension system.

During the year, the Group's R&D achievements of green product was listed in the Green Product Leading List, and awarded Green Design Pioneer Team and Green Design International Award by the International Exchange Conference on Green Production and Consumption in 2017. Furthermore, the Group won bronze award in the First China Energy Conservation and Environmental Protection Innovation Application Contest, and was selected as the first batch of Green Manufacturing System Demonstration Plants in 2017 and the Green Supply Chain Management Demonstration Enterprises by the Ministry of Industry and Information Technology, while green manufacturing got remarkable returns.

Based on the circular economy industrial park, the Group has comprehensively deepened the used batteries recycling business. During the year, revenue from used batteries recycling was approximately RMB1,492 million, representing an increase of 56.24% year-on-year and accounting for 5.55% of total revenue, which greatly eased the impact of lead price fluctuations on production costs. The Group has two major used batteries recovery bases in Zhejiang and Henan, with an annual processing capacity of 400,000 tonnes. Therefore, the Group has become a benchmark enterprise for the harmless treatment of used batteries recycling, and has been named as a resource comprehensive utilization enterprise and national circular economy standardization pilot enterprises by National Development and Reform Commission. During the year, "A Copper Removal Composition for Recycled Lead Refining and Its Application", independently researched and developed by the Group, won the national invention patent award. The green closed-loop from R&D, production, sales to recycling has been realized, showing good economic, social and ecological benefits.

IV. Expanding the markets in "The Belt and Road"

During the year, along "The Belt and Road", the products of the Group were exported to Southeast Asia, Middle East, Africa, Europe and South America.

The electrification of vehicles is a global trend. Because of its low price and light weight, electric bicycles are the major substitutes for motorcycles and are widely used in developing countries in Southeast Asia and South America, etc.. Overseas markets of energy storage are mainly concentrated in the United States, the European Union and Australia. According to the latest research report released by P&S Market Research, a global energy market research organization, the global energy storage market is approximately USD2.663 billion and will reach USD26.137 billion by 2022, with a compound annual growth rate of 46.3% over the period. Yadea Electric Vehicle, the major customer of the Group, has signed with the 2018 World Cup Organizing Committee of Russia to become the official designated Asian sponsor of the 2018 World Cup in Russia. In December 2017, the Group won the Belt and Road Outstanding Contribution Award for International New Energy Smart Manufacturing by the New Energy Alliance.

V. *Increasing interests of the company and shareholders in capital market*

During the reporting period, the Group used its own funds to increase the holding of Chaowei Power (00951.HK), an excellent company in the industry, and up to 112 million shares in 2018, with total investment at HKD558 million (the transaction costs are not include) to show its confidence to the future development of the industry. The Group has been successfully listed into Hang Seng Composite Index, MSCI Index, Hang Seng Corporate Sustainability Index and Shenzhen-Hong Kong Stock Connect. During the year, with its active investor relations activities, the Group performed outstandingly in the "First China Excellence IR Award" , obtained recognition in the capital market, and won the "First China Excellence IR Award for Best Director".

Development strategy in the future

In the future, the Group will adhere to the stable progress as the overall tone and the quality and efficiency as the focus, and continuously implement innovation and transformation. The transformation from a manufacturer to a service enterprise and from a traditional enterprise to a platform enterprise, the progress of intelligence, platformization and globalization, and the construction of global technological innovation platform, flexible and intelligent manufacturing platform, big data and cloud drive platform, and congregation innovation platform, will all be accelerated to realize the new pattern of coordinated development of five major businesses: lead batteries, smart energy, new energy, recycling, and finance and modern services, and make the Group the world's leading green energy solutions provider.

MANAGEMENT ANALYSIS

Gross profit

The Group's gross profit and gross profit margin increased to approximately RMB3,507 million and approximately 13.04% respectively in 2017 from approximately RMB2,975 million and approximately 13.85% respectively in 2016, representing an increase of approximately 17.90% and a decrease of 0.81 percentage points respectively as compared to the previous year. The increase was mainly attributable to the increase in income and the improvement of management.

