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 **2011**

循環再生 **動力之源**

Recycling **Power Source**

HARVEST OF 2011

Profit attributable to equity holders of the Company (RMB)

616 million

Earnings per share

RMB / HK¢
0.566 / 69.9

Proposed Dividends per share (HK¢)

20.8

TIANNENG POWER

RECYCLING • POWER SOURCE

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Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Tso Hsiu
Mr. Huang Dongliang
Mr. Wang Jingzhong

AUDIT COMMITTEE MEMBERS

Mr. Huang Dongliang *(Chairman)*
Mr. Wang Jingzhong
Mr. Ho Tso Hsiu

REMUNERATION COMMITTEE MEMBERS

Mr. Wang Jingzhong *(Chairman)*
Mr. Chen Minru
Mr. Huang Dongliang

NOMINATION COMMITTEE MEMBERS

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

COMPANY SECRETARY

Ms. Hui Wai Man Shirley

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

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR

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
Suite 2402, 24/F, Admiralty Centre 1
18 Harcourt Road
Hong Kong

LISTING INFORMATION

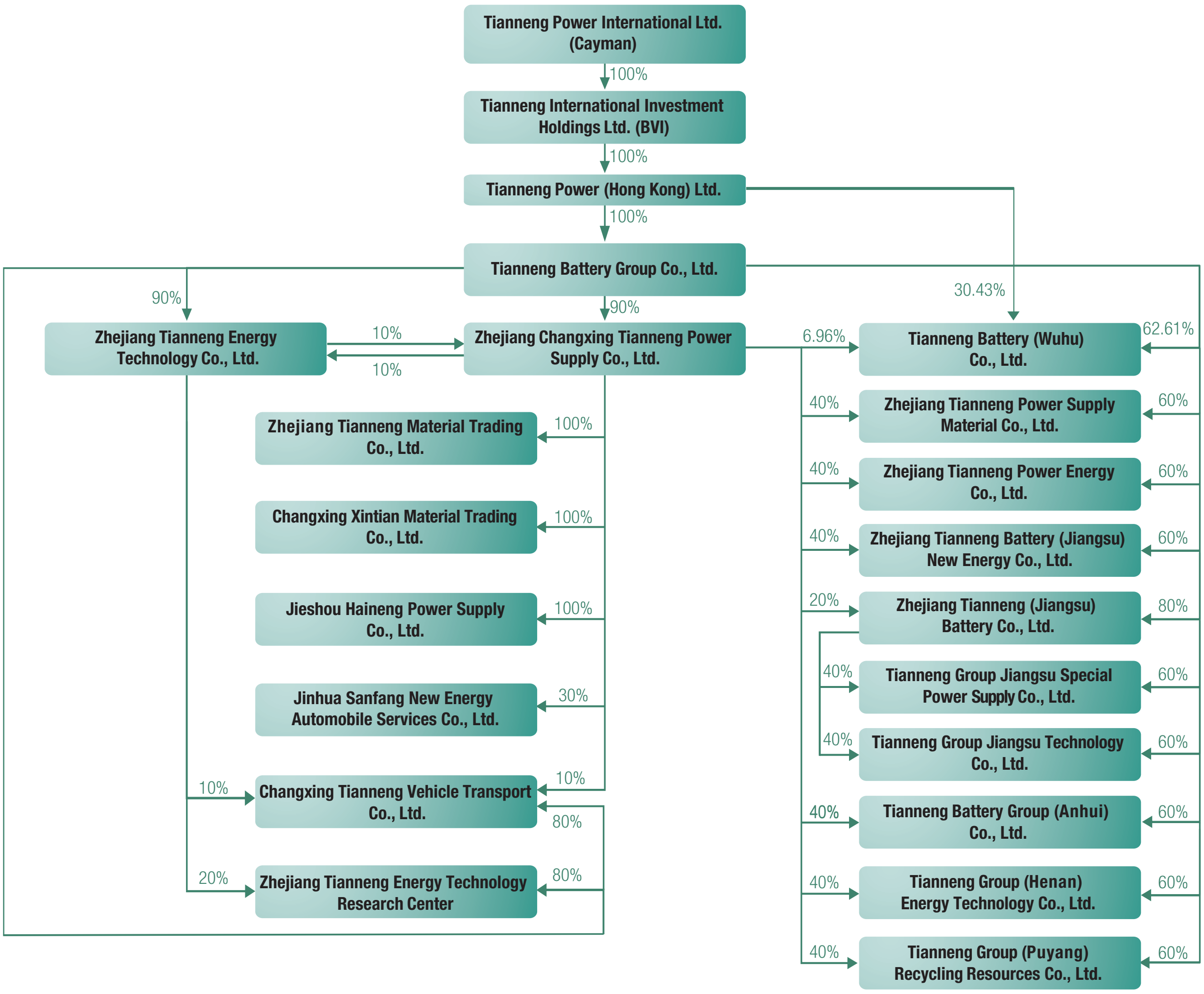
The Stock Exchange of Hong Kong Limited
Stock Code: 00819

