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

Annual Report 2008

Contents

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
88 Queensway
Hong Kong

LEGAL ADVISOR

Gallant Y.T. Ho & Co.
5th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

COMPLIANCE ADVISER

Kingsway Capital Limited
5th Floor, Hutchison House
10 Harcourt Road
Central, Hong Kong

STATUTORY ADDRESS

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 5509, Central Plaza
18 Harbour Road, Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR

Bank of Bermuda (Cayman) Limited
P.O. Box 513, Strathvale House
North Church Street
George Town
Grand Cayman KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 00819

COMPANY'S WEBSITE

http://www.tianneng.com.hk

Company Profile

Tianneng Power International Limited (the "**Company**" or "**Tianneng Power**") and its subsidiaries (the "**Group**") are engaged in producing motive battery products in the People's Republic of China ("**China**"). As at 31 December 2008, the Company is the largest listed lead-acid motive battery producer for the electric bike market in China.

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. It completed its initial public offering of 300,000,000 shares on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 11 June 2007. The Company was the first electric bike lead-acid motive battery manufacturing company in China to obtain the listing status in Hong Kong.

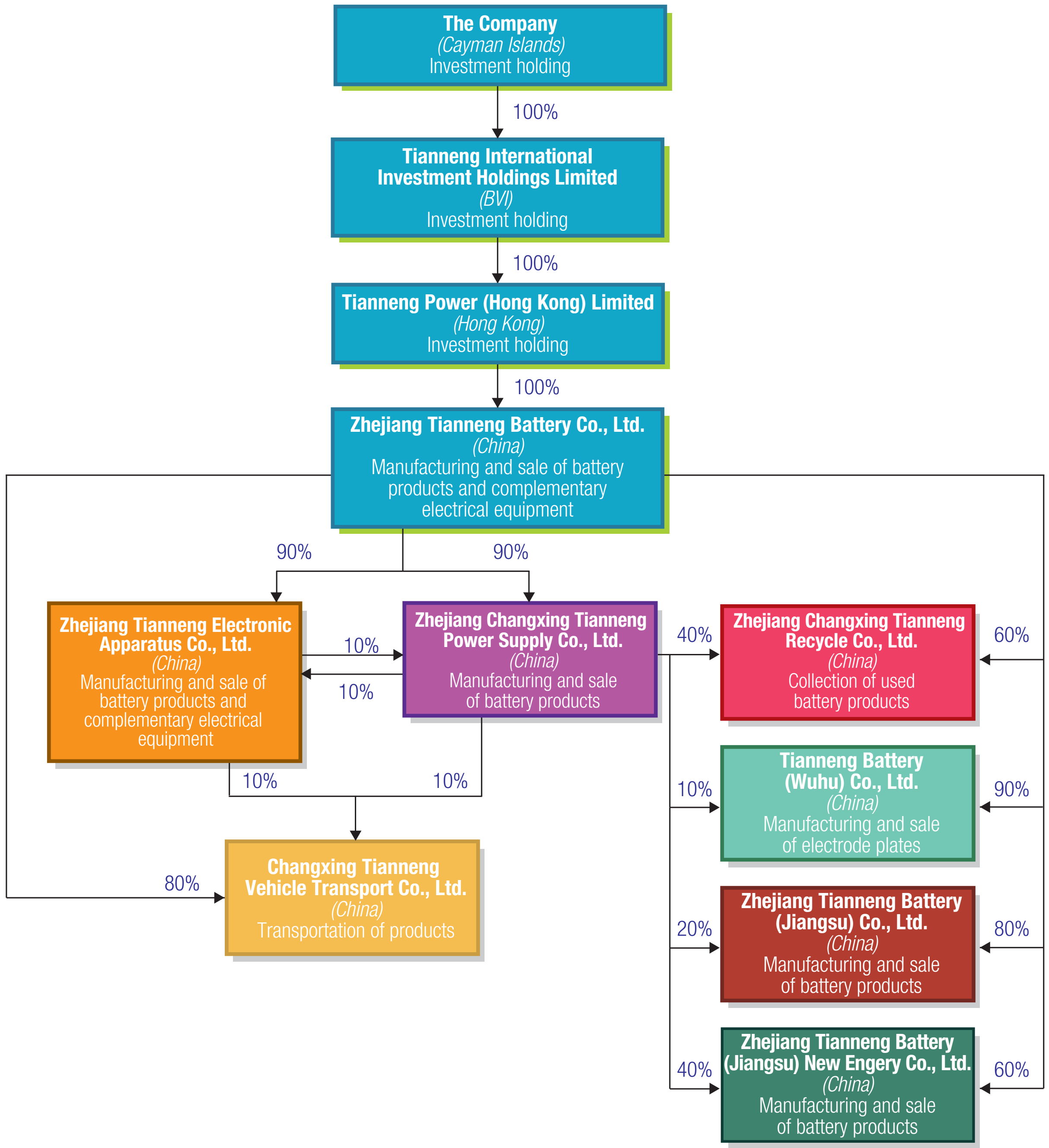
As at 31 December 2008, the Group owns six production plants, three of which are located in Changxing County in Zhejiang Province, one in Wuhu City in Anhui Province and two in Shuyang County in Jiangsu Province in China. The annual production capacity for lead-acid motive battery products was approximately 31 million units as at 31 December 2008.

Despite the global financial turmoil surfaced in the second half of the year 2008, the Company still achieved growth in its profits and increase in its competitiveness during the year of 2008. The success of the Company was attributable to the following competitive advantages: (1) strong brand recognition and market leadership; (2) unique technology know-how to produce high-quality motive battery products at competitive prices; (3) strong distribution and service network satisfying the demands in both primary and secondary markets; (4) strong product research and development capability; and (5) strong and experienced management team.

Regarding its future development, the Company will continue to focus on the motive battery market in China and to achieve further growth by (i) expansion of its production capacity; (ii) cost controls and efficiency improvement; (iii) extending application of existing products; and (iv) the development of new products such as lead acid storage battery and motive battery for electric car.

Corporate Structure

The following diagram illustrates the Group's shareholding and corporate structure:



Financial Highlights

(Amount expressed in thousand of RMB except per share data)

INCOME STATEMENT (NOTE 1)

	Year ended 31st December				
	2008	2007	2006	2005	2004
Turnover	**2,585,301**	1,953,995	1,019,559	521,691	370,964
Profit before taxation	**278,598**	241,428	153,518	72,374	72,695
Taxation	**44,390**	(38,539)	(5,857)	(2,276)	(17,342)
Profit after taxation	**234,208**	202,889	147,661	70,098	55,353
Attributable to:					
– Equity holders of the Company	**234,208**	202,889	147,661	68,683	49,934
– Minority interests	**–**	–	–	1,415	5,419
Earnings per share (RMB/share)					
– Basic	**0.23**	0.23	0.22	0.11	0.08
– Diluted	**N/A**	N/A	0.20	N/A	N/A

BALANCE SHEET (NOTE 2)

	As at 31st December				
	2008	2007	2006	2005	2004
Total assets	**1,668,194**	1,668,024	964,412	663,522	491,916
Total liabilities	**431,912**	605,511	517,661	483,004	383,245
Net assets	**1,236,282**	1,062,513	446,751	180,518	108,671
Equity holders of the Company	**1,236,282**	1,062,513	446,751	180,518	96,826
Minority Interests	**–**	–	–	–	11,845

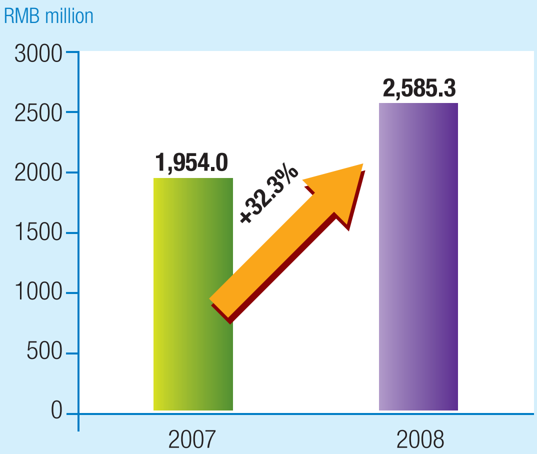
Notes:

1. The results for the years ended 31 December 2004 and 2005 are derived from the prospectus of the Company dated 29 May 2007. The results for the year ended 31 December 2006 are set out on page 46 of the Company's annual report for the year ended 31 December 2007 ("2007 Annual Report"). The results for the years ended 31 December 2007 and 2008 are set out on page 45 to this annual report. All such information is extracted from the financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRSs").

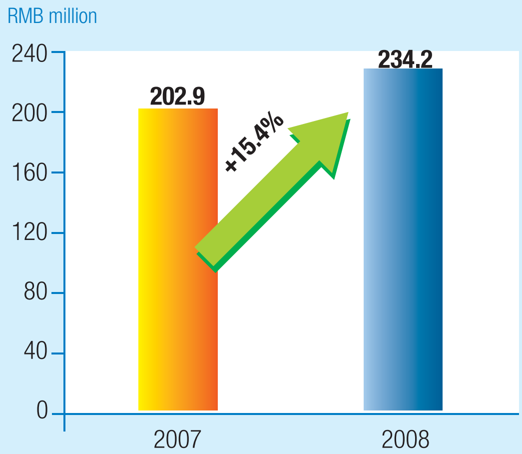
2. The balance sheet as at 2004 and 2005 are derived from the prospectus of the Company dated 29 May 2007. The balance sheet as at 31 December 2006 is set out on page 47 of the 2007 Annual Report. The balance sheets as at 31 December 2007 and 2008 are set out on page 46 to this annual report. All such information is extracted from the financial statements prepared under HKFRSs.

Financial Highlights

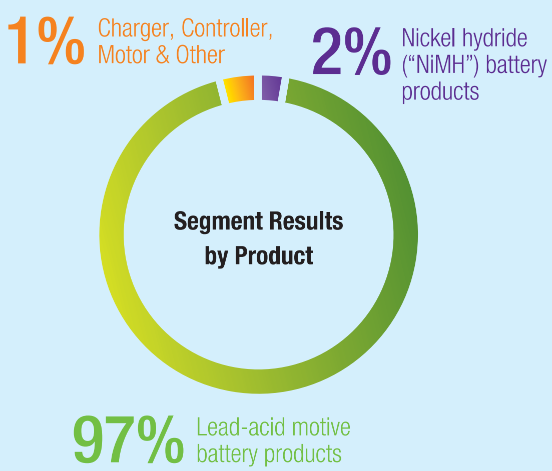
Sales Turnover

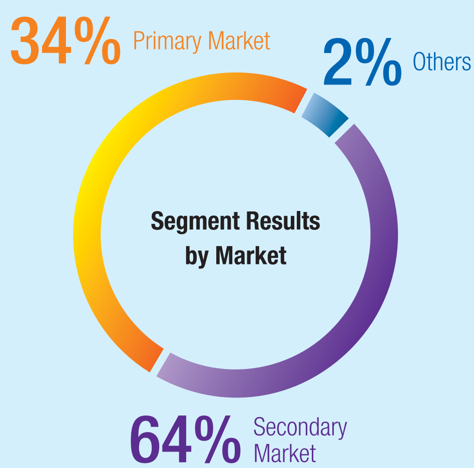


Net Profit



Segment Results





Chairman's Statement

Dear Shareholders,

It is my pleasure to present the annual report of the Company for the year ended 31 December 2008.

PROFIT AND DIVIDEND FOR THE YEAR

During the period under review, the Group's consolidated turnover was approximately RMB2.6 billion (2007: approximately RMB2.0 billion), representing an increase of approximately 32.3% as compared to the previous year. The Group's profit attributable to equity holders of the Company was approximately RMB234.2 million (2007: approximately RMB202.9 million), representing an increase of 15.4% as compared to the previous year. The Group's earning per share amounted to RMB0.23 (2007: RMB0.23). The Company proposed to declare a cash dividend of HK7.8 cents for each ordinary share of the Company (the "**Share**") held by the shareholders of the Company (the "**Shareholders**").

OPPORTUNITY AND THREAT

As the largest listed lead-acid motive battery producer for electric bike market in China, Tianneng Power is devoted to play an active role in providing clean energy for its customers, and creating long-term and growing returns for the Shareholders.

Attributable to the growing electric bike market, which accumulated with the current used electric bike units in the market, the demand for the Group's motive battery products from newly purchased electric bike and the demand for replacement of used batteries grow substantially. The Company captured these demands by increasing its production capacity and expanding its distribution network. The Company also faced a wide fluctuation in lead purchase price, ranged from approximately RMB8,000 per ton to approximately RMB18,000 per ton, which exerted pressure on its inventory management and pricing policy. Through strengthening supply chain management, the Company managed to alleviate the impact of lead cost fluctuation. For the year ended 31 December 2008, the Company managed to increase the profit attributable to equity holders of the Company by 15.4%.

CONSTRUCTION AND EXPANSION

The Company actively develops its storage battery business. The production plant for storage battery relating to solar and wind energy is expected to commence production in mid-2009. As regards to the distribution network, the Company increased the number of distributors from 373 for the year ended 31 December 2007 to 508 for the year ended 31 December 2008, covering nearly every province in China.

RESEARCH AND DEVELOPMENT

To maintain product competitiveness, the Company made extensive investment in research and development. The Company's research and development activities are focusing on developing clean, durable and environmental-friendly products. In July 2008, the Chinese government approved the upgrade of the Company's Post-doctoral Scientific Research Workstation from provincial level to national level, which means the Company is in a better position to recruit and attract top research scientists and enjoys more benefits from the Chinese government. In 2008, the company's subsidiaries Zhejiang Tianneng Battery Co., Ltd. and Zhejiang Tianneng Battery (Jiangsu) Co., Ltd. were also approved as High Technology Enterprise.

