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
2009

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

Ms. Hui Wai Man Shirley

INVESTOR RELATIONS

Mr. Wang Zhikun

AUDITOR

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

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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

HSBC Trustee (Cayman) Limited
P.O. Box 484, HSBC House
68 West Bay Road
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

PUBLIC RELATIONS

Strategic Financial Relations (China) Limited
Unit A, 29/F, Admiralty Centre 1
18 Harcourt Road
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 2009, the Company is the largest listed lead-acid motive battery producer for the electric vehicle 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 vehicle lead-acid motive battery manufacturing company in China to obtain the listing status in Hong Kong.

As at 31 December 2009, the Group owns eight production plants, five 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 electric bike lead-acid motive battery products was approximately 41 million units in total.

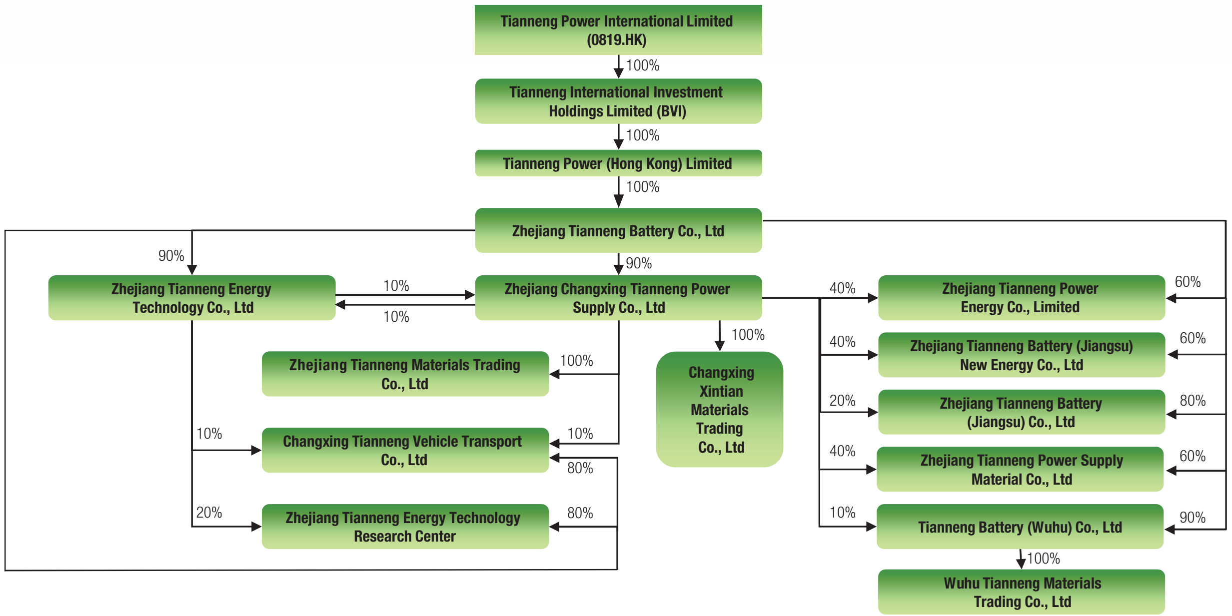
Despite the fluctuation from global financial turmoil surfaced in the second half of the year 2008, the Company still achieved growth in its profits and increased its competitiveness during the year of 2009. The success of the Company was attributable to the following competitive advantages: (1) strong brand recognition and market leadership; (2) unique technology know-how to produce high-quality motive battery products and effective cost controls; (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 development of 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, nickel hydride and lithium, motive battery for electric car and high capacity storage battery for wind and solar power generation system.

Note: Electric vehicles include Electric bike, Electric motor and 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)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (NOTE 1)

	Year ended 31st December				
	2009	2008	2007	2006	2005
Turnover	**2,254,947**	2,585,301	1,953,995	1,019,559	521,691
Profit before taxation	**319,674**	278,598	241,428	153,518	72,374
Taxation	**48,979**	44,390	(38,539)	(5,857)	(2,276)
Profit after taxation	**270,695**	234,208	202,889	147,661	70,098
Attributable to:					
– Equity holders of the Company	**270,695**	234,208	202,889	147,661	68,683
– Minority interests	**–**	–	–	–	1,415
Earnings per share (RMB/share)					
– Basic	**0.27**	0.23	0.23	0.22	0.11
– Diluted	**0.26**	–	–	0.20	–

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (NOTE 2)

	As at 31st December				
	2009	2008	2007	2006	2005
Total assets	**2,258,414**	1,668,194	1,668,024	964,412	663,522
Total liabilities	**575,892**	431,912	605,511	517,661	483,004
Net assets	**1,682,522**	1,236,282	1,062,513	446,751	180,518
Equity holders of the Company	**1,682,522**	1,236,282	1,062,513	446,751	180,518
Minority Interests	**–**	–	–	–	–

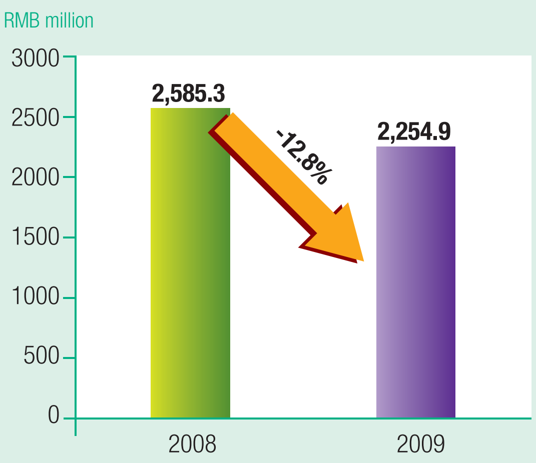
Notes:

1. The results for the years ended 2005 and 2006 are derived from the prospectus of the Company dated 29 May 2007. The results for the years ended 31 December 2007 and 2008 are set out on page 45 of the Company's annual report for the year ended 31 December 2008 ("2008 Annual Report"). The results for the year ended 31 December 2008 and 2009 are set out on page 47 to this annual report. All such information is extracted from the financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRSs").

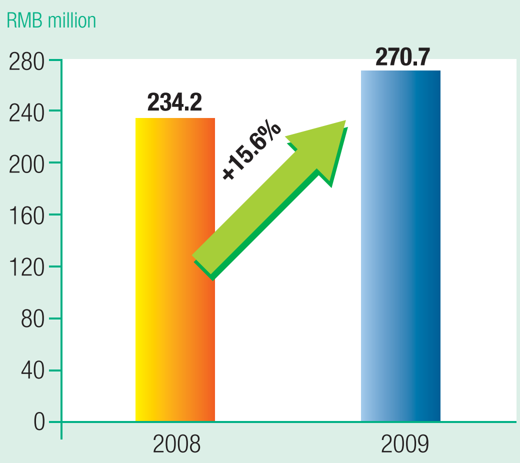
2. The consolidated statement of financial position as at 2005 and 2006 are derived from the prospectus of the Company dated 29 May 2007. The consolidated statement of financial position as at 31 December 2007 and 2008 is set out on page 46 of the 2008 Annual Report. The consolidated statement of financial position as at 31 December 2008 and 2009 are set out on page 48 to this annual report. All such information is extracted from the financial statements prepared under HKFRSs.

Financial Highlights

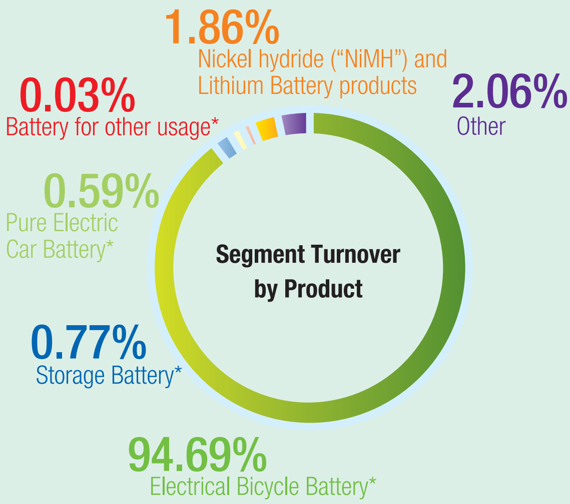
Sales Turnover



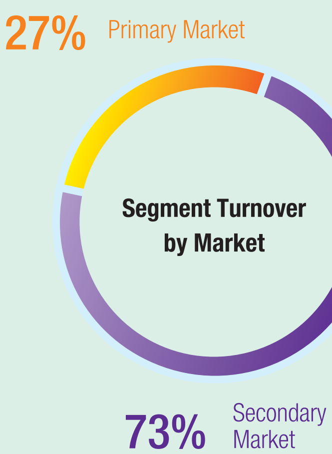
Net Profit



Segment Turnover



Lead-acid battery products* segments



Chairman's Statement

Dear Shareholders,

It is my pleasure to present the annual report of the Company for the year ended 31 December 2009.

PROFIT AND DIVIDEND FOR THE YEAR

During the period under review, the Group's consolidated turnover was approximately RMB2,254.95 million (2008: approximately RMB2,585.30 million), representing an decrease of approximately 12.8% as compared to the previous year. The Group's profit attributable to equity holders of the Company was approximately RMB270.70 million (2008: approximately RMB234.21 million), representing an increase of 15.6% as compared to the previous year. The Group's basic earning per share amounted to RMB0.27 (2008: RMB0.23). The Company proposed to declare a cash dividend of HK8.8 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 market in China, Tianneng Power is devoted to 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 electric bike units in the market, the demand for motive battery products from newly purchased electric bike and the demand for replacement of batteries remained strong. The Company captured these demands by increasing its production capacity and expanding its distribution network. The Company also faced a wide fluctuation in the weighted average lead purchase price (net of value added tax), ranged from approximately RMB9,000 per metric ton to approximately RMB14,000 per metric ton, which exerted pressure on the Company's inventory management and pricing policy. Through strengthening our supply chain management and establishing battery recycling programme, the Company managed to effectively alleviate the impact of lead cost fluctuation. For the year ended 31 December 2009, the Company still managed to increase the profit attributable to equity holders of the Company by 15.6%.

CONSTRUCTION AND EXPANSION

The Company actively develops its storage battery business in new energy. The production plant for storage battery relating to solar and wind energy commenced production in mid-2009. As the Chinese government further promotes the development of electric car, the market demand for the battery of pure electric cars grows substantially. The motive batteries sold and distributed by the Company during 2009 were available for more than 1,500 pure electric cars. As regards to the distribution network, the Company increased the number of distributors from 508 for the year ended 31 December 2008 to 620 for the year ended 31 December 2009, covering most of the provinces 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 new energy 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 and Tianneng Energy Research Centre（天能能源科技研究院）was further established in June 2009, 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 and 2009, the company's subsidiaries Zhejiang Tianneng Battery Co., Ltd., Zhejiang Tianneng Energy Technology Co., Ltd and Zhejiang Tianneng Battery (Jiangsu) Co., Ltd. were also approved as High Technology Enterprise.