Other income

Other income of the Group increased by approximately 39.29% from approximately RMB222 million in 2016 to approximately RMB309 million in 2017. The increase was mainly attributable to the increase in government grants income and interest income.

Selling and distribution costs

Selling and distribution costs of the Group increased by approximately 15% from approximately RMB587 million in 2016 to approximately RMB675 million in 2017. The slight increase in selling and distribution costs was mainly due to the increase in transportation expenses.

Administrative expenses

Administrative expenses increased by approximately 20.21% from approximately RMB373 million in 2016 to approximately RMB449 million in 2017. Such increase was mainly due to the increase in staff cost and consultancy expenses.

Finance costs

Finance costs increased by approximately 9.71% from approximately RMB139 million in 2016 to approximately RMB153 million in 2017, which was mainly due to the increase in total borrowings during the year.

Taxation

Tax charges of the Group decreased by approximately 5.09% from approximately RMB240 million in 2016 to approximately RMB227 million in 2017, which was mainly due to the increase in profit generated by high-tech companies during the year.

LIQUIDITY AND FINANCIAL RESOURCES

The net cash from operating activities for the year of 2017 was approximately RMB2,202 million (2016: RMB2,089 million). In this year, the Group had better profit and strengthened management of account receivables and account payables enabling the overall cash flow of operating activities to maintain at a good level.

As at 31 December 2017, the bank balances and cash (including pledged bank deposits) of the Group was approximately RMB4,600 million (31 December 2016: approximately RMB3,114 million). As at 31 December 2017, the Group obtained undrawn banks facilities of approximately RMB2,843 million (31 December 2016: approximately RMB3,016 million). The bank balances and cash (including pledged bank deposits) approximately of RMB4,579 million, RMB9.05 million and RMB11.53 million were denominated in Renminbi, Hong Kong Dollars and US Dollars respectively. As the bank balances in Hong Kong Dollars and US Dollars collectively accounted for approximately 0.45% of the total balances, the Group’s relevant exchange risk is low.

As at 31 December 2017, the net current assets of the Group were approximately RMB1,208 million (31 December 2016: net current assets of approximately RMB627 million). The increase was primarily attributable to improvement of the operating capacity of the Company and increase in bank deposits and cash. The Company believes that it will be able to meet its liabilities as and when they fall due and meet the capital requirement for operations. The Company is able to control the level of its liabilities and financial risks.

As at 31 December 2017, the interest bearing borrowings, finance leases and loan notes (together as "interest bearing loans") of the Group with maturity of within one year totally amounted to approximately RMB1,329 million (31 December 2016: approximately RMB1,179 million). The interest bearing loans of the Group with maturity of more than one year amounted to approximately RMB904 million (31 December 2016: RMB833 million). The interest bearing loans of RMB2,066 million carried fixed and variable interest rates ranging from 3.85% to 8.00% (2016: 3.65% to 8.00%) per annum. The interest bearing loans amounting to HK$200 million carried a variable interest rate ranging from 2.44% to 3.19% per annum (2016: fixed interest rate ranging from 1.47% to 1.49% 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 healthy capital structure to minimize the capital cost through prudent financial management. During the year under review, the Group continued to further make use of long-term loans in order to optimize its loan structure.

FINANCIAL POSITION

Assets

As at 31 December 2017, the total assets of the Group were approximately RMB13,982 million, representing an increase of 15.27% as compared to approximately RMB12,130 million as at 31 December 2016. Among them, non-current assets increased by approximately 10.81% to approximately RMB4,832 million and current assets increased by approximately 17.77% to approximately RMB9,149 million. The major reason for the increase of non-current assets was due to the capital expenditure on production plants and equipment upgrading. The increase in current assets was mainly attributable to the increase in inventories and bank deposits.