Chairman's Statement

ENVIRONMENTAL PROTECTION

As a public company, the Company places great emphasis on taking up social responsibilities. It strives to provide customers with clean power. The Company has put a high regard on environmental protection work. The Group engaged Changxing Environmental Monitoring Centre, Wuhu Environmental Monitoring Centre and Shuyang Environmental Monitoring Centre to measure the level of various types of wastage discharged at each of the production plants on a monthly basis after the listing. The Group also engaged MWH Environmental Engineering (Shanghai) Company Limited ("**MWH**"), an independent international environmental consulting company, to perform an annual environmental assessment at the Group's five production plants. The monthly review and annual assessment concluded that the Group has complied with the relevant environmental standards in China.

FINANCIAL MANAGEMENT

The Company continues to strengthen and improve its financial management so as to establish a solid foundation for its future business development. The Group was able to maintain a relatively low gearing ratio and a relatively high cash flow during the year under review. The Company's cash and cash equivalents increased by approximately RMB128.6 million (2007: approximately RMB257.1 million), and its gearing ratio level (which is based on the amount of total bank borrowings divided by total assets multiplied by 100%) was approximately 11.5% (2007: approximately 22.6%). The prudent financial management will provide the Company with sufficient financing for the Company's stable production and for the expansion of its operating scale.

INTERNAL CONTROL

With an aim to improving its internal control systems, the Company has engaged an international accounting firm, Baker Tilly Hong Kong ("**Baker Tilly**") to review its internal control system up to 15 March 2009. The review has covered all material controls including financial, operational and compliance controls and risk management functions. The Company also conducted regular review of its internal control system and its effectiveness to ensure that the interest of the Shareholders is safeguarded.

INVESTOR RELATIONS

In addition to arranging site visits and attending luncheons and conferences, the management of the Company took an initiative to meet the investment community by performing roadshows in the United States, Dubai, Shanghai, Beijing, Shenzhen, Germany, United Kingdom, Japan and Hong Kong. The roadshows provided an excellent opportunity for the management of the Company to communicate with worldwide investors and able to meet fund managers and analysts to introduce the strategies and future development of the Company. The Company believes that regular communication with the investment community is extremely important and the goal of the Company is to create sustainable growth to the Shareholders' value in the long term.

Chairman's Statement

FINAL DIVIDEND

The board of directors of the Company (the "**Board**") proposed the payment of a final dividend of HK7.8 cents per Share for the year ended 31 December 2008 to the Shareholders. The payment of final dividend shall be subject to Shareholders' approval at the annual general meeting to be held on 9 May 2009.

OUTLOOK

Despite the global financial turmoil, the demand for electric bike battery is strong. The major engine of growth is the replacement or secondary market. Moreover, in order to lessen the impact of lead price fluctuation, the Company will consider strengthening its supply chain integration by reviewing the possibility of establishing a lead recycling business.

The central government of China keeps on implementing policies of encouraging the use of clean and renewable energy. The Company's lead-acid battery products have been fallen into the renewable energy category. The Company will seize the market opportunity by producing new energy storage battery products relating to wind and solar power in mid-2009. The company will also speed up the development of motive battery of lead-acid, nickel hydride and lithinum-ion for electric car. Furthermore, the Company will seek expansion outside China whenever there is a suitable opportunity. In fact, the Company's sales derived from export to India was RMB17.0 million in 2008.

The Company will strive to continue its healthy and steady growth, bringing better returns to the Shareholders in the long term.

APPRECIATION

I would like to take this opportunity to express our gratitude to our employees for their contributions and hard work and to the Shareholders and business partners for their support.

Zhang Tianren
Chairman

Hong Kong, 27 March 2009

Management Discussion and Analysis

The Company is principally engaged in the production of motive batteries. Its motive battery products are sold under its own brand name "TIANNENG" and are predominantly used in the electric bikes sold and distributed in China. The Company's products are focusing on lead-acid motive battery products for the electric bike market in China. Currently, Tianneng Power is the largest listed lead-acid motive battery producer for the electric bike market in China.

REVIEW OF OPERATIONS

The Company has developed strong brand recognition. In 2008, the Company was awarded "China Best Small and Medium-sized Enterprises 2008" by Forbes. The Company's lead acid motive battery products was awarded "2008 Chinese Best Brand of Motive Battery" in the electric bike battery market by Frost & 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. The Company's sales and distribution network covers nearly every province of China and provides quality after sales services to ultimate customers.

Lead is the Group's major raw materials and constitutes a significant portion of its production cost. The weighted average lead purchase price net of value added tax for the year of 2008 was approximately RMB14,264 per ton (2007: approximately RMB16,917 per ton), representing a decrease of approximately 15.7% over 2007. The decrease in lead purchase price was mainly occurred during the second half of the year. In November 2008, when the financial turmoil surfaced, the lead purchase price tumbled by 36%, disrupting the market selling price of lead acid battery and impacting the stock valuation negatively. Despite the lead price volatility, the Company was able to maintain a relatively stable selling price. The weighted average lead acid battery selling price net of value added tax was approximately RMB104.7 per unit (2007: approximately RMB106.1 per unit), representing a decrease of 1.3% over 2007.

In order to rationalize the Company's resources, the Company has reduced the production of chargers, controllers and motors and allocated more resources to motive and storage battery production. Being a leader in the field of electric-bike motive battery, the Company is continuously investing resources on research and development to sharpen its competitive edge by improving lead acid motive battery production technology and offering new lead acid battery products. For new product development, the Company's research area also covers lithium-ion battery and storage battery technology.

The Company is subject to the national and local government environmental laws and regulations in China on environmental matters, such as discharge of waste water, exhaust fumes and solid waste. Pursuant to the applicable environmental laws and regulations, the

Management Discussion and Analysis

Company installed environmental protection equipment to ensure effective removal of lead dust and particles generated during the production process. In 2008, the Company has incurred on environmental protection equipment of approximately RMB24.5 million (2007: approximately RMB19.0 million). The increase was due to the establishment of new plant in Jiangsu Province for storage battery production.

FUTURE PROSPECTS

Presently, the electric bike development in China is supported by government because it matches with the national policy of energy saving and environmental protections. Electric bike is an environmental friendly personal traffic transportation with the advantages of convenience, non-pollution, safety and energy saving. According to the research findings of Frost & Sullivan (the "Frost & Sullivan Report"), during the period from 2004 to 2008, the electric bike market in China increased by three times, and the accumulative electric bike population in 2008 is estimated to be over 67.7 million units. Based on the estimated annual demand of electric bike in China, it is forecasted that the electric bike population in 2013 is expected to be over 138 million units.

According to the Frost & Sullivan Report, the total sales revenue of the electric bike battery (mainly consists of lead-acid rechargeable battery, Li-ion battery, Ni-MH battery and Ni-Cd battery) in China increased from approximately US$1,321.9 million in 2007 to US$1,642.6 million in 2008. The CAGR from 2008 to 2013 is expected to be 26.8%.

In 2008, the Company and the other largest five electric bike battery manufacturers together accounted for approximately 48.9% of the total market shares in China. The Company is the largest industry player, accounted for approximately 22.0% of the total market share. To further dominate the electric bike battery market in China, the Company is keen on looking for acquisition target.

To match with the national policy of energy saving, the Company launched a renewable energy project in Shuyang County of Jiangsu Province. The project is expected to commence production in mid-2009 and will generate steady revenue and good investment returns to the Shareholders in light of the national policy to encourage the use of renewable energy. Further details of the renewable energy project can be referred to the announcement of the Company dated 5 May 2008. Moreover, the Company will speed up the development of motive battery of lead-acid, nickel hydride and lithinum-ion for electric car.

In view of lead price volatility, the Company is also studying the possibility of establishing a lead recycling business to streamline the supply chain integration.

Management Discussion and Analysis

OPERATING RESULTS

Turnover

The Company's turnover increased from approximately RMB2.0 billion for the year ended 31 December 2007 to approximately RMB2.6 billion for the year ended 31 December 2008, representing an increase of approximately 32.3% as compared to the previous year. Such increase was mainly due to the increase in demand of lead-acid battery, which constituted 97.2% (2007: 93.3%) of the turnover.

Gross profit

The Company's gross profit increased by approximately 18.1% from approximately RMB492.0 million for the year ended 31 December 2007 to approximately RMB581.1 million for the year ended 31 December 2008. Such increase was mainly due to the strong demand of lead acid battery. Gross profit margin fell by 2.7 percentage point from approximately 25.2% for the year ended 31 December 2007 to approximately 22.5% for the year ended 31 December 2008 which was due to the lead price volatility in the second half of the year.

Other income

Other income of the Company increased by approximately 45.7% from approximately RMB20.3 million for the year ended 31 December 2007 to approximately RMB29.6 million for the year ended 31 December 2008. The increase was attributable to the increase in government grant and subsidies.

Selling and distribution costs

Selling and distribution costs increased by approximately 25.6% from approximately RMB130.8 million for the year ended 31 December 2007 to approximately RMB164.3 million for the year ended 31 December 2008. Such increase was mainly due to the increase in product warranty expenses and transportation expenses.

Administrative expenses

Administrative expenses increased by approximately 38.5% from approximately RMB62.2 million for the year ended 31 December 2007 to approximately RMB86.1 million for the year ended 31 December 2008. Such increase was mainly due to the increase in payroll expenses and depreciation.

Finance costs

Finance costs increased by approximately 17.0% from approximately RMB23.5 million for the year ended 31 December 2007 to approximately RMB27.5 million for the year ended 31 December 2008. Such increase was mainly due to the increase in bank interest rate.

Taxation

The Enterprise Income Tax ("EIT") of the Company amounted to approximately RMB44.4 million for the year ended 31 December 2008, representing an increase of approximately 15.2% from approximately RMB38.5 million for the year ended 31 December 2007. Such increase was due to the increase in taxable profit of the Company.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

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

The net cash from operating activities amounted to approximately RMB556.2 million for the year ended 31 December 2008 which was mainly due to the decrease in inventory and trade receivable and the Company's scale of operations increased.

As at 31 December 2008, the bank balances and cash (including the restricted bank deposits) of the Company was approximately RMB530.4 million (31 December 2007: approximately RMB441.8 million). As at 31 December 2008, the Company obtained undrawn banks facilities of approximately RMB1,275.5 million (31 December 2007: approximately RMB604.5 million). Most of the bank balances and cash (including the restricted bank deposits) are denominated in Renminbi.

As at 31 December 2008, the net current assets of the Company was approximately RMB603.0 million (31 December 2007: approximately RMB648.2 million). Based on the growing operating results and the sufficient level of cash and bank balances, the Company believes that it will be able to meet its liabilities as and when they fall due and meet the capital required for operations. The Company is able to control the level of its liabilities and financial risks.

As at 31 December 2008, the bank borrowings of the Company amounted to approximately RMB191.6 million with an interest rates between 4.86% to 7.56% per annum (31 December 2007: approximately RMB376.5 million with an interest rate between 6.07% to 8.96% per annum). All bank borrowings are denominated in Renminbi.

The Company will closely monitor the changes in interest rate and assess the interest rate risk. The objective of the Company is to maintain an optimal capital structure to minimize the capital cost through prudent financial management.

FINANCIAL POSITION

Assets

As at 31 December 2008, the total assets of the Company was approximately RMB1,668.2 million, representing a slight increase as compared to approximately RMB1,668.0 million as at 31 December 2007. Among them, non-current assets increased by approximately 43.8% to approximately RMB653.3 million and current assets decreased by approximately 16.4% to approximately RMB1,014.9 million. The major reason for the increase of non-current assets was due to continuous capital expenditure on production plants. The decrease in current assets was mainly attributable to the decrease in inventories and receivables, mainly caused by decline in lead price and improvement in receivable turnover.

Liabilities

As at 31 December 2008, the total liabilities of the Company was approximately RMB431.9 million, representing a decrease of approximately 28.7% from approximately RMB605.5 million as at 31 December 2007. The decrease was mainly due to the decrease in bank borrowings.

Management Discussion and Analysis

Major financial position ratio

	2008	2007
Current ratio	**2.5**	2.2
Quick ratio	**1.6**	1.4
Interest cover	**11.1**	11.3

Both current ratio and quick ratio improved when compared to the beginning of the year, indicating a healthy position of liquidity. The interest cover ratio remained stable.

CAPITAL EXPENDITURE

The capital expenditure as at 31 December 2008 was approximately RMB228.1 million (31 December 2007: approximately RMB138.7 million). A majority of expenditure was incurred on storage battery plant in Shuyang, Jiangsu Province in China.

CAPITAL COMMITMENTS

The amount contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment as at 31 December 2008 was approximately RMB72.4 million (31 December 2007: approximately RMB13.2 million).

GEARING RATIO

The Company's gearing ratio as at 31 December 2008 (which is based on the amount of total bank borrowings divided by total assets multiplied by 100%) was approximately 11.5% (31 December 2007: approximately 22.6%).

EXPOSURE IN EXCHANGE RATE FLUCTUATION

As the Company's operations were mainly conducted in China and the majority of the sales and purchases were transacted in Renminbi, the Board is of the view that the Company's operating cash flow and liquidity is not subject to significant foreign exchange rate risks. However, the proceeds from the initial public offering of the shares of the Company were received in Hong Kong dollars, the Company may expose to foreign exchange risks. The Group will review and monitor the foreign exchange exposure between Renminbi and Hong Kong dollars and may enter into foreign exchange hedging arrangements when appropriate.

PLEDGE OF ASSETS

As at 31 December 2008, the bank facilities of the Group are secured by bank deposits, bills receivables, property, plant and equipment and prepaid lease payments. The aggregate net book value of the assets pledged amounted to RMB148.1 million (31 December 2007: RMB152.2 million).

Management Discussion and Analysis

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2008, the Company employed a total of 5,432 employees (31 December 2007: 5,391 employees). Staff cost excluding directors' emoluments of the Group for the year of 2008 amounted to RMB148.0 million (2007: RMB93.5 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.

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held by the Company as at 31 December 2008 (31 December 2007: Nil).