Chairman's Statement

ENVIRONMENTAL PROTECTION

As a listed 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. A series of 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 sufficient cash flow during the year under review. The cash and cash equivalents as of 31 December 2009 was approximately RMB360.34 million (2008: approximately RMB530.41 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 5.3% (2008: approximately 11.5%). 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.

PLACING, SPLITTING AND SUBSCRIPTION

During the year, for improving the capital structure of the Group, the Company placed its shares, which has been completed on 12 October 2009. Pursuant to the placing agreement dated 8 October 2009, the Company placed 110,800,000 of its existing shares to not fewer than six placees who are independent of and not connected with the Company or any of its connected persons of the Company. Furthermore, pursuant to the subscription agreement related to the subscription, the Company has allotted and issued 80,000,000 new shares to Prime Leader Global Limited ("Prime Leader") at HK$3.5 per new share. The subscription was completed on 16 October 2009. The gross proceeds from the subscription are approximately HK$280 million and the net proceeds to the Company from the subscription are approximately HK$272 million. The Directors intended to utilize the proceeds from the subscription as investment into lead recycling plant, technology upgrade at production facilities and general working capital of the Company.

As at 31 December 2009, approximately HK$96.81 million proceeds from the subscription have been utilized, of which (i) investment into lead recycling plant was approximately HK$41.75 million, (ii) technology update at production facilities was approximately HK$42.57 million and (iii) working capital was approximately HK$12.49 million respectively.

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 31 December 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.

Chairman's Statement

INVESTOR RELATIONS

To enhance the communication with investors, the Company has appointed Strategic Financial Relations (China) Limited ("**SPRG**") as our adviser in Hong Kong in relation to the investors and media relation. SPRG is the largest public relations agency in Hong Kong and was awarded "Hong Kong Consultancy of the Year" – Asia Consultancy Report Card 2009 by the Holmes Report.

In addition to arranging site visits and attending luncheons and conferences, the management of the Company took an initiative to meet the investor 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 investor is extremely important and the goal of the Company is to create sustainable growth to the Shareholders' value in the long term.

FINAL DIVIDEND

The board of directors of the Company (the "**Board**") proposed the distribution of a final dividend of HK8.8 cents per Share for the year ended 31 December 2009 to the Shareholders. The distribution of final dividend shall be subject to Shareholders' approval at the annual general meeting to be held on 8 May 2010.

OUTLOOK

Despite the fluctuation of global financial market, the demand for electric bike motive 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 strengthen its supply chain integration by accelerating the development of 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 and the Company has commenced its production of new energy storage battery products relating to wind and solar power generation system in mid-2009 to seize the market opportunity. The company will also speed up the development of motive battery of lead-acid, nickel hydride and lithinum for pure electric car. Furthermore, the Company will seek expansion outside China whenever there is a suitable opportunity.

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, 20 March 2010

Management Discussion and Analysis

The Company is principally engaged in the production and sale of motive batteries. Its motive battery products are sold under its own brand name "TIANNENG" and are predominantly used in the electric bikes, electric motors and electric cars sold and distributed in the People's Republic of China ("**PRC**" or "**China**"). The Company also manufactures storage battery for new energy, mainly for wind and solar power generation system. The Company's products are focusing on lead-acid motive battery for the electric vehicle market in China. Currently, Tianneng Power is the largest listed lead-acid motive battery producer for the electric vehicle 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" and "2009 Chinese New Energy Motive Battery Brand Leadership of the Year" in the electric bike battery market by Frost & Sullivan. And, in June 2009, the brand TIANNENG was elected as "500 Most Valuable Brand in China" and "2008 500 Top Brand in Asia", and awarded "The Most Reliable Battery Brand for Electric Vehicles" and "Outstanding Contribution to the Promotion of Electric Vehicles Industry in China" by the electric vehicle channel of the website of CCTV on 31 January 2010. The Company is the only battery manufacturer among the winners of the latter.

Being the largest electric vehicle motive battery supplier in the PRC, the Company is maintaining its leading position in the industry by focusing on research and development, expanding secondary or replacement market and emphasizing on efficiency and effectiveness of operations.

The Company's Post-doctoral Scientific Research workstation is at national level. The focus of research is on storage battery products relating to the wind and solar power; lead-acid motive battery for pure electric cars, nickel hydride battery products and lithium battery products. As at 31 December 2009, the Company's research team consisted of 376 staff and the research and development costs are increased by approximately 101.2% as compared with the same period last year. In order to speed up the development of lead-acid battery, nickel hydride and lithium products for pure electric cars, the Company entered into various technical cooperation arrangements with certain car manufacturers such as Chery and SAIC Group.

During the year ended 31 December 2009 ("the period under review"), the weighted average lead purchase price net of value added tax was approximately RMB11,841 per metric ton (2008: approximately RMB14,264 per metric ton), representing a decrease of approximately 17.0% as compared with the same period last year. On the other hand, the weighted average lead-acid battery selling price net of value added tax was approximately RMB87.1 (2008: approximately RMB104.7), representing a decrease of approximately 16.8% as compared with the same period last year. The gross profit margin of the Company increased by approximately 6 percentage points from approximately 22.5% to approximately 28.5%, mainly due to the decline in lead price, as well as measures taken such as technical improvement, energy saving and management enhancement.

Management Discussion and Analysis

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. At 31 December 2009, the Company had 620 exclusive distributors in total, representing an increase by 112 distributors from 508 distributors as at 31 December 2008. The Company's sales and distribution network covers most of the province of China and provides quality after sales services to ultimate customers. For the period under review, the sales revenue generated from secondary market accounted for approximately 73% of lead-acid battery turnover, against approximately 66% as compared with the same period last year. The financial storm occurred last year did impact certain electric bike manufacturers in China. In turn, it affected the Company's sales in primary market to a certain extent.

The Company has completed the construction of the renewable energy plant in Shuyang County of Jiangsu Province which is used to produce storage battery products (including the products used by solar and wind battery supply plant and public lighting system) using lead-acid battery production technology. Such plant began its trial production in June 2009 and the full-scale production is expected to commence in 2012.

FUTURE PROSPECTS

In order to exploit the advantages of matching the national policy of energy saving, the Company will allocate more resources on storage battery products and lead-acid, nickel hydride and lithium battery products relating to pure electric cars. Foreseeing the great demand for energy saving products, the Company is confident that these products can become its future revenue driver.

The Company also undertook the investment in the renewable energy and battery recycling business in Changxing Economic Development Zone. The investment project is expected to produce 6,000,000 KVAH motive batteries and recycle 150,000 metric tons of used lead-acid batteries by 2014 and 2012 respectively. Further details about the investment can be referred to the announcement of the Company dated 6 June 2009.

Management Discussion and Analysis

OPERATING RESULTS

Turnover

The Company's turnover decreased from approximately RMB2,585.30 million for the year ended 31 December 2008 to approximately RMB2,254.95 million for the year ended 31 December 2009, representing a decrease of approximately 12.8% as compared to the previous year, which was mainly due to the decrease in selling price arising from the financial crisis in the second half of 2008. Despite the overall drop in turnover, as the successful development of storage battery of new energy and battery product for pure electric cars, the turnover from storage battery and battery for pure electric cars increased by RMB29.82 million as compared to previous year. The Company expects that the demand for such products will keep rising.

Gross profit

The Company's gross profit increased by approximately 10.5% from approximately RMB581.10 million for the year ended 31 December 2008 to approximately RMB641.85 million for the year ended 31 December 2009. Gross profit margin rose by approximately 6 percentage points from approximately 22.5% for the year ended 31 December 2008 to approximately 28.5% for the year ended 31 December 2009. Such increase was mainly due to the decrease in lead price.

Other income

Other income of the Company increased by approximately 110.5% from approximately RMB29.57 million for the year ended 31 December 2008 to approximately RMB62.24 million for the year ended 31 December 2009. The increase was attributable to the increase in government grant and subsidies refund of electricity charges, VAT refund and bank interest income.

Selling and distribution costs

Selling and distribution costs increased by approximately 19.9% from approximately RMB164.33 million for the year ended 31 December 2008 to approximately RMB197.10 million for the year ended 31 December 2009. Such increase was mainly due to the increase in product warranty expenses.

Administrative expenses

Administrative expenses increased by approximately 11.0% from approximately RMB86.10 million for the year ended 31 December 2008 to approximately RMB95.56 million for the year ended 31 December 2009. Such increase was mainly due to the increase in payroll expenses and payroll-related expenses.

Finance costs

Finance costs sharply decreased by approximately 51.5% from approximately RMB27.51 million for the year ended 31 December 2008 to approximately RMB13.34 million for the year ended 31 December 2009. Such decrease was mainly due to the decrease in bank interest rate and borrowing amount.

Taxation

The Enterprise Income Tax ("EIT") of the Company amounted to approximately RMB48.98 million for the year ended 31 December 2009, representing an increase of approximately 10.3% from approximately RMB44.39 million for the year ended 31 December 2008. 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 RMB18.96 million for the year ended 31 December 2009 which was mainly due to the increase in inventories, bills, trade and other receivables and trade and other payables.

As at 31 December 2009, the bank balances and cash (including the restricted bank deposits) of the Company was approximately RMB455.18 million (31 December 2008: approximately RMB530.41 million). As at 31 December 2009, the Company obtained undrawn banks facilities of approximately RMB1,705.00 million (31 December 2008: approximately RMB1,275.50 million). Most of the bank balances and cash (including the restricted bank deposits) are denominated in Renminbi.

As at 31 December 2009, the net current assets of the Company was approximately RMB858.74 million (31 December 2008: approximately RMB602.96 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 2009, the bank borrowings of the Company amounted to approximately RMB120.00 million with an interest rates between 4.37% to 5.31% per annum (At 31 December 2008: approximately RMB191.58 million with an interest rate between 4.86% to 7.56% 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.

During the year, for improving the capital structure of the Group, the Company placed its shares, which has been completed on 12 October 2009. Pursuant to the placing agreement dated 8 October 2009, the Company placed 110,800,000 existing shares to not fewer than six placees who are independent of and not connected with the Company or any of its connected persons of the Company. Furthermore, pursuant to the subscription agreement related to the subscription, the Company has allotted and issued 80,000,000 new shares to Prime Leader at HK$3.5 per new share. The subscription was completed on 16 October 2009. The gross proceeds from the subscription are approximately HK$280 million and the net proceeds to the Company from the subscription are approximately HK$272 million. The Directors intended to utilize the proceeds from the subscription as general working capital of the Company, technology upgrade at production facilities and investment into lead recycling plant.

