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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 2018

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 27.7% to approximately RMB14.507 billion
- Gross profit increased by approximately 18.8% to approximately RMB1.709 billion
- Profit for period increased by approximately 15.8% to approximately RMB534 million
- Basic earnings per share increased by approximately 16.7% to approximately RMB45.5 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 2018, together with the comparative figures for the same period in 2017. 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 2018

	NOTES	Six months ended 30 June	
		2018 <i>RMB'000</i> (unaudited)	2017 <i>RMB'000</i> (unaudited)
Revenue	3	14,506,647	11,361,951
Cost of sales		(12,797,975)	(9,923,787)
Gross profit		1,708,672	1,438,164
Other income	4	173,663	177,693
Other gains and losses	5	(41,743)	(23,059)
Impairment losses on financial assets, net of reversal		(3,662)	(58,920)
Distribution and selling expenses		(362,108)	(312,904)
Administrative expenses		(266,505)	(185,301)
Research and development costs		(452,887)	(367,472)
Other expenses		(21,064)	(47,489)
Share of profit of an associate		2,073	2,760
Finance costs		(72,453)	(78,223)
Profit before tax	6	663,986	545,249
Income tax expense	7	(129,839)	(84,005)
Profit for the period		534,147	461,244

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

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
<i>NOTE</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Other comprehensive expense:		
<i>Item that will not be reclassified to profit or loss:</i>		
Fair value loss on investments in equity instruments at fair value through other comprehensive income (“FVTOCI”)	(58,657)	—
Income tax relating to item that will not be reclassified to profit or loss	2,775	—
	(55,882)	—
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Fair value gains on receivables measured at FVTOCI	2,989	—
Income tax relating to item that may be reclassified subsequently to profit or loss	(747)	—
	2,242	—
Other comprehensive expense for the period	(53,640)	—

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

For the six months ended 30 June 2018

	<i>NOTE</i>	Six months ended 30 June	
		2018	2017
		<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (unaudited)
Total comprehensive income for the period		480,507	461,244
Profit for the period attributable to:			
Owners of the Company		513,125	439,117
Non-controlling interests		21,022	22,127
		534,147	461,244
Total comprehensive income for the period attributable to:			
Owners of the Company		459,120	439,117
Non-controlling interests		21,387	22,127
		480,507	461,244
Earnings per share	9		
– Basic		RMB45.5 cents	RMB39.0 cents
– Diluted		RMB44.4 cents	RMB38.3 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	NOTES	30.6.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
Non-current Assets			
Property, plant and equipment	10	3,980,510	3,949,384
Prepaid lease payments	10	228,980	240,449
Goodwill		499	499
Interest in an associate	11	14,723	15,574
Equity instruments at FVTOCI		377,616	—
Available-for-sale investments		—	226,000
Deferred tax assets	12	332,765	336,434
Deposit for acquisition of property, plant and equipment		119,489	63,896
		5,054,582	4,832,236
Current Assets			
Inventories		2,629,995	2,132,701
Bills, trade and other receivables	13	414,760	2,392,492
Amounts due from related parties	25	23,471	17,096
Prepaid lease payments		6,842	7,219
Receivables at FVTOCI	14		
— Bills receivables		889,483	—
— Trade receivables		853,622	—
Financial assets at fair value through profit or loss (“FVTPL”)	16	1,137,341	—
Pledged bank deposits		1,472,376	727,562
Bank balances and cash		3,659,367	3,872,392
		11,087,257	9,149,462

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 June 2018

		30.6.2018	31.12.2017
	NOTES	RMB'000	RMB'000
		(unaudited)	(audited)
Current liabilities			
Bills, trade and other payables	17	5,296,818	5,970,617
Amounts due to related parties	25	82,248	62,142
Derivative financial instruments		3,427	7,561
Taxation liabilities		43,066	123,190
Borrowings – current portion	18	2,523,516	1,324,561
Long-term loan notes			
– due within one year	19	378,777	–
Obligations under finance leases			
– due within one year		–	4,275
Provisions		434,667	449,158
Contract liabilities		1,639,516	–
		<u>10,402,035</u>	<u>7,941,504</u>
Net Current Assets		<u>685,222</u>	<u>1,207,958</u>
Total Assets less Current Liabilities		<u>5,739,804</u>	<u>6,040,194</u>
Non-current liabilities			
Deferred tax liabilities	12	76,248	72,567
Borrowings – non-current portion	18	123,800	129,800
Long-term loan notes	19	396,812	774,341
		<u>596,860</u>	<u>976,708</u>
		<u>5,142,944</u>	<u>5,063,486</u>
Capital and reserves			
Share capital	20	109,889	109,889
Share premium and reserves		4,878,429	4,768,671
Equity attributable to the owners of the Company		<u>4,988,318</u>	<u>4,878,560</u>
Non-controlling interests		<u>154,626</u>	<u>184,926</u>
Total Equity		<u>5,142,944</u>	<u>5,063,486</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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 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 values.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK (IFRIC) – Interpretation 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures.

As a result of the changes in the Group's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

	31 December 2017 (Audited) RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
Non-current assets				
Available-for-sale investments	226,000	–	(226,000)	–
Equity instruments at FVTOCI	–	–	226,000	226,000
Deferred tax assets	336,434	–	6,063	342,497
Others with no adjustments	4,269,802	–	–	4,269,802
	<u>4,832,236</u>	<u>–</u>	<u>6,063</u>	<u>4,838,299</u>
Current assets				
Bills, trade and other receivables	2,392,492	–	(1,911,516)	480,976
Receivables at FVTOCI	–	–	1,891,443	1,891,443
Others with no adjustments	6,756,970	–	–	6,756,970
	<u>9,149,462</u>	<u>–</u>	<u>(20,073)</u>	<u>9,129,389</u>
Current liabilities				
Bills, trade and other payables	5,970,617	(892,025)	–	5,078,592
Contract liabilities	–	892,025	–	892,025
Others with no adjustments	1,970,887	–	–	1,970,887
	<u>7,941,504</u>	<u>–</u>	<u>–</u>	<u>7,941,504</u>
Net current assets	<u>1,207,958</u>	<u>–</u>	<u>(20,073)</u>	<u>1,187,885</u>
Total assets less current liabilities	<u>6,040,194</u>	<u>–</u>	<u>(14,010)</u>	<u>6,026,184</u>
Non-current liabilities				
Others with no adjustments	<u>976,708</u>	<u>–</u>	<u>–</u>	<u>976,708</u>
Net assets	<u>5,063,486</u>	<u>–</u>	<u>(14,010)</u>	<u>5,049,476</u>
Capital and reserves				
Share capital	109,889	–	–	109,889
Share premium and reserves	4,768,671	–	(11,323)	4,757,348
Equity attributable to the owners of the Company	4,878,560	–	(11,323)	4,867,237
Non-controlling interests	184,926	–	(2,687)	182,239
Total equity	<u>5,063,486</u>	<u>–</u>	<u>(14,010)</u>	<u>5,049,476</u>