MATERIAL ACQUISITION AND DISPOSAL

For the year ended 31 December 2008, the Company had no material acquisition or disposal of subsidiaries and affiliated companies.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 1 May 2009 to 9 May 2009, both days inclusive, during which period no transfer of the shares of the Company will be registered. In order to qualify for the final dividend, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 30 April 2009.

Corporate Governance 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2008, the Company has adopted 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 (the "**Listing Rules**"), 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.

BOARD OF DIRECTORS

Composition

The Board comprises ten members. Mr. Zhang Tianren is the Chairman of the Board. The executive directors of the Company are Mr. Zhang Aogen, Mr. Chen Minru, Mr. Zhang Kaihong, Mr. Shi Borong and Mr. Yang Lianming. In compliance with Rule 3.10 of the Listing Rules, the Company has four independent non-executive directors comprising more than one-third of the members of the Board, namely, Mr. Ho Tso Hsiu, Dr. Cheng Cheng Wen, Mr. Huang Dongliang and Mr. Wang Jingzhong. Mr. Huang Dongliang has appropriate professional accounting experience and expertise.

All directors of the Company (the "**Directors**" and each of the Directors (the "**Director**")) have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director are disclosed on pages 32 to 33 of this annual report.

Each independent non-executive Director has pursuant to the Rule 3.13 of the Listing Rules, confirmed that he is independent of the Company and the Company also considers that they are independent. Each independent non-executive Director was appointed for a term of three years from 11 June 2007.

Apart from Mr. Zhang Aogen is an elder brother of Mr. Zhang Tianren, the Chairman of the Board, there is no other relationship (including financial, business, family or other material relationship) among members of the Board. All of them are able to make free independent judgment.

Corporate Governance Report

Function

The Board, led by the Chairman, is responsible for formulation and approval of the Group's development, business strategies and policies, approval of business plans, recommendation of dividend and supervision of management. While the management of the Company was given sufficiently autonomy by the Board to handle the daily ordinary course of administration and management, when the Board delegates aspects of its management and administration functions to management, it has given clear directions as to the powers of management, in particular, with respect to the circumstances where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Board held four meetings during the year ended 31 December 2008. Its composition and the attendance of individual Directors at these Board meetings were as follows:

Name	Number of meetings held	Number of meetings attended
Executive Directors		
Mr. Zhang Tianren	4	4
Mr. Zhang Aogen	4	4
Mr. Chen Minru	4	4
Mr. Zhang Kaihong	4	4
Mr. Shi Borong	4	4
Mr. Yang Lianming	4	4
Independent Non-executive Directors		
Mr. Ho Tso Hsiu	4	3
Dr. Cheng Cheng Wen	4	4
Mr. Huang Dongliang	4	3
Mr. Wang Jingzhong	4	4

The Company has taken out appropriate insurance cover for the Directors in respect of legal actions taken against Directors and officers. The Board reviews the extent of the insurance cover every year.

Responsibilities

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and the Shareholders. Their responsibilities include:

– holding regular board meetings focusing on business strategy, operational issues and financial performance;

– monitoring the quality, timeliness, relevance and reliability of internal and external reporting;

– monitoring and managing the potential conflicts of interest of management, board members and Shareholders, including misuse of corporate assets and abuse in connected transaction; and

– ensuring processes are in place to maintain the overall integrity of the Company, including financial statements and internal control systems.

Corporate Governance Report

REMUNERATION OF DIRECTORS

The Company has established a Renumeration Committee with specific terms of reference which deal clearly with its duties and responsibilities. The Remuneration Committee has three members, comprising Dr. Cheng Cheng Wen and Mr. Huang Dongliang (independent non-executive Directors); and Mr. Chen Minru (executive Director). The Remuneration Committee is chaired by Mr. Chen Minru.

The terms of reference of the Remuneration Committee follow the guidelines set out in the Code and it is mainly responsible for making recommendations to the Board on the Company's policy for the remuneration of Directors and senior management.

There has not been any change in the remuneration package granted to the Directors during the year ended 31 December 2008. Therefore, the Remuneration Committee has not held any meeting.

NOMINATION OF DIRECTORS

The Company has established a Nomination Committee with specific terms of reference which deal clearly with its duties and responsibilities. The Nomination Committee has three members, comprising Mr. Huang Dongliang and Mr. Wang Jingzhong (independent non-executive Directors) and Mr. Zhang Aogen (executive Director). The Nomination Committee is chaired by Mr. Zhang Aogen.

The terms of reference of the Nomination Committee have been determined with reference to the Code.

The Nomination Committee is responsible for identifying potential new directors and recommending to the Board for decision. A Director appointed by the Board is subject to re-election by Shareholders at the first annual general meeting after his/her appointment. Under the Company's articles of association, at each annual general meeting one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years.

Basically, the nomination procedure follows the articles of association of the Company. Potential new Directors are selected on the basis of their qualification, skills and experience which the Nomination Committee considers will make a positive contribution to the performance of the Board.

No new Director was nominated for appointment during the year ended 31 December 2008.

There has not been any proposed change to the composition of the Board during the year ended 31 December 2008. Therefore, the Nomination Committee has not held any meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 Rule. Having made specific enquiry, all Directors have complied with the required standard set out in the Model Code throughout the year of 2008.

Corporate Governance Report

AUDIT COMMITTEE

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, namely Dr. Cheng Cheng Wen, Mr. Huang Dongliang and Mr. Wang Jingzhong, The Audit Committee is chaired by Dr. Cheng Cheng Wen. 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 independent external auditors and the related remuneration and appointment terms.
The Audit Committee has reviewed the annual report with the management and the Company's independent external auditors and recommended its adoption by the Board.

A written terms of reference, which describes the authority and duties of the Audit Committee, are regularly reviewed and updated by the Board to comply with the code provision of C.3.3 of the Code. The Audit Committee held two meetings during the year ended 31 December 2008. All individual members, namely, Dr. Cheng Cheng Wen, Mr. Huang Dongliang and Mr. Wang Jingzhong attended the meeting.

The Audit Committee oversees the financial reporting process. In this process, the management of the Company is responsible for the preparation of Group's financial statement including the selection of suitable accounting policies. Independent external auditors are responsible for auditing and attesting to Group's financial statement and evaluating the Group's system of internal controls. The Audit Committee oversees the respective works of the management and the independent external auditors to monitor the processes and safeguards employed by them. The Audit Committee reports to the Board on its findings after each of its meeting.

The Audit Committee reviewed and discussed with the management and independent external auditors the Group's financial statement for the year ended 31 December 2008. The Audit Committee also received reports and met with the external independent auditors to discuss the general scope of their audit work and their assessment of Group internal controls.

Based on these reviews and discussions and the report of the external independent auditors, the Audit Committee recommended for the Board's approval of the consolidated financial statements for the year ended 31 December 2008, with the Auditors' Report thereon.

The Audit Committee recommended to the Board that the Shareholders be asked to re-appoint Deloitte Touche Tohmatsu ("**Deloitte**") as the Group's independent external auditors for the year ending 31 December 2009.

COMPLIANCE ADVISER

For the purpose of and in compliance with Rule 3A.19 of the Listing Rules, the Company has appointed Kingsway Capital Limited as its compliance adviser for the period from 11 June 2007, i.e. the date on which the Shares first commence trading on the Stock Exchange to 10 April 2009.

Corporate Governance Report

INDEPENDENT EXTERNAL AUDITOR

The Audit Committee reviews each year a letter from the independent external auditors of the Company, Deloitte, confirming their independence, approves their appointment, discusses the scope of their audit and approves their fees.

Deloitte provided annual statutory audit services in respect of the Company's financial statements prepared under HKFRSs for the year 2008. Deloitte also reviewed the 2008 unaudited interim financial report of the Company, prepared under HKFRSs.

During the year ended 31 December 2008, the fee paid and payable to Deloitte in respect of audit and audited related services amounted to approximately RMB1.9 million. In respect of non-audit services, the fees paid and payable to Deloitte relating to tax services amounted to approximately HK$0.03 million.

INTERNAL CONTROL

The Board is responsible for maintaining an adequate system of internal controls within the Company and reviewing their effectiveness at least annually, covering all material controls, including financial, operational and compliance controls as well as risk management functions. The Board is committed to strengthening the Company's internal control system, and has established a series of internal control policies and procedures. The system of internal controls is designed to facilitate effective and efficient operations, to safeguard assets and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. It is also designed to provide reasonable, but not absolute, assurance that material misstatement or loss can be avoided, and to manage and minimize risks of failure in operation systems.

The Company engaged an international accounting firm, Baker Tilly, to assess and evaluate the risk and effectiveness of its system of internal controls up to 31 March 2009. The Audit Committee members, together with the senior management, have reviewed, considered and discussed all the findings and recommendations of the internal control review relating to the internal control system that operates within the Company, and the Audit Committee is satisfied that the internal control system of the Company is sound and adequate. Pursuant to the implementation of the recommendations made by Baker Tilly, the Company will continue to improve its internal management and control systems.

The Board has also conducted an annual review on the effectiveness of the accounting and financial reporting function of the Company and takes the view that the Company possesses adequate resources and staff qualifications and experience in this regard.

The Company will conduct regular reviews of the Company's internal control system and its effectiveness to ensure the interest of the Shareholders is safeguarded.

GOING CONCERN

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Corporate Governance Report

COMMUNICATION WITH SHAREHOLDERS

The objective of shareholder communication is to provide the Shareholders with detailed information about the Company so that they can exercise their rights as the Shareholders in an informed manner.

The Company uses a range of communication tools to ensure the Shareholders are kept well informed. These include general meeting, annual report, various notices, announcements and circulars. Procedure for demanding voting by poll has been included in all circulars accompanying notice convening general meeting and the detailed procedures for conducting a poll has been read out by the Chairman at general meeting.

The general meeting provide with the Shareholders a useful forum and encourage the Shareholders to attend the general meetings of the Company to raise comments and exchange views with the Board. The Chairman, Directors and independent external auditor, where appropriate, are available to answer questions at the meeting.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities in preparing the financial statements. The responsibilities of the independent external auditors with respect to financial reporting are set out in the Independent Auditor's Report on pages 43 and 44.

Environmental Protection

The Company takes environmental protection seriously and is committed to ensure that the environment and the community will not be compromised in the course of the Company's production and expansion. The Company has adopted a series of environmental protection policies and utilised modern equipment to control and monitor the waste level on a regular basis. The Company also complies to the regulatory requirements on environmental protection.

The Company is subject to the national and local environmental laws and regulations in China on environmental matters, such as the discharge of waste water, exhaust fumes and solid waste. The main pollutants generated by the Company are lead dust or particles and waste water which contain lead and sulphuric acid.

The Company has engaged MWH Environmental Engineering (Shanghai) Co., Ltd. ("**MWH**"), an independent international environment consulting company, to perform an environmental assessment to evaluate its environmental performance and compliance status at its five existing manufacturing plants in March 2008 and December 2008. All five plants have conducted Environmental Impact Assessment ("**EIA**"), "Three Synchronies" inspection and approval, pollution registration and reporting, pollution discharge permit as per the relevant Chinese laws and regulation before site construction and during the operation of each plant. In addition, following the identification of immaterial non-compliance issues at the five plants during the last environmental audit conducted by MWH in March 2008, corrective actions have been taken to become in compliance with the applicable Chinese environmental laws and regulations.

According to the report issued by MWH dated 25 February 2009, a review of the monitoring data for the Tianneng Power sites indicates that no additional corrective actions would be required for the five sites with respect to the status of their environmental discharges to the environment in light of the relevant applicable international environmental standards.

Connected Transactions

CONTINUING CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group for the year ended 31 December 2008 are disclosed in Note 31 to the consolidated financial statements.

Details of some of the said related party transactions which also constitute connected transactions under the Listing Rules are set out below.

The Board has approved and the independent non-executive Directors have reviewed and confirmed that the continuing connected transactions set out in page 24 to page 30 below have been entered into:

a) in the usual and ordinary course of businesses of the Group;

b) on normal commercial terms; and

c) in accordance with the relevant written agreements governing on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Board engaged the auditor of the Company to perform certain factual finding procedures on the continuing connected transactions set out below on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported the factual findings for the selected samples based on the agreed-upon procedures to the Board.

Connected Transactions

Details of the continuing connected transactions are as follows:

Non-exempt continuing connected transactions

1. *Sale of products to Zhejiang Changtong Electric Bicycle Co., Ltd. ("Zhejiang Changtong")*

Background

Zhejiang Changtong is a company established in China. Zhejiang Changtong is beneficially owned by Mr. NI Danqing as to 88.08 per cent. and Mr. SHE Zhifu as to 11.92 per cent. Mr. NI Danqing is a brother-in-law of Mr. ZHANG Tianren and Mr. ZHANG Aogen. Accordingly, both Mr. NI Danqing and Zhejiang Changtong are associates of Mr. ZHANG Tianren, and hence the Company's connected persons for the purposes of the Listing Rules.

Reasons for the transaction

The Company sold products including batteries, chargers, controllers and motors to Zhejiang Changtong since the main business of Zhejiang Changtong is the production and sale of electric bikes and motorcycles. The sale of products to Zhejiang Changtong was part of the Company's ordinary course of business.

Pricing basis and policy

In compliance with the Listing Rules, the Company has entered into an agreement dated 25 April 2007 with 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. The prices of the products to be sold to Zhejiang Changtong have been determined between the parties on an arm's length basis and by reference to the prices quoted by the Company for sales of similar quantities of the same or similar products to independent third parties at the relevant time when the relevant orders are placed. The sales of products to Zhejiang Changtong have been made at prices comparable to the ex-factory prices of the Company's products which we offered to our sales representatives and exclusive distributors.

Waiver and annual cap

The Stock Exchange has granted a conditional waiver to the Group from strict compliance of the Listing Rules with the announcement and Shareholders' approval requirements for the years ended 31 December 2007 to 2009 in respect of the agreement with Zhejiang Changtong subject to the annual cap of RMB60,000,000 (2007: RMB40,000,000) for the year ended 31 December 2008.