The objective of the Company's financial policy is to maintain an optimal capital structure to minimize the capital cost through prudent financial management.

FINANCIAL POSITION

Assets

As at 31 December 2009, the total assets of the Company was approximately RMB2,258.41 million, representing an increase of 35.4% as compared to approximately RMB1,668.19 million as at 31 December 2008. Among them, non-current assets increased by approximately 26.1% to approximately RMB823.78 million and current assets increased by approximately 41.4% to approximately RMB1,434.63 million. The major reason for the increase of non-current assets was due to continuous capital expenditure on production plants. The increase in current assets was mainly attributable to the increase in inventories and receivables.

Management Discussion and Analysis

Liabilities

As at 31 December 2009, the total liabilities of the Company was approximately RMB575.89 million, representing an increase of approximately 33.3% from approximately RMB431.91 million as at 31 December 2008. The increase was mainly due to the increase in trade and other payables.

Major financial position ratio

	2009	2008
Current ratio	**2.5**	2.5
Quick ratio	**1.5**	1.6
Interest cover	**25.0**	11.1

Both current ratio and quick ratio remained stable when compared to the beginning of the year, indicating a healthy position of liquidity. The interest cover ratio improved to 25, representing an improvement in repayment capacity.

CAPITAL EXPENDITURE

The capital expenditure as at 31 December 2009 was approximately RMB174.80 million (At 31 December 2008: approximately RMB228.10 million). A majority of expenditure was incurred on renewable energy plant in Shuyang, Jiangsu Province in China, which began production in mid-2009 and full-scale production is expected to commence in 2012.

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 2009 was approximately RMB84.79 million (At 31 December 2008: approximately RMB72.41 million).

GEARING RATIO

The Company's gearing ratio as at 31 December 2009 (which is based on the amount of total bank borrowings divided by total assets multiplied by 100%) was approximately 5.3% (At 31 December 2008: approximately 11.5%).

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 placing in October 2009 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.

Management Discussion and Analysis

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2009 (At 31 December 2008: nil).

PLEDGE OF ASSETS

As at 31 December 2009, 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 RMB106.50 million (At 31 December 2008: RMB148.07 million).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2009, the Company employed a total of 7,877 employees (31 December 2008: 5,432 employees). Staff costs excluding directors' emoluments of the Group for the year of 2009 amounted to RMB183.36 million (2008: RMB148.03 million). The costs 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 2009 (31 December 2008: nil).

MATERIAL ACQUISITION AND DISPOSAL

For the year ended 31 December 2009, the Company had no material acquisition or disposal of subsidiaries and affiliated companies.

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

Save as disclosed in this report, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the year.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 1 May 2010 to 8 May 2010, 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 2010.

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

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**"). For the year ended 31 December 2009, except for the code provision A.2.1 the Company has complied with the provisions set out in the Code. 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 31 to 34 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 2009. 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	3
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	2
Dr. Cheng Cheng Wen	4	3
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 Remuneration 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 2009. 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 2009. There has not been any proposed change to the composition of the Board during the year ended 31 December 2009. 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 2009.

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 2009. All individual members, namely, Dr. Cheng Cheng Wen attended one meeting and Mr. Huang Dongliang and Mr. Wang Jingzhong attended two meetings.

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 2009. 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 2009, 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 auditor for the year ending 31 December 2010.

COMPLIANCE ADVISER

To better perform the responsibility set out in Listing Rule, the Company engaged Kingsway Capital Limited as its compliance adviser. The term of service effective from 1 April 2009 to the issue date of this annual report.

Corporate Governance Report

INDEPENDENT EXTERNAL AUDITOR

The Audit Committee reviews each year a letter from the independent external auditor 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 2009. Deloitte also reviewed the 2009 unaudited interim financial report of the Company, prepared under HKFRSs.

During the year ended 31 December 2009, the fee paid and payable to Deloitte in respect of audit and audited related services amounted to approximately RMB1.45 million. In respect of non-audit services, the fees paid and payable to Deloitte relating to review on interim financial report amounted to approximately HK$0.6 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 professional management consultancy firm, Baker Tilly Hong Kong Business Services Limited ("Baker Tilly"), to assess and evaluate the risk and effectiveness of its system of internal controls up to 31 December 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 system improvement 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 its staff are equipped with suitable 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 auditor with respect to financial reporting are set out in the Independent Auditor's Report on pages 45 and 46.

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 the environmental performance and compliance status of all existing operation.

According to the report issued by MWH dated 25 February 2009 and 15 March 2010 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 2009 are disclosed in Note 30 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 29 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 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%, Ms. YANG Yaqin as to 20% and Mr. CHEUNG Xincheng as to 60%. 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 the 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 are 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 RMB123,000,000 (2008: RMB108,000,000) (for the purchase of electrode plates) and RMB40,000,000 (2008: RMB35,000,000) (for the sale of lead alloy) for the year ended 31 December 2009.

Actual transaction value during the year

The total transactions amounts under the agreement with Nanjiang Shuang Neng during the year ended 31 December 2009 are RMB56,753,000 (2008: RMB58,740,000) (for the purchase of electrode plates) and RMB nil (2008: RMB nil) (for the sale of lead alloy).

New Agreement

Since the agreement dated 25 April 2007 expired on 31 December 2009, the Company has entered into a new agreement with Nanjing Shuang Neng on 2 December 2009 pursuant to which we will sell from time to time lead alloy to, and purchase electrode plates from Nanjing Shuang Neng for the term from 1 January 2010 to 31 December 2012. Further details of the new agreement can be referred to the announcement and circular of the Company dated 2 December 2009 and 11 December 2009 respectively.

Connected Transactions

2. *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.

All of the Procurement Agreements currently in force are for a term of approximately three years ended 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 2009, there were a total 30 (2008: 54) Sales Representatives, out of which 14 (2008: 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 RMB 20,000,000 (2008: RMB16,000,000) for the year ended 31 December 2009.

Actual transaction value during the year

The total commissions amount under the Procurement Agreements during the year ended 31 December 2009 is RMB4,820,000 (2008: RMB7,992,000).

New Agreement

Since the old procurement agreement in April 2007 expired on 31 December 2009, the Company has entered into new procurement agreement with the Connected Sales Representatives on 2 December 2009. Further details of the new agreement can be referred to the announcement and circular of the Company dated 2 December 2009 and 11 December 2009 respectively.

Connected Transactions

3. *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

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.

Connected Transactions

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 2009, there were a total 620 (2008: 508) Exclusive Distributors, out of which 13 (2008: 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 ex-factory 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 RMB72,000,000 (2008: RMB38,000,000) for the year ended 31 December 2009.

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 2009 is RMB28,854,000 (2008: RMB40,824,000).

New Agreement

Since the old procurement agreement in April 2007 expired on 31 December 2009, the Company has entered into new agreement with the Connected Exclusive Distributors on 2 December 2009. Further details of the new agreement can be referred to the announcement and circular of the Company dated 2 December 2009 and 11 December 2009 respectively.

Awards

2009 AWARD FOR OUTSTANDING CONTRIBUTION TO DEVELOPMENT OF THE ELECTRIC VEHICLES SECTOR IN CHINA

On 31 January 2010, the Company was granted the "Award for Outstanding Contribution to Development of the Electric Vehicles Sector" by the Electric Vehicles Channel on CCTV.com

2009 MOST TRUSTED BRAND OF ELECTRIC VEHICLE BATTERIES BY CONSUMERS

On 31 January 2010, the Company was granted "2009 Most Trusted Brand of Electric Vehicle Batteries by Consumers" by the Electric Vehicles Channel on CCTV.com

2009 CHINESE BEST BRAND OF MOTIVE BATTERY

In December 2009, the Company was granted "2009 Chinese Best Brand of Motive Battery" by Frost and Sullivan.

2009 TOP 500 ENTERPRISES IN THE MANUFACTURING INDUSTRY IN CHINA

In September 2009, the Company was granted "Top 500 Enterprises in the Manufacturing Industry in China, 2009" by China Enterprise Confederation and China Entrepreneurs Association

100 MOST INFLUENTIAL ENTERPRISES IN GLOBAL ENVIRONMENTAL PROTECTION AND NEW ENERGY INDUSTRY OF CHINA

In September 2009, the Company was granted "100 Most Influential Enterprises in Global Environmental Protection and New Energy Industry of China" by International Energy Conservation Environmental Protection Association and Chinese Society for Environmental Sciences

500 MOST VALUABLE BRANDS IN CHINA

In June 2009, the Company was granted "500 Most Valuable Brands in China, 2009" by World Brand Lab and World Executives Group

2009 TOP 100 ENTERPRISES IN ZHEJIANG PROVINCE

In June 2009, the Company was granted "2009 Top 100 Enterprises in Zhejiang Province" by Zhejiang Federation of Enterprises and Zhejiang Entrepreneurs Association

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.

2008 TOP 500 ASIA BRANDS

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

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

Dr. ZHANG Tianren (張天任), aged 47, is the chairman of our Board, president and founder of our Group. Mr. ZHANG is responsible for our overall management and formulation of our business strategies. Mr. ZHANG has had 23 years of experience in technological research and development and management of rechargeable 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 energy and battery and other related industries in China. Mr. ZHANG is currently a vice council chairman of the China Energy Association vice council chairman of China Battery Industry Association, vice council chairman of China Electrical Equipment Industrial Association, vice council chairman of Chinese Cycling Association, vice chairman of Shanghai New Energy Industry Association the chairman of the Rechargeable Battery Industry Association in Zhejiang Province the chairman of Zhejiang Merchants Association and a guest professor of Zhejiang Sci-tech University. Mr. ZHANG has also been named in 2001 as one of the township entrepreneurs in China (全國鄉鎮企業家) and has been named in 2009 as one of the World Outstanding Chinese at 11th World Outstanding Chinese Award, 1st New Technological Merchants in Zhejiang, 2009 Outstanding Zhejiang Merchants, Top Ten Influential Persons of the PRC Electric Appliance Industry 2009. Mr. ZHANG is the younger brother of Mr. ZHANG Aogen.

Mr. ZHANG Aogen (張敖根), aged 52, is our executive Director and vice-president and is responsible for our customer relationship management and the formulation of sales strategies. 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 attended the seminar of business management for senior president in Zhejiang University from September 2007 to December 2008. Mr. ZHANG is a senior economist and has had 23 years of management experience in sales of rechargeable battery products. Mr. ZHANG is also an elder brother of Mr. ZHANG Tianren, chairman of our Board.