COMPANY'S WEBSITE

http://www.tianneng.com.hk

Corporate Structure

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



Company Profile

Tianneng Power International Limited (the "**Company**" or "**Tianneng Power**") and its subsidiaries (the "**Group**") are engaged in the production and sale of i) motive battery products applicable to electric vehicles and ii) new energy storage battery products in the People's Republic of China ("**China**" or "**PRC**"). As at 31 December 2011, the Company is the largest listed lead-acid motive battery provider 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.

As at 31 December 2011, the Group had six production bases, which are located in (1) Meishan Town and (2) Wushan Town (construction in progress) of Changxing County in Zhejiang Province, (3) Shuyang County in Jiangsu Province, (4) Wuhu City and (5) Jieshou City in Anhui Province, and (6) Puyang City in Henan Province (construction in progress) in China respectively. The annual production capacity for electric bike lead-acid motive battery products was approximately 65 million units in total.

The Company continued to achieve growth in its profits and increased its competitiveness during the year of 2011. 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; (5) strong promotion of recycling industry; and (6) strong and experienced management team.

Regarding its future development, the Company will continue to focus on the development of electric vehicle motive battery market and new energy storage 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; (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; and (v) establishment of recycling base for used battery.

Note: Electric vehicles include electric bike, electric motorcycle and electric car.

Financial Highlights

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (NOTE 1)

	Year ended 31st December				
	2011	2010	2009	2008	2007
Turnover	**5,438,321**	3,752,813	2,254,947	2,585,301	1,953,995
Profit before taxation	**829,685**	428,752	319,674	278,598	241,428
Taxation	**213,698**	82,472	48,979	44,390	(38,539)
Profit after taxation	**615,987**	346,280	270,695	234,208	202,889
Earnings per share (RMB/share)					
– Basic	**0.57**	0.32	0.27	0.23	0.23
– Diluted	**0.56**	0.32	0.26	–	–

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (NOTE 2)

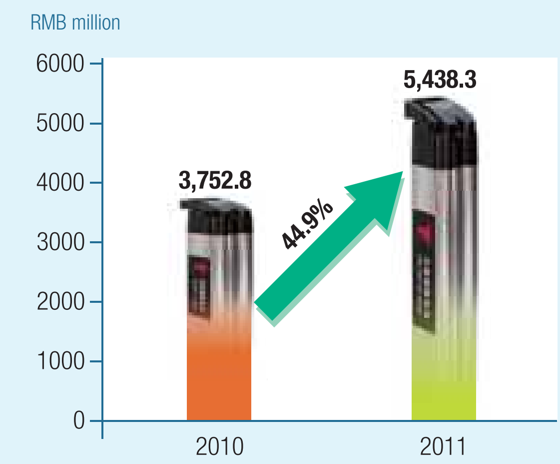
	As at 31st December				
	2011	2010	2009	2008	2007
Total assets	**4,782,851**	3,084,525	2,258,414	1,668,194	1,668,024
Total liabilities	**2,282,377**	1,128,363	575,892	431,912	605,511
Net assets/Total equity	**2,500,474**	1,956,162	1,682,522	1,236,282	1,062,513

Notes:

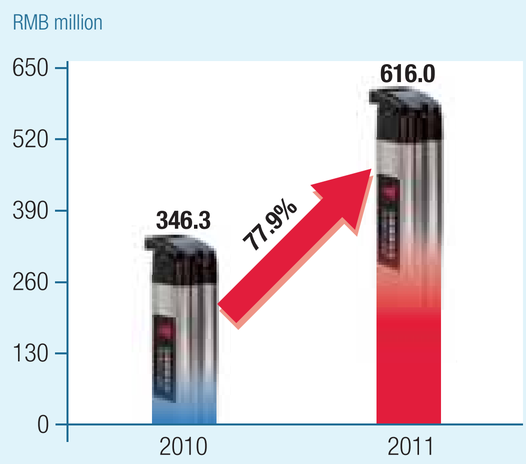
1. The results for the years ended 31 December 2007 and 2008 are set out on page 45 of the Company's 2008 Annual Report. The results for the year ended 31 December 2009 and 2010 are set out on page 56 of the Company's 2010 annual report. The results for the year ended 31 December 2011 are set out on page 57 of this annual report. All such information is extracted from the financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRSs").

