



Interim Report
2008



**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

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Zhang Tianren (*Chairman*)
Mr. Zhang Aogen
Mr. Chen Minru
Mr. Zhang Kaihong
Mr. Shi Borong
Mr. Yang Lianming

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Tso Hsiu
Dr. Cheng Cheng Wen
Mr. Huang Dongliang
Mr. Wang Jingzhong

AUDIT COMMITTEE MEMBERS

Dr. Cheng Cheng Wen (*Chairman*)
Mr. Huang Dongliang
Mr. Wang Jingzhong

REMUNERATION COMMITTEE MEMBERS

Mr. Chen Minru (*Chairman*)
Dr. Cheng Cheng Wen
Mr. Huang Dongliang

NOMINATION COMMITTEE MEMBERS

Mr. Zhang Aogen (*Chairman*)
Mr. Huang Dongliang
Mr. Wang Jingzhong

COMPANY SECRETARY

Mr. Leung Kwok Wah, Kevin

QUALIFIED ACCOUNTANT

Mr. Leung Kwok Wah, Kevin

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor One Pacific Place
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Hong Kong

LEGAL ADVISOR

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STATUTORY ADDRESS

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COMPANY'S WEBSITE

www.tianneng.com.hk

PRINCIPAL SHARE REGISTRAR

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 00819

REVIEW OF OPERATIONS

Being the largest electric bike motive battery supplier in the People's Republic of China ("China"), Tianneng Power International Limited ("Tianneng" or the "Company" and together with its subsidiaries, the "Group") is leading the electric bike motive battery industry in China by focusing research and development, expanding distribution network and emphasizing efficiency and effectiveness of operations.

The Company has participated in a Post-doctoral Scientific Research Workstation with Zhejiang provincial government since September 2005. The objective is to research and develop new motive battery products, storage battery products relating to the use of renewable energy and new battery production technology which can improve the energy density level of motive battery. The Company's research effort is highly recognized by the Chinese government. In July 2008, the Chinese government approved the upgrade of the Workstation from provincial level to national level, which means Tianneng is in a better position to recruit and attract top research scientists and enjoys more benefits from the Chinese government. With the advanced know-how and strong research capability, the Company has been able to produce quality motive batteries at competitive prices. Furthermore, apart from electric bike, the Company has extended the application of lead acid motive battery to electric sight-seeing bus and electric forklift truck.

During the period under review, the weighted average lead purchase price net of value added tax was approximately RMB16,340 per ton, an increase of approximately 23.4% as compared with the same period last year. On the other hand, the weighted average lead acid battery selling price net of value added tax was approximately RMB111.6, an increase of approximately 18.2% as compared with the same period last year. Although the lead purchase price increased significantly, the Company was still able to lessen its impact on gross profit margin by increasing the production capacity and reduce the reliance on outsourcing of electro-plate.

The Company has developed strong brand recognition. In July 2008, the Company was awarded "2008 Chinese Best Brand of Motive Battery" in the electric bike battery market by Frost and Sullivan. In recent years, due to rapid development in the secondary or replacement market, the Company's sales and distribution strategy is to continue engaging exclusive distributors to further expand this market. As at 30 June 2008, there were a total of 464

MANAGEMENT DISCUSSION AND ANALYSIS

exclusive distributors, increased by 91 from 373 as at 31 December 2007. The Company's sales and distribution network covers most parts of China. To further enhance the sales and distribution network and brand name awareness, the Company has launched various forms of advertisements and publicity campaigns. We have also established the overseas trade department, aiming at exploring overseas market and for the period under review, the Company has recorded sales revenue of approximately RMB3.0 million from overseas market.

The Company believes that training and development is essential to maintain its competitiveness. In early 2008, the Company introduced "6S" management training to all general staff and launched total quality control training specifically to purchasing, production and quality control staff. For senior management, executive management education was provided. The objective is to upgrade the quality of the Company's human resources and cultivate the culture of learning within the organization.

FUTURE PROSPECTS

The significant growth in the Company's turnover clearly indicates the strong demand for electric bikes motive battery. This strong demand is mainly driven by the demand from secondary or replacement market. With the increasing accumulative market volume of electric bike, which leads to the increased demand for battery replacement, the secondary market has already outperformed the primary market in terms of sales revenue generated. As a result, a wide, extensive and coordinated sales and distribution network with good after sales service are the keys to success in this market. That's why the Company continues engaging exclusive distributors to exploit this market and provides marketing support to exclusive distributors.