3. REVENUE

Six months ended 30 June

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
An analysis of revenue is as follows:		
Lead-acid battery products		
Electrical Bicycle (Tricycle) Battery (<i>note i</i>)	12,178,022	9,237,774
Special-purpose Battery (<i>note ii</i>)	1,135,281	872,147
Recycled lead products	744,801	547,817
Lithium battery products	277,589	454,961
Others	170,954	249,252
	<u>14,506,647</u>	<u>11,361,951</u>

Notes:

- 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.

All of the Group's revenue is recognised at a point in time during the six months ended 30 June 2018.

4. OTHER INCOME

Six months ended 30 June

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Government grants (<i>note</i>)	110,285	135,977
Interest income	41,715	27,961
Others	21,663	13,755
	<u>173,663</u>	<u>177,693</u>

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	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Net losses on FVTPL/held-for-trading investments (<i>note i</i>)	(15,261)	(6,767)
Net losses on derivative financial instruments (<i>note ii</i>)	(1,605)	(8,445)
Loss on disposal of property, plant and equipment (<i>note 10</i>)	(20,871)	(8,729)
Net foreign exchange (losses) gains	(4,006)	882
	<u>(41,743)</u>	<u>(23,059)</u>

Notes:

- i. Net losses on FVTPL/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 and commodity derivative contracts.

6. PROFIT BEFORE TAX

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments	2,846	3,138
Provisions (reversals) of allowance for inventories, net (included in cost of sales)	3,554	(7,209)
Write down of inventories to net realisable values (included in cost of sales)	292,838	245,032
	<u>199,693</u>	<u>171,025</u>
Depreciation of property, plant and equipment	(166,356)	(137,894)
Capitalised in inventories	33,337	33,131
	<u>3,662</u>	<u>58,920</u>
Impairment loss recognised in respect of trade receivables at FVTOCI		

Share-based payments expense of approximately RMB2,730,000 (1.1.2017 to 30.6.2017: RMB5,973,000) were recognised in profit or loss during the six months ended 30 June 2018 in respect of share options of the Company granted in prior years. Details of transactions are set out in note 21.

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
PRC Enterprise Income Tax (“EIT”)		
– Current tax	98,445	93,661
– Under (over) provision in prior years	15,953	(28,360)
	<u>114,398</u>	<u>65,301</u>
Deferred tax expense (<i>note 12</i>)	15,441	18,704
	<u>129,839</u>	<u>84,005</u>

The income tax expense of the Group is recognised based on the PRC EIT rate of 25% (1.1.2017 to 30.6.2017: 25%) during the current period except that, Tianneng Battery Group Co., Ltd., Zhejiang Tianneng Energy Technology Co., Ltd., Tianneng Battery Group (Anhui) Co., Ltd., Zhejiang Tianneng Power Energy Co., Ltd., Tianneng Battery (Wuhu) Co., Ltd., 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 and prior period.

8. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Dividends recognised as distribution during the period:		
1.1.2018 to 30.6.2018: 2017 final dividend of HK37.00 cents (equivalent to RMB30.93 cents)		
(1.1.2017 to 30.6.2017: 2016 final dividend of HK25.60 cents (equivalent to RMB22.90 cents)) per ordinary share	340,769	254,005
	<u>340,769</u>	<u>254,005</u>

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 and 30 June 2017.

9. EARNINGS PER SHARE

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Earnings:		
Earnings for the purposes of calculating		
basic and diluted earnings per share		
– attributable to the owners of the Company	513,125	439,117
Number of shares:		
Weighted average number of ordinary		
shares for the purpose of calculating		
basic earnings per share	1,126,546,500	1,126,546,500
Effect of dilutive potential ordinary		
shares – share options	28,285,714	20,683,823
Weighted average number of ordinary		
shares for the purpose of calculating		
diluted earnings per share	1,154,832,214	1,147,230,323

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

The Group spent approximately RMB64,490,000 and RMB196,514,000 (1.1.2017 to 30.6.2017: RMB54,497,000 and RMB158,522,000) 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 RMB30,185,000 (1.1.2017 to 30.6.2017: RMB13,162,000) was derecognised upon disposals of property, plant and equipment with proceeds of approximately RMB9,314,000 (1.1.2017 to 30.6.2017: RMB4,433,000), resulting in a loss of approximately RMB20,871,000 (1.1.2017 to 30.6.2017: RMB8,729,000).

During the six months ended 30 June 2018, the Group received government grants of approximately RMB24,168,000 (1.1.2017 to 30.6.2017: RMB20,325,000) and RMB9,000,000 (1.1.2017 to 30.6.2017: RMB10,000,000) 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 transfer this to profit or loss over the useful lives of the relevant assets.

As at 30 June 2018, the official legal titles of buildings with an aggregate carrying amount of approximately RMB563,317,000 (At 31.12.2017: RMB591,841,000) and land use right certificates with carrying amounts of approximately RMB16,392,000 (At 31.12.2017: RMB16,856,000) have not been obtained by the Group.