2. The consolidated statements of financial position as at 31 December 2007 and 2008 are set out on page 46 of the Company's 2008 Annual Report. The consolidated statements of financial position as at 31 December 2009 and 2010 are set out on page 57 of the Company's 2010 annual report. The consolidated statements of financial position as at 31 December 2011 are set out on page 58 of this annual report. All such information is extracted from the financial statements prepared under HKFRSs.

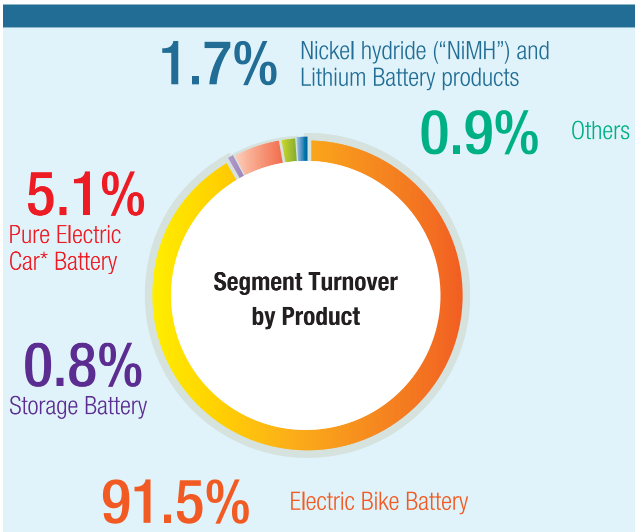
SALES TURNOVER



NET PROFIT



SEGMENT TURNOVER



ELECTRIC BIKE LEAD-ACID BATTERY PRODUCTS MARKET SEGMENTS

* Electric car includes pure electric sedans, electric forklifts, electric patrol cars and special-purpose electric cars etc.

It is my pleasure to present the annual report of the Company for the year ended 31 December 2011.

Zhang Tianren
Chairman

Dear Shareholders,

It is my pleasure to present the annual report of the Company for the year ended 31 December 2011 ("the year/period under review" or "year 2011").

PROFIT AND DIVIDEND FOR THE YEAR

During the period under review, the Group's consolidated turnover was approximately RMB5,438.32 million (2010: approximately RMB3,752.81 million), representing an increase of approximately 44.91% as compared to the previous year. The Group's profit attributable to equity holders of the Company was approximately RMB615.99 million (2010: approximately RMB346.28 million), representing an increase of 77.89% as compared to the previous year. The Group's basic earning per share amounted to RMB0.57 (2010: RMB0.32). The Company proposes to declare a cash dividend of HK20.8 cents for each ordinary share of the Company (the "**Share**") held by the shareholders of the Company (the "**Shareholders**"). The distribution of final dividend shall be subject to shareholders' approval at the annual general meeting to be held on 13 May 2012.

CONSOLIDATION OPPORTUNITIES – ENVIRONMENTAL RECTIFICATION

Year 2011 was a year of challenges and opportunities in lead battery industry in China as the qualities of the environmental protection management in relation to production, facilities and plant location etc. among the industry players were uneven. The Chinese government proceeded to a series of rectification works for the lead battery enterprises all over in China. Following the implementation of "Year 2011 Environmental Protection Tasks" ("2011 E.P. Tasks") collectively

by 9 departments of State Council in April, the lead battery industry in China formally entered into the period of industry consolidation driven by the Chinese government. According to the information released by the Ministry of Environmental Protection in July and August 2011, among the 1,930 lead battery enterprises being checked, over 50% of them were under temporary suspension for rectification while the other 30% were even banned. On 1 March 2012, Ministry of Industry and Information Technology together with Ministry of Environmental Protection released "Consultation Paper of Lead Battery Industry Entry Requirements" ("Entry Requirements consultation") which made clear that the Chinese government shall further uplift the operating threshold of existing and newly-built lead battery projects.

As one of the leading lead battery enterprises, the Group has passed the checking under "2011 E.P. Tasks" and will continuously upgrade the environmental protection management quality in production area. On the other hand, the Group will closely keep watch for the opportunities brought by the industry consolidation and explore the appropriate targets of merger and acquisition.

LEADING POSITION – ELECTRIC BIKE MOTIVE BATTERY

As the largest lead-acid motive battery producer for electric bike market in China, Tianneng Power is devoted to providing clean energy for its customers, and creating long-term and growing returns for the Shareholders. Driven by electric bike motive battery business, the Group has maintained continuous growth in profit from 2003 to 2011. For the year ended 2011, the profit attributable to the Company's equity holders increased 77.89% as compared with previous year.

As the market of electric bike continues to expand, the demand for battery products for new electric bikes ("Primary Market") and demand for replacing old battery ("Secondary Market") maintained a strong growth. The Group intended to grasp such market demand through increasing production capacity and expanding the distribution network.