In order to rationalize the Company's resources, the Company has decided to reduce the production of charges, controllers and motors and allocate more resources to motive battery production. The ultimate development is to focus on production of motive battery of lead acid, nickel hydride and lithium ion.

To match with the national policy of energy saving, the Company launched a renewable energy project in Shuyang County of Jiangsu Province in September 2007. The project involves the building of infrastructure on the production site, the construction of production plants and the purchase of production equipment for the purpose of producing storage battery relating to solar energy and wind energy. The project is expected to commence production in early 2009 and will generate steady revenue and good investment returns to shareholders in light of the national policy to encourage the use of natural renewable energy. More information about the renewable energy project can be referred to the announcement of the Company dated 5 May 2008.

FINANCIAL REVIEW

Turnover

The Company's turnover for the six months ended 30 June 2008 (the "period under review") was approximately RMB1,270.0 million, an increase of approximately 76.1% as compared with the same period last year. Such increase was mainly due to the continued growth in the sales of lead-acid battery which constituted 97.0% of the Company's turnover during the period under review.

Gross Profit

The Company's gross profit during the period under review was approximately RMB294.6 million, an increase of approximately 64.6% as compared with the same period last year. The increase in gross profit was mainly due to the strong sales in lead acid battery. Gross profit margin fell by 1.6 percentage point from 24.8% to 23.2% due to the increase in lead price.

Other income

The other income of the Company for the six months period ended 30 June 2008 was approximately RMB18.6 million (six months ended 30 June 2007: approximately RMB9.4 million), an increase of 97.8% as compared with the same period last year. Such increase in other income was mainly due to the VAT refunded, bank interest income and government grants.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution costs

Selling and distribution costs increased from approximately RMB45.6 million in the same period last year to approximately RMB76.5 million, mainly due to increase in sales incentive, warranty expenses and transportation expenses.

Administrative expenses

Administrative expenses increased from approximately RMB28.3 million in the same period last year to approximately RMB40.0 million, mainly due to increase in payroll expenses and payroll-related expenses.

Finance costs

Finance costs increased from approximately RMB10.8 million in the same period last year to approximately RMB16.2 million, mainly due to increase in bank interest rate.

CAPITAL STRUCTURE, FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2008, the shareholders' equity of the Company amounted to approximately RMB1,123.1 million (31 December 2007: approximately RMB1,062.5 million). The Group's capital structure is the equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profit. The Group has total assets of approximately RMB1,689.1 million (31 December 2007: approximately RMB1,668.0 million), representing an increase of RMB21.1 million, or 1.3%. As of the same date, total current assets of the Group were approximately RMB1,149.1 million (31 December 2007: approximately RMB1,213.7 million), representing a decrease of 5.3% as compared with the financial year ended 31 December 2007 and accounting for 68.0% of total assets. Total non-current assets were approximately RMB540.1 million (31 December 2007: approximately RMB454.3 million), representing an increase of RMB85.8 million and accounting for 32.0% of the total assets.

As at 30 June 2008, total liabilities of the Group were approximately RMB566.0 million (31 December 2007: approximately RMB605.5 million), which represented a decrease of 6.5% as compared with the financial year ended 31 December 2007. Total current liabilities were approximately RMB536.0 million (31 December 2007: approximately RMB565.5 million), whereas total non-current liabilities were approximately RMB30.0 million (31 December 2007: approximately RMB40.0 million).

As at 30 June 2008, the cash and bank balances of the Group was approximately RMB441.7 million (31 December 2007: approximately RMB 401.8 million). As at 30 June 2008, the Group has short-term loans of approximately RMB 314.5 million (31 December 2007: approximately RMB 336.5 million). The short-term loans are repayable within one year. All short-term bank loans are denominated in Renminbi with an interest rates between 6.7% to 8.96% per annum (31 December 2007: 6.07% to 8.96% per annum).

As at 30 June 2008, the long-term bank loans of the Group amounted to approximately RMB30.0 million with fixed interest rates at 7.56% (31 December 2007: approximately RMB40.0 million with an interest rates between 6.93% to 7.56% per annum). All long-term bank loans are denominated in Renminbi and to be repaid in full in 2009.