11. INTEREST IN AN ASSOCIATE

	30.6.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
Cost of unlisted investment in an associate	9,000	9,000
Share of post-acquisition results, net of dividends received	5,723	6,574
	<u>14,723</u>	<u>15,574</u>

Particulars of the associate at the end of the reporting period are as follows:

Name of entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
			30.6.2018	31.12.2017	30.6.2018	31.12.2017	
天能銀玥(上海) 新能源材料 有限公司 (Tianneng Yinyue (Shanghai) New Energy Material Co., Ltd., “Tianneng Yinyue”)	PRC	PRC	45%	45%	45%	45%	Trading of materials

12. DEFERRED TAXATION

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

	Deferred income	Withholding tax on undistributed profits	Fair values adjustments 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 change of derivative financial instruments	Fair value change on equity investment at FVTOCI	Fair value change of receivables at FVTOCI	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	RMB'000	RMB'000
At 1 January 2017 (audited)	69,804	(7,900)	(1,594)	(30,671)	(147)	23,930	76,864	(2,913)	-	-	112,125	4,631	45,651	(5,170)	284,610
(Charge)/credit to profit or loss	(8,504)	(6,500)	(50)	(976)	147	6,517	(6,246)	2,913	-	-	(8,772)	(1,927)	9,382	129	(18,704)
At 30 June 2017 (unaudited)	61,300	(14,400)	(1,644)	(31,647)	-	30,447	70,618	-	-	-	103,353	2,704	55,033	(5,041)	265,906
At 31 December 2017 (audited)	62,763	(18,810)	(13,337)	(32,733)	-	33,748	82,261	1,092	(2,775)	-	101,986	2,575	52,009	(4,912)	263,867
Adjustments (note 2)	-	-	-	-	-	3,290	-	-	-	2,773	-	-	-	-	6,063
At 1 January 2018 (restated)	62,763	(18,810)	(13,337)	(32,733)	-	37,038	82,261	1,092	(2,775)	2,773	101,986	2,575	52,009	(4,912)	269,930
Credit/(charge) to profit or loss	2,478	(7,500)	191	723	-	551	(2,791)	(140)	-	-	(11,686)	(9)	2,612	130	(15,441)
Credit (charge) to other comprehensive income	-	-	-	-	-	-	-	-	2,775	(747)	-	-	-	-	2,028
At 30 June 2018 (unaudited)	65,241	(26,310)	(13,146)	(32,010)	-	37,589	79,470	952	-	2,026	90,300	2,566	54,621	(4,782)	256,517

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

	30.6.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
Deferred tax assets	332,765	336,434
Deferred tax liabilities	(76,248)	(72,567)
	256,517	263,867

As at the end of the current interim period, the Group has unused tax losses of RMB406,382,000 (At 31.12.2017: RMB406,252,000) available to offset against future profits. At the end of the current interim period, deferred tax assets of RMB54,621,000 (At 31.12.2017: RMB52,009,000) in respect of tax losses of RMB265,494,000 (At 31.12.2017: RMB251,046,000) has been recognised. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB140,888,000 (At 31.12.2017: RMB155,206,000) due to the unpredictability of future profit streams. Such unrecognised losses will expire at various dates up to and including 2023 (At 31.12.2017: 2022).

12. DEFERRED TAXATION *(Continued)*

Under the EIT Law, starting from 1 January 2008, 10% withholding income tax is imposed on dividends declared in respect of profits earned in year 2008 onwards and distributed to foreign investors for companies established in the PRC. For investors incorporated in Hong Kong, a preferential rate of 5% will be applied where appropriate. Other than the PRC withholding income tax provided in respect of undistributed profits of the PRC subsidiaries as above, no deferred taxation has been provided for the remaining accumulated profits of approximately RMB3,651 million (At 31.12.2017: RMB3,287 million), which was derived from the PRC subsidiaries since 1 January 2008 as the Group 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.

13. BILLS, TRADE AND OTHER RECEIVABLES

	30.6.2018 <i>RMB'000</i> (unaudited)	31.12.2017 <i>RMB'000</i> (audited)
Bills receivables	–	1,186,894
Trade receivables	–	724,622
Other receivables	210,581	223,660
Prepayments	72,747	126,254
PRC value added tax receivables	131,432	131,062
	<u>414,760</u>	<u>2,392,492</u>

The Group measures the loss allowance equal to 12m ECL for other receivables, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The Group has not provided for impairment loss for other receivables as there has not been a significant change in credit quality and default risk is considered as insignificant based on repayment history.

14. RECEIVABLES AT FVTOCI

On 1 January 2018, the Group adopted HKFRS 9 “Financial Instruments”. As a business practice, bank bills will be collected for substantial part of trade receivables upon their maturity. As part of the Group’s cash flow management, the Group will discount some of the bills to financial institutions and endorse some of them to suppliers before the bills are due for payment, and derecognise the bills discounted and endorsed on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Thus, the trade and bills receivables held by the Group are managed within a business model whose objectivity is both to collect the contractual cash flows and to sell. Therefore, these bills receivables and trade receivables were subsequently classified as receivables at FVTOCI.

14. RECEIVABLES AT FVTOCI (Continued)

Trade receivables

The Group allows an average credit period of 45 days to its trade customers.

The following is an aged analysis of trade receivables at FVTOCI, net of fair value remeasurement under the requirement of HKFRS 9, presented based on the invoice date, which approximated the revenue recognition date.

	30.6.2018 RMB'000 (unaudited)
0 – 45 days	449,531
46 – 90 days	218,248
91 – 180 days	49,521
181 – 365 days	136,322
	853,622

Bills receivables

The following is an aged analysis of bills receivables at FVTOCI, net of fair value remeasurement under the requirement of HKFRS 9, at the end of the reporting period:

	30.6.2018 RMB'000 (unaudited)
0 to 180 days	889,483

Details of the impairment assessment are set out in note 15.

15. IMPAIRMENT ASSESSMENT ON TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS SUBJECT TO ECL MODEL

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk and loss allowance for trade receivables at FVTOCI which are assessed collectively based on provision matrix as at 30 June 2018.