THRIVING GROWTH – NEW ENERGY VEHICLE MOTIVE BATTERY

The PRC government continued to promulgate stimulating measures to encourage the development of new energy and new energy car. In September 2010, the State Council agreed to the supportive policy for strategic emerging industries, which confirmed the new energy and new energy car industry as a key direction of the strategic emerging industries. The Group relied on its successful experience in motive battery for electric bike and aggressively carried out research on the lead-acid, nickel hydride and lithium motive battery for electric car. Also, the Group commenced cooperation with 106 famous auto corporations such as SAIC Motor, Chery Automobile, Wonder Auto, Kandi Auto, Zotye Auto and Shifeng Group. For the year ended 31 December 2011, the Group recorded RMB276 million from the sale of motive battery for electric car, representing approximately 1.3 times growth as compared with the previous year and accounted for approximately 5.08% of the Group's total sales.

STRATEGIC MOVES – NEW ENERGY STORAGE BATTERY

During the year under review, the Group accelerated the business development on storage battery for wind and solar power generation system and successfully created a storage battery with long lifetime and high capacity. By targeting on major corporations, the Group obtained contracts from corporate customers in different industries and provinces. Besides, the Group adopted strategic marketing network planning in major new energy markets, such as Inner Mongolia, Xinjian and Yunnan. For the year ended 31 December 2011, the Group recorded RMB42.3 million from the sale of new storage battery, accounting for approximately 0.8% of the Group's total sales.

CONSTRUCTION AND EXPANSION

Production Base and Capacity Expansion:

Based on existing four production bases: Changxing Meishan, Auhui Wuhu, Auhui Jieshou and Jiangsu Shuyang, the Group successfully increased their total battery production capacity from 49 million units by the end of 2010 to 65 million units by the end of 2011. In the meantime, the Group has been building two new production bases in Changxing Wushan and Henan Puyang, both of which will go into battery production in 2012 and 2013 respectively. All these six production bases will be the foundation of the Group's expansion in battery market in the future.

Market Expansion: The Group will continue to increase its production capacity by means of building up its own plants, strategic cooperation as well as merger and acquisition to be financed by internal resources or external financing as necessary. The Group will also enlarge its market share by expanding its distribution network. The number of distributors of the Group has increased from 833 for the year ended 31 December 2010 to 952 for the year ended 31 December 2011, which covered most of the provinces in PRC.

Vertical Integration Expansion: The plant construction of the Group's used battery recycling project locating in Changxing Wushan base has been completed. It is expected that the equipment installation and trial production will be completed in 2012. Following the full-scale operation in 2012, 150,000 tonnes used lead-acid battery can be recycled per annum and produce 100,000 tonnes recycled lead for the Group's consumption or sales.

OUTLOOK

In the electric bike motive battery business development, the Chinese government will continuously improve the rules and regulations of lead-acid battery industry, and also open lead forward market platform. It will facilitate the consolidation within the industry, which is beneficial to the long-term growth of the industry. According to the FROST & SULLIVAN 2010 Report ("FROST REPORT"), it is anticipated that the CAGR of number of electric bikes to be sold and the sales amount of ancillary motive battery from 2010 to 2015 will be 9% and 17% respectively. It is also expected that the sales amount of motive battery for electric bike will increase to approximately US$5.5 billion in 2015, of which lead-acid battery will account for 95.58% and lithium battery 3.73%. It is foreseeable that lead-acid battery will continue to dominate the market in the coming few years. As one of the largest manufacturers of lead-acid battery, the Group will make better use of its advantages and market forces to continue to strengthen its leading position in the market.

In the new energy car motive battery business development, motor vehicle electrification has become an unalterable trend in China and in the world. In particular, commercial production and sale of low-speed electric cars have commenced in China, mainly for use as taxis, family cars, public buses and trucks. According to the FROST report, it is believed that the low-speed electric car will be the best product in promoting the industrialization of electric cars in China. The low-speed electric car is commonly referred to as light electric car that is equipped with new type of environmental-friendly lead-acid battery with maximum speed not exceeding the range of 50 km/h to 70km/h. Currently, the low-speed electric car industry in China has begun to take shape and there is huge growth potential. The local governments in provinces such as Shandong, Jiangsu and Anhui in China have issued administrative measures on low-speed electric car and the Chinese government has brought into consideration setting up of standards and regulations on such product. It is expected that the development of low-speed electric car will drive the growth of sales volume of lead-acid battery enterprises. After considering the national policy and conditions as well as the Group's competitive advantages, the Group will allocate more resources in the development of "low speed-affordable-safe" new energy cars motive battery.

In the storage battery business development, although the new energy storage industry is currently in the transition from the introduction stage to the growth stage, the Group will still closely monitor the market development in order to become one of the first movers in the on-grid and off-grid new energy storage battery market.