Liabilities

As at 31 December 2017, the total liabilities of the Group were approximately RMB8,918 million, representing an increase of approximately 11.15% as compared to approximately RMB8,023 million as at 31 December 2016. Among them, current liabilities increased by approximately 11.19% to approximately RMB7,942 million, mainly due to the increase in account payables. Non-current liabilities increased by approximately 10.86% to approximately RMB977 million, mainly due to the increase in long-term interest bearing borrowings.

CAPITAL EXPENDITURE

The capital expenditure in 2017 was approximately RMB555 million (2016: approximately RMB716 million). A majority of expenditure was incurred on the construction of Wushang base in Changxing, Puyang base in Henan and Shuyang base in Jiangsu.

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 2017 was approximately RMB302 million (31 December 2016: approximately RMB241 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 2017 was approximately 15.97% (31 December 2016: approximately 16.58%).

EXPOSURE TO EXCHANGE RATE FLUCTUATION

As the Group's operations were mainly conducted in China and the majority of businesses were transacted in Renminbi, and the Group entered into foreign currency forward contracts in 2017 for the bank borrowings of HK$150 million to reduce exposure to foreign currency, the Board is of the view that the Company's operating cash flow and liquidity are not subject to significant foreign exchange rate risk.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2017 (31 December 2016: Nil).

PLEDGE OF ASSETS

As at 31 December 2017, the bank facilities of the Group were secured by bank deposits, bills receivables, property, plant and equipment and prepaid lease payments. The aggregate net book value of the assets pledged amounted to approximately RMB1,546 million (31 December 2016: RMB2,169 million).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2017, the Group employed a total of 19,027 employees (31 December 2016: 18,110 employees). Staff costs excluding directors' emoluments of the Group for the year of 2017 amounted to approximately RMB1,387 million (2016: RMB1,265 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 under the statutory requirement of the government such as pension insurance in China and mandatory provident 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 provided a range of training programs for the development of its staff.

SIGNIFICANT INVESTMENTS HELD

Save as the investments in equity securities listing on the Hong Kong Stock Exchange, there were no other significant investments held by the Group as at 31 December 2017. These investments represented an additional holding of the shares of excellent companies in the industry, and showed its confidence to the future development of the industry.

MATERIAL ACQUISITION AND DISPOSAL

There was no material acquisition and disposal during the year.

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

As at 31 December 2017, two tranches of corporate bonds in an aggregate amount of RMB780 million (2016: RMB800 million) issued by Tianneng Battery Group Co., Ltd., a wholly-owned subsidiary of the Company, to PRC domestic institutional investors for a term of 5 years and 6 years respectively remained outstanding. Further details of the issues can be referred to the announcements of the Company dated 7 March 2014, 10 March 2014, 18 September 2014 and 26 September 2014.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 15 May 2018 to Friday, 18 May 2018, 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 duly completed transfer forms, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Monday, 14 May 2018.

Further, the register of members of the Company will be closed from Friday, 25 May 2018 to Tuesday, 29 May 2018 (both days inclusive), during which period no transfer of the shares of the Company will be registered. In order to establish entitlements to the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 24 May 2018. Subject to the approval of the shareholders at the AGM of the Company to be held on 18 May 2018, the proposed final dividend is expected to be paid on or before Friday, 29 June 2018.

AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") in accordance with the requirements of the Rules Governing the Listing of Securities on 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 2017, the Audit Committee comprised three independent non-executive directors, namely, Mr. Guo Konghui, Mr. Huang Dongliang and Mr. Wu Feng.

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 2017.

CORPORATE GOVERNANCE CODE

The Company has adopted the provisions of the Corporate Governance Code (the "Code") during the period from 1 January 2017 to 31 December 2017 as contained in Appendix 14 to the Listing Rules. For the year ended 31 December 2017, except for the code provision A.2.1, the Company has complied with the provisions set out in the Code. Dr. 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 2017 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 2017.

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 Friday, 18 May 2018 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 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 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, 23 March 2018

As at the date of this announcement, the executive directors of the Company 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 of the Company are Mr. GUO Konghui, Mr. HUANG Dongliang and Mr. WU Feng.