Pledge of Assets

As at 30 June 2008, the bank facilities of the Group are secured by bank deposits, property, plant and equipment and land use rights. The aggregate net book value of the assets pledged amounted to approximately RMB185.2 million (31 December 2007: approximately RMB152.2 million).

Gearing ratio

The Group's gearing ratio, defined as total debts as percentage of total assets, was 20.4% (31 December 2007: 22.6%).

Exposure in exchange rate fluctuations

As the Group's operations were mainly conducted in China and the majority of the sales and purchases were transacted in Renminbi, the directors of the Company (the "Directors") are of the view that the Group's operating cash flow and liquidity are not subject to significant foreign exchange rate risks.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2008 (31 December 2007: Nil).

Capital commitments

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

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2008, the Group employed a total of 5,404 employees. Staff cost of the Group for the first half of 2008 was approximately RMB65.5 million (six months ended 30 June 2007: approximately RMB44.7 million). The cost included basic salaries and benefits as well as staff benefits such as discretionary bonus, medical and insurance plans, pension scheme, unemployment insurance plan etc. Competitive remuneration packages were offered to employees. The Company has adopted incentive programs to encourage employee performance and a range of training programs for the development of its staff.

INTERIM DIVIDEND

The board of Directors (the "Board") does not recommend the payment of any interim dividend for the six months ended 30 June 2008.

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held by the Company as at 30 June 2008.

MATERIAL ACQUISITION AND DISPOSAL

During the period under review, the Company had no material acquisition or disposal of subsidiaries and affiliated companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2008 was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

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 interim report.

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 investor confidence.

Throughout the six months ended 30 June 2008, the Company has adopted and met the provisions of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rule"), except for the code provision A.2.1. Mr. Zhang Tianren is both the Chairman and CEO of the Company who is responsible for managing the Group's business. The Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Company's business strategies and maximizes the effectiveness of its operation. With the present board structure and scope of business, the Board considers that there is no imminent need to separate the roles into two individuals. However, the Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether the separation of the position of the Chairman and CEO is necessary.

The Company has established an audit committee (the "Audit Committee") in compliance with the Rule 3.21 of the Listing Rules. The Company's Audit Committee comprises three independent non-executive Directors. The primary duties of the Audit Committee (inter alia) are to review the financial reporting process and internal control system of the Group, and to make proposals to the Board as to appointment, renewal and resignation of the Company's external auditors and the related remuneration and appointment terms. The Audit Committee has reviewed this interim report with the management of the Company and the Company's 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 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 Companies (the "Model Code") contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all Directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2008.

The Company has also complied with Rule 3.10 (1) and 3.10 (2) of the Listing Rules and appointed four independent non-executive Directors including one with financial management expertise.



TO THE BOARD OF DIRECTORS OF TIANNENG POWER INTERNATIONAL LIMITED

INTRODUCTION

We have reviewed the interim financial information set out on pages 12 to 28, which comprises the condensed consolidated balance sheet of Tianneng Power International Limited as of 30 June 2008 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on the interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by HKICPA. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

16 August 2008

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	NOTES	Six months ended 30 June	
		2008	2007
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Turnover	4	1,269,875	721,115
Cost of sales		(975,283)	(542,136)
Gross profit		294,592	(178,979)
Other income		18,569	9,386
Selling and distribution costs		(76,458)	(45,553)
Administrative expenses		(39,963)	(28,316)
Listing related expenses		–	(13,021)
Research and development costs		(14,678)	(2,772)
Other operating expenses		(12,003)	(7,202)
Finance costs		(16,224)	(10,756)
Profit before taxation	5	153,835	80,745
Taxation	6	(32,796)	(14,713)
Profit for the period		121,039	66,032
Dividend	7	60,439	39,891
Earnings per share	8		
– Basic		RMB12.1 cents	RMB8.6 cents

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2008

	NOTES	30.6.2008 RMB'000 (unaudited)	31.12.2007 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	489,882	408,556
Prepaid lease payments	9	37,557	35,558
Deferred tax assets	10	12,624	10,179
		540,063	454,293
Current assets			
Inventories		459,371	426,990
Bills, trade and other receivables	11	232,167	343,503
Prepaid lease payments	9	808	773
Amount due from a related company		–	622
Restricted bank deposits		15,000	40,000
Bank balances and cash		441,735	401,843
		1,149,081	1,213,731
Current liabilities			
Trade and other payables	12	194,233	214,054
Amount due to a related company		76	–
Amount due to a director		1,300	–
Taxation payable		25,922	14,957
Short-term bank loans	13	314,500	336,500
		536,031	565,511
Net current assets		613,050	648,220