Internal credit rating	Average loss rate	Gross carrying amount RMB '000	Impairment loss allowance RMB '000
Grade A	*	310,906	—
Grade B	5.81%	432,161	25,087
Grade C	10.68%	98,794	10,548
Grade D	57.56%	111,687	64,291
Grade E	100.00%	91,733	91,733
		<u>1,045,281</u>	<u>191,659</u>

* According to the historical observed default rates of the expected life of the Grade A debtors, the average loss rate is immaterial.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the current interim period, the Group provided RMB3,662,000 impairment loss based on the provision matrix. No significant balances at 30 June 2018 were assessed individually.

The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. In addition, certain comparative figure has been reclassified to conform to the current period's presentation.

For other financial assets including bank bills receivables at FVTOCI with good credit rating, amounts due from related parties, pledged bank deposits and bank balances, the management measures the loss allowance equal to 12m ECL since there has not been a significant increase in credit risk since initial recognition. The management assess the rate of default is insignificant.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30.6.2018 <i>RMB'000</i> (unaudited)	31.12.2017 <i>RMB'000</i> (audited)
Structured bank deposits	1,108,350	—
Equity securities listed in Mainland China	28,991	—
	<u>1,137,341</u>	<u>—</u>

During the current interim period, the Group entered into several contracts of structured bank deposits with banks. The return of structured bank deposits was determined by reference to the performance of the underlying deposit interest rate, price of gold, exchange rate of foreign currency and the expected return rate stated in the contracts ranges from 1.03% to 4.90% per annum.

17. BILLS, TRADE AND OTHER PAYABLES

	30.6.2018 <i>RMB'000</i> (unaudited)	31.12.2017 <i>RMB'000</i> (audited)
Trade payables	1,957,985	2,386,628
Bills payables	1,773,950	1,079,484
Other payables and accrued charges	1,459,813	2,502,650
Dividend payables	105,070	1,855
	<u>5,296,818</u>	<u>5,970,617</u>

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

	30.6.2018 <i>RMB'000</i> (unaudited)	31.12.2017 <i>RMB'000</i> (audited)
0 – 90 days	1,559,899	1,888,639
91 – 180 days	90,932	208,838
181 – 365 days	162,723	201,448
1 – 2 years	124,668	67,095
Over 2 years	19,763	20,608
	<u>1,957,985</u>	<u>2,386,628</u>

17. BILLS, TRADE AND OTHER PAYABLES (Continued)

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

	30.6.2018 <i>RMB'000</i> (unaudited)	31.12.2017 <i>RMB'000</i> (audited)
0 – 180 days	1,733,718	1,079,484
181 – 365 days	40,232	–
	<u>1,773,950</u>	<u>1,079,484</u>

18. BORROWINGS

	30.6.2018 <i>RMB'000</i> (unaudited)	31.12.2017 <i>RMB'000</i> (audited)
Bank borrowings	2,528,516	1,335,561
Other borrowings	118,800	118,800
	<u>2,647,316</u>	<u>1,454,361</u>
Secured	405,858	391,600
Unsecured	2,241,458	1,062,761
	<u>2,647,316</u>	<u>1,454,361</u>
Carrying amounts repayable:		
Within one year	2,523,516	1,324,561
Within a period of more than one year but not exceeding two years	55,000	61,000
Within a period of more than two years but not more than five years	68,800	68,800
	<u>2,647,316</u>	<u>1,454,361</u>
Less: Amounts due within one year shown under current liabilities	<u>(2,523,516)</u>	<u>(1,324,561)</u>
Amounts shown under non-current liabilities	<u>123,800</u>	<u>129,800</u>

Details of assets pledged by the Group at the end of the reporting period are set out in note 22.

19. LOAN NOTES

	30.6.2018 <i>RMB'000</i> (unaudited)	31.12.2017 <i>RMB'000</i> (audited)
Long-term guaranteed loan notes	775,589	774,341
Carrying amounts repayable:		
Within one year	378,777	–
Within a period of more than one year but not exceeding two years	–	377,924
More than two years but not more than five years	396,812	396,417
	775,589	774,341
Less: Amounts due within one year shown under current liabilities	(378,777)	–
Amounts shown under non-current liabilities	396,812	774,341

Note:

- (1) On 11 March 2014, Tianneng Battery Group Co., Ltd. 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.

On 11 March 2017, Tianneng Battery Group Co., Ltd. redeemed part of the issued loan notes with principal amount of RMB20,000,000. At 31 December 2017 and 30 June 2018, the amount is stated at amortised cost with effective interest rate at 7.81% per annum.

- (2) On 9 October 2014, Tianneng Battery Group Co., Ltd. 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.

On 29 September 2017, Tianneng Battery Group Co., Ltd. redeemed part of the issued loan notes with principal amount of RMB367,000. At 31 December 2017 and 30 June 2018, the amount is stated at amortised cost with effective interest rate at 8.25% per annum.

20. SHARE CAPITAL

	Number of shares	Amount RMB '000
Ordinary shares of the Company with nominal value of HK\$0.10 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 30 June 2018	2,000,000,000	212,780
Issued and fully paid:		
At 1 January 2017, 31 December 2017 and 30 June 2018	1,126,546,500	109,889

21. 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 2018. (1.1.2017 to 30.6.2017: nil)

21. SHARE OPTIONS (Continued)

The following tables disclosed movements of the Company's options granted under the Scheme during the six months ended 30 June 2018 and 30 June 2017.

Category	Grant date	Exercisable period	Exercise price	Outstanding at 1.1.2018	Forfeited during the period	Outstanding at 30.6.2018
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	40,171,500	(315,000)	39,856,500
				<u>40,851,500</u>	<u>(315,000)</u>	<u>40,536,500</u>
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>

No options were exercised during the six months ended 30 June 2018 and 2017.

During the period, the Group recognised total expense of approximately RMB2,730,000 (1.1.2017 to 30.6.2017: RMB5,973,000) in relation to share options granted by the Company under the Scheme.

22. 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.