Finally, in the resources recycling business development, "Entry Requirements Consultation" states clearly that lead battery enterprises should bear more social responsibilities as battery manufactures. The recycled products produced by unqualified recyclers could not be purchased. The battery sales network should be used for building up the old lead batteries collection system. Therefore, putting the used battery recycling plant which locates in Changxing Wushan base into production in 2012 is an important target of the Group. The Group also actively considers to build other used battery recycling plants in other production bases or appropriate locations. While achieving the goals of environmental protection, upgrade of recycling technology and reduction of battery production cost, the Group expects to be a new benchmark of lead recycling industry in China.

In conclusion, the Group will continuously adopt the product diversification, the battery recycling development, production capacity expansion, sales network expansion as well as brand building as core strategies of future development. Pursuing the belief of "New Energy New World" and aiming at becoming the "Global Leading New Green Energy Provider", I strongly believe that the Group is capable of achieving its healthy and steady growth and contributing better returns to the Shareholders in the long run.

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, 24 March 2012

Management Discussion and Analysis

The Group is principally engaged in the production and sale of motive batteries applicable to electric vehicles. Its motive battery products are sold under its own brand name "TIANNENG" and are predominantly used in electric bikes, electric motorcycles and electric cars sold and distributed in the PRC. The Group also manufactures new energy storage battery mainly for wind and solar power generation system. For the year 2011, the Group is the largest manufacturer of lead-acid motive battery for electric bike and electric vehicle ("EV") in China.

REVIEW OF OPERATIONS

In March 2011, 9 departments of State Council including National Development and Reform Commission and Ministry of Environmental Protection collectively released notice which indicated that the first priority of Environmental Protection Tasks ("**Environmental Rectification**") in 2011 would be the Lead Battery Enterprises Rectification. According to the announcement of Ministry of Environmental Protection, as at 31 July 2011, among the 1,930 lead battery enterprises being checked, over 50% of them were under suspension, self-checking or rectification while the other 30% were even banned. As at 31 December 2011, all the production bases of the Group have completed the required checking and are under normal operation. The details about the working status of the Group under this Environmental Rectification are contained in the announcements of the Company dated 15 June, 4 August, 8 August and 19 August 2011.

In respect of sales, during the year under review, the electric bike lead-acid motive battery sales revenue generated from primary market reached RMB1,837 million and increased by 30% comparing with the previous year. The electric bike lead-acid motive battery sales revenue generated from the secondary market (or replacement market) was RMB3,137 million, an increase of 48% when

compared with the previous year. As at 31 December 2011, the Group had 952 distributors in total, representing an increase of 119 distributors as compared with 833 distributors as at 31 December 2010. This sales and distribution network covered most provinces of China. The electric bike lead-acid motive battery sales revenue generated from primary and secondary market was approximately 36.93% to 63.07% in proportion.

In respect of raw materials, during the year ended 31 December 2011, the weighted average lead purchase price net of value added tax was approximately RMB13,795 per metric ton (2010: approximately RMB13,809 per metric ton), representing no significant changes as compared with last year. On the other hand, the weighted average motive lead-acid motive battery selling price net of value added tax was approximately RMB117.3 (2010: approximately RMB93.4), representing an increase of approximately 25.6% as compared with last year. The gross profit margin of the Group was 28.17% (2010: 23.22%).

In respect of the development of the motive battery for electric car, the sales of motive battery for electric car for the year was RMB276 million, accounting for 5.08% of total sales. The Group's motive batteries have been assembled with the products of various electric car manufacturers with different scales of mass production. By the end of year 2011, the Group has built up strategic relationship with Chery Automobile, Shanghai Automobile, Shifeng Group and Kandi Auto etc.

In respect of the used battery recycling project, in order to recycle and handle the used batteries in a better way, the Group commenced the construction of project locating in Changxing Wushan base in 2009. In September 2010, the relevant departments of the Chinese government put this project under "Revival and Technology Reform Investment Scheme for National Major Industries", from which RMB5.6 million subsidy was granted. It was also a recognition by the Chinese government of its contribution towards the technological improvement in the battery recycling industry. In 2011, a further RMB3 million special fund was approved by the government. By the end of year 2011, both the land formation and plant construction works were basically completed, and the installation of machinery and facilities has been started.

In respect of the production bases, the expansion or facility improvement has been done in the four production bases: Changxing Meishan base (Zhejang Province), Wuhu base (Auhui Province), Jieshou base (Anhui Province) and Shuyang base (Jiangsu Province). The first phase of the construction of the 5th production plant, ie. Changxing Wushan base (including both the battery project and recycling project), was completed in 2011. By the end of 2011, lead-acid motive battery capacity of the Group reached 65 million units (2010: 49 million units), an increase of 32.6%. In addition, the Group announced in September 2011 that the 6th production base would be established at Puyang City, Henan Province. The total investment of RMB3 billion will be made within 5 to 6 years. Please refer to the Group's announcement dated 19 September 2011 for the further details.