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

At 30 June 2008

	NOTES	30.6.2008 RMB'000 (unaudited)	31.12.2007 RMB'000 (audited)
Total assets less current liabilities		1,153,113	1,102,513
Non-current liabilities			
Long-term bank loans	14	30,000	40,000
		1,123,113	1,062,513
Capital and reserves			
Share capital	15	99,037	99,037
Reserves		1,024,076	963,476
Total equity		1,123,113	1,062,513

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Share capital	Share premium	Special reserve	Capital reserve	Non- distributable reserve	Statutory surplus reserve fund	Discretionary surplus reserve fund	Translation reserve	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	560	115,730	10,000	57,010	12,460	19,987	6,663	5,305	219,036	446,751
Profit for the year and total recognised income for the year	-	-	-	-	-	-	-	-	202,889	202,889
Transfer	-	-	-	-	-	22,057	-	-	(22,057)	-
Dividend recognised as distribution (note 7)	-	-	-	-	-	-	-	-	(44,298)	(44,298)
Waiver of dividend (note 7)	-	-	-	-	-	-	-	-	4,407	4,407
Capitalisation issue	73,912	(73,912)	-	-	-	-	-	-	-	-
Issue of new shares upon new listing	24,565	447,092	-	-	-	-	-	-	-	471,657
Shares issuance expenses	-	(18,893)	-	-	-	-	-	-	-	(18,893)
At 31 December 2007 and 1 January 2008	99,037	470,017	10,000	57,010	12,460	42,044	6,663	5,305	359,977	1,062,513
Profit for the period and total recognised income for the period	-	-	-	-	-	-	-	-	121,039	121,039
Transfer	-	-	-	-	-	1,460	-	-	(1,460)	-
2007 final dividend paid	-	-	-	-	-	-	-	-	(60,439)	(60,439)
At 30 June 2008	99,037	470,017	10,000	57,010	12,460	43,504	6,663	5,305	419,117	1,123,113
At 1 January 2007	560	115,730	10,000	57,010	12,460	19,987	6,663	5,305	219,036	446,751
Profit for the period and total recognised income for the period	-	-	-	-	-	-	-	-	66,032	66,032
Dividend recognised as distribution (note 7)	-	-	-	-	-	-	-	-	(44,298)	(44,298)
Waiver of dividend (note 7)	-	-	-	-	-	-	-	-	4,407	4,407
Capitalisation issue	73,912	(73,912)	-	-	-	-	-	-	-	-
Issue of new shares upon new listing	24,565	447,092	-	-	-	-	-	-	-	471,657
Shares issuance expenses	-	(18,893)	-	-	-	-	-	-	-	(18,893)
At 30 June 2007	99,037	470,017	10,000	57,010	12,460	19,987	6,663	5,305	245,177	925,656

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from (used in) operating activities	202,923	(19,229)
Net cash used in investing activities		
Purchase of property, plant and equipment	(100,736)	(76,657)
Prepaid lease payments	(2,429)	(15,629)
Proceeds from disposal of property, plant and equipment	1,731	–
Decrease (increase) in restricted bank deposits	25,000	(65,700)
Other investing cash flows	1,833	5,558
	(74,601)	(152,428)
Net cash (used in) from financing activities		
Proceeds from issue of shares upon new listing	–	471,657
Shares issuance expenses	–	(18,893)
Dividends paid	(57,730)	(37,363)
Bank loans raised	–	267,000
Increase in amount due to a director	1,300	–
Repayments of bank loans	(32,000)	(101,000)
	(88,430)	581,401
Net increase in cash and cash equivalents	39,892	409,744
Cash and cash equivalents at the beginning of the period	401,843	144,718
Cash and cash equivalents at the end of the period, represented by bank balances and cash	441,735	554,462

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

1. BASIS OF PREPARATION

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

The Group’s interim financial information is presented in Renminbi (“RMB”), which is also the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2007.

In the current interim period, the Group has applied, for the first time, some Interpretations (“HK(IFRIC)-INT”) (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2008. The adoption of the new HKFRSs has no material effect on how the results and financial position for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is required.