	30.6.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
Bank deposits	1,472,376	727,562
Receivables at FVTOCI/bills receivables	535,905	675,996
Property, plant and equipment	159,673	107,357
Prepaid lease payments	58,250	34,675
	<u>2,226,204</u>	<u>1,545,590</u>

23. CAPITAL COMMITMENTS

	30.6.2018	31.12.2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	243,682	302,297

24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

Some of the Group's financial assets and financial liabilities 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 and financial liabilities 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 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets and financial liabilities 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
	30.06.2018 (unaudited)	31.12.2017 (audited)			
Financial assets at FVTPL in the condensed consolidated statement of financial position	Listed equity securities in Mainland China: Mining Industry: RMB27,574,000	Nil	Level 1	Quoted bid prices in active markets.	N/A
	Listed equity securities in Hong Kong Mining Industry: RMB1,417,000				
Listed equity investments at FVTOCI in the condensed consolidated statement of financial position	Listed equity securities in Hong Kong Manufacturing Industry: RMB377,616,000	Listed equity securities in Hong Kong Manufacturing Industry: RMB226,000,000	Level 1	Quoted bid prices in an active market.	N/A
Foreign currency forward contracts classified as financial assets/liabilities at FVTPL in the condensed consolidated statement of financial position	Assets: RMB945,000	Liabilities: RMB7,277,000	Level 2	Future cash flow is estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates.	N/A

24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets and financial liabilities 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
	30.06.2018 (unaudited)	31.12.2017 (audited)			
Commodity derivative contracts classified as financial liabilities at FVTPL in the condensed consolidated statement of financial position	Liabilities: RMB4,372,000	Liabilities: RMB284,000	Level 2	The quoted bid prices of similar standardised commodity derivative contracts at the end of the reporting period.	N/A
Receivables classified as financial assets at FVTOCI in the condensed consolidated statement of financial position	Assets: RMB1,743,105,000	N/A	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of the bills receivables	Discount rate of 4.75%
Structured bank deposits at FVTPL in the condensed consolidated statement of financial position	RMB1,108,350,000	Nil	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of the structured bank deposits	Discount rate ranging from 1.03% to 4.90%

25. RELATED PARTY TRANSACTIONS

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

Name of related company	Nature of transactions	Six months ended 30 June	
		2018 <i>RMB'000</i> (unaudited)	2017 <i>RMB'000</i> (unaudited)
浙江長興欣欣包裝有限公司 Zhejiang Changxing Xin Xin Packaging Co., Ltd. ("Xin Xin Packaging") (note i)	Purchase of consumables	209	233
濟源市萬洋冶煉(集團)有限公司 Jiyuan City Wanyang Smelting (Group) Co., Ltd. ("Wanyang Group") (note ii)	Purchase of materials	598,361	489,815
	Sale of goods	89,448	178,600
	Rental expense	1,108	1,041
	Dividends paid/payable	49,000	—
長興金陵大酒店 Changxing Jin Ling Hotel (note iii)	Hotel expense	1,081	1,254
Tianneng Yinyue	Purchase of materials	640,785	928,255

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

Name of related company	30.06.2018 <i>RMB'000</i> (unaudited)	31.12.2017 <i>RMB'000</i> (audited)
Tianneng Yinyue	49,083	40,804
Wanyang Group	33,165	21,129
Xin Xin Packaging	—	209
	82,248	62,142

25. RELATED PARTY TRANSACTIONS (Continued)

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

Name of related parties	30.06.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
Tianneng Yinyue	19,291	659
Wanyang Group	4,180	16,437
	<u>23,471</u>	<u>17,096</u>

Note:

- (i) Xin Xin Packaging is beneficially owned by Ms. Chen Pingping and Ms. She Fangli, who are the cousin and niece respectively of Mr. Zhang Tianren (“**Mr. Zhang**”), the beneficial owner and the director of the Company.
- (ii) Wanyang Group is a party which holds 49% interest of Jiyuan Wanyang Green Energy Co., Ltd. (濟源市萬洋綠色能源有限公司), a 51% owned subsidiary of the Group.
- (iii) Changxing Jin Ling Hotel is controlled by Mr. Zhang.

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

	Six months ended 30 June	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Short term employee benefits	2,090	2,826
Share-based payments	6	46
	<u>2,096</u>	<u>2,872</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

Tianneng Power International Limited (“**Tianneng**” or the “**Company**” and together with its subsidiaries, the “**Group**”) has four major businesses in the People’s Republic of China (“**PRC**” or “**China**”), namely the research and development, production and sales of 1) advanced lead-acid batteries; 2) new energy lithium batteries; 3) recycled lead; and 4) others.

REVIEW OF OPERATIONS

During the six months ended 30 June 2018, the Group continued to propel the transformation and innovation, thereby optimizing the industrial structure and achieving robust development in major businesses. According to the “List of Top 100 Battery Enterprises 2017, China” (《2017年度中國電池行業百強名單》) issued by the China Industrial Association of Power Sources in July 2018, the Group continued to rank top in revenue in domestic battery industry. The Group was also ranked among “Fortune China Top 500” for six consecutive years.

During the reporting period, the Group recorded revenue of approximately RMB14,507 million and net profit of approximately RMB534 million, representing an increase of approximately 27.7% and approximately 15.8% as compared with the same period last year respectively, hitting historical highs. The operating cash flow amounted to RMB1,159 million. Of which, revenue from lead-acid batteries was approximately RMB13,313 million, representing an increase of approximately 31.7% as compared with the same period last year and accounting for approximately 91.8% of total revenue; revenue from lithium batteries was approximately RMB278 million, representing a decrease of approximately 39.0% as compared with the same period last year and accounting for approximately 1.9% of total revenue; external revenue from recycled lead was approximately RMB745 million, representing an increase of approximately 36.0% as compared with the same period last year and accounting for approximately 5.1% of total revenue.

I. Advanced lead-acid batteries

Lead-acid battery has been a legend principal business of the Group, contributing healthy cash flows for the Group. During the reporting period, revenue from lead-acid batteries was approximately 13,313 million, representing an increase of approximately 31.7% as compared with the same period last year.

Driven by improved traffic condition, progress of urbanization and development of internet economy in China, electric bicycles and electric tricycles 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 demands for electric bicycle and tricycle batteries in China will be over US\$10 billion by 2025. During the reporting period, revenue from batteries for electric bicycles and electric tricycles was approximately RMB12,178 million, representing an increase of approximately 31.8% as compared with the same period last year.