Connected Transactions

Actual transaction value during the year

The total purchase amount under the agreement with Zhejiang Changtong during the year ended 31 December 2008 is RMB13,560,000 (2007: RMB22,977,000).

Zhejiang Changtong ceased to be connected person

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

2. *Sale and purchase of products from Nanjing Shuang Neng Battery Co., Ltd. ("Nanjing Shuang Neng")*

Background

Nanjing Shuang Neng is a company established in China and is beneficially owned by Mr. XU Changquan as to 20 per cent., Ms. YANG Yaqin as to 20 per cent. and Mr. CHEUNG Xincheng as to 60 per cent. All sources of funding for the establishment of Nanjing Shuang Neng have been provided by its individual owners personally, and neither Mr. ZHANG Tianren nor the Directors or their respective spouses provided any funding for its establishment. Mr. XU Changquan and Ms. YANG Yaqin are a brother-in-law and the sister, respectively, of the spouse of Mr. ZHANG Tianren. Accordingly, Mr. XU Changquan, Ms. YANG Yaqin and Nanjing Shuang Neng are associates of Mr. ZHANG Tianren and hence the Company's connected persons for the purpose of Listing Rules. The Directors confirm that the daily operations of Nanjing Shuang Neng is independent from our management. The management team of Nanjing Shuang Neng has proficient management experience and the front line operation heads possess at least five years' experience in the battery industry.

Reasons for the transaction

The business of Nanjing Shuang Neng is production and sale of electrode plates which are one of the essential materials of the Company's lead acid motive battery products. The production technology of electrode plates is also our core production know-how. The Company has decided engaging Nanjing Shuang Neng as one of the main suppliers of electrode plates so as to secure and maintain the quality and standard of electrode plates and to prevent the production know-how of electrode plates being disclosed to other third parties.

Connected Transactions

Pricing basis and policy

In compliance with the Listing Rules, the Company has entered into an agreement dated 25 April 2007 with Nanjing Shuang Neng pursuant to which we will sell from time to time lead alloy to, and purchase electro plates from, Nanjing Shuang Neng for the period up to 31 December 2009.

The prices of the products to be purchased from Nanjing Shuang Neng were determined with reference to the prices of the Company's lead alloy sold to them (or the lowest lead price as quoted at the website of Shanghai Nonferrous Metals 上海有色金屬網 (www.smm.com.cn) if we were unable to sell our lead alloy to them) plus a premium representing the processing fee of such electrode plates as agreed between the Company and Nanjing Shuang Neng. Such premium was determined by reference to the processing fee of our purchase of similar quantities of the same or similar products from independent third parties at the relevant time when the relevant orders are placed. This pricing policy is similar to those of electrode plates the Company purchased from other independent third parties.

The prices of lead alloy to be sold by the Company to Nanjing Shuang Neng will be determined between the parties on an arm's length basis and by reference to the prices quoted by the Company for sales of similar quantities of the same or similar products to independent third parties at the relevant time when the relevant orders are placed.

Waiver and annual cap

The Stock Exchange has granted a conditional waiver to the Group from strict compliance of the Listing Rules with the announcement and Shareholders' approval requirements for the years ended 31 December 2007 to 2009 in respect of the agreement with Nanjiang Shuang Neng subject to the annual caps of RMB108,000,000 (2007: RMB87,000,000) (for the purchase of electrode plates) and RMB35,000,000 (2007: RMB28,000,000) (for the sale of lead alloy) for the year ended 31 December 2008.

Actual transaction value during the year

The total transactions amounts under the agreement with Nanjiang Shuang Neng during the year ended 31 December 2008 are RMB58,740,000 (2007: RMB80,084,000) (for the purchase of electrode plates) and RMB Nil (2007: RMB5,636,000) (for the sale of lead alloy).

3. *Product sales procurement agreements (產銷承包協議) with sales representatives and for the primary market (the "Procurement Agreements")*

Background

The Group has engaged various sales representatives (the "**Sales Representatives**") for the sales of the Company's products to manufacturers of electric bikes (the "**Primary Market**"). The Company has entered into a Procurement Agreement with each of the Sales Representatives in April 2007.

Connected Transactions

All of the Procurement Agreements currently in force are for a term of approximately three years ending on 31 December 2009. Some of the Sales Representatives (the "**Connected Sales Representatives**") are associates of the Directors and hence our connected persons for the purposes of the Listing Rules. A list of the Connected Sales Representatives is set out below:

Name of the Connected Sale Representatives	Name of related Directors	Relationship
1. SHE Guoqing (佘國清)	ZHANG Tianren (張天任), ZHANG Aogen (張敖根)	Cousin's husband
2. CHEN Chiming (陳池明)	ZHANG Tianren (張天任), ZHANG Aogen (張敖根)	Cousin's husband
3. SHE Peiqing (佘培清)	ZHANG Tianren (張天任), ZHANG Aogen (張敖根)	Cousin's husband
4. CHEN Qinzhong (陳勤忠)	ZHANG Tianren (張天任), ZHANG Aogen (張敖根)	Nephew
5. ZHANG Zhiming (張志明)	ZHANG Kaihong (張開紅)	Nephew
6. WANG Jindi (王金娣)	ZHANG Aogen (張敖根)	Sister-in-law
7. DU Peiqiang (杜培強)	ZHANG Aogen (張敖根)	Nephew
8. WU Fuhua (吳富華)	ZHANG Kaihong (張開紅)	Cousin
9. CHEN Zhijie (陳志杰)	ZHANG Tianren (張天任), ZHANG Aogen (張敖根)	Nephew
10. CHEN Zhiming (陳志明)	YANG Lianming (楊連明)	Brother-in-law
11. HU Jianqing (胡建清)	ZHANG Kaihong (張開紅)	Cousin's husband
12. CHEN Ying (陳英)	ZHANG Tianren (張天任), ZHANG Aogen(張敖根)	Cousin
13. DU Yueping (杜月萍)	ZHANG Aogen (張敖根)	Nephew
14. ZHANG Yan (張燕)	ZHANG Kaihong (張開紅)	Daughter

Connected Transactions

Reasons for the transaction

The electric bike motive battery market was not fully developed at the time Tianneng Battery commenced its business. While non-connected persons might not be very interested in the industry, the management of Tianneng Battery convinced the Connected Sales Representatives joining our business.

The Connected Sales Representatives primarily represented Tianneng Battery in negotiating sales transactions, coordinating the delivery of products, taking responsibility of the settlement of sales and at the same time receiving commission, and Tianneng Battery established direct relationship with the customers. During the course of their engagement and from their own development, these Connected Sales Representatives have established networks and business relationships with manufacturers in our Primary Market.

It is our strategy to adopt the business model of engaging Sales Representatives to develop our business and enhance the sale of our products in the Primary Market. As at 31 December 2008, there were a total 54 (2007: 74) Sales Representatives, out of which 14 (2007: 14) were Connected Sales Representatives. As these Connected Sales Representatives have been working with us, their long-standing experience in and understanding of our products, corporate culture and business development is important to us for our business development. However, we do not rely on these Connected Sales Representatives since all sales orders referred by these Connected Sales Representatives were ultimately placed by and invoices were issued to the customers directly.

Pricing basis and policy

The principal terms and conditions of the Procurement Agreements with Connected Sales Representatives are identical with those entered into with non-connected Sales Representatives. The commission we pay to our Connected Sales Representatives is determined by reference to the difference between our uniform ex-factory prices and the prices charged to our customers based on the pricing negotiated between the Sales Representative and the customers. Such commission policy is identical to that of our non-connected Sales Representatives.

Waiver and annual cap

The Stock Exchange has granted a conditional waiver to the Group from strict compliance of the Listing Rules with the announcement and Shareholders' approval requirements for the years ended 31 December 2007 to 2009 in respect of the commissions to be paid to the Connected Sales Representatives subject to the annual cap of RMB16,000,000 (2007: RMB12,000,000) for the year ended 31 December 2008.

Actual transaction value during the year

The total commissions amount under the Procurement Agreements during the year ended 31 December 2008 is RMB7,992,000 (2007: RMB8,959,000).

Connected Transactions

4. *Engagement of exclusive distributors for sales to dealers*

Background

We have engaged various exclusive distributors (the "**Exclusive Distributors**") for sale of lead-acid motive battery products to dealers or repairing shops of electric bikes which then re-sell the same as replacements in the retail market in China (the "**Secondary Market**").

Certain Exclusive Distributors are associates of our Directors and hence our connected persons for the purposes of the Listing Rules (the "**Connected Exclusive Distributors**"). A list of the Connected Exclusive Distributors in set out below:

Name of the Connected Sale Representatives	Name of related Directors	Relationship
1. SHE Guoqing (佘國清)	ZHANG Tianren (張天任), ZHANG Aogen (張敖根)	Cousin's Husband
2. CHEN Chiming (陳池明)	ZHANG Tianren (張天任), ZHANG Aogen (張敖根)	Cousin's Husband
3. CHEN Huichi (陳會池)	YANG Lianming (楊連明)	Brother-in-law
4. CHEN Haichi (陳海池)	YANG Lianming (楊連明)	Brother-in-law
5. YANG Lianzhen (楊連成)	YANG Lianming (楊連明)	Brother
6. SHE Boxing (佘伯興)	SHI Borong (史伯榮)	Son-in-law
7. FAN Suliang (范蘇良)	CHEN Minru (陳敏如)	Nephew
8. DU Peiming (杜培明)	ZHANG Aogen (張敖根)	Nephew
9. ZHANG Jinfeng (張金豐)	ZHANG Kaihong (張開紅)	Son
10. ZHANG Kaiming (張開明)	ZHANG Kaihong (張開紅)	Cousin
11. ZHANG Yan (張燕)	ZHANG Kaihong (張開紅)	Daughter
12. ZHANG Zhifeng (張志峰)	ZHANG Kaihong (張開紅)	Nephew
13. CHEN Chunhua (陳春華)	ZHANG Kaihong (張開紅)	Brother-in-law

Connected Transactions

Reasons for the transaction

The electric bike motive battery market was not fully developed at the time Tianneng Battery commenced its business. While non-connected persons might not be very interested in the industry, the management of Tianneng Battery convinced the Connected Exclusive Distributors joining the business.

The Connected Exclusive Distributors are primarily authorised by Tianneng Battery to sell products within a specified region. However, the demand for products in the particular region does not depend on the Connected Exclusive Distributors. During the course of their engagement and from their own development, these Connected Exclusive Distributors have established networks and business relationships with dealers and shops in our Secondary Market.

It is the Company's strategy to continue engaging Exclusive Distributors to further expand the Secondary Market of batteries for electric bikes. As at 31 December 2008, there were a total 508 (2007: 373) Exclusive Distributors, out of which 13 (2007: 13) were Connected Exclusive Distributors. As these Connected Exclusive Distributors have been working with us for long time, their long-standing experience in and understanding of our products, corporate culture and business development is important for our business development. However, we do not rely on these Connected Exclusive Distributors.

Pricing basis and policy

The prices offered by us to the Connected Exclusive Distributors, in the case of the Direct Sale Transactions, are the Group's uniform exfactory prices and are the same as those offered to the Exclusive Distributors who are independent third parties.

Our Company has entered into a contract (the "After Sale Contract") with each of the Exclusive Distributors in April 2007 for a term of approximately three years ending on 31 December 2009 for the purposes of supporting them in their role as distributors to provide after sale services to customers. All the Exclusive Distributors will also receive a fixed amount of monthly subsidy from us as a remuneration of their after sale services provided to customers. The principal terms and conditions of all the After Sale Contracts, including the amount of subsidies and the aforesaid pricing and commission policy, are identical, no matter whether they are connected or non-connected Exclusive Distributors.

Waiver and annual cap

The Stock Exchange has granted a conditional waiver to the Group from strict compliance of the Listing Rules with the announcement and Shareholders' approval requirements for the years ended 31 December 2007 to 2009 in respect of the agreements with the Connected Exclusive Distributors subject to the annual cap of RMB38,000,000 (2007: RMB28,000,000) for the year ended 31 December 2008.

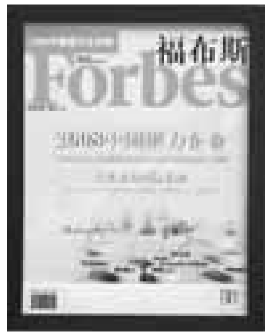
In view of the growth of the PRC market of batteries for electric bikes and the resulting expansion of the business carried by the Exclusive Distributors, the original annual caps for the financial years ended 31 December 2008 and ending 31 December 2009 have been revised from RMB38,000,000 and RMB49,000,000 to RMB53,000,000 and RMB72,000,000 respectively. The revised annual caps were determined by reference to (i) the historical amounts and the growth of the transactions entered into by the exclusive distributors in the recent years; and (ii) the projected growth of business of the Company in the near future.

Actual transaction value during the year

The total purchase amount under the agreements with the Connected Exclusive Distributors during the year ended 31 December 2008 is RMB40,824,000 (2007: RMB27,422,000).

Awards

2008 CHINESE BEST BRAND OF MOTIVE BATTERY



In July 2008, the Company was granted "2008 Chinese Best Brand of Motive Battery" by Frost and Sullivan.

CHINA BEST SMALL AND MEDIUM-SIZED ENTERPRISES 2008

In January 2008, the Company was granted "China Best Small and Medium-sized Enterprises 2008" by Forbes.