The Group has not early applied the following new and revised Hong Kong Accounting Standards (“HKAS”) and Hong Kong Financial Reporting Standards (“HKFRS”), amendments or interpretations that have been issued but are not yet effective.

INTERIM FINANCIAL INFORMATION

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

HKAS 1 (Revised)	Presentation of financial statements ¹
HKAS 23 (Revised)	Borrowing costs ¹
HKAS 27 (Revised)	Consolidated and separate financial statements ²
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation ¹
HKFRS 2 (Amendment)	Vesting conditions and cancellations ¹
HKFRS 3 (Revised)	Business combinations ²
HKFRS 8	Operating segments ¹
HK(IFRIC)*-INT 13	Customer loyalty programmes ³

¹ Effective for annual periods beginning on or after 1 January 2009.

² Effective for annual periods beginning on or after 1 July 2009.

³ Effective for annual periods beginning on or after 1 July 2008.

* IFRIC represents the International Financial Reporting Interpretations Committee.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards or interpretation will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Business segment

The Group's operation is regarded as a single segment, being the manufacture and sales of storage batteries and battery related accessories.

Geographical segment

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as they are substantially generated from or situated in the People's Republic of China (the "PRC").

INTERIM FINANCIAL INFORMATION

4. TURNOVER

An analysis of turnover is as follows:

Sales of goods

Lead-acid motive battery products

Chargers, controllers and motors

Others

Six months ended 30 June

2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
1,231,715	658,568
8,329	17,114
29,831	45,433
1,269,875	721,115

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

Allowance for bad and doubtful debts

Allowance for inventories

Amortisation of prepaid lease payments

Depreciation of property, plant and equipment

Loss on disposal of property, plant and equipment

Six months ended 30 June

2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
7,505	2,077
170	20
395	305
16,008	11,191
1,671	395

INTERIM FINANCIAL INFORMATION

6. TAXATION

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
The charge comprises:		
PRC Enterprise Income Tax	35,241	14,713
Deferred taxation (note 10)	(2,445)	–
	32,796	14,713

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

Taxation charge mainly consists of income tax in the PRC attributable to the assessable profits and is calculated at the applicable rates prevailing in the PRC. Pursuant to the relevant laws and regulations in the PRC, the Company's subsidiary, Zhejiang Tianneng Battery Co., Ltd., is entitled to exemption from PRC Enterprise Income Tax for the two years commencing from 2005 and 50% reduction for the following three years.

Pursuant to notices issued by the Zhejiang Provincial Tax Bureau Changxing County branch, Zhejiang Changxing Tianneng Power Supply Co., Ltd., as a welfare enterprise, was entitled to a tax waiver of 75% of the PRC Enterprise Income Tax until 30 September 2006. According to the notice (國家稅務總局關於進一步做好調整現行福利企業稅收優惠政策試點工作的通知) dated 25 September 2006 issued by the Department of the Treasury (財政部) and State Tax Bureau (國家稅務總局), effective from 1 October 2006, the tax waiver of the PRC Enterprise Income Tax entitled by welfare enterprises was cancelled and replaced by a tax benefit which a portion of its taxable profits, representing 200% of the salaries paid to staff with physical disability, would be exempted from the PRC Enterprise Income Tax.

6. TAXATION (CONTINUED)

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations have changed the tax rate from 33% to 25% for the Group's subsidiaries from 1 January 2008.

7. DIVIDEND

The directors of the Company do not recommend an interim dividend for the six months period ended 30 June 2008.

The directors of the Company declared a final dividend of RMB60,439,080 on 19 April 2008 for 2007, equivalent to approximately RMB0.06 per share based on 1,000,000,000 shares in issue at 31 December 2007. During the period ended 30 June 2008, the Company paid RMB57,730,000 in respect of the 2007 final dividend to the entitled shareholders.

The directors of the Company declared a final dividend of RMB44,298,000 on 18 April 2007 for 2006, equivalent to approximately RMB8.36 per share based on 5,296,439 shares in issue at 31 December 2006. On 25 June 2007, two strategic shareholders of the Company, Power Active Limited and Prax Capital Fund I, LP, agreed to waive part of their entitled 2006 final dividend amounting to RMB4,407,000 and resulting for a net 2006 final dividend payable of RMB39,891,000 to the entitled shareholders of the Company. During the period ended 30 June 2007, the Company paid RMB37,363,000 in respect of the 2006 final dividend to the entitled shareholders.