During the reporting period, the Group further consolidated its leading position in the industry of batteries for electric bicycles and electric tricycles with market shares steadily increasing. The Group had over 2,000 exclusive distributors and 300 thousand terminal stores with sales network being nationwide, showing remarkable competitive edge in channels. Meanwhile, the Group together with the government and industrial peers actively maintained a good development order in the industry so as to further strengthen the concentration of the industry and further release bonus from integration.

The Group had actively propelled intelligent manufacturing and technological upgrading. During the Report Period, the Group's "Lead-carbon Battery Digital Workshop Project" had been successfully selected as an "Intelligent Manufacturing Pilot Project 2018" (2018 智能製造試點示範項目) by Ministry of Industry and Information Technology ("MIIT"); the Group had also been awarded a "Pioneer Enterprise in Energy Saving and Emission Reduction" in China. Meanwhile, the Group's three lead motive battery products had been selected in the "Second List of Green Design Products" (第二批綠色設計產品名單) by MIIT; a technology of "A Lead-tin-graphene Composite and Its Preparation Methods and Applications" had been awarded the "19th China Patent Award of Excellence"; "Lifetime Green Quality Management Tackling Team" had become the only team in the industry that won "People's Government of Zhejiang Quality Contribution Award 2017". In addition to achieving clean production, the Group actively carried forward application of new processes and equipment, including casting and rolling, efficient and multi-frequency container formation; the Group had been making progress in informatised management as an independent operator, an achievement that extended the recycling lifetime of batteries and enhanced product quality and further strengthened benefits of energy saving and emission reduction.

Lead batteries are still widely used in other markets. “Special purpose batteries” disclosed by the Group mainly include lead batteries used in such fields as start-stop system for micro electric vehicles, special vehicles, electric forklifts, and fuel vehicles, and smart energy. During the reporting period, revenue from special purpose batteries was approximately RMB1,135 million, representing an increase of approximately 30.2% as compared with the same period last year.

Driven by factors such as diversified traffic conditions and moderate consumption upgrade, micro electric vehicles have gradually become an important part as usual traffic tools in rural areas and as “1+1” traffic tools (i.e. one fuel vehicle + one micro electric vehicle) in urban areas. According to China Industrial Association of Power Sources, there are currently 6 million micro electric vehicles in the domestic market and 1 million such vehicles would be increased per annum. At the “12th International New Energy Vehicles and Electric Vehicles Expo” (第十二屆國際新能源汽車電動車展覽會) held in Shandong and the “18th North China International Bicycle and Electric Vehicle Expo” (第十八屆中國北方國際自行車電動車展覽會) held in Tianjin in which the Group participated during the reporting period, the Group launched new batteries with long lifespan, strong power, low temperature resistance, high capacity, and fine technique. The Group successfully held the “Hundred-kilometer Rally for Micro Vehicles” (微型車百公里拉力賽) and the “Power of Models – National Excellent Supplier Conference” (榜樣的力量 — 全國優秀供應商大會), which demonstrated its brand strength. Tianneng continued to maintain its market leading position in the batteries for micro vehicles.

Batteries for special vehicles are mainly used for particular vehicles such as site vehicles, sanitation vehicles and police vehicles. According to China Industry Information Network, the sales of special vehicles were 300,000 in 2017 with compound annual growth rate of 20%, which indicated a bright prospect of growth. During the reporting period, the Group assisted 2018 Russia FIFA World Cup where all site vehicles used Tianneng batteries.

With development of internet economy and logistic sector, electric forklift market had grown rapidly. According to China Industry Information Network, the sales of forklifts were more than 370,000 nationwide in 2017, of which the shares of electric forklifts had risen rapidly from 11% in 2011 to 40% in 2017. Therefore, the total demands for batteries amounted to 2 billion yuan nationwide. Currently, Tianneng forklift battery has established the strategic partnership with Anhui Heli, Hangcha Group, Linde Forklift (林德叉車), and Noblift (諾力叉車), becoming the second largest domestic brand nationwide.

Meanwhile, leveraging on its strong brand, marketing, service, and industrial leading advantages, the Group had collaborated with starting battery manufacturers to achieve a win-win situation in backend auto market. During the reporting period, establishing the strategic cooperation with the top ten starting battery manufacturers in the sector, the Group had integrated resources by collaborating with strong manufacturers with the number of distributors exceeding 800 rapidly. The Group successfully opened up the starting battery market and set up Tianneng brand.

The Group actively expanded its smart energy market. During the reporting period, the Group had become strategic partners with China Resources Power, hence both parties concurred to conduct purchase and sales in five aspects including electric business and services, energy storage and comprehensive energies, smart energy project development, preventive examination and maintenance of electric equipment, and electric energy saving upgrading and services, so as to achieve mutual benefits and development by leveraging on their respective advantages sufficiently. At the “SNEC 12th International Photovoltaic Power Generation and Smart Energy Exhibition & Conference” (SNEC第十二屆國際太陽能光伏與智慧能源展覽會) held in Shanghai in May, Tianneng exhibited its smart energy solutions and drew wide attention in the market. During the reporting period, the Group was awarded “2018 China Most Influential Enterprise in Energy Storage Industry” (2018年度中國儲能產業最具影響力企業) and “2018 Top Ten Energy Storage Battery Supplier Award in Energy Storage Industry” (2018年度儲能產業十佳儲能電池供應商獎).

II. New energy lithium batteries

Lithium batteries are the Group’s major strategic industrial segment. During the reporting period, revenue from lithium batteries was approximately RMB278 million.

According to China Association of Automobile Manufacturers, the sales of new energy automobiles in China were 777,000 in 2017, representing an increase of 53% as compared with the same period last year. According to China Bicycle Association, the domestic average production volume of lithium-powered bicycles was more than 2,700,000 per annum from 2015 to 2017. According to China Industrial Association of Power Sources, the domestic demands for motive lithium batteries had risen rapidly from 7% in 2012 to 52% in 2016, with strong market demands in the future.