Mr. CHEN Minru (陳敏如), aged 50, is our executive Director and Standing vice president and is responsible for our capital market, financial market and corporate management. Mr. CHEN joined us as a deputy general manager of Tianneng Battery in February 2003. Mr. CHEN graduated from Central Party School of The Communist Party of China (中共中央黨校) in economics management. He also attended the senior seminar of modern management (CFO) in Zhejiang University of Finance & Economics from April 2006 to May 2007, the seminar of business management for senior president in Zhejiang University from August 2007 to September 2008 and the senior seminar of investment and finance in Shanghai University of Finance and Economics from March 2009 to March 2010. Mr. CHEN is an qualified accountant and a senior economist and has 31 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. SHI Borong (史伯榮), aged 56, is our executive Director and vice-president and is responsible for our production management, quality management and production technology. 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. and appointed as the deputy general manager of Tianneng Battery. Mr. SHI attended the seminar of business management for senior president in Zhejiang University from August 2007 to September 2008. Mr. SHI is a senior economist and has had 20 years of management experience in rechargeable battery enterprises.

Profiles of Directors and Senior Management

Mr. ZHANG Kaihong (張開紅), aged 52, is our executive Director and is responsible for the management of our operations in Anhui Wuhu. 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. ZHANG attended the seminar of business management for senior president in Zhejiang University from August 2007 to September 2008. Mr. ZHANG is a senior engineer with 23 years' experience in research and development, quality control and management of rechargeable battery enterprises.

Mr. YANG Lianming (楊連明), aged 47, is our executive Director and assists in the production of Tianneng Battery and Tianneng Power Supply. Mr. YANG joined Zhejiang Changxing Storage Battery Factory as an assistant 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. Mr. YANG attended the seminar of business management for senior president in Zhejiang University from September 2007 to December 2008. Mr. YANG is a senior economist and had 16 years of management experience in rechargeable battery enterprises.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HO Tso Hsiu (何祚庥), aged 82, 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 65, 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 54, 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. WANG Jingzhong (王敬忠), aged 53, 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 45, is the vice-president. Mr. ZHAO is responsible for human resources and assists in market development and marketing planning. Mr. ZHAO joined us in 2004 as an assistant to our general manager. Mr. ZHAO was appointed the manager of human resources in 2005, a director of Tianneng Battery in 2006 and deputy general manager of Tianneng Battery. Mr. ZHAO graduated from Central Party School of The Communist Party of China (中共中央黨校) in economics management. Latter, he attended the seminar of business management for senior president in Zhejiang University from August 2007 to September 2008 and enrolled on the MBA programme in China University of Geosciences in 2009. Mr. ZHAO is a senior engineer and senior economist.. 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 47, is the vice-president. Mr. YANG is responsible for the chairman office and general affairs office. Mr. YANG is a senior economist and has had 29 years' management 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 February 2003, Mr. YANG joined Tianneng Battery as deputy administrative officer and was promoted to administrative officer in the same year. 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. Mr. YANG pursued further studies at the Harbin Institute of Technology and obtained a certificate in "Advanced Battery Production Techniques and Management" in 2006 and attended the seminar of business management for senior president in Zhejiang University from August 2007 to September 2008. Mr. YANG is currently committee member of the China Battery Industry Association a committee member of Chinese Committee for Standardization of Lead-acid Rechargeable Batteries and committee member and the assistant secretary of Zhejiang Province Rechargeable Battery Industry Association.

Mr. SUN Shujin (孫述金), aged 49, vice-president. Mr. SUN is responsible for the president office, information management and infrastructure. Mr. SUN graduated from the Party School of the Communist Party of China in Jiangsu Province in economics and social management and obtained a master degree. Mr. SUN further studied administrative management in Central Party School, CPC from 1999 to 2002, economics and management in Quanzhou University in Korea in 2005 and urban construction and management in National University of Singapore in 2008. Mr. SUN joined the Group in 2009. Prior to joining us, Mr. SUN was the chief of the Bureau of Civil Administration in Shuyang, Jiangsu Province, the deputy head of the people's government in Shuyang County and standing committee member and a secretary of the politics and law committee of CPC Shuyang County Committee.

Mr. REN Anfu (任安福), aged 41, deputy chief engineer and deputy head of research institution. Mr. REN is responsible for the technology innovation, R&D and management of the lead-acid battery and the environmental protection, safety and health work. Mr. REN joined the Group in 2004 and has been the general manager of Engineering Department of Tianneng, assistant to the general manager and deputy general manager of Tianneng Jiangsu Company. He was appointed as the deputy chief engineer in 2008 and principal of research institution of the Group in 2010. Mr. REN graduated from China Measures The Institute in measurement, testing and electric heat. He attended the seminar of business management for senior president in Zhejiang University from August 2007 to September 2008. Prior to joining us, Mr. REN worked in Hubei Camel Storage Battery Company Limited and Xiangfan Haixia Xiongdi Chargeable Battery Company Limited (襄樊海峽兄弟蓄電池有限公司) and was responsible for the technological management and corporate management.

Mr. REN currently is the vice chairman of the professional committee for lead-acid battery of Chinese Electro-technical Society, one of the State Technological Experts in Battery Industry and a graduate student tutor of the School of Chemistry and Environment of South China Normal University.

Profiles of Directors and Senior Management

Mr. ZHOU Jianzhong (周建中), aged 39, assistant to the president. Mr. ZHOU is responsible for the business of new energy. He joined the Group in 1996 and has been the head of market management section and manager of the market development department of Tianneng Battery and assistant to the manager and deputy general manager of the Tianneng Power Supply. He was appointed as assistant to the president in 2010. Mr. ZHOU attended the seminar of business management for senior president in Zhejiang University from September 2007 to December 2008. He is a senior economist with 15 years' experience in the sales and management of rechargeable batteries and corporate management.

Ms. Hui Wai Man, Shirley (許惠敏), aged 42, the company secretary. Ms. Hui is responsible for the secretarial affairs of the Group and the Company. She joined the Group in September 2009. She is a certified public accountant in Hong Kong, an associate member of Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Secretaries and Administrators as well as a fellow of Hong Kong Institute of Chartered Secretaries. Also, she is a member of Society of Chinese Accountants and Auditors and Hong Kong Securities Institute. Ms. XU has over 20 years' professional experience in public accounting and corporate financing.

Mr. WANG Zhikun (王志坤), aged 40, the chief investment officer. Mr. WANG is responsible for the investor relationship, securities affairs and investment management. He joined the Group in 2005 as the director of listing office of Tianneng Battery and was appointed as the general manager of the security department of Tianneng Battery in 2007 and as the chief investment officer in 2009. Mr. WANG graduated from the Zhejiang University of Technology in electrical automation and obtained a Bachelor Degree in 1991 and obtained a MBA from Southern California University for Professional Studies in America in 2003. He attended the seminar of international financing in Fudan University (Shenzhen Party School of CPC) in 1999 and attended the seminar of business management for senior president in Zhejiang University from August 2007 to September 2008. Mr. WANG is a senior economist with 17 years' experience in investment management. Prior to joining us, Mr. WANG worked in Century Securities (Shenzhen) Company Limited and Zhejiang Huaxin Home Textile Company Limited and was responsible for the investment management and corporate management.

Ms. WANG Jing (王靜), aged 46, chief financial officer. Ms. WANG is responsible for the financial management. She joined the Group in 2004 as the manager of financial department of Tianneng Battery and was appointed as chief financial officer in 2009. Ms. WANG graduated from Hangzhou Dianzi University in industrial accounting in July 1988 and attended the senior seminar of modern management (CFO) in Zhejiang University of Finance & Economics from June 2008 to June 2009. Prior to joining us, Ms. WANG worked in Zhejiang Leomax Cement Company Limited (浙江三獅水泥股份有限公司), Huzhou Jinsanfa Group (湖州金三發集團) and Huzhou Tianheng United CPA Limited (湖州天衡聯合會計師事務所) and was responsible for the financial management and audit.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2009.

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 31 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 47.

The Directors recommend the payment of a final dividend of HK8.8 cents per share (equivalent to RMB7.8 cents (per share) amounting to RMB83,740,000.

PROPERTY, PLANT AND EQUIPMENT

During the year, approximately RMB56,416,000 and RMB133,565,000 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 RMB24,616,000.

Details of these and other movements 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.

On 8 October, 2009, the Company entered into a placing agreement with six placees, who are independent of and not connected with the Company or any of its connected persons of the Company, to allot and issue 110,800,000 ordinary shares of HK$0.10 each at a subscription price of HK$3.50 per share in order to improve the capital structure of the Group. The placing was completed on 12 October 2009. On 16 October 2009, following completion of the placing, 80,000,000 ordinary shares of HK$3.50 per share were issued to Prime Leader Global Limited pursuant to the subscription agreement.

Directors' Report

The gross proceeds from the subscription was HK$280.0 million (equivalent to RMB246.7 million) and the net proceeds to the Company from the Subscription was HK$272.0 million (equivalent to RMB239.7 million). The proceeds from the Subscription were used as general investment into lead recycling plant , technology upgrade at production facilities and working capital of the Company as set out in the announcement of the Company dated 8 October 2009.

As at 31 December 2009, approximately HK$96.81 million proceeds from the subscription have been utilized, of which (i) investment into lead recycling plant was approximately HK$41.75 million; (ii) technology update at production facilities was approximately HK$42.57 million and (iii) working capital was approximately HK$12.49 million respectively.

SHARE CAPITAL

Details of the movement during the year in the share capital of the Company are set out in note 25 to the consolidated financial statements.

To enlarge and diversify the equity base of the Company and provide general working capital for the Group's expansion. The Company has entered into a placing agreement and a subscription agreement during the year. Pursuant to the agreements, 110,800,000 existing ordinary shares of HK$0.10 each of the Company were placed to no less than six placees, who are independent of and not connected with the Company or any of its connected persons. On 16 October 2009, following the completion of the placing, 80,000,000 new ordinary shares of HK$0.10 each of the Company were issued to Prime Leader Global Limited at the subscription price of HK$3.50 per share pursuant to the subscription agreement dated 8 October 2009. Further details of the placing and the subscription can be referred to the announcement of the Company dated 8 October 2009. On 7 October 2009, the closing price of the shares of the Company quoted on the Stock Exchange was HK$4.11 per share.

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 end of the reporting date, the Company's reserve available for distribution amounted to approximately RMB711,933,000 (2008: RMB556,354,000).

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 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.