In respect of research and development, in order to maintain product competitiveness, the Group made extensive investment in research and development. The Group's research and development activities focused on developing clean, durable and environmental-friendly new energy products. In July 2008, the Chinese government approved the upgrade of the Group'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 established in June 2009, enabling the Group to recruit and attract top research scientists and enjoy more benefits from the Chinese government. Moreover, the Group set up Pb-C Super Battery Joint Lab with Harbin Institute of Technology in April 2010 and established Academician and Expert Workstation in September 2010, focusing on the research of new type of battery material and new energy battery. In 2011, the Group's subsidiaries Tianneng Battery Group Co., Ltd., Zhejiang Tianneng Energy Technology Co., Ltd, Zhejiang Tianneng Battery (Jiangsu) Co., Ltd. and Tianneng Battery (Wuhu) Co., Ltd. were approved as High Technology Enterprise respectively.

Major R&D Achievements:

1. In August 2011, the "nano-fumed silica composite gel battery for EV(3-EVF-180)" was awarded the certificate of " National New Product";

2. In August 2011, the project of the "commercialization of high dispersion nano-fumed silica gel storage battery for photovoltaic and wind energy industry" was included into the "National Torch Plan" by the Ministry of Science and Technology of China;

3. In October 2011, the project of the "application of automation technology of waste lead-acid battery treatment" was included into the "first key promoting project of integration of informatization and industrialization of promoting energy-saving and emission reduction" by the Ministry of Industry and Information Technology;

4. In November 2011, the project of "yearly scale and innocuous recycling 150,000 tons of waste lead-acid batteries" won "special fund of central government of heavy metal pollution protection" from the Ministry of Finance and the Ministry of Environmental Protection.

As at 31 December 2011, the Group's research team consisted of 386 staff and the research and development costs increased by approximately 76.1% as compared with the previous year. The increase was mainly due to the Group allocating more resources to individual major projects such as lithium iron phosphate battery project, silica gel battery project and nano rare earth battery project, etc. In order to speed up the development of motive battery for pure electric cars, the Group entered into various technical cooperation arrangements with certain car manufacturers such as Chery Automobile, SAIC Group and Kandi Auto Companies.

In respect of environmental protection, as a listed company, the Group places great emphasis on taking up social responsibilities. It strives to provide customers with clean power. The Group has put a high regard on environmental protection work. The Group has 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 has also engaged MWH Environmental Engineering (Shanghai) Company Limited, an independent international environmental consulting company, to perform an annual environmental assessment at the Group's main production plants. Since the production facilities are mainly located at the local industrial parks, a series of monthly review and annual assessment concluded that the Group has complied with the relevant environmental standards in China.

In respect of brand building, the Group has established strong brand awareness and its brand is widely recognised by the community. Please refer to the "Award" section on pages 23 and 24 for more details.

In respect of internal control, with an aim to improve its internal control systems, the Group has engaged an international accounting firm, Baker Tilly Hong Kong Business Services Limited, to review its internal control system operating in the year ended 31 December 2011. The review has covered all material controls including financial, operational and compliance controls and risk management functions. The Group also conducted regular review of its internal control system and its effectiveness to ensure that the interest of the Shareholders is safeguarded.

To enhance communication with investors, the Group has appointed Strategic Financial Relations (China) Limited ("SPRG") as our adviser in Hong Kong in relation to the investors and media relations. SPRG is the largest independent public relations network in Hong Kong and Asia Pacific. SPRG received the "Asia Pacific Network of the Year" by Campaign Asia-Pacific PR Awards 2010 in 2010, and "Local Hero of the Public Relations Agency of the Year" and "Local Hero of the Media Relations Agency of the Year" by Marketing Magazine in 2010 and 2011.

In addition to arranging investors and analysts for site visits and attending luncheons and conferences, the management of the Group also took an initiative to meet investors by arranging roadshows through various channels. The roadshows provided excellent opportunities for the management of the Group to communicate with worldwide investors and meet fund managers and analysts to introduce the strategies and future development of the Group. The Group believes that regular communication with investors is extremely important.

FUTURE PROSPECTS

In order to seize the opportunities brought by the national policy of energy saving, the Group will allocate more resources to storage battery products for wind and solar power, lead-acid, nickel hydride and lithium motive battery products applicable to pure electric cars. Foreseeing the great demand for energy saving products, the Group is confident that these products will become its future revenue growth driver.

The Group invested in the construction of a used battery recycling plant and a new energy battery plant (collectively "Changxing Wushan base") in Changxing Economic Development Zone. It is expected that both the equipment installation and trial production of the used battery plant will be completed and start the full-scale operation in 2012, and that 150,000 tonnes used lead-acid battery can be recycled and produce 100,000 recycled lead per annum. On the other hand, new energy battery plant can have 6,000,000 KVAH motive batteries annual production capacity as a whole, in which the first phase (1,000,000 KVAH annual capacity) will go into production in 2012. Please refer to the Group's announcement dated 6 June 2009 for further details of such investment.

The Group has signed an agreement with the independent third parties on 22 March 2012 to acquire 100% interest of a PRC company at a cash consideration up to approximately RMB67.62 million. Such company is principally engaged in manufacture and sales of lead-acid battery in Changxing County, Zhejiang Province and is expected to contribute an additional annual production capacity of 3 million units of lead-acid battery product to the Group.

OPERATING RESULTS

Turnover

The Group's turnover increased from approximately RMB3,752.81 million for the year ended 31 December 2010 to approximately RMB5,438.32 million for the year ended 31 December 2011, representing an increase of approximately 44.91% as compared to the previous year, which was mainly due to the market supply shortage for motive batteries of electric bikes and the strong demand for motive batteries of electric car. The turnover of the motive battery for electric cars was RMB276.43 million, representing an increase of 1.3 times as compared with previous year. The Group expects that the demand for such products will keep growing.

Gross profit

The Group's gross profit increased by approximately 75.82% from approximately RMB871.44 million for the year ended 31 December 2010 to approximately RMB1,532.16 million for the year ended 31 December 2011. Gross profit margin increased from approximately 23.22% for the year ended 31 December 2010 to approximately 28.17% for the year ended 31 December 2011. Such increase was mainly due to the increase in unit selling price.

Other income

Other income of the Group increased by approximately 21.99% from approximately RMB74.60 million for the year ended 31 December 2010 to approximately RMB91.01 million for the year ended 31 December 2011. The increase was mainly attributable to the increase in subsidy income and interest income.

Selling and distribution costs

Selling and distribution costs increased by approximately 16.55% from approximately RMB224.72 million for the year ended 31 December 2010 to approximately RMB261.91 million for the year ended 31 December 2011. Such increase was mainly due to the increase in sales volume.

Administrative expenses

Administrative expenses increased by approximately 78.46% from approximately RMB110.92 million for the year ended 31 December 2010 to approximately RMB197.94 million for the year ended 31 December 2011. Such increase was mainly due to the increase in staff cost and pre-operating expenses.

Finance costs

Finance costs increased by approximately 450.74% from approximately RMB14.31 million for the year ended 31 December 2010 to approximately RMB78.82 million for the year ended 31 December 2011. Such increase was mainly due to the increase in average balance of bank borrowings and weighted average interest rate.

Taxation

The enterprise income tax of the Group amounted to approximately RMB213.70 million for the year ended 31 December 2011, representing an increase of approximately 159.12% from approximately RMB82.47 million for the year ended 31 December 2010. Such increase was due to the increase in taxable profit of the Company.

First and second half of year 2011

The gross profit and gross profit margin of the Group increased from approximately RMB548.14 million and 22.49% in the first half of year 2011 to RMB984.02 million and 32.79% in the second half year 2011 respectively, representing an increase of approximately 79.52% and 10.30 percentage point. It was mainly due to the reduction of purchasing cost of the major raw material-lead by 7.8% and the increase of unit selling price of the major product-electric bike motive battery by 12.39%.

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 RMB412.19 million for the year ended 31 December 2011 (2010: RMB61.17 million). The increase was mainly due to the increase in operation scale.

As at 31 December 2011, the bank balances and cash (including time deposit and the pledged bank deposits) of the Group was approximately RMB1,028.99 million (31 December 2010: approximately RMB489.29 million). As at 31 December 2011, the Group obtained undrawn banks facilities of approximately RMB1,068 million (31 December 2010: approximately RMB1,206.00 million). The amount RMB924.63 million and RMB104.30 million of bank balances and cash (including time deposit and the pledged bank deposits) are denominated in Renminbi and Hong Kong Dollars respectively. As the bank balances in Hong Kong Dollars could be used for the repayment of Hong Kong Dollars bank borrowings, the Company is able to control the level of currency risk.

As at 31 December 2011, the held-for-trading investments of the Group was RMB34.61 million (31 December 2010: nil). The objectives of this investment were to efficiently use the working capital of the Group and to capture good chance of investment. The investment mainly focused on the battery related Hong Kong listed companies. The investment was in line with the Company's treasury policy.

As at 31 December 2011, the net current assets of the Group was approximately RMB752.94 million (31 December 2010: approximately RMB846.64 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 2011, the bank borrowings of the Group with maturity of within one year amounted to approximately RMB1,470.39 million (At 31 December 2010: approximately RMB515.00 million). The bank borrowings of the Company with maturity of more than one year, but not exceeding two years was nil (At 31 December 2010: RMB30 million). The amounts of RMB1,365 million and RMB105.39 million bank borrowings are denominated in Renminbi and Hong Kong Dollars respectively, and carry fixed and variable interest rates ranging from 3.75% to 8.20% (2010: 4.36% to 6.12%) per annum. The Company will closely monitor the changes in interest rate and assess the interest rate risk.

The objective of the Company's financial policy is to maintain an optimal capital structure to minimize the capital cost through prudent financial management. During the period under review, there are no significant changes in both the funding and treasury policy.

FINANCIAL POSITION

Assets

As at 31 December 2011, the total assets of the Group was approximately RMB4,782.85 million, representing an increase of 55.06% as compared to approximately RMB3,084.53 million as at 31 December 2010. Among them, non-current assets increased by approximately 54.94% to approximately RMB1,765.59 million and current assets increased by approximately 55.13% to approximately RMB3,017.26 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 bank balances and cash.

Liabilities

As at 31 December 2011, the total liabilities of the Group was approximately RMB2,282.38 million, representing an increase of approximately 102.27% from approximately RMB1,128.36 million as at 31 December 2010. Among them, current liabilities increased by approximately 106.15% to approximately RMB2,264.32 million. The increase was mainly due to the increase in trade and other payables, short-term bank borrowings. Non-current liabilities decreased by 39.82% to approximately RMB18.06 million. The decrease was mainly due to the decrease in long-term bank borrowings.

Major financial position ratio

	2011	2010
Current ratio	**1.3**	1.8
Quick ratio	**0.8**	1.0
Interest cover	**11.5**	31.0

Both current ratio and quick ratio decreased when compared to the beginning of the year, which were mainly due to the increase in short-term bank borrowings. The interest cover ratio reduction to 11.5 was also mainly due to the increase in short-term bank borrowings.

CAPITAL EXPENDITURE

The capital expenditure as at 31 December 2011 was approximately RMB703.02 million (At 31 December 2010: approximately RMB353.32 million). A majority of expenditure was incurred on the construction of Changxing Wushan base and the expansion of Jiangsu Shuyang base.

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 2011 was approximately RMB341.43 million (At 31 December 2010: approximately RMB170.92 million).

GEARING RATIO

The Group's gearing ratio as at 31 December 2011 (which is based on the amount of total bank borrowings divided by total assets multiplied by 100%) was approximately 30.74% (At 31 December 2010: approximately 17.67%).

EXPOSURE IN EXCHANGE RATE FLUCTUATION

As the Group'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 Group's operating cash flow and liquidity is not subject to significant foreign exchange rate risks and therefore no hedging arrangements were made. However, the Group will review and monitor the relevant foreign exchange exposure from time to time based on its business development requirements and may enter into foreign exchange hedging arrangements when appropriate.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2011 (At 31 December 2010: nil).

PLEDGE OF ASSETS

As at 31 December 2011, 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 RMB333.08 million (At 31 December 2010: RMB181.84 million).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2011, the Group employed a total of 13,420 employees (31 December 2010: 10,933 employees). Staff costs excluding directors' emoluments of the Group for the year of 2011 amounted to RMB449.66 million (2010: RMB285.51 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 and share options scheme etc. Competitive remuneration packages were offered to employees. The Company has adopted incentive programs (including share option scheme) 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 Group as at 31 December 2011 (31 December 2010: nil).

MATERIAL ACQUISITION AND DISPOSAL

For the year ended 31 December 2011, the Group 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 announcement, 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 5 May 2012 to 13 May 2012, both days inclusive, during which period no transfer of the shares of the Company will be registered. In order to qualify for attending the annual general meeting of the Company this year, 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 4 May 2012.

The Register of Members of the Company will also be closed from 18 May 2012 to 21 May 2012, 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 17 May 2012.

Awards

2011 SAMPLE ENTERPRISE OF RUNNING INDUSTRIAL INFORMATION TECHNOLOGY PROMOTION

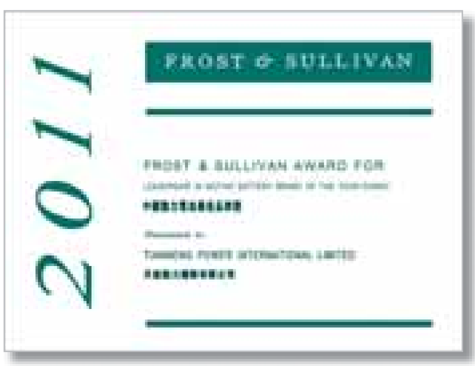
In May 2011, the Company's subsidiary was honored the "2011 Sample Enterprise of Industrial Information Technology Promotion" by The Ministry of