The lithium battery business of the Group had been awarded “Intelligent Manufacturing Project”, “China First Batch Key Laboratory of Lithium Batteries”, and “Pilot and Demonstration Project of Manufacturing and Internet Convergence Development” by MIIT, and successfully selected in the “Second Batch Enterprise List of Lithium-ion Battery Industry Standard Conditions” by MIIT, and participated in the development of two national standards for lithium-ion battery industry. The Group’s current R&D team with more than 1,000 technical staff, including 6 academicians and 4 “National One Thousand Talents”, had established a producing-studying-searching platform with over 10 domestic and overseas universities. The Group had researched and developed cathode materials with high specific energy, composite anode materials of long circulating silicon, high-safety electrolyte, and high-temperature-resistance diaphragm with high safety. Moreover, through synergy and integration of product lifespan management system OLM, lithium-ion motive battery manufacturing and executive system MES, and enterprise resource planning system ERP, the Group had successfully established a whole industrial chain of R&D and production for lithium battery materials, ternary lithium batteries, lithium iron phosphate batteries, and BMS and PACK system.

In order to better support the development of lithium battery industrial segment by enhancing capacity of financing, sales, channels, and industrial influence, Tianneng Battery, an indirect wholly-owned subsidiary of the Group, acquired 40% equity interests of Tianneng Energy (a company principally engaged in production and sales of lithium batteries) in August 2018 for an aggregate connected transaction amount of approximately RMB126 million. Thus far, Tianneng Energy had become an indirect wholly-owned subsidiary of the Group and its financial results continued to be consolidated in the results of the Group.

III. Recycled lead

By deeply practicing the concept of “Lucid waters and lush mountains are invaluable assets” and resolutely implementing the producer responsibility extension system, the Group targets to create green circular economy and speed up the construction of “urban mines”. During the reporting period, external revenue from recycled resources was approximately RMB745 million, representing an increase of approximately 36.0% as compared with the same period last year. Internally, the production of recycled lead relieved the effect of fluctuation of lead prices on production costs to some extent, and externally, it provided the Group with steady profit contribution, generating excellent economic and social benefits.

Leveraging on the two major used battery recovery based in Zhejiang and Henan, the Group deepened all-round green circular economy. During the reporting period, with an annual processing capacity of 400,000 tonnes of used batteries, the Group had become a benchmark enterprise for the harmless treatment of used batteries, and had been named as a “Resource Comprehensive Utilization Enterprise” (資源綜合利用企業) and “National Circular Economy Standardization Pilot Enterprise” (國家循環經濟標準化試點企業) by National Development and Reform Commission. Moreover, the Group had been listed as 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 selected as “First Batch Demonstration Plants for Green Manufacturing System” (第一批綠色製造體系示範工廠), and “Demonstration Enterprise for Green Supply Chain” (綠色供應鏈示範企業). During the reporting period, the Group was appraised as a “National Technology Center for Circular Economy” (全國循環經濟技術中心) and “A Copper Removal Composition for Recycled Lead Refining and Its Application”, independently researched and developed by the Group, won the national invention patent award.

IV. Globalization

In response to the national policy, the Group had made presence along the “Belt and Road” and to the world, and mainly exported its products to such regions as Southeast Asia, Australia, Middle East, Europe, and Africa.

Conduct international trade and global sales. Leveraging on its leading technology and excellent products in the sector, the Group had been mainly expanding international markets including Southeast Asia, Australia, and Europe. In particular, electric transportation tools had become a trend in Southeast Asian countries where the industry of electric bicycles has entered a starting stage and will experience golden development in the future 5 to 10 years.

Conduct research and development globally and so does manufacturing. The Group actively collaborated with overseas scientific research platform and integrated technological experts from many countries such as China, the USA, Korea, and Japan to create the core technological advantages in the whole industrial chain. Meanwhile, the Group actively explored opportunities of merge and acquisition in the up and down stream and planned to build an overseas R&D and production base in due course.

V. Capital operation

During the reporting period, the Group used its own funds to further increase the holding of Chaowei Power, a peer company in the industry. The Group had a total of approximately 112 million shares through two increases with total investment at HK\$558 million, fully showing its confidence for the future development of the industry. This not only maintained the development order in the industry, but also facilitated local economic development. The Group has been successfully listed into Hang Seng Composite Index, MSCI Index, Hang Seng Corporate Sustainability Index and Shenzhen-Hong Kong Stock Connect.

FUTURE PROSPECTS

Looking forward, the Group will continue to adhere to the stable progress as the overall tone and the quality and efficiency as the focus, deepen and optimize the innovation and transformation. As such, the Group will accelerate the transformation from a production-based manufacturing enterprise to a service-based manufacturing enterprise and from a traditional enterprise to a platform-based enterprise: accelerate to construct intelligent manufacturing, enterprise platform and global market presence; accelerate to establish a platform for global technological innovation, a platform for soft intelligent manufacturing, a platform for big data cloud driver, and a platform for innovation of raising talents and capital; leveraging on five factors such as client-oriented, innovation-driven, combination of production and financing, culture-based, and ecology sharing, achieve new situation of synergic development of six solution industrial segments including lead-acid batteries, high-energy new energy batteries, resource recycling, smart energy integration, modern services, and financial control and starting enterprise development. Offering green energy to create beautiful life, we wish to become the most respected world-class new energy company.

FINANCIAL REVIEW

Turnover

The Group's turnover for the period under review was approximately RMB14,507 million, representing an increase of approximately 27.7% 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 RMB1,709 million and approximately 11.8% respectively, representing an increase of approximately 18.8% and a decrease of approximately 0.9 percentage point as compared with the same period last year, mainly attributable to the increase in revenue.

Other income

The Group's other income for the period under review was approximately RMB173.66 million (for the six months ended 30 June 2017: approximately RMB177.69 million), representing a decrease of approximately 2.3% as compared with the same period last year. It was mainly attributable to the decrease in government grants.

Selling and distribution costs

Selling and distribution costs increased from approximately RMB313 million in the same period last year to approximately RMB362 million for the period under review, which was mainly attributable to the increase in transportation cost.