INTERIM FINANCIAL INFORMATION

8. EARNINGS PER SHARE

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings:		
Earnings for the purpose of calculating basic earnings per share	121,039	66,032
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,000,000,000	763,698,630

The weighted average number of ordinary shares for the purpose of calculating the basic earnings per share for prior period has been retrospectively adjusted, assuming the capitalisation issue occurred on the first day of the period, for the effect of the capitalisation issue of 744,703,561 shares completed on 8 February 2007.

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

During the period, the Group disposed of certain plant and machinery with a carrying amount of RMB3,402,000 at a consideration of RMB1,731,000, resulting in a loss on disposal of RMB1,671,000.

The Group spent approximately RMB100,736,000 (1.1.2007-30.6.2007: RMB76,657,000) on additions of machinery and manufacturing plant in the PRC, in order to upgrade its manufacturing capabilities.

During the period, the Group spent approximately RMB2,429,000 (1.1.2007-30.6.2007: RMB15,629,000) on additions of prepaid lease payments in the PRC.

INTERIM FINANCIAL INFORMATION

10. DEFERRED TAXATION

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

	Provision for inventories, trade and other receivables RMB'000	Accrued warranty fee RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007 and 30 June 2007	–	–	–	–
Credit to income statement for the period	6,271	4,490	2,146	12,907
Effect of change in tax rate	(1,253)	(999)	(476)	(2,728)
At 31 December 2007	5,018	3,491	1,670	10,179
Credit to income statement for the period (note 6)	1,621	397	427	2,445
At 30 June 2008	6,639	3,888	2,097	12,624

At 30 June 2008, the Group has deductible temporary differences of approximately RMB2,595,000 (31.12.2007: RMB2,276,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At 30 June 2008, the Group had unused tax losses of approximately RMB16,824,000 (31.12.2007: RMB10,951,000) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to unpredictability of future profit streams. Such unrecognised losses will expire at various dates up to and including 2014 (31.12.2007: 2013).

INTERIM FINANCIAL INFORMATION

11. BILLS, TRADE AND OTHER RECEIVABLES

	30.6.2008 RMB'000 (unaudited)	31.12.2007 RMB'000 (audited)
Bills receivables	69,068	215,434
Trade receivables	102,199	84,590
Other receivables	60,900	43,479
	232,167	343,503

The Group allows an average credit period of 180 days for bills receivables. The following is an aged analysis of bills receivables at the balance sheet date:

	30.6.2008 RMB'000 (unaudited)	31.12.2007 RMB'000 (audited)
0 to 180 days	69,068	214,734
181 to 365 days	-	700
	69,068	215,434

Payment terms with customers are mainly on credit. The Group allows an average credit period of 45 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	30.6.2008 RMB'000 (unaudited)	31.12.2007 RMB'000 (audited)
0-45 days	71,616	51,944
46-90 days	13,263	9,904
91-180 days	9,340	15,068
181-365 days	7,980	7,674
	102,199	84,590

INTERIM FINANCIAL INFORMATION

12. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	30.6.2008 RMB'000 (unaudited)	31.12.2007 RMB'000 (audited)
0-90 days	68,479	55,707
91-180 days	6,284	62,377
181-365 days	924	1,101
1-2 years	346	500
Over 2 years	1,872	699
	77,905	120,384

13. SHORT TERM BANK LOANS

	30.6.2008 RMB'000 (unaudited)	31.12.2007 RMB'000 (audited)
Secured	108,000	93,000
Unsecured	206,500	243,500
	314,500	336,500

The short term bank loans are denominated in RMB and carry fixed interest rates ranging from 6.70% to 8.96% per annum (31.12.2007: 6.07% to 8.96% per annum).

14. LONG TERM BANK LOANS

The Group's long term bank loans are unsecured and denominated in RMB. The bank loans carry fixed interest rates at 7.56% (31.12.2007: 6.93% to 7.56%) per annum and to be repaid in full in 2009.