Directors' Report

DIRECTORS

The directors of the Company 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. Zhang Tianren, Mr. Zhang Aogen, Mr. Zhang Kaihong and Mr. Yang Lianming will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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' Report

DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2009, 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 of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies 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)	397,979,650	36.85%
Zhang Aogen	Interest of a controlled corporation (note 2)	19,591,022	1.81%
Chen Minru	Interest of a controlled corporation (note 3)	7,043,152	0.65%
Zhang Kaihong	Interest of a controlled corporation (note 4)	26,534,174	2.46%
Shi Borong	Interest of a controlled corporation (note 5)	24,662,789	2.28%
Yang Lianming	Interest of a controlled corporation (note 6)	6,859,151	0.64%

Share options

Name of director	Capacity	Number of option held	Number of underlying shares
Cheng Cheng Wen	Beneficial owner (note 7)	350,000	350,000
Ho Tso Hsiu	Beneficial owner (note 7)	350,000	350,000
Huang Dongliang	Beneficial owner (note 7)	350,000	350,000
Wang Jingzhong	Beneficial owner (note 7)	350,000	350,000

Directors' Report

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

(a) Long positions (Continued)

Notes:

1. The 397,979,650 shares are held by Prime Leader Global Limited, which is wholly-owned by Mr. Zhang Tianren.
2. The 19,591,022 shares are held by Top Benefits International Limited, which is wholly-owned by Mr. Zhang Aogen.
3. The 7,043,152 shares are held by Profit Best International Limited, which is wholly-owned by Mr. Chen Minru.
4. The 26,534,174 shares are held by Plenty Gold Holdings Limited, which is wholly-owned by Mr. Zhang Kaikong.
5. the 24,662,789 shares are held by Precise Asia Global Limited, which is wholly-owned by Mr. Shi Borong.
6. The 6,859,151 shares are held by Success Zone Limited, which is wholly-owned by Mr. Yang Lianming.
7. The interest are derived from the share option granted under the share options scheme of the Company.

(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 2009.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group are set out in note 29 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed on page 42, at no time during the year was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits 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' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, 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)	397,979,650	36.85%
Prime Leader Global Limited	Beneficial owner	397,979,650	36.85%
Centennial Success Limited	Interest of a controlled corporation (note 2)	64,745,771	5.99%
Cheng Yu Tung Family (Holdings) Limited	Interest of a controlled corporation (note 2)	64,745,771	5.99%
Chow Tai Fook Enterprises Limited	Interest of a controlled corporation (note 2)	64,745,771	5.99%
Liberty New World China Enterprises Investments, LP	Interest of a controlled corporation (note 2)	64,745,771	5.99%
New World China Enterprises Investments Limited	Interest of a controlled corporation (note 2)	64,745,771	5.99%
New World China Industrial Limited	Interest of a controlled corporation (note 2)	64,745,771	5.99%
New World Development Company Limited	Interest of a controlled corporation (note 2)	64,745,771	5.99%
New World Enterprise Holdings Limited	Interest of a controlled corporation (note 2)	64,745,771	5.99%
New World Liberty China Ventures Ltd.	Interest of a controlled corporation (note 2)	64,745,771	5.99%
Power Active Limited	Beneficial owner	64,745,771	5.99%
Deutsche Bank Aktiengesellschaft	Interest of a controlled corporation (note 3)	56,170,914	5.20%

Directors' Report

SUBSTANTIAL SHAREHOLDERS (Continued)

(a) Long positions (Continued)

Notes:

1. The 397,979,650 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.

3. According to the best knowledge of the Directors, Supervisor or chief executive of the Company and the disclosure of interest notices filed by Deutsche Bank Aktiengesellschaft, Deutsche Bank Aktiengesellschaft was interested in 56,170,914 Shares of the Company as at 31 December 2009. Among these 56,170,914 shares, (i) 17,610,000 Shares are directly held by DWS Investment GmbH, (ii) 10,992,000 Shares are directly held by Deutsche Investment Management Americas Inc., (iii) 10,493,000 Shares are directly held by Deutsche Asset Management (Japan) Limited, (iv) 3,466,973 Shares are directly held by Deutsche Asset Management International Gmbh, and (v) 13,608,941 Shares are directly held by DB AG London.

   DWS Investment GmbH is wholly-owned subsidiary of DWS Holding & Service GmbH, which in turn is a wholly-owned subsidiary of Deutsche Bank Aktiengesellschaft.

   Deutsche Investment Management Americas Inc. is wholly-owned subsidiary of Deutsche Bank Americas Holding Corp., which in turn is a wholly-owned subsidiary of Taunus Corporation, which in turn is a wholly-owned subsidiary of Deutsche Bank Aktiengesellschaft.

   Deutsche Asset Management (Japan) Limited is wholly-owned subsidiary of Deutsche Asia Pacific Holdings Pte Ltd., which in turn is a wholly-owned subsidiary of DB Valoren S.a.r.I, which in turn is a wholly-owned subsidiary of Deutsche Bank Aktiengesellschaft.

   Deutsche Asset Management International GmbH is wholly-owned subsidiary of DB Capital Markets (Deutschland) GmbH, which in turn is a wholly-owned subsidiary of Deutsche Bank Aktiengesellschaft.

   DWS Investment GmbH, Deutsche Investment Management Americas Inc., Deutsche Asset Management (Japan) Limited, and Deutsche Asset Management International GmbH were interested as investment manager with aggregate 42,561,973 Shares. Each of these Companies are the wholly owned subsidiaries of Deutsche Bank Aktiengesellschaft.

   DB AG London which is a branch of Deutsche Bank Aktiengesellschaft.

Directors' Report

(b) Other interests and short positions

List of parties having a shareholdings of 5% or more of the issued share capital as at 31 December 2009

Name of Shareholder	Capacity	Number of Shares held	Approximately percentage of issued share capital of the Company
Short position			
Deutsche Bank Aktiengesellschaft	Interest of a controlled corporation (Note)	1,808,200	0.17%

Notes: The 1,808,200 Shares are directly held by DB AG London which is a branch of Deutsche Bank Aktiengesellschaft.

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 2009.

SHARE OPTIONS

The Company's share option scheme (the "**Scheme**") was adopted pursuant to a resolution passed by the shareholders on 26 February 2008 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. Details of the Company's share option scheme are set out in the note 26 to the consolidated financial statements.

On 30 March 2009, a total of 36,340,000 options to subscribe for the ordinary shares of HK$0.1 in the issued share capital of the Company were granted to Directors and eligible employees under the Scheme, 35,310,000 options were accepted.

The following table discloses movements in the Company's share options during the year:

	Date of grant	Exercise price HK$	Number of share options			
			Outstanding at 1.1.2009	Granted during the year	Lapsed during the year	Outstanding at 31.12.2009
Directors						
Mr. Ho Tso Hisu	30.3.2009	1.22	–	350,000	–	350,000
Dr. Cheng Cheng Wen	30.3.2009	1.22	–	350,000	–	350,000
Mr. Huang Dongliang	30.3.2009	1.22	–	350,000	–	350,000
Mr. Wang Jingzhong	30.3.2009	1.22	–	350,000	–	350,000
Employees	30.3.2009	1.22	–	33,910,000	(1,500,000)	32,410,000
Total	30.3.2009	1.22	–	35,310,000	(1,500,000)	33,810,000

The closing price of the Company's shares immediately before 30 March 2009, the date of grant of the 2009 options, was HK$1.22.

Directors' Report

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.

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 of directors 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 of directors, the share option 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 10% of the Group's turnover.

During the year, the largest supplier accounted for 13% of the Group's total purchase and the Group's five largest suppliers accounted for 38% the Group's total purchase.

At no time during the year did a director, an associate of a director or a shareholder of the Company (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.

Directors' Report

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

The Company established an audit committee ("**Audit Committee**") in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive directors, namely, Dr. Cheng Cheng Wen, Mr. Huang Dongliang and Mr. Wang Jingzhong. The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

The Audit Committee has reviewed the interim results of the Group for the six months ended 30 June 2009 and annual results of the Group for the year ended 31 December 2009.

DONATIONS

During the year ended 31 December 2009, the Group made charitable donations of RMB344,350.

SUFFICIENCY OF PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of its directors, at least 25% of the Company's total issued share capital are held by the public throughout the year ended 31 December 2009 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
20 March 2010

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 47 to 91, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2009 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
20 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
Turnover	8	**2,254,947**	2,585,301
Cost of sales		**(1,613,099)**	(2,004,197)
Gross profit		**641,848**	581,104
Other income	9	**62,242**	29,572
Selling and distribution costs		**(197,104)**	(164,326)
Administrative expenses		**(95,560)**	(86,097)
Research and development costs		**(65,310)**	(32,461)
Other operating expenses		**(13,104)**	(21,687)
Finance costs	10	**(13,338)**	(27,507)
Profit before taxation	11	**319,674**	278,598
Taxation	13	**(48,979)**	(44,390)
Profit and total comprehensive income for the year		**270,695**	234,208
Earnings per share	15		
– Basic		**RMB0.27**	RMB0.23
– Diluted		**RMB0.26**	–

Consolidated Statement of Financial Position

At 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	16	**712,656**	593,512
Prepaid lease payments	17	**84,397**	37,203
Deferred tax assets	18	**26,727**	22,611
		823,780	653,326
Current assets			
Inventories	19	**599,087**	338,716
Bills, trade and other receivables	20	**378,557**	144,829
Prepaid lease payments	17	**1,810**	915
Restricted bank deposits	21	**94,843**	–
Bank balances and cash	21	**360,337**	530,408
		1,434,634	1,014,868
Current liabilities			
Trade and other payables	22	**440,220**	233,524
Amount due to a related company	23	**17**	6
Taxation payable		**15,655**	6,802
Bank borrowings	24	**120,000**	171,580
		575,892	411,912
Net current assets		**858,742**	602,956
Total assets less current liabilities		**1,682,522**	1,256,282
Non-current liabilities			
Bank borrowings	24	**–**	20,000
		1,682,522	1,236,282
Capital and reserves			
Share capital	25	**106,085**	99,037
Reserves		**1,576,437**	1,137,245
Total equity		**1,682,522**	1,236,282

The financial statements on pages 47 to 91 were approved and authorised for issue by the board of directors on 20 March 2010 and are signed on its behalf by:

Zhang Tianren
DIRECTOR

Chen Minru
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Paid-in capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Share options reserves RMB'000	Non-distributable reserve RMB'000	Statutory surplus reserve fund RMB'000	Discretionary surplus reserve fund RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2008	99,037	470,017	10,000	57,010	–	12,460	42,044	6,663	365,282	1,062,513
Profit and total comprehensive 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 and 1 January 2009	99,037	470,017	10,000	57,010	–	12,460	79,890	6,663	501,205	1,236,282
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	270,695	270,695
Transfer	–	–	–	–	–	–	29,875	14,945	(44,820)	–
Dividend recognised as distribution (note 14)	–	–	–	–	–	–	–	–	(68,664)	(68,664)
Shares issued	7,048	239,602	–	–	–	–	–	–	–	246,650
Shares issuance expenses	–	(6,969)	–	–	–	–	–	–	–	(6,969)
Recognition of equity-settled share based payments	–	–	–	–	4,528	–	–	–	–	4,528
At 31 December 2009	106,085	702,650	10,000	57,010	4,528	12,460	109,765	21,608	658,416	1,682,522