Administrative expenses

Administrative expenses increased from approximately RMB185 million in the same period last year to approximately RMB267 million for the period under review, which was mainly attributable to the increase in salary and consultancy expenses.

Research and development costs

R&D costs increased from approximately RMB367 million in the same period last year to approximately RMB453 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 decreased from approximately RMB78.22 million in the same period last year to approximately RMB72.45 million for the period under review, which was mainly due to the decrease in the monthly average of interest-bearing loans.

Operating activities cash flow

The net cash generated from operating activities of the Group increased from RMB638 million in the same period last year to approximately RMB1,159 million for the period under review. It was mainly attributable to the decrease in prepayments and increase in cash received from sales.

CAPITAL STRUCTURE, FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2018, the shareholders' equity of the Company amounted to approximately RMB4,988 million (31 December 2017: approximately RMB4,879 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 2018, the Group had total assets of approximately RMB16,142 million, increasing by approximately 15.5% as compared with approximately RMB13,982 million as at 31 December 2017, including total current assets of approximately RMB11,087 million and total non-current assets of approximately RMB5,055 million, increasing by approximately 21.2% and 4.6% respectively. The increase in current asset was mainly due to the increase in inventory, financial assets at FVTPL and bank deposits. The increase in non-current assets was mainly due to the increase in equity instruments at FVTOCI.

As at 30 June 2018, total liabilities of the Group were approximately RMB10,999 million, increasing by approximately 23.3% as compared with approximately RMB8,918 million as at 31 December 2017, including total current liabilities of approximately RMB10,402 million and total non-current liabilities of approximately RMB597 million, increasing by approximately 31.0% and decreasing by approximately 38.9% respectively. The increase in current liabilities was mainly due to the increase in bank notes, contract liabilities, corporate bonds due within one year and short-term bank loans held by the Group. The decrease in non-current liabilities was mainly due to the transfer out of corporate bonds due within one year.

As at 30 June 2018, the cash and bank balances of the Group (including pledged bank deposits, bank deposits and structured bank deposits) were approximately RMB6,240 million (31 December 2017: approximately RMB4,600 million), of which approximately RMB139.84 million and approximately RMB9.54 million are denominated in Hong Kong Dollars and United States Dollars respectively. As at 30 June 2018, the interest bearing borrowings and loan notes of the Group with maturity of within one year amounted to approximately RMB2,902 million (31 December 2017: approximately RMB1,329 million). The interest bearing borrowings and loan notes (together as "**interest bearing loans**") with maturity of more than one year amounted to approximately RMB521 million (31 December 2017: approximately RMB904 million). The interest bearing loans amounted to approximately RMB2,875 million and approximately RMB548 million were denominated in Renminbi and Hong Kong Dollars respectively. The loans denominated in RMB with fixed interest rates ranging from 3.92% to 8% (2017: 3.85% to 8%) per annum, and the loans denominated in Hong Kong Dollars of HK\$650 million with interest rates ranging from 2.60% to 3.51% (2017: 2.44% to 3.19%) per annum. In conclusion, the borrowings of the Group as at 30 June 2018 remained at a healthy and controllable level. With unutilized credit facilities

of RMB3,330 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 2018, 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 RMB2,226 million (31 December 2017: approximately RMB1,546 million).

Gearing ratio

As at 30 June 2018, 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 21.2% (31 December 2017: approximately 16.0%).

Exposure in exchange rate fluctuations

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 2018 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 30 June 2018 (31 December 2017: Nil).

Capital commitments

For details, please refer to note 23 to the condensed consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group employed a total of 20,449 employees (30 June 2017: 18,447). Staff cost of the Group for the period under review was approximately RMB695 million (for the six months ended 30 June 2017: approximately RMB607 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 2018: Nil).

SIGNIFICANT INVESTMENTS HELD

During the period under review, the Group recorded a net loss of approximately RMB15.26 million (for the six months ended 30 June 2017: net loss of approximately RMB6.77 million) for the financial assets at FVTPL as the capital market was under fluctuation. During the period under review, save as the investments in listed equity securities of Chaowei Power, there were no other significant investments held by the Group as at 30 June 2018 (31 December 2017: Nil, save as the disclosures in note 18 to the consolidated financial statement in the 2017 annual report).

MATERIAL ACQUISITION AND DISPOSAL

During the period 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 21 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 Stock Exchange of Hong Kong Limited (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. Mr. Guo Konghui, an independent non-executive director ("**INED**") and a member of Audit Committee of the Company, retired as INED and ceased to be a member of the Audit Committee with effect from the conclusion of the Company's annual general meeting on 18 May 2018 (the "**AGM**"). On 8 August 2018, the Company appointed Mr. Zhang Yong as an INED and a member of Audit Committee.

Pursuant to Rule 3.10(1) of the Listing Rules, a board of a listed issuer must include at least three INEDs; pursuant to Rule 3.10A of the Listing Rules, an issuer must appoint INEDs representing at least one-third of the board; and pursuant to Rule 3.21 of the Listing Rules, the audit committee must comprise a minimum of three members. So during the period from conclusion of the AGM to 7 August 2018, the number of INED and the composition of the audit committee have failed to meet the relevant requirements under the Listing Rules.

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 2018.

Other than the above disclosures, 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 18 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. The Scheme ad expired on 10 June 2017.

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 2018	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 2018	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	–	40,081,500	–	–	–	(315,000)	39,766,500	3.53%
						<u>40,851,500</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(315,000)</u>	<u>40,536,500</u>	<u>3.60%</u>

On 18 May 2018, the Company by ordinary resolution approved the adoption of a new shares option scheme with terms in line with the provisions of Chapter 17 of the Listing Rules. No options have yet been granted under such new share option scheme.

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 of the Company are Dr. ZHANG Tianren, Mr. ZHANG Aogen, Mr. ZHANG Kaihong, Mr. SHI Borong and Mr. ZHOU Jianzhong; the independent non-executive directors of the Company are Mr. WU Feng, Mr. HUANG Dongliang and Mr. ZHANG Yong.

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, 31 August 2018