INTERIM FINANCIAL INFORMATION

15. 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 2007, 31 December, 2007, 1 January 2008 and 30 June 2008	<u>2,000,000,000</u>	<u>212,780</u>
Issued and fully paid:		
At 1 January 2007	5,296,439	560
Issue by capitalisation of the share premium account (note i)	744,703,561	73,912
Issue of shares on international placing and public offer (note ii)	<u>250,000,000</u>	<u>24,565</u>
At 30 June 2007, 31 December 2007, 1 January 2008 and 30 June 2008	<u>1,000,000,000</u>	<u>99,037</u>

Notes:

- (i) Pursuant to a resolution passed by the shareholders of the Company on 26 February 2007, the directors of the Company were authorised to capitalise HK\$74,470,356 (equivalent to RMB73,911,828) standing to the credit of the share premium account of the Company by applying such sum in crediting as fully paid at par the 744,703,561 nil paid shares of HK\$0.10 each for issue of shares to all the shareholders on a pro rata basis.
- (ii) On 11 June 2007, the Company issued 250,000,000 shares with a par value of HK\$0.10 each, at a price of HK\$1.92 by way of international placing and Hong Kong public offer to overseas and Hong Kong investors.

INTERIM FINANCIAL INFORMATION

16. PLEDGE OF ASSETS

At the balance sheet date, the Group has pledged the following assets to secure the general banking facilities and bank borrowings granted to the Group.

	30.6.2008 RMB'000 (unaudited)	31.12.2007 RMB'000 (audited)
Bank deposits	15,000	40,000
Property, plant and equipment	149,492	78,049
Land use rights	20,727	34,169
	185,219	152,218

17. CAPITAL COMMITMENTS

	30.6.2008 RMB'000 (unaudited)	31.12.2007 RMB'000 (audited)
Capital expenditure in respect of the acquisition of property, plant and equipment:		
Contracted for but not provided in the financial statements	106,496	13,248

INTERIM FINANCIAL INFORMATION

18. RELATED PARTY TRANSACTIONS

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

Name of related company	Nature of transaction	Six months ended 30 June	
		2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Zhejiang Changtong Electric Bicycle Co., Ltd.	Sales of storage battery and other products	13,523	11,355
	Sales of materials	36	13
	Purchase of Electric bicycle	354	–
Jin Ling Hotel	Other expenses	–	916
Changxing Changshun Plastic Co., Ltd.	Purchase of consumable materials	–	7,862
Zhejiang Changxing Xin Xin Packaging Co., Ltd.	Purchase of consumables	231	387

The related companies are controlled or beneficially owned by a director of the Company or his family members.

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

	Six months ended 30 June	
	2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Short term employee benefits	1,027	837

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.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30 June 2008, apart from the details as follows, the Directors and chief executive do not have any other interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company.

Ordinary shares of HK\$0.1 each of the Company

Name	Capacity	Number of shares held	Approximate percentage of issued share capital of the Company
Zhang Tianren	Interest of a controlled corporation (Note 2)	414,179,650 (L) (Note 1)	41.42%
Zhang Aogen	Interest of a controlled corporation (Note 3)	25,321,022 (L)	2.53%
Chen Minru	Interest of a controlled corporation (Note 4)	9,043,152 (L)	0.90%
Zhang Kaihong	Interest of a controlled corporation (Note 5)	34,364,174 (L)	3.44%
Shi Borong	Interest of a controlled corporation (Note 6)	31,952,789 (L)	3.20%
Yang Lianming	Interest of a controlled corporation (Note 7)	9,043,151 (L)	0.90%

Notes:

- The letter "L" denotes long position in the shares of the Company.
- The 414,179,650 shares of the Company are held by Prime Leader Global Limited, which is wholly owned by Mr. Zhang Tianren.
- The 25,321,022 shares of the Company are held by Top Benefits International Limited, which is wholly owned by Mr. Zhang Aogen.
- The 9,043,152 shares of the Company are held by Profit Best International Limited, which is wholly owned by Mr. Chen Minru.
- The 34,364,174 shares of the Company are held by Plenty Gold Holdings Limited, which is wholly owned by Mr. Zhang Kaihong.
- The 31,952,789 shares of the Company are held by Precise Asia Global Limited, which is wholly owned by Mr. Shi Borong.
- The 9,043,151 shares of the Company are held by Success Zone Limited, which is wholly owned by Mr. Yang Lianming.