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 2009

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 Statement of Cash Flows

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
Operating activities		
Profit before taxation	**319,674**	278,598
Adjustments for:		
Interest income	**(10,972)**	(5,090)
Interest expenses	**13,338**	27,507
Depreciation	**50,608**	34,446
Amortisation of prepaid lease payments	**1,400**	832
Loss on disposal of property, plant and equipment	**3,825**	5,361
Allowance for bad and doubtful debts	**4,836**	12,205
(Reversal of allowance) allowance for inventories	**(29,198)**	30,501
Share option expenses	**4,528**	–
Operating cash flows before movements in working capital	**358,039**	384,360
(Increase) decrease in inventories	**(231,173)**	57,773
(Increase) decrease in bills, trade and other receivables	**(238,564)**	186,469
Decrease in amount due from a related company with trade nature	**–**	622
Increase in trade and other payables	**187,928**	19,872
Increase in amount due to a related company with trade nature	**11**	6
Cash generated from operations	**76,241**	649,102
Interest paid	**(13,041)**	(27,916)
PRC Enterprise Income Tax paid	**(44,242)**	(64,977)
Net cash from operating activities	**18,958**	556,209
Investing activities		
Interest received	**10,972**	5,090
Proceeds from disposal of property, plant and equipment	**1,200**	3,321
(Increase) decrease in restricted bank deposits	**(94,843)**	40,000
Purchase of property, plant and equipment	**(169,932)**	(228,084)
Prepaid lease payments paid	**(35,873)**	(2,619)
Net cash used in investing activities	**(288,476)**	(182,292)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 **RMB'000**	2008 RMB'000
Financing activities		
Bank borrowings raised	**448,500**	502,000
Repayments of bank borrowings	**(520,080)**	(686,920)
Dividends paid	**(68,654)**	(60,432)
Net proceeds from issuance of shares	**239,681**	–
Net cash from (used in) financing activities	**99,447**	(245,352)
Net (decrease) increase in cash and cash equivalents	**(170,071)**	128,565
Cash and cash equivalents at the beginning of the year	**530,408**	401,843
Cash and cash equivalents at the end of the year, represented by bank balances and cash	**360,337**	530,408

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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 principal place of business of the Company are disclosed in the "Corporation 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 principal activities of its subsidiaries are set out in note 31.

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 new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC*) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 13	Customer loyalty programmes
HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – INT 18	Transfers of assets from customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

* IFRIC represents the International Financial Reporting Interpretations Committee

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of financial statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating segments

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segment (see note 7).

New and revised HKFRSs affecting the reported results and/or financial position

HKAS 23 (Revised 2007) Borrowing costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset.

The adoption of HKAS 23 (Revised 2007) has had no effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no adjustment is required.

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)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2009 [1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009 [2]
HKAS 24 (Revised)	Related party disclosure [6]
HKAS 27 (Revised)	Consolidated and separate financial statements [1]
HKAS 32 (Amendment)	Classification of right issues [4]
HKAS 39 (Amendment)	Eligible hedged items [1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters [3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters [5]
HKFRS 2 (Amendments)	Group cash-settled share-based payments transactions [3]
HKFRS 3 (Revised)	Business combinations [1]
HKFRS 9	Financial instruments [7]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement [6]
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners [1]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instrument [5]

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

1 Effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.

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.

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 consolidated financial statements.

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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

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 profit or loss in the period in which the item is derecognised.

Prepaid lease payments

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

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Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Operating lease payments are recognised as an expense on a straight-line basis over the terms of the relevant lease. Benefit received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

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 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment loss on tangible assets

At the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any, 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 statement of financial position 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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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 to the net carrying amount on initial recognition.

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. Subsequent to initial recognition, loans and receivables (including bills, trade and other receivables, 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 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. 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 policy of the Group's financial liabilities are set out below.

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 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities

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 has been recognised in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, 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 best estimate of the consideration required to settle the present obligation at the end of the reporting period taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

Notes to the Consolidated Financial Statements

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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 end of the reporting period, 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 to identify any aged inventories. The carrying value of the aged inventory items is then compared to the respective net realisable value in order to ascertain whether allowance is required to be made 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 the net realisable value for finished goods and consumables based primarily on the latest market prices and current market conditions. The net realisable value for finished goods and consumables will be affected if the actual future market prices and market conditions are less than expected. During the year, reversal of allowance for inventories amounted to RMB29,198,000 (2008: allowance for inventories of RMB30,501,000) was recognised (note 11). As at 31 December 2009, the carrying amount of inventories is approximately RMB599,087,000 (2008: RMB338,716,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Trade and other receivables

Trade and other 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 trade and other 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 trade receivables, the responsible sales personnel discuss with the relevant customers and report on the recoverability. For the identification of doubtful other receivables, management closely monitors the settlement status and evaluate 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 receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the receivable'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 2009, the carrying amounts of trade and other receivables are approximately RMB80,964,000 (2008: RMB53,298,000) and RMB15,840,000 (2008: RMB5,900,000) respectively, net of allowance of doubtful debts of RMB37,658,000 (2008: RMB31,035,000) and RMB3,297,000 (2008: RMB5,084,000) respectively.

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, issue of shares and the raise of bank borrowings.

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6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2009 **RMB'000**	2008 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**645,247**	662,059
Financial liabilities		
Amortised costs	**440,255**	329,243

Financial risk management objectives and policies

The Group's major financial instruments include bills, trade and other receivables, restricted bank deposits, bank balances and cash, trade and other payables, amount 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 include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies 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.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

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

	Currency	**Assets** 2009 RMB'000	Assets 2008 RMB'000	**Liabilities** 2009 RMB'000	Liabilities 2008 RMB'000
US dollars	US$	**124**	811	**–**	–
Hong Kong dollars	HK$	**11,204**	4,207	**1,207**	935

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 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) 2009 RMB'000	US$ impact (i) 2008 RMB'000	**HK$ impact (ii)** 2009 RMB'000	HK$ impact (ii) 2008 RMB'000
Profit for the year	**6**	41	**500**	162

(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 2009

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 24) 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 end of the reporting period. For variable-rate bank balances, the analysis is prepared assuming the amount of assets outstanding at the end of the reporting period 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 2009 would increase/decrease by approximately RMB1,461,000/RMB1,015,000 (2008: increase/ decrease by approximately RMB2,113,000/RMB1,506,000). 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 decreased during the current year mainly due to the decrease 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 statement of financial position. 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 the end of the reporting period 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's credit risk on bills and trade receivables is concentrated in the PRC. However, the exposure spread over a large number of counterparties and customers.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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. As at 31 December 2009, the Group has available unutilised banking facilities of approximately RMB1,705,000,000 (2008: RMB1,275,500,000).

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 interest rate	Less than 3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amounts at 31.12.2009
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2009						
Non-derivative financial liabilities						
Non-interest bearing	–	**186,463**	**133,792**	**–**	**320,255**	**320,255**
Fixed rate instruments	4.89%	**1,197**	**120,571**	**–**	**121,768**	**120,000**
		187,660	**254,363**	**–**	**442,023**	**440,255**

	Weighted average interest rate	Less than 3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amounts at 31.12.2008
	%	RMB'000	RMB'000	RMB'000	RMB'000	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

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 end of reporting period.

Notes to the Consolidated Financial Statements

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7. OPERATING SEGMENTS

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS 14 Segment Reporting, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, segment information reported externally was regarded as single business segment and geographical segment. For the purposes of resources allocation and performance assessment, the chief operating decision maker, Executive Director, regularly reviews turnover for major products (see note 8). However, the financial information provided to Executive Director, does not contain profit or loss information of each product line and the Executive Director reviewed the consolidated statement of comprehensive income of the Group as a whole. Therefore, the operation of the Group constitutes one single reportable segment, being the manufacture and sales of storage batteries and battery related accessories. Hence, the application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segment.

Segment revenues and results

The financial information presented to the Executive Director is consistent with the consolidated statement of comprehensive income.

The Executive Director considers the Group's profit for the year as the measurement of segment's results.

Entity-wide disclosures

All non-current assets and sales are located and generated in the PRC. No individual customer accounted for over 10% of the Group's total revenue for the year.

8. TURNOVER

	2009 **RMB'000**	2008 RMB'000
An analysis of turnover is as follows:		
Lead-acid battery products		
Electrical Bicycle Battery	**2,135,196**	2,504,896
Storage Battery	**17,268**	740
Pure Electric Car Battery	**13,295**	–
Battery for other usage	**739**	8,885
Nickel hydride and lithium battery products	**41,888**	42,775
Others	**46,561**	28,005
	2,254,947	2,585,301

Notes to the Consolidated Financial Statements

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9. OTHER INCOME

	2009 RMB'000	2008 RMB'000
Government grants (note)	**49,223**	24,241
Interest income	**10,972**	5,090
Others	**2,047**	241
Total	**62,242**	29,572

Note: The Group received refund of value-added tax and other taxes from the relevant PRC Tax Authority to encourage the operations of certain PRC subsidiaries in new development zones of approximately RMB26,913,000 (2008: RMB21,161,000). There were no unfulfilled conditions attached to these grants and, therefore, the Group recognised the grants upon receipts.

In addition, the Group received subsidies from the relevant PRC Government to encourage certain PRC subsidiaries adopting energy saving measures and received refunds on electricity expenses amounting to approximately RMB14,511,000 (2008: RMB3,080,000). There were no unfulfilled conditions attached to these grants and, therefore, the Group recognised the grants upon receipts.

10. FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Interests on:		
Bank loans wholly repayable within five years	**13,338**	27,507

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

11. PROFIT BEFORE TAXATION

	2009 **RMB'000**	2008 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (note 12)	**992**	800
Other staff retirement benefits scheme contributions	**10,104**	10,307
Other staff costs	**168,732**	137,719
Share based payment expense	**4,528**	–
Total staff costs	**184,356**	148,826
Allowance for bad and doubtful debts (included in other operating expenses)	**4,836**	12,205
(Reversal of allowance) allowance for inventories (included in cost of sales) (note)	**(29,198)**	30,501
Amortisation of prepaid lease payments	**1,400**	832
Auditor's remuneration	**2,400**	2,265
Cost of inventories recognised as expense	**1,463,475**	1,845,968
Depreciation	**50,608**	34,446
Loss on disposal of property, plant and equipment (included in other operating expenses)	**3,825**	5,361
Net foreign exchange losses (included in other operating expenses)	**236**	878

Note: Due to the increase in the market price of lead, a reversal of allowance for inventory of RMB29,198,000 has been recognised for inventories sold in the current year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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 2009										
	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	–	–	–	–	–	–	80	80	80	80	320
Other emoluments											
Salaries and other benefits	71	72	72	72	72	72	–	–	–	–	431
Contributions to retirement benefits scheme	9	8	8	8	8	8	–	–	–	–	49
Share option expense	–	–	–	–	–	–	48	48	48	48	192
Total emoluments	80	80	80	80	80	80	128	128	128	128	992

	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	–	–	–	–	–	–	80	80	80	80	320
Other emoluments											
Salaries and other benefits	72	73	73	73	73	73	–	–	–	–	437
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

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For the year ended 31 December 2009

12. DIRECTORS AND EMPLOYEES' EMOLUMENTS (Continued)

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

	2009	2008
Directors	–	–
Employees	5	5
	5	5

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

	2009 RMB'000	2008 RMB'000
Basic salaries and allowances	1,009	1,254
Retirement benefits scheme contributions	52	63
Share option expense	25	–
	1,086	1,317

Their emoluments are within the following bands:

	Number of employees	
	2009	2008
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

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13. TAXATION

	2009 RMB'000	2008 RMB'000
PRC Enterprise Income Tax ("EIT"):		
Current tax	**56,481**	55,897
(Over)under provision in prior years	**(3,386)**	925
	53,095	56,822
Deferred tax (note 18)		
– current year	**(3,179)**	(12,432)
– attributable to change in tax rate	**(937)**	–
	(4,116)	(12,432)
	48,979	44,390

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

Except as described below, provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at 25% pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Legislation.

Starting from 1 January 2005, Zhejiang Tianneng Battery Co., Ltd. is exempted from PRC Enterprise Income Tax for two years starting from the first profit-making year in which profits exceed any carried forward tax losses followed by a 50% deduction in the income tax rate in the following three years. During the year, the concessionary rate enjoyed by the subsidiary was 12.5% (2008: 12.5%), which will be expired on 1 January 2010. The entity was recognised as High-Tech company and will enjoy the tax rate of 15% starting from 1 January 2010. The deferred tax has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the assets are realised or the liabilities are settled.

Apart from Zhejiang Tianneng Battery Co., Ltd., certain subsidiaries of the Company in PRC were recognised as High-Tech companies and enjoyed a tax rate of 15% (2008: 12.5%) starting from 1 January 2009.

Notes to the Consolidated Financial Statements

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13. TAXATION (Continued)

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

	2009		2008	
	RMB'000	%	RMB'000	%
Profit before taxation	**319,674**		278,598	
Tax at the applicable income tax rate of 25% (2008: 25%) (note)	**79,919**	**25.0**	69,650	25.0
Tax effect of expenses not deductible for tax purposes	**3,308**	**1.0**	8,834	3.2
Tax effect of income not taxable for tax purposes	**(936)**	**(0.3)**	(1,473)	(0.5)
Tax effect of tax losses not recognised	**3,387**	**1.0**	4,548	1.6
Utilisation of tax losses not recognised	**(1,058)**	**(0.3)**	–	–
Income tax on concessionary rate	**(17,351)**	**(5.4)**	(31,380)	(11.3)
Effect of different tax rates of subsidiaries	**(10,059)**	**(3.1)**	(6,150)	(2.2)
Deductible temporary difference not recognised	**–**	**–**	428	0.2
Utilisation of deductible temporary difference not recognised	**(30)**	**–**	–	–
Effect of change in tax rate	**(937)**	**(0.3)**	–	–
(Over)under provision in prior years	**(3,386)**	**(1.1)**	925	0.3
Tax effect of additional deduction related to research and development cost	**(3,837)**	**(1.2)**	–	–
Others	**(41)**	**–**	(992)	(0.4)
Taxation charge and effective tax rate for the year	**48,979**	**15.3**	44,390	15.9

Note: The domestic income tax rate of 25% (2008: 25%) represents the PRC Enterprise Income Tax rate of which the Group's operations are substantially based.

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14. DIVIDENDS

	2009 **RMB'000**	2008 RMB'000
2008 final dividend declared of HK7.8 cents (equivalent to RMB7.0 cents (2007: HK6.8 cents (equivalent to RMB6.1 cents)) per ordinary share	**68,664**	60,432
2009 final dividend proposed of HK8.8 cents (equivalent to RMB7.8 cents (2008: HK7.8 cents (equivalent to RMB7.0 cents)) per ordinary share	**83,740**	68,664

15. EARNINGS PER SHARE

	2009 **RMB'000**	2008 RMB'000
Earnings:		
Earnings for the purposes of calculating basic and diluted earnings per share	**270,695**	234,208
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,016,876,712**	1,000,000,000
Effect of dilutive potential ordinary shares options (note)	**8,367,960**	N/A
Weighted average number of ordinary shares for the purpose of calculating diluted earnings for share	**1,025,244,672**	N/A

Note: No diluted earnings per share for the year ended 2008 is presented as there were no potential ordinary shares outstanding during the period.

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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 2008	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
Additions	5,055	24,616	3,539	2,899	–	138,668	174,777
Transfer	56,416	133,565	–	3,391	–	(193,372)	–
Disposals	(1,947)	(3,944)	(188)	(335)	–	–	(6,414)
At 31 December 2009	293,707	418,551	18,685	16,514	747	101,214	849,418
DEPRECIATION							
At 1 January 2008	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
Provided for the year	13,446	32,642	2,064	2,390	66	–	50,608
Eliminated on disposals	(350)	(802)	(162)	(75)	–	–	(1,389)
At 31 December 2009	43,391	76,659	9,581	6,518	613	–	136,762
CARRYING VALUES							
At 31 December 2009	250,316	341,892	9,104	9,996	134	101,214	712,656
At 31 December 2008	203,888	219,495	7,655	6,356	200	155,918	593,512

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

As at 31 December 2009, included in buildings held for own use are buildings with carrying amount of RMB50,214,000 (2008: RMB63,670,000), of which the official legal titles have not been obtained.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

17. PREPAID LEASE PAYMENTS

	2009 **RMB'000**	2008 RMB'000
Non-current	**84,397**	37,203
Current	**1,810**	915
	86,207	38,118

As at 31 December 2009, included in prepaid lease payments are land use rights of RMB410,000 (2008: RMB419,000), of which the official land use rights titles have not been obtained.

The amount represents prepayment 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	**Accrued expenses** RMB'000	**Total** RMB'000
At 1 January 2008	5,018	3,491	1,670	10,179
Credit to profit or loss	6,573	3,054	2,805	12,432
At 31 December 2008 and 1 January 2009	**11,591**	**6,545**	**4,475**	**22,611**
(Charge) credit to profit or loss	**(2,562)**	**(742)**	**6,483**	**3,179**
Effect of change in tax rate	**332**	**165**	**440**	**937**
At 31 December 2009	**9,361**	**5,968**	**11,398**	**26,727**

At 31 December 2009, the Group has not recognised deductible temporary differences on provision for inventories, trade and other receivables, accrued warranty and other accrued expenses of approximately RMB3,867,000 (2008: RMB3,987,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

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18. DEFERRED TAXATION (Continued)

At 31 December 2009, the Group had unused tax losses of approximately RMB38,460,000 (2008: RMB29,144,000) 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 2014 (2008: 2013).

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB504,905,000 (2008: RMB234,208,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

19. INVENTORIES

	2009 **RMB'000**	2008 RMB'000
Raw materials	**204,581**	103,365
Work-in-progress	**383,033**	207,824
Finished goods	**11,473**	27,527
	599,087	338,716

20. BILLS, TRADE AND OTHER RECEIVABLES

	2009 **RMB'000**	2008 RMB'000
Bills receivables	**96,960**	72,453
Trade receivables	**118,622**	84,333
Less: Allowance for bad and doubtful debts	**(37,658)**	(31,035)
	80,964	53,298
Other receivables	**19,137**	10,984
Less: Allowance for bad and doubtful debts	**(3,297)**	(5,084)
	15,840	5,900
Prepayments	**114,504**	13,178
Value Added Tax receivables	**70,289**	–
	378,557	144,829

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For the year ended 31 December 2009

20. BILLS, TRADE AND OTHER RECEIVABLES (Continued)

The Group allows an average credit period of 180 days (2008: 180 days) for bills receivables. The following is an aged analysis of bills receivables net of allowance for doubtful debts at the end of the reporting period:

Age	**2009 RMB'000**	2008 RMB'000
0 to 180 days	**96,821**	71,869
181 to 365 days	**139**	584
	96,960	72,453

Included in the above bills receivables of approximately RMB139,000 (2008: RMB584,000) are past due at the end of the reporting period for which the Group has not provided for impairment loss since the amount are subsequently recovered after the end of the reporting period.

The Group has a policy of allowing an average credit period of 45 days (2008: 45 days) for trade receivables. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the end of the reporting period:

Age	**2009 RMB'000**	2008 RMB'000
0 to 45 days	**57,947**	30,557
46 to 90 days	**12,747**	8,605
91 to 180 days	**7,216**	7,424
181 to 365 days	**3,054**	6,712
	80,964	53,298

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 RMB2,135,000 (2008: RMB14,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss. After reassessment of the credit quality of these other receivables by the management, no impairment loss on other receivables should be recognised for in both years.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB23,017,000 (2008: RMB22,741,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss.

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20. BILLS, TRADE AND OTHER RECEIVABLES (Continued)

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

Age	2009 RMB'000	2008 RMB'000
46-90 days	12,747	8,605
91-180 days	7,216	7,424
181-365 days	3,054	6,712
	23,017	22,741

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.

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

	2009 RMB'000	2008 RMB'000
1 January	31,035	18,830
Allowance for bad and doubtful debts	6,623	12,205
31 December	37,658	31,035

Notes to the Consolidated Financial Statements

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20. BILLS, TRADE AND OTHER RECEIVABLES (Continued)

Movement in the allowance for doubtful debts – other receivables

	2009 **RMB'000**	2008 RMB'000
1 January	**5,084**	5,084
Reversal of bad and doubtful debts	**(1,787)**	–
31 December	**3,297**	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 discounted RMB320,000,000 (2008: RMB5,580,000) of bills receivables to banks. As part of the transfer, the Group provided the banks with a credit guarantee over the expected loss of those receivables. Accordingly, the Group continues to recognised the full carrying amount of receivables and has recognised the cash received on the transfer as secured borrowings. As at 31 December 2008 and 2009, no bills receivables are discounted.