NATIONAL WELL-KNOWN TRADEMARK

In April 2008, the Company was granted "National Well-know Trademark" by Industrial and Commercial Administration Bureau of Huzhou City

TOP 100 ENTERPRISES IN THE MANUFACTURING INDUSTRY IN ZHEJIANG PROVINCE

In June 2008, the Company was granted "Top 100 Enterprises in the Manufacturing Industry in Zhejiang Province" by Zhejiang Federation of Enterprises and Zhejiang Entrepreneurs Association

500 MOST VALUABLE BRANDS IN CHINA

In June 2008, the Company was granted "500 Most Valuable Brands in China" by World Brand Lab and World Executives Group

TOP 500 ASIA BRANDS 2008

In September 2008, the Company was granted "Top 500 Asia Brand, 2008" by World Brand Lab, World Entrepreneurs, etc

TOP 100 NON-GOVERNMENTAL ENTERPRISES IN ZHEJIANG PROVINCE

In July 2008, the Company was granted "Top 100 Non-governmental Enterprises in Zhejiang Province" by Zhejiang Province Private (Non-Governmental) Enterprises' Association and Zhejiang Administration for Industry & Commerce

TOP 100 HIGH TECHNOLOGY ENTERPRISES IN ZHEJIANG PROVINCE

In September 2008, the Company was granted "Top 100 High Technology Enterprises in Zhejiang Province" by Science and Technology Department of Zhejiang Province

NATIONAL POST-DOCTORAL SCIENTIFIC RESEARCH WORKSTATION

In July 2008, the Company was granted "National Post-doctoral Scientific Research Workstation by Ministry of Human Resources and Social Security of the People's Republic of China and National Post-Doctor Regulatory Commission

HIGH TECHNOLOGY ENTERPRISE

In 2008, the Company was granted "High Technology Enterprise" by The Ministry of Science and Technology, etc.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. ZHANG Tianren (張天任), aged 46, is our executive Director, chairman of our Board and founder of our Group. Mr. ZHANG is responsible for our overall management and formulation of our business strategies. Mr. ZHANG has had 20 years of experience in management of motive battery industry in China. Mr. ZHANG was the factory manager of Zhejiang Changxing Storage Battery Factory during the period between 1989 and 2002, and has been the chairman and the general manager of Tianneng Battery since 2003. In April 2002, Mr. ZHANG was qualified as a senior economist.

In addition to his key position in our Group, Mr. ZHANG has held various roles in the rechargeable battery and other related industries. Mr. ZHANG is currently a vice council chairman of the China Battery Industry Association and the chairman of the Rechargeable Battery Industry Association in Zhejiang Province. Mr. ZHANG has also been named in 2001 as one of the township entrepreneurs in China (全國鄉鎮企業家). Mr. ZHANG is the younger brother of Mr. ZHANG Aogen.

Mr. ZHANG Aogen (張敖根), aged 51, is our executive Director and is responsible for our customer relationship management and the formulation of sales strategies. Mr. ZHANG is a senior economist and has had 22 years of management experience in sales of rechargeable battery products. Mr. ZHANG joined Zhejiang Changxing Storage Battery Factory as a deputy factory manager in 1988 and was appointed as a deputy general manager of Tianneng Battery in 2003. Mr. ZHANG is also an elder brother of Mr. ZHANG Tianren, chairman of our Board.

Mr. CHEN Minru (陳敏如), aged 49, is our executive Director and is responsible for our financial management. Mr. CHEN graduated from Central Party School of The Communist Party of China (中共中央黨校) in economics management and is a qualified accountant and a senior economist. Mr. CHEN joined us as a deputy general manager of Tianneng Battery in February 2003 and has had 30 years of experience in corporate management and financial management. Prior to joining us, Mr. CHEN was the deputy general manager of Zhejiang Huzhou Bianshan Building Materials Group Corporation (湖州弁山建材集團公司) and Huzhou Kingsafe Group Co., Ltd. (湖州金三發集團).

Mr. ZHANG Kaihong (張開紅), aged 51, is our executive Director and is responsible for the management of our operations in Tianneng Wuhu. Mr. ZHANG is a senior engineer with 22 years' experience in research and development, quality control and management of rechargeable battery enterprises. Mr. ZHANG joined Zhejiang Changxing Storage Battery Factory in 1988 and acted as deputy factory manager of Zhejiang Changxing Storage Battery Factory in 1992. Mr. ZHANG was also appointed as deputy general manager of Tianneng Battery in 2003 and as general manager of Tianneng Wuhu in 2006.

Mr. SHI Borong (史伯榮), aged 55, is our executive Director and is responsible for our operations in Tianneng Jiangsu. Mr. SHI is a senior economist and has had 19 years of management experience in rechargeable battery enterprises. Mr. SHI joined Zhejiang Changxing Storage Battery Factory in 1989 and acted as deputy factory manager of Zhejiang Changxing Storage Battery Factory in 1990 and as deputy general manager of Tianneng Battery in 2003. Mr. SHI was appointed as the general manager of Tianneng Jiangsu in 2005.

Profiles of Directors and Senior Management

Mr. YANG Lianming (楊連明), aged 46, is our executive Director and is responsible for the production of Tianneng Battery and Tianneng Power Supply. Mr. YANG is a senior economist and had 15 years of management experience in rechargeable battery enterprises. Mr. YANG joined Zhejiang Changxing Storage Battery Factory as an assistant administrative officer in 1995, and acted as an administrative officer of Tianneng Battery in 1999. Mr. YANG was appointed as the deputy general manager of Tianneng Power Supply in 2003 and the assistant to general manager of Tianneng Battery in 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HO Tso Hsiu (何祚庥), aged 81, was appointed as an independent non-executive Director in February 2007. Mr. HO graduated from Tsinghua University in 1951 with a bachelor of science degree. Mr. HO has been working as a researcher and the vice-president of Institute of Nuclear Research, Institute of High Energy Physics and Institute of Theoretical Physics of Chinese Academy of Sciences since 1956. Mr. HO has been a member of Chinese Academy of Sciences since 1993.

Dr. CHENG Cheng Wen (鄭承文), aged 64, was appointed as an independent non-executive Director in February 2007. Dr. CHENG had served as the chairman and non-executive director of AcrossAsia Limited ("AcrossAsia", a company listed on GEM), until he tendered his resignation with effect from 29 October 2008. Dr. Cheng concurrently serves as the President Commissioner of PT Matahari Putra Prima Tbk (a subsidiary of AcrossAsia listed on the Jakarta Stock Exchange and the Surabaya Stock Exchange) and PT Multipolar Corporation Tbk (a subsidiary of AcrossAsia listed on the Jakarta Stock Exchange and the Surabaya Stock Exchange) and a Commissioner of PT Broadband Multimedia Tbk (a subsidiary of AcrossAsia listed on the Surabaya Stock Exchange). Dr. CHENG has over 31 years' international experience in research and development, marketing and general management. Dr. CHENG was also the Chief Executive of the Provisional Hong Kong Science Park Corporation and has served as the Chief Operating Officer and Executive Vice President of Philips Electronics Group in China/Hong Kong and Taiwan, President of Taiwan Gadelius Limited and other executive positions in Belgium and the U.S. Dr. CHENG holds a bachelor of science degree from National Cheng Kung University, Taiwan, and master of science and PhD degrees in electrical engineering from Iowa State University, U.S.

Mr. HUANG Dongliang (黃董良), aged 53, was appointed as an independent non-executive Director in February 2007. Mr. HUANG graduated from Zhongnan Finance University in 1988 with a bachelor degree majored in economics. Mr. HUANG has been the assistant to principal of Zhejiang College of Finance and Economics since 2004. Mr. HUANG obtained the qualifications of professor, senior accountant and registered tax agent in China. Mr. HUANG is a certified public accountant registered under the Chinese Institute of Certified Public Accountants. Mr. HUANG served as an independent director of Haitong Food Group Co., Ltd., a listed Company on Shanghai Stock Exchange and concurrently serves as an independent director of Zhejiang Southeast Electric Power Company Limited, Zhejiang Medicine Co., Ltd. and Zhejiang Conbu Pharmaceutical Co., Ltd, which are listed companies on Shanghai Stock Exchange.

Mr. WANG Jingzhong (王敬忠), aged 52, was appointed as an independent non-executive Director in February 2007. Mr. WANG graduated from Huadong Polytechnic University in 1982 with a bachelor degree and obtained the qualification of senior engineer. Mr. WANG is the executive vice president and secretary general of China Battery Industry Association and also the independent non-executive director of SCUD Group Limited (Stock code: 1399), a listed company in Hong Kong.

Profiles of Directors and Senior Management

SENIOR MANAGEMENT

Mr. ZHAO Haimin (趙海敏), aged 44, is the deputy general manager. Mr. ZHAO is responsible for human resources, sales network management and after-sales services of our group. Mr. ZHAO graduated from Central Party School of The Communist Party of China (中共中央黨校) in economics management and has obtained the qualifications of senior engineer and senior economist. Mr. ZHAO joined us in 2004 as an assistant to our general manager and was responsible for sales and after-sales services. Mr. ZHAO was appointed the manager of human resources in 2005 and a director of Tianneng Battery in 2006. Prior to joining us, Mr. ZHAO was an assistant to the general manager in Huzhou KINGSAFE Group Co., Ltd. (湖州金三發集團) and was responsible for the management of sales, production and procurement.

Mr. YANG Yuanling (楊元玲), aged 46, is the deputy general manager. Mr. YANG has had 28 years' experience in the battery industry. From 1982 to 2002, Mr. YANG was the deputy general manager of Changguang Industrial Group Battery Manufacturing Company Limited (長廣(工業)集團蓄電池製造公司). In 1999, Mr. YANG graduated from Zhejiang Province Party School of The Communist Party of China (中共浙江省委黨校函授學院) in economics management. In February 2003, Mr. YANG joined Tianneng Battery as deputy administrative officer and was promoted to administrative officer in the same year. In 2005, Mr. YANG has obtained the qualification of economist. Mr. YANG pursued further studies at the Harbin Institute of Technology and obtained a certificate in "Advanced Battery Production Techniques and Management" in 2006. Mr. YANG is currently committee member of the China Battery Industry Association and committee member and the assistant secretary of Zhejiang Province Rechargeable Battery Industry Association.

Mr. LEUNG Kwok Wah Kevin (梁國華) MBA, MSC, FCPA, FCCA, MHKSI, MHKIOD, aged 46, was appointed as the financial controller, company secretary, qualified accountant and authorised representative of our Company in September 2006. Mr. LEUNG is responsible for financial and accounting management and company secretarial affairs of our Company. Mr. LEUNG obtained a master degree in business administration from Western Ontario University and a master degree in corporate governance and directorship from Hong Kong Baptist University. Mr. LEUNG is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and is a member of Hong Kong Securities Institute and Hong Kong Institute of Directors.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The Group is principally engaged in the production of motive batteries in China. The activities of all subsidiaries are shown in note 32 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 45.

The Directors recommend the payment of a final dividend of HK7.8 cents per share (equivalent to RMB7.0 cents per share), amounting to RMB69,643,000.

PROPERTY, PLANT AND EQUIPMENT

During the year, approximately RMB23,715,000 and RMB71,175,000 construction in progress were completed and transferred to buildings and plant and machinery, respectively.

During the year, the Group continued to expand its manufacturing facilities. The Group acquired plant and machinery for approximately RMB8,073,000.

Details of these and other movements during the year in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements

USE OF PROCEEDS

The Company issued 300,000,000 Shares comprising 250,000,000 newly issued Shares and 50,000,000 Shares offered for sale by some of the then Shareholders for the initial public offer in June 2007 at a price of HK$1.92 per Share. The gross proceeds received by the Company amounted to about RMB471,657,000. These proceeds were applied during the year in accordance with the proposed applications set out in the prospectus of the Company dated 29 May 2007.

Directors' Report

SHARE CAPITAL

Details of the movement during the year in the share capital of the Company are set out in note 26 to the consolidated financial statements.

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

DISTRIBUTIVE RESERVES OF THE COMPANY

At the balance sheet date, the Company's reserve available for distribution amounted to approximatey RMB551,050,000 (2007: approximatey RMB365,852,000).

Under the Company Law (Revised) Chapter 25 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

DIRECTORS

The Directors during the year and up to the date of this report were:

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

In accordance with Article 87 of the Company's articles of association, Mr. Chen Minru, Dr. Cheng Cheng Wen, Mr. Huang Dongliang and Mr. Wang Jingzhong will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

All executive Directors have entered into service agreements with the Company for a period of three years commencing 11 June 2007 and will continue thereafter until terminated by either party giving not less than three months' prior written notice to the other. They are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

Other than those disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2008, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")), as recorded in the registered maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(a) Long positions

Ordinary shares of HK$0.1 each of the Company.

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

Directors' Report

DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(a) Long positions (Continued)

Notes:

1. The 414,179,650 Shares are held by Prime Leader Global Limited, which is wholly owned by Mr. Zhang Tianren.
2. The 25,321,022 Shares are held by Top Benefits International Limited, which is wholly owned by Mr. Zhang Aogen.
3. The 9,043,152 Shares are held by Profit Best International Limited, which is wholly owned by Mr. Chen Minru.
4. The 34,364,174 Shares are held by Plenty Gold Holdings Limited, which is wholly owned by Mr. Zhang Kaikong.
5. the 31,952,789 Shares are held by Precise Asia Global Limited, which is wholly owned by Mr. Shi Borong.
6. The 9,043,151 Shares are held by Success Zone Limited, which is wholly owned by Mr. Yang Lianming.

(b) Other interests and short positions

Other than as disclosed above, none of the Directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2008.

SHARE OPTION SCHEME

The Company's share option scheme (the "**Scheme**") was adopted pursuant to a resolution passed by the 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 note 27 to the consolidated financial statements.

Up to 31 December 2008, no options were granted to Directors, eligible employees and other outside third parties under the Scheme.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group are set out in note 30 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, or any of its subsidiaries a party to any arrangements to enable the Directors to acquire by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

DIRECTORS' INTEREST IN COMPETITORS

As at the date of this report, within the knowledge of the Directors, no Director and their respective associates had any interest in a business which competes or may compete with the business of the Group.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain Directors, the following Shareholders, had notified the Company of relevant interests and short positions in the issued share capital of the Company.

(a) Long positions

Ordinary shares of HK$0.1 each of the Company.

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

Directors' Report

SUBSTANTIAL SHAREHOLDERS (Continued)

(a) Long positions (Continued)

Notes:

1. The 414,179,650 Shares are held by Prime Leader Global Limited, which is wholly owned by Mr. Zhang Tianren.

2. 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, LP 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 Cheng Yu Tung Family (Holdings) Limited.

   Accordingly, each of (i) New World Liberty China Ventures Ltd., (ii) Liberty New World China Enterprises Investments, LP, (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) Cheng 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.

(b) Other interests and short positions

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2008.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

All independent non-executive Directors have signed the letters of appointment with the Company for a period of three years commencing 11 June 2007 and will continue thereafter until terminated by either party giving not less than three months' prior written notice to the other. They are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited ("**Listing Rules**"). The Company considers all of the independent non-executive Directors are independent.

CONNECTED TRANSACTIONS

Details of the connected transactions entered into during the year are set out in the "Connected Transactions" section to this annual report.

Directors' Report

EMOLUMENT POLICY

The Group's emolument policies are as follows:

(i) the amount of remuneration is determined on a case by case basis depending on the Directors or employee's relevant experience, responsibility, workload and the time devoted to the Group;

(ii) non-cash benefits may be provided at the discretion of the Board to the relevant Directors or employees under their remuneration package; and

(iii) the Directors or employees who are eligible participants under the share option scheme may be granted, at the discretion of the Board, the Scheme adopted by the Company, as part of their remuneration package.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's turnover.

During the year, the largest supplier accounted for 15% of the Group's total purchase and the Group's five largest suppliers accounted for 44% of Group's total purchases.

At no time during the year did a Director, an associate of a Director or a Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have an interest in the any of the Group's five largest suppliers or customers.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" section to this annual report.

AUDIT COMMITTEE

An audit committee comprising three independent non-executive Directors, namely Dr. Cheng Cheng Wen, Mr. Huang Dongliang and Mr. Wang Jingzhong, was established in 2007.

The annual results have been reviewed by the audit committee of the Company.

Directors' Report

DONATIONS

During the year ended 31 December 2008, the Group made charitable donations of RMB2,486,000.

SUFFICIENCY OF PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital are held by the public throughout the year ended 31 December 2008 as required under the Listing Rules.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

Zhang Tianren
Chairman

Hong Kong, 27 March 2009

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF TIANNENG POWER INTERNATIONAL LIMITED
天能動力國際有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tianneng Power International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 45 to 85, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Turnover	8	**2,585,301**	1,953,995
Cost of sales		**(2,004,197)**	(1,461,963)
Gross profit		**581,104**	492,032
Other income	9	**29,572**	20,294
Selling and distribution costs		**(164,326)**	(130,824)
Administrative expenses		**(86,097)**	(62,177)
Listing related expenses		**–**	(14,124)
Research and development costs		**(32,461)**	(12,052)
Other operating expenses		**(21,687)**	(28,219)
Finance costs	10	**(27,507)**	(23,502)
Profit before taxation	11	**278,598**	241,428
Taxation	13	**(44,390)**	(38,539)
Profit for the year		**234,208**	202,889
Dividends recognised as distribution	14	**60,439**	39,891
Earnings per share			
– Basic	15	**RMB0.23**	RMB0.23

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	16	**593,512**	408,556
Prepaid lease payments	17	**37,203**	35,558
Deferred tax assets	18	**22,611**	10,179
		653,326	454,293
Current assets			
Inventories	19	**338,716**	426,990
Bills, trade and other receivables	20	**144,829**	343,503
Prepaid lease payments	17	**915**	773
Amount due from a related company	21	**–**	622
Restricted bank deposits	22	**–**	40,000
Bank balances and cash	22	**530,408**	401,843
		1,014,868	1,213,731
Current liabilities			
Trade and other payables	23	**233,524**	214,054
Amount due to a related company	24	**6**	–
Taxation payable		**6,802**	14,957
Bank borrowings	25	**171,580**	336,500
		411,912	565,511
Net current assets		**602,956**	648,220
Total assets less current liabilities		**1,256,282**	1,102,513
Non-current liabilities			
Bank borrowings	25	**20,000**	40,000
		1,236,282	1,062,513
Capital and reserves			
Share capital	26	**99,037**	99,037
Reserves		**1,137,245**	963,476
Total equity		**1,236,282**	1,062,513

The financial statements on pages 45 to 85 were approved and authorised for issue by the board of directors on 27 March 2009 and are signed on its behalf by:

Zhang Tianren	**Chen Minru**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Paid-in capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Non-distributable reserve RMB'000	Statutory surplus reserve fund RMB'000	Discretionary surplus reserve fund RMB'000	Translation reserve RMB'000	Accumulated profits RMB'000	Total 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 14)	–	–	–	–	–	–	–	–	(44,298)	(44,298)
Waiver of dividend (note 14)	–	–	–	–	–	–	–	–	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	99,037	470,017	10,000	57,010	12,460	42,044	6,663	5,305	359,977	1,062,513
Profit for the year and total recognised income for the year	–	–	–	–	–	–	–	–	234,208	234,208
Transfer	–	–	–	–	–	37,846	–	–	(37,846)	–
Dividend recognised as distribution (note 14)	–	–	–	–	–	–	–	–	(60,439)	(60,439)
At 31 December 2008	99,037	470,017	10,000	57,010	12,460	79,890	6,663	5,305	495,900	1,236,282

The special reserve of the Group represents the difference between the nominal amount of the shares issued by Tianneng International Investment Holdings Limited ("Tianneng BVI") and the aggregate amount of paid-in capital of the subsidiaries acquired by Tianneng BVI pursuant to the group reorganisation which took place in 2004 as more fully explained in the prospectus of the Company dated 29 May 2007.

The capital reserve of the Group arose in June 2003 when the major shareholder, Mr. Zhang Tianren, transferred 26.3% of his shares in Zhejiang Tianneng Battery Co., Ltd. ("Tianneng Battery") to the key management personnel of the Group. The Group recognised the share-based payment expenses of approximately RMB57,010,000 on 15 June 2003 which represented the difference between the fair value of those shares of approximately RMB71,388,000 and the consideration received by Mr. Zhang Tianren from the key management personnel of approximately RMB14,378,000.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

The non-distributable reserve of the Group represents the difference between the consideration paid for acquisitions of additional interests in subsidiaries from minority shareholders who are associates of Mr. Zhang Tianren, the major shareholder of the Company and the minority interests' share of net assets of the subsidiaries at the date of the acquisition.

As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), the Group's PRC subsidiaries are required to maintain two reserves, being a statutory surplus reserve fund and a discretionary surplus reserve fund which are non-distributable. Appropriations to such reserves are made out of profit after taxation of the statutory financial statements of the PRC subsidiaries while the amount and allocation basis are decided by their board of directors annually. Pursuant to the relevant laws and regulations in the PRC, it requires the appropriation to the statutory surplus reserve fund until the balance reaches 50% of the registered share capital. The statutory surplus reserve fund and the discretionary surplus reserve fund can be used to make up its prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
Operating activities		
Profit before taxation	**278,598**	241,428
Adjustments for:		
Interest income	**(5,090)**	(10,470)
Interest expenses	**27,507**	23,502
Depreciation	**34,446**	24,895
Amortisation of prepaid lease payments	**832**	692
Loss on disposal of property, plant and equipment	**5,361**	949
Allowance for bad and doubtful debts	**12,205**	15,656
Allowance for inventories	**30,501**	3,406
Operating cash flows before movements in working capital	**384,360**	300,058
Decrease (increase) in inventories	**57,773**	(195,230)
Decrease (increase) in bills, trade and other receivables	**186,469**	(190,915)
Decrease in amount due from a related company with trade nature	**622**	3,119
Increase (decrease) in trade and other payables	**19,872**	(51,683)
Increase (decrease) in amount due to a related company with trade nature	**6**	(846)
Cash generated from (used in) operations	**649,102**	(135,497)
Interest paid	**(27,916)**	(23,174)
PRC Enterprise Income Tax paid	**(64,977)**	(38,474)
Net cash from (used in) operating activities	**556,209**	(197,145)
Investing activities		
Purchase of property, plant and equipment	**(228,084)**	(134,237)
Prepaid lease payments paid	**(2,619)**	(15,630)
Decrease in restricted bank deposits	**40,000**	54,000
Interest received	**5,090**	10,470
Proceeds from disposal of property, plant and equipment	**3,321**	500
Repayment from amounts due from shareholders	**–**	994
Net cash used in investing activities	**(182,292)**	(83,903)

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 **RMB'000**	2007 RMB'000
Financing activities		
Bank loans raised	**502,000**	517,000
Repayments of bank loans	**(686,920)**	(391,700)
Dividends paid	**(60,432)**	(39,891)
Proceeds from issue of new shares upon new listing	**–**	471,657
Shares issuance expenses	**–**	(18,893)
Net cash (used in) from financing activities	**(245,352)**	538,173
Net increase in cash and cash equivalents	**128,565**	257,125
Cash and cash equivalents at the beginning of the year	**401,843**	144,718
Cash and cash equivalents at the end of the year, representing bank balances and cash	**530,408**	401,843

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. GENERAL

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

The Company is an investment holding company and its shares have been listed on The Stock Exchange of Hong Kong Limited with effect from 11 June 2007. The principle activities of its subsidiaries are set out in note 32.

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

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

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

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

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs [1]
HKAS 1 (Revised)	Presentation of financial statements [2]
HKAS 23 (Revised)	Borrowing costs [2]
HKAS 27 (Revised)	Consolidated and separate financial statements [3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [2]
HKAS 39 (Amendment)	Eligible hedged items [3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate [2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [2]
HKFRS 3 (Revised)	Business combinations [3]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments [2]
HKFRS 8	Operating segments [2]
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives [4]
HK(IFRIC) – INT 13	Customer loyalty programmes [5]
HK(IFRIC) – INT 15	Agreements for the construction of real estate [2]
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation [6]
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners [3]
HK(IFRIC) – INT 18	Transfer of assets from customers [7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 July 2009.
4 Effective for annual periods ending on or after 30 June 2009.
5 Effective for annual periods beginning on or after 1 July 2008.
6 Effective for annual periods beginning on or after 1 October 2008.
7 Effective for transfers on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. Improvement to HKFRSs requires property being constructed or developed for future use as investment property to classify as investment property for annual periods beginning on or after 1 January 2009. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

* IFRIC represents the International Financial Reporting Interpretations Committee.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments are accounted for as operating leases. The costs are charged to the consolidated income statement on a straight line basis over the period for which the relevant land use rights have been granted to the Group.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight – line basis over the terms of the relevant leases.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment loss on tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are mainly loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including bills, trade and other receivables, amount due from a related company, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been affected.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of bills, trade and other receivables is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a bills, trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to a related company and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred assets, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit and loss for the period in which they arise.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into presentation currency of the Group (ie. RMB) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the entities is disposed of.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate on a systematic basis. Government grants which are not granted to compensate any specific costs are recognised as income of the period in which it becomes receivables..

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses.

The Group does not have a general provisioning policy on inventory based on ageing given the nature of inventories that are not subject to frequent wear and tear and frequent technological changes. However, operational procedures have been in place to monitor this risk as majority of working capital is devoted to inventories. Procedurewise, the sales and the marketing managers review the inventory ageing listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the consolidated financial statements for any obsolete and slow-moving items. In addition, physical count on all inventories are carried out on a periodical basis in order to determine whether allowance need to be made in respect of any obsolete and defective inventories identified. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for obsolete and slow-moving inventories has been made in the consolidated financial statements. The management estimates that the net realisable value for such finished goods and consumables based primarily on the latest market prices and current market conditions. The net realisable value for such finished goods and consumables will be affected if the actual future market prices and market conditions are less than expected.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Bills and trade receivables

Bills and trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In making the estimates, management considered detailed procedures have been in place to monitor this risk as a significant proportion of the Group's financial assets is devoted to bills and trade receivables. In estimating whether allowance for bad and doubtful debts is required, the Group takes into consideration the ageing status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, the carrying amount of bills and trade receivable is approximately RMB125,751,000 (2007: RMB300,024,000) net of allowance for doubtful debts of RMB31,035,000 (2007: RMB18,830,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of bank borrowings and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and the raise of bank borrowings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2008 **RMB'000**	2007 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**662,059**	750,085
Financial liabilities		
Amortised costs	**329,243**	532,861

Financial risk management objectives and policies

The Group's major financial instruments include bills, trade and other receivables, amount due from a related company, restricted bank deposits, bank balances and cash, trade and other payables, amounts due to a related company and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The risks associated and the management policies remain unchanged from prior year.

Market risk

Currency risk

The Group collects all of its revenue in RMB and most of the expenditures as well as capital expenditures are also denominated in RMB.

RMB is not a freely convertible currency. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and supply and demand of RMB.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

The Group has minimal currency exposure as all its sales are mainly denominated in RMB. On the other hand, the disbursements were also mainly in RMB, which is the functional currency of the relevant subsidiaries. The major foreign currency of the Group is the fund financed from initial public offering. The management conducts periodic review of exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
Currency	**2008 RMB'000**	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
US dollars ("US$")	**811**	2,213	**–**	–
Hong Kong dollars ("HK$")	**4,207**	74,492	**935**	587

Sensitivity analysis

The Group is mainly exposed to the currency risk on US$ and HK$ against RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The analysis illustrates the impact for a 5% strengthening of RMB against the relevant currency and number below indicates a decrease in profit and loss respectively. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit.

	US$ impact (i)		**HK$ impact (ii)**	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Profit for the year	**41**	107	**162**	3,647

(i) This is mainly attributable to the exposure outstanding on US$ bank balances at year end in the Group.

(ii) This is mainly attributable to the exposure to outstanding HK$ balances, other receivables and trade payables at the year end.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 25) and restricted bank deposits and cash flows interest rate risk in relation to bank balances which are at variable interest rates. The management conducts periodic review of interest rate exposures and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for interest bearing bank balances at the balance sheet date. For variable-rate bank balances, the analysis is prepared assuming the amount of assets outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates except for those interest rates less than 50 basis point.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2008 would increase/decrease by approximately RMB2,113,000/RMB1,506,000 (2007: increase/decrease by approximately RMB1,569,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in interest bearing bank balances.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to the Group's principal financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank loans. In addition, banking facilities have been put in place for contingency purposes.

The following table details the Group's expected maturity of the financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 3 months RMB'000	3 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts at 31.12.2008 RMB'000
2008						
Non-derivative financial liabilities						
Non-interest bearing	–	**121,996**	**15,667**	**–**	**137,663**	**137,663**
Fixed rate instruments	6.31	**57,612**	**120,838**	**22,253**	**200,703**	**191,580**
		179,608	**136,505**	**22,253**	**338,366**	**329,243**

	Weighted average effective interest rate %	Less than 3 months RMB'000	3 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts at 31.12.2007 RMB'000
2007						
Non-derivative financial liabilities						
Non-interest bearing	–	140,415	15,946	–	156,361	156,361
Fixed rate instruments	7.08	100,633	247,635	45,629	393,897	376,500
		241,048	263,581	45,629	550,258	532,861

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost approximate their fair values at the balance date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Geographical segments

Analysis of the Group's turnover as well as analysis of the Group's carrying amount of segment assets, additions to property, plant and equipment and prepaid lease payments by geographical market/location has not been presented as more than 90% of the Group's sales were made to customers located in the People's Republic of China (the "PRC") and more than 90% of the segment assets, additions to property, plant and equipment and prepaid lease payments are situated in the PRC.

8. TURNOVER

	2008 **RMB'000**	2007 RMB'000
An analysis of turnover is as follows:		
Sales of goods		
Lead-acid motive battery products	**2,513,781**	1,823,621
Nickel hydride battery products	**41,734**	53,820
Chargers, controllers and motors	**14,361**	32,352
Others	**15,425**	44,202
	2,585,301	1,953,995

9. OTHER INCOME

	2008 **RMB'000**	2007 RMB'000
Government grants (Note)	**24,241**	9,626
Interest income	**5,090**	10,470
Others	**241**	198
Total	**29,572**	20,294

Note: Government grants include various government subsidies received by the Company's subsidiaries granted by a number of government bodies including 長興縣財政局, 長興縣科學技術局, 長興縣對外貿易經濟合作局, 長興縣發展改革和經濟委員會, 長興縣國家稅務局, 浙江省地方稅務局, 浙江省財政廳, 浙江省科學技術廳, 蕪湖經濟技術開發區管委會, 煤山鎮政府, 沭陽縣人民政府 in respect of encouragement of expansion of enterprise, encouragement of advances in technology, encouragement of enhancement in environmental protection measures, recognition of product development, recognition of technological advancement, award of Well-Known Trademark and encouragement of employment with physical disability, etc. All the government grants and subsidies were recognised at the time the Group fulfilled the relevant granting criteria, and the amount of subsidies set out as above represents the actual amount of such grants and subsidies received by the Group in that year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

10 FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interests on:		
Bank loans wholly repayable within five years	**27,507**	23,502

11. PROFIT BEFORE TAXATION

	2008 RMB'000	2007 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (note 12)	**800**	800
Other staff retirement benefits scheme contributions	**10,307**	7,627
Other staff costs	**137,719**	85,909
Total staff costs	**148,826**	94,336
Allowance for bad and doubtful debts (included in other operating expenses)	**12,205**	15,656
Allowance for inventories (included in cost of sales)	**30,501**	3,406
Amortisation of prepaid lease payments	**832**	692
Auditors' remuneration	**2,265**	1,919
Depreciation	**34,446**	24,895
Loss on disposal of property, plant and equipment (included in other operating expenses)	**5,361**	949
Net foreign exchange losses (included in other operating expenses)	**878**	9,847

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

12. DIRECTORS AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the ten directors for both years were as follows:

Year ended 31 December 2008

	Zhang Tianren RMB'000	Zhang Aogen RMB'000	Chen Minru RMB'000	Zhang Kaihong RMB'000	Shi Borong RMB'000	Yang Lianming RMB'000	Ho Tso Hsiu RMB'000	Cheng Cheng Wen RMB'000	Huang Dongliang RMB'000	Wang Jingzhong RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	–	–	–	–	–
Other emoluments											
Salaries and other benefits	72	73	73	73	73	73	80	80	80	80	757
Contributions to retirement benefits scheme	8	7	7	7	7	7	–	–	–	–	43
Total emoluments	80	80	80	80	80	80	80	80	80	80	800

Year ended 31 December 2007

	Zhang Tianren RMB'000	Zhang Aogen RMB'000	Chen Minru RMB'000	Zhang Kaihong RMB'000	Shi Borong RMB'000	Yang Lianming RMB'000	Ho Tso Hsiu RMB'000	Cheng Cheng Wen RMB'000	Huang Dongliang RMB'000	Wang Jingzhong RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	–	–	–	–	–
Other emoluments											
Salaries and other benefits	72	73	73	73	73	73	80	80	80	80	757
Contributions to retirement benefits scheme	8	7	7	7	7	7	–	–	–	–	43
Total emoluments	80	80	80	80	80	80	80	80	80	80	800

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

12. DIRECTORS AND EMPLOYEES' EMOLUMENTS (Continued)

The five highest paid employees of the Group are as follows:

	2008	2007
Directors	**–**	–
Employees	**5**	5
	5	5

The emoluments of the five highest paid employees, not being directors, are as follows:

	2008 **RMB'000**	2007 RMB'000
Basic salaries and allowances	**1,254**	1,147
Retirement benefits scheme contributions	**63**	78
Discretionary bonus (Note)	**–**	281
	1,317	1,506

Note: Bonus was granted on a discretionary basis upon successful listing of the Company's shares.

Their emoluments are within the following bands:

	Number of employees	
	2008	2007
Nil to HK$1,000,000	**5**	5

During the year, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

13. TAXATION

	2008 RMB'000	2007 RMB'000
PRC Enterprise Income Tax ("EIT"):		
Current tax	**55,897**	48,718
Under provision in prior years	**925**	–
	56,822	48,718
Deferred tax (note 18)		
– current year	**(12,432)**	(12,907)
– attributable to change in tax rate	**–**	2,728
	(12,432)	(10,179)
	44,390	38,539

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

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable to the year ended 31 December 2007 and 31 December 2008.

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 EIT for the two years commencing from 2005 and 50% reduction for the following three years.

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 Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was reduced from 33% to 25% progressively from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC range from 12.5% to 25% (2007: 13.2% to 33%). The deferred tax in 2007 has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the assets is realised or the liability is settled.

According to the notice (國家税務總局關於進一步做好調整現行福利企業税收優惠政策試點工作的通知) dated 25 September 2006 issued by the Ministry of Finance People's Republic of China (財政部) and State Tax Bureau (國家税務總局), effective from 1 October 2006, Zhejiang Changxing Tianneng Power Supply Co., Ltd., as a welfare enterprise, was entitled to 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 under the New Law.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

13. TAXATION (Continued)

The taxation charge for the year can be reconciled to the profit before taxation per consolidated income statement as follows:

	2008		2007	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**278,598**		241,428	
Tax at the applicable income tax rate of 25% (2007: 33%)	**69,650**	**25.0**	79,671	33.0
Tax effect of expenses not deductible for tax purposes	**8,834**	**3.2**	10,089	4.2
Tax effect of income not taxable for tax purposes	**(1,473)**	**(0.5)**	(2,357)	(0.9)
Tax effect of tax losses not recognised	**4,548**	**1.6**	1,051	0.4
Utilisation of tax losses previously not recognised	**–**	**–**	(732)	(0.3)
Utilisation of deductible temporary difference not recognised	**–**	**–**	(6,994)	(2.9)
Effect of tax benefits granted to subsidiaries	**(31,380)**	**(11.3)**	(33,639)	(13.9)
Effect of different tax rates of subsidiaries	**(6,150)**	**(2.2)**	(12,185)	(5.0)
Deductible temporary difference not recognised	**428**	**0.2**	751	0.3
Effect of change in tax rate	**–**	**–**	2,728	1.1
Under provision in prior years	**925**	**0.3**	–	–
Others	**(992)**	**(0.4)**	156	–
Taxation charge and effective tax rate for the year	**44,390**	**15.9**	38,539	16.0

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

14. DIVIDENDS

The directors of the Company propose a final dividend of HK7.8 cents (2007: HK6.8 cents) per share (equivalent to RMB7.0 cents (2007: RMB6.1 cents) per share) amounting to RMB69,643,000 (2007: RMB60,439,000), which is subject to the approval by the shareholders of the Company in the forthcoming annual general meeting.

During the year ended 31 December 2008, the Company paid RMB60,432,000 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 the year ended 31 December 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 in a net 2006 final dividend payable of RMB39,891,000 to the entitled shareholders of the Company. During the year of 2007, the Company fully paid the 2006 final dividend to the entitled shareholders.

15. EARNINGS PER SHARE

	2008 **RMB'000**	2007 RMB'000
Earnings:		
Earnings for the purpose of calculating basic earnings per share	**234,208**	202,889
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,000,000,000**	889,726,027

The weighted average number of ordinary shares for the purpose of calculating the basic earnings per share for 2007 has been adjusted for the capitalisation issue of 744,703,561 shares completed on 8 February 2007 (see note 26(a)).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2007	170,605	103,537	8,742	5,500	1,492	40,998	330,874
Additions	2,615	9,642	2,632	1,895	316	121,644	138,744
Transfer	36,235	85,384	–	465	–	(122,084)	–
Disposals	(1,290)	(1,289)	(21)	(24)	–	–	(2,624)
At 31 December 2007	208,165	197,274	11,353	7,836	1,808	40,558	466,994
Additions	2,596	8,073	3,981	2,396	–	211,038	228,084
Transfer	23,715	71,175	–	327	–	(95,217)	–
Disposals	(293)	(12,208)	–	–	(1,061)	(461)	(14,023)
At 31 December 2008	234,183	264,314	15,334	10,559	747	155,918	681,055
DEPRECIATION							
At 1 January 2007	11,616	16,323	4,793	1,734	252	–	34,718
Provided for the year	9,334	13,102	1,240	942	277	–	24,895
Eliminated on disposals	(895)	(240)	(21)	(19)	–	–	(1,175)
At 31 December 2007	20,055	29,185	6,012	2,657	529	–	58,438
Provided for the year	10,307	20,875	1,667	1,546	51	–	34,446
Eliminated on disposals	(67)	(5,241)	–	–	(33)	–	(5,341)
At 31 December 2008	30,295	44,819	7,679	4,203	547	–	87,543
CARRYING VALUES							
At 31 December 2008	203,888	219,495	7,655	6,356	200	155,918	593,512
At 31 December 2007	188,110	168,089	5,341	5,179	1,279	40,558	408,556

The estimated useful lives of each category of property, plant and equipment are as follows:

Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	5-10 years
Leasehold improvement	5 years

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

17. PREPAID LEASE PAYMENTS

	2008 **RMB'000**	2007 RMB'000
Non-current	**37,203**	35,558
Current	**915**	773
	38,118	36,331

The amount represents prepayment of rentals for land use rights situated in the PRC for a period of 50 years.

18. DEFERRED TAXATION

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

	Provision for inventories, trade and other receivables RMB'000	**Accrued warranty** RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2007	–	–	–	–
Credit to consolidated income statement for the year	6,271	4,490	2,146	12,907
Effect of change in tax rate	(1,253)	(999)	(476)	(2,728)
At 31 December 2007 and 1 January 2008	**5,018**	**3,491**	**1,670**	**10,179**
Credit to consolidated income statement for the year	**6,573**	**3,054**	**2,805**	**12,432**
At 31 December 2008	**11,591**	**6,545**	**4,475**	**22,611**

At 31 December 2008, the Group has deductible temporary differences of approximately RMB3,987,000 (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 31 December 2008, the Group had unused tax losses of approximately RMB29,144,000 (2007: RMB10,951,000) available to offset against future profits. No deferred tax assets 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 2013 (2007: 2012).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

19. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	**103,365**	70,898
Work-in-progress	**207,824**	342,709
Finished goods	**27,527**	13,383
	338,716	426,990

20. BILLS, TRADE AND OTHER RECEIVABLES

	2008 RMB'000	2007 RMB'000
Bills receivables	**72,453**	215,434
Trade receivables	**84,333**	103,420
Less: Allowance for bad and doubtful debts	**(31,035)**	(18,830)
	53,298	84,590
Other receivables	**10,984**	12,680
Less: Allowance for bad and doubtful debts	**(5,084)**	(5,084)
	5,900	7,596
Value Added Tax receivables, deposits and prepayments	**13,178**	35,883
	144,829	343,503

The Group allows an average credit period of 180 days (2007: 180 days) for bills receivables. The following is an aged analysis of bills receivables net of allowance for doubtful debts at the balance sheet date:

Age	2008 RMB'000	2007 RMB'000
0 to 180 days	**71,869**	214,734
181 to 365 days	**584**	700
	72,453	215,434

Included in the above bills receivables of approximately RMB584,000 (2007: RMB700,000) are past due at the balance sheet date for which the Group has not provided for impairment loss since the amount are subsequently recovered after balance sheet date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

20. BILLS, TRADE AND OTHER RECEIVABLES (Continued)

The Group has a policy of allowing an average credit period of 45 days (2007: 45 days) for trade receivables. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date:

Age	**2008 RMB'000**	2007 RMB'000
0 to 45 days	**30,557**	51,944
46 to 90 days	**8,605**	9,904
91 to 180 days	**7,424**	15,068
181 to 365 days	**6,712**	7,674
	53,298	84,590

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

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

Other receivables are unsecured, interest-free and are repayable on demand. Included in the Group's other receivable balance are other debtors with aggregate carrying amount of approximately RMB14,000 (2007: nil) which are past due as at balance sheet date for which the Group has not provided for impairment loss. After reassessment of the credit quality of these other receivables by the management, impairment for other receivables over 1 year are provided for in 2007 and no impairment loss on other receivables should be recognised for in 2008.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB22,741,000 (2007: RMB32,646,000) which are past due at the balance sheet date for which the Group has not provided for impairment loss.

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

Age	**2008 RMB'000**	2007 RMB'000
46-90 days	**8,605**	9,904
91-180 days	**7,424**	15,068
181-365 days	**6,712**	7,674
	22,741	32,646

Based on the historical experience of the Group, bills, trade and other receivables which are past due but not impaired are generally recoverable. The Group does not hold any collateral over these balances.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

20. BILLS, TRADE AND OTHER RECEIVABLES (Continued)

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

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

Movement in the allowance for doubtful debts – trade receivables

	2008 **RMB'000**	2007 RMB'000
Balance at beginning of the year	**18,830**	7,665
Allowance for bad and doubtful debts	**12,205**	11,165
Balance at end of the year	**31,035**	18,830

Movement in the allowance for doubtful debts – other receivables

	2008 **RMB'000**	2007 RMB'000
Balance at beginning of the year	**5,084**	593
Allowance for bad and doubtful debts	**–**	4,491
Balance at end of the year	**5,084**	5,084

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

During the year, the Group transferred RMB5,580,000 (2007: nil) of bills receivables to banks. As part of the transfer, the Group provided the transferee with a credit guarantee over the expected loss of those receivables. Accordingly, the Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowings (note 25).

The Group's bills, trade and other receivables that are not denominated in the functional currencies are as follows:

	2008 **RMB'000**	2007 RMB'000
Denominated in:		
Hong Kong dollars	**658**	451

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

21. AMOUNT DUE FROM A RELATED COMPANY

Details of the amount due from a related company are as follows:

			Maximum amounts outstanding	
Name of related company	**2008 RMB'000**	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
浙江省暢通電動車有限公司 (Zhejiang Changtong Electric Bicycle (Co., Ltd.) ("Zhejiang Changtong") ((Note)	**–**	622	**3,121**	11,373

Note: This related company is controlled by Mr. Ni Danqing, the brother-in-law of Mr. Zhang Tianren, a director of the Company. Effective from 18 June 2008, Mr. Ni Danqing disposed of 68.08% of his shareholding interest in Zhejiang Changtong and Zhejiang Changtong ceased to be a related company of the Company thereafter.

The amount due from a related company was trade nature and had no fixed repayment terms and aged less than 90 days.

22. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and cash comprise cash at bank and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank balances carry interest at market rates which ranged from 0.01% to 1.17% (2007: 0.72% to 0.81%) per annum.

Restricted bank deposits represented bank deposits pledged to banks to secure short-term banking facilities granted to the Group. The pledged deposits in 2007 carried fixed interest rate at a range from 2.43% to 3.78% per annum.

At 31 December 2008, certain bank balances and cash and the restricted bank deposits of approximately RMB526,048,000 (2007: RMB365,589,000) are denominated in RMB which is not a freely convertible currency in the international market. The remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

23. TRADE AND OTHER PAYABLES

	2008 **RMB'000**	2007 RMB'000
Trade payables	**82,640**	120,384
Other payables and accrued charges (Note)	**150,884**	93,670
	233,524	214,054

Note: Included in the other payables and accrued charges is an amount of RMB37,923,000 (2007: RMB15,758,000) being warranty provisions which represents management's best estimate of the Group's liability under 8 to 15 months warranty period granted on battery products, based on prior experience and industry averages for defective products.

The Group normally receives credit terms of 5 days to 90 days from its suppliers. The following is an aged analysis of trade payables at the balance sheet date:

Age	**2008** **RMB'000**	2007 RMB'000
0 to 90 days	**68,267**	55,707
91 to 180 days	**9,769**	62,377
181 to 365 days	**2,209**	1,101
1 to 2 years	**1,196**	500
Over 2 years	**1,199**	699
	82,640	120,384

24. AMOUNT DUE TO A RELATED COMPANY

Details of the amount due to a related company are as follows:

Name of related company	**2008** **RMB'000**	2007 RMB'000
浙江長興欣欣包裝有限公司 Zhejiang Changxing Xin Xin Packaging Co., Ltd. ("Xin Xin Packaging") (Note)	**6**	–

Note: This related company is beneficially owned by Ms. Chen Pingping and Mr. Chen Daqi, the cousins of Mr. Zhang Tianren, a director of the Company.

The amount due to a related company is trade nature and has no fixed repayment terms and age less than 90 days.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

25. BANK BORROWINGS

	2008 RMB'000	2007 RMB'000
Secured	**100,580**	93,000
Unsecured	**91,000**	283,500
	191,580	376,500
Carrying amounts repayable:		
On demand or within one year	**171,580**	336,500
More than one year, but not exceeding two years	**20,000**	40,000
	191,580	376,500
Less: Amounts due within one year shown under current liabilities	**(171,580)**	(336,500)
	20,000	40,000

The bank borrowings at 31 December 2008 and 2007 are denominated in RMB and carry fixed interest rates ranging from 4.86% to 7.56% and 6.07% to 8.96% per annum, respectively.

At the balance sheet date, the pledged assets as security for the bank borrowings is RMB148,070,000 (2007: RMB152,218,000) (note 28).

26. SHARE CAPITAL

	Number of shares	**Amount** equivalent to RMB'000
Shares of the Company with nominal value of HK$0.1 each		
Authorised:		
At 1 January 2007, 31 December 2007, 1 January 2008 and 31 December 2008	2,000,000,000	212,780
Issued and fully paid:		
At 1 January 2007	5,296,439	560
Issue by capitalisation of the share premium account (Note a)	744,703,561	73,912
Issue of shares on international placing and public offer (Note b)	250,000,000	24,565
At 31 December 2007, 1 January 2008 and 31 December 2008	1,000,000,000	99,037

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

26. SHARE CAPITAL (Continued)

Notes:

(a) Pursuant to a resolution passed by the shareholder of the Company on 26 February 2007, the directors of the Company were authorised to capitalise approximately HK$74,470,000 (equivalent to RMB73,911,000) 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.

(b) 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 (equivalent to RMB1.89) by way of international placing and Hong Kong public offer to overseas and Hong Kong investors.

27. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed by the shareholders on 26 February 2007 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group.

The Scheme is of a valid period of 10 years commencing on the date on which the shares of the Company commenced trading on the Main Board of The Stock Exchange of Hong Kong Limited. The Scheme enables the Company to grant options to eligible participants as incentives and rewards for their contribution to the Group. Eligible participants include all full time employee, directors (including independent non-executive directors) and part-time employees with weekly working hours of 10 hours and above, of the Group, substantial shareholders of each member of the Group, associates of the directors and substantial shareholders of any member of the Group, trustee of any trust pre-approved by the board of directors; and any advisor (professional or otherwise), consultant, distributor, supplier, agent, customer, joint venture partner, service provider to the Group whom the board of directors considers, in its sole discretion, has contributed or contributes to the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme must not, in aggregate, exceed 100,000,000 shares, representing 10% of the issued share capital (1,000,000,000 shares) at the date of adoption of the Scheme. The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the relevant class of the shares in issue from time to time.

According to the terms of the Scheme, the consideration for the grant of the options should be HK$1.00. The options may be exercised in accordance with the terms of the Scheme at any time during the exercise period as determined by the board of directors which shall in any event not be more than ten years from the date of grant.

Up to 31 December 2008, no options were granted to directors, eligible employees and other outside third parties under the Scheme.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

28. 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.

	2008 **RMB'000**	2007 RMB'000
Bank deposits	**–**	40,000
Bills receivables (note 20)	**5,580**	–
Property, plant and equipment	**120,513**	78,049
Prepaid lease payments	**21,977**	34,169
	148,070	152,218

29. CAPITAL COMMITMENTS

	2008 **RMB'000**	2007 RMB'000
Contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	**72,407**	13,248

30. RETIREMENT BENEFITS SCHEME

As stipulated by the rules and regulations in the PRC, the Group contributes to the retirement funds scheme managed by local social security bureau in the PRC. The Group contributes a certain percentage of the basic salaries of its employees to the retirement plan to fund the benefits.

The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The Group operates a Mandatory Provident Fund scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustee. The Group basically contributes 5% of relevant payroll costs to the scheme.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

31. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following significant transactions with its related companies:

Name of related company	Nature of transaction	2008 RMB'000	2007 RMB'000
Zhejiang Changtong	Sales of storage battery and other products	**13,560**	22,977
Changxing Jin Ling Hotel	Other expenses	**–**	993
長興長順塑業有限公司 Changxing Changshun Plastic Co., Ltd.	Purchase of consumables materials	**–**	7,862
Xin Xin Packaging	Purchase of consumables	**425**	643

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

(b) Mr. Zhang Tianren, a director of the Company, provided guarantees, in aggregate, amounting to RMB78,800,000 to the banks to secure the bank loans granted to the Group and also provided guarantees amounting to RMB10,000,000 in addition to the pledged deposits of the Group to secure the other banking facilities of the Group. Such personal guarantees from Mr. Zhang Tianren were released upon the listing of the Company's shares on 11 June 2007.

(c) Details of the remuneration of directors and other members of key management during the year are set out in note 12.

(d) Details of the balances with related companies are set out in notes 21 and 24.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

32. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2008 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment and operation	Issued and fully paid share/registered capital	Attributable equity interest of the Group	Principal activities
Tianneng International Investment Holdings Limited (Note)	British Virgin Islands/ Hong Kong 15 November 2004	Share – US$1 (2007: US$1)	100%	Investment holding
天能動力(香港)有限公司 Tianneng Power (Hong Kong) Ltd.	Hong Kong 29 November 2007	Registered capital – HK$1 (2007: HK$1)	100%	Investment holding
浙江省長興天能電源有限公司 Zhejiang Changxing Tianneng Power Supply Co., Ltd.	PRC – Limited liability company 11 March 1998	Registered capital – RMB120,000,000 (2007: RMB120,000,000)	100%	Manufacture and sales of storage batteries
浙江省長興天能物資回收有限公司 Zhejiang Changxing Tianneng Recycle Co., Ltd.	PRC – Limited liability company 7 May 1999	Registered capital – RMB500,000 (2007: RMB500,000)	100%	Sales of recycled batteries
浙江天能電池有限公司 Zhejiang Tianneng Battery Co., Ltd.	PRC – Limited liability company 13 March 2003	Registered capital – RMB380,000,000 (2007: RMB380,000,000)	100%	Investment holding, research and development, manufacture and sales of storage batteries and battery related accessories

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

32. PARTICULARS OF SUBSIDIARIES (Continued)

浙江天能電子電器有限公司 Zhejiang Tianneng Electronic Apparatus Co., Ltd.	PRC – Limited liability company 1 July 2004	Registered capital – RMB136,000,000 (2007: RMB80,000,000)	100%	Manufacture and sales of storage batteries
長興天能汽車運輸有限公司 Changxing Tianneng Vehicle Transport Co., Ltd.	PRC – Limited liability company 30 May 2006	Registered capital – RMB500,000 (2007: RMB500,000)	100%	Provision of transportation service
天能電池(蕪湖)有限公司 Tianneng Battery (Wuhu) Co., Ltd.	PRC – Limited liability company 21 October 2006	Registered capital – RMB160,000,000 (2007: RMB160,000,000)	100%	Manufacture and sales of storage batteries
浙江天能電池(江蘇)有限公司 Zhejiang Tianneng Battery (Jiangsu) Co., Ltd.	PRC – Limited liability company 9 May 2006	Registered capital – RMB200,000,000 (2007: RMB125,000,000)	100%	Manufacture and sales of storage batteries
浙江天能電池(江蘇)新能源有限公司 Zhejiang Tianneng Battery (Jiangsu) New Energy Co., Ltd.	PRC – Limited liability company 7 January 2008	Registered capital – RMB120,000,000 (2007: n/a)	100%	Manufacture and sales of storage batteries

Note: Directly held by the Company

None of the subsidiaries had issued any debt securities at the end of the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

33. BALANCE SHEET INFORMATION OF THE COMPANY

Balance sheet information of the Company at the balance sheet date includes:

	2008 **RMB'000**	2007 RMB'000
ASSETS		
Property, plant and equipment	**277**	377
Trade and other receivables	**696**	527
Amounts due from group companies	**656,976**	415,955
Bank balances and cash	**2,580**	54,639
	660,529	471,498
LIABILITIES		
Trade and other payables	**1,802**	894
Amounts due to group companies	**3,335**	410
	5,137	1,304
NET ASSETS	**655,392**	470,194
CAPITAL AND RESERVES		
Share capital	**99,037**	99,037
Reserves	**556,355**	371,157
Total equity	**655,392**	470,194

Under the Company Law (Revised) Chapter 25 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. At the balance sheet date, the Company's reserve available for distribution amounted to RMB551,050,000 (2007: RMB365,852,000).

Financial Summary

	Year ended 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Turnover	370,964	521,691	1,019,559	1,953,995	**2,585,301**
Profit before taxation	72,695	72,374	153,518	241,428	**278,598**
Taxation	17,342	2,276	5,857	38,539	**44,390**
Profit for the year	55,353	70,098	147,661	202,889	**234,208**
Attributable to:					
– equity holders of the Company	49,934	68,683	147,661	202,889	**234,208**
– minority interests	5,419	1,415	–	–	**–**
	55,353	70,098	147,661	202,889	**234,208**

	As at 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	491,916	663,522	964,412	1,668,024	**1,668,194**
Total liabilities	383,245	483,004	517,661	605,511	**431,912**
Net assets	108,671	180,518	446,751	1,062,513	**1,236,282**

The results and summary of assets and liabilities for each of the three years ended 31 December 2006 were extracted from the Company's prospectus dated 29 May 2007. The results and summary of assets and liabilities for the year ended 31 December 2004 have been prepared on a combined basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on The Stock Exchange of Hong Kong Limited, had been in existence throughout this year.