OTHER INFORMATION

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders, other than a Director or chief executive of the Company, had notified the Company of relevant interests and short positions in the shares or underlying shares or debentures of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO in the issued share capital of the Company:

Ordinary shares of HK\$0.01 each of the Company

Name of Shareholder	Capacity	Number of shares held	Approximate percentage of issued share capital of the Company
Zhang Tianren	Interest of a controlled corporation (note 2)	414,179,650(L) (note 1)	41.42%
Prime Leader Global Limited	Beneficial owner	414,179,650(L)	41.42%
Centennial Success Limited	Interest of a controlled corporation (note 3)	64,745,771(L)	6.47%
Cheng Yu Tung Family (Holdings) Limited	Interest of a controlled corporation (note 3)	64,745,771(L)	6.47%
Chow Tai Fook Enterprises Limited	Interest of a controlled corporation (note 3)	64,745,771(L)	6.47%
Liberty New World China Enterprises Investments, LP	Interest of a controlled corporation (note 3)	64,745,771(L)	6.47%
New World China Enterprises Investments Limited	Interest of a controlled corporation (note 3)	64,745,771(L)	6.47%
New World China Industrial Limited	Interest of a controlled corporation (note 3)	64,745,771(L)	6.47%
New World Development Company Limited	Interest of a controlled corporation (note 3)	64,745,771(L)	6.47%
New World Enterprise Holdings Limited	Interest of a controlled corporation (note 3)	64,745,771(L)	6.47%
New World Liberty China Ventures Ltd.	Interest of a controlled corporation (note 3)	64,745,771(L)	6.47%
Power Active Limited	Beneficial owner	64,745,771(L)	6.47%

Note:

1. The letter "L" denotes long position in the shares of the Company.
2. The 414,179,650 shares are held by Prime Leader Global Limited, which is wholly-owned by Mr. Zhang Tianren.
3. The 64,745,771 shares of the Company are held by Power Active Limited, a wholly-owned subsidiary of New World Liberty China Ventures Ltd., which is owned as to 50% by Liberty New World China Enterprises Investments, L.P. and 50% by New World China Enterprises Investments Limited, which in turn wholly-owned by New World China Industrial Limited which in turn wholly-owned by New World Enterprise Holdings Limited, which in turn wholly-owned by New World Development Company Limited, which in turn owned as to 36.53% by Chow Tai Fook Enterprises Limited, which in turn wholly-owned by Centennial Success Limited, which in turn owned as to 51% by Cheung Yu Tung Family (Holdings) Limited.

Accordingly, each of (i) New World Liberty China Ventures Ltd., (ii) Liberty New World China Enterprises Investments, L.P., (iii) New World China Enterprises Investments Limited, (iv) New World China Industrial Limited, (v) New World Enterprise Holdings Limited, (vi) New World Development Company Limited, (vii) Chow Tai Fook Enterprises Limited, (viii) Centennial Success Limited and (ix) Cheung Yu Tung Family (Holdings) Limited is deemed to be interested in the 64,745,771 shares of the Company held by Power Active Limited for the purpose of the SFO.

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.

As at 30 June 2008, no share option was granted under the Scheme.

CONNECTED TRANSACTION

On 25 April 2007, the Company has entered into an agreement with Zhejiang Changtong Electric Bicycle Co., Ltd. ("Zhejiang Changtong") pursuant to which the Company will sell from time to time products including batteries, chargers, controllers and motors to Zhejiang Changtong for the period up to 31 December 2009. Zhejiang Changtong was beneficially owned by Mr. NI Danqing as to 88.08%. and Mr. SHE Zhifu, an independent third party of the Company and its subsidiaries, as to 11.92%. Mr. NI Danqing is a brother-in-law of Mr. ZHANG Tianren and Mr. ZHANG Aogen. Accordingly, both Mr. NI Danqing and Zhejiang Changtong were associates of Mr. ZHANG Tianren and hence the Company's connected persons for the purposes of the Listing Rules.

OTHER INFORMATION

On 18 June 2008, Mr. NI Danqing disposed of 68.08% of his shareholding interest in Zhejiang Changtong to Mr. SHE Zhifu. Therefore, Zhejiang Changtong ceased to be a connected person of the Company and the transactions between the Company and Zhejiang Changtong ceased to be connected transaction under the Listing Rules with effective from 18 June 2008.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

By order of the Board

Zhang Tianren

Chairman

Hong Kong, 16 August 2008