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

	2009 **RMB'000**	2008 RMB'000
Denominated in:		
Hong Kong dollars	**766**	658

21. 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% (2008: 0.01% to 1.17%) 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 2009 carried fixed interest rate at a range from 1.71% to 1.98% per annum.

At 31 December 2009, certain bank balances and cash and the restricted bank deposits of approximately RMB444,440,000 (2008: RMB526,048,000) 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

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22. TRADE AND OTHER PAYABLES

	2009 **RMB'000**	2008 RMB'000
Trade payables	**241,058**	82,640
Other payables and accrued charges (note)	**199,162**	150,884
	440,220	233,524

Note: Included in the other payables and accrued charges is an amount of RMB26,504,000 (2008: RMB37,923,000) 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 end of the reporting period:

Age	**2009** **RMB'000**	2008 RMB'000
0 to 90 days	**164,037**	68,267
91 to 180 days	**67,120**	9,769
181 to 365 days	**7,342**	2,209
1 to 2 years	**1,493**	1,196
Over 2 years	**1,066**	1,199
	241,058	82,640

Notes to the Consolidated Financial Statements

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23. AMOUNT DUE TO A RELATED COMPANY

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

Name of related company	2009 RMB'000	2008 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)	17	6

Note: This related company is beneficially owned by Ms. Chan Pingping and Ms. She Fangli. Ms Chen Pingping is the cousin of Mr. Zhang Tianren, a director of the Company while Ms. She Fangli is the daughter of Ms. Chan Pingping.

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

24. BANK BORROWINGS

	2009 RMB'000	2008 RMB'000
Secured	10,000	100,580
Unsecured	110,000	91,000
	120,000	191,580
Carrying amounts repayable:		
Within one year	120,000	171,580
More than one year, but not exceeding two years	–	20,000
	120,000	191,580
Less: Amounts due within one year shown under current liabilities	(120,000)	(171,580)
	–	20,000

The bank borrowings at 31 December 2009 are denominated in RMB and carry fixed interest rates ranging from 4.37% to 5.31% (2008: 4.86% to 7.56%) per annum, respectively.

At the end of the reporting period, the pledged assets as security for the bank borrowings is RMB106,496,000 (2008: RMB148,070,000) (note 27).

Notes to the Consolidated Financial Statements

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25. SHARE CAPITAL

	Number of shares		Amount equivalent to	
	2009	2008	**2009**	2008
			RMB'000	RMB'000
Shares of the Company with nominal value of HK$0.1 each				
Authorised:				
At 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009	**2,000,000,000**	2,000,000,000	**212,780**	212,780
Issued and fully paid:				
At beginning of year	**1,000,000,000**	1,000,000,000	**99,037**	99,037
Issue of new shares (note)	**80,000,000**	–	**7,048**	–
At end of year	**1,080,000,000**	1,000,000,000	**106,085**	99,037

Note: During the year ended 31 December 2009, pursuant to a placing and subscription agreement entered into on 8 October 2009, the Company allotted and issued 80,000,000 new shares of HK$0.10 each at the subscription price of HK$3.50 per share to Prime Leader Global Limited, a company wholly owned by Zhang Tianren, the chairman of the Company. The Company raised net proceeds of approximately HK$272.0 million (equivalent to approximately RMB239.7 million).

Notes to the Consolidated Financial Statements

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26. SHARE OPTION SCHEME

The Company has a share option scheme (the "Scheme") for eligible directors of the Company, eligible employees of the Group and other selected participants. According to the terms of the Scheme, 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. Share options are vested over a period of time up to a maximum of four years after the first anniversary of the date of grant.

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

Maximum percentage of options exercisable	**Vesting period**
10% of the options	Upon the first anniversary of the date of grant
Additional 20% of the options	Upon the second anniversary of the date of grant
Additional 30% of the options	Upon the third anniversary of the date of grant
Additional 40% of the options	Upon the fourth anniversary of the date of grant

Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at 1 January 2009	**–**
Granted to directors and employees during the year	**35,310,000**
Share options forfeited	**(1,500,000)**
Outstanding at 31 December 2009	**33,810,000**

The closing price of the Company's shares immediately before 30 March 2009, the date of grant of the options was HK$1.22 (equivalent to approximately RMB1.08) and the total estimated fair value of the share options granted on that date was HK$18,744,000 (equivalent to approximately RMB16,593,000).

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26. SHARE OPTION SCHEME (Continued)

Details of the fair value of the share options determined at the date of grant on 30 March 2009 using the Binomial option pricing model ("Binomial model") are with the following inputs and based on the respective vesting period of the share options:

	30 March 2009
Stock price as at grant date	**HK$1.22**
Exercise price	**HK$1.22**
Expected volatility	**64%**
Expected life of options	**7.9 years**
Risk free rate	**1.852%**
Expected dividend yield	**4.02%**
Sub-optimal exercise factor for directors/ senior management/employees	**2/2/1.5**

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

During the year, the Group recognised total expenses of RMB4,528,806 (2008: nil) in relation to share options granted by the Company.

27. PLEDGE OF ASSETS

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

	2009 RMB'000	2008 RMB'000
Bank deposits	**94,843**	–
Bills receivables (note 20)	**–**	5,580
Property, plant and equipment	**10,088**	120,513
Prepaid lease payment	**1,565**	21,977
	106,496	148,070

Notes to the Consolidated Financial Statements

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28. CAPITAL COMMITMENTS

	2009 RMB'000	2008 RMB'000
Contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	**84,785**	72,407

29. 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.

30. 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	2009 RMB'000	2008 RMB'000
Zhejiang Changtong Electric Bicycle Co., Ltd.	Sales of storage battery and other products	**–**	13,560
Changxing Jin Ling Hotel	Other expenses	**123**	–
Xin Xin Packaging	Purchase of consumables	**211**	425

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

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

(c) Details of the balances with related companies are set out in note 23.

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31. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2009 and 2008 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment and operation	Fully paid registered capital	Attributable equity interest of the Group	Principal activities
Tianneng International Investment Holdings Limited (Note a)	British Virgin Islands/ Hong Kong 15 November 2004	Share-US$1 (2008: US$1)	100%	Investment holding
天能動力(香港)有限公司 Tianneng Power (Hong Kong) Ltd.	Hong Kong-Limited liability 29 November 2008	Registered capital-HK$1 (2008: 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 (2008: 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. (Note b)	PRC-Limited liability company 7 May 1999	Registered capital – n/a (2008: 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 – RMB615,000,000 (2008: RMB380,000,000)	100%	Investment holding, research and development, manufacture and sales of storage batteries and battery related accessories
浙江天能能源科技有限公司 Zhejiang Tianneng Energy Technology Co., Ltd. (Previously known as 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 (2008: 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 (2008: 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 (2008: RMB160,000,000)	100%	Manufacture and sales of storage batteries

Notes to the Consolidated Financial Statements

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31. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place and date of incorporation/ establishment and operation	Fully paid registered capital	Attributable equity interest of the Group	Principal activities
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 (2008: 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. (Note c)	PRC-Limited liability company 7 January 2009	Registered capital – RMB120,000,000 (2008: n/a)	100%	Manufacture and sales of storage batteries
浙江天能動力能源有限公司 Zhejiang Tianneng Power Energy Co., Ltd. (Note c)	PRC-Limited liability company 1 July 2009	Registered capital – RMB40,000,000 (2008: n/a)	100%	Manufacture and sale of storage batteries
浙江天能電源材料有限公司 Zhejiang Tianneng Power Supply Material Co., Ltd. (Note c)	PRC-Limited liability company 1 July 2009	Registered capital – RMB10,000,000 (2008: n/a)	100%	Research and development of recycled batteries
浙江天能能源科技研究院 Zhejiang Tianneng Energy Technology Research Center (Note c)	PRC private non-enterprise entity 27 May 2009	Registered capital – RMB500,000 (2008: n/a)	100%	Research and development of storage batteries
浙江天能物資貿易有限公司 Zhejiang Tianneng Material Trading Co., Ltd. (Note c)	PRC-Limited liability company 24 March 2009	Registered capital – RMB80,000,000 (2008: n/a)	100%	Sales of metal materials
長興新天物資經營有限公司 Changxing Xintian Material Trading Co., Ltd. (Note c)	PRC-Limited liability company 24 July 2009	Registered capital – RMB20,000,000 (2008: n/a)	100%	Sales of metal materials
蕪湖天能物資貿易有限公司 Wuhu Tianneng Material Trading Co., Ltd. (Note c)	PRC-Limited liability company 27 July 2009	Registered capital – RMB10,000,000 (2008: n/a)	100%	Sales of metal materials

Notes:

(a) Directly held by the Company.

(b) Liquidated during the year.

(c) Incorporated during the year.

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

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32. FINANCIAL INFORMATION OF THE COMPANY

Financial information of the Company at the end of the reporting period includes:

	2009	2008
	RMB'000	RMB'000
ASSETS		
Property, plant and equipment	**199**	277
Trade and other receivables	**674**	696
Amounts due from subsidiaries	**820,541**	656,976
Bank balances and cash	**2,514**	2,580
	823,928	660,529
LIABILITIES		
Trade and other payables	**1,382**	1,802
Amounts due to subsidiaries	**–**	3,335
	1,382	5,137
NET ASSETS	**822,546**	655,392
CAPITAL AND RESERVES		
Share capital	**106,085**	99,037
Share premium	**702,649**	470,016
Reserves	**13,812**	86,339
Total equity	**822,546**	655,392

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 end of the reporting period, the Company's reserve available for distribution amounted to RMB711,933,000 (2008: RMB556,354,000).

Financial Summary

	Year ended 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Turnover	521,691	1,019,559	1,953,995	2,585,301	**2,254,947**
Profit before taxation	72,374	153,518	241,428	278,598	**319,674**
Taxation	2,276	5,857	38,539	44,390	**48,979**
Profit for the year	70,098	147,661	202,889	234,208	**270,695**
Attributable to:					
– owners of the Company	68,683	147,661	202,889	234,208	**270,695**
– minority interests	1,415	–	–	–	**–**
	70,098	147,661	202,889	234,208	**270,695**

	As at 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	663,522	964,412	1,668,024	1,668,194	**2,258,414**
Total liabilities	483,004	517,661	605,511	431,912	**572,892**
Net assets	180,518	446,751	1,062,513	1,236,282	**1,682,522**

The results and summary of assets and liabilities for each of the two years ended 31 December 2006 were extracted from the Company's prospectus dated 29 May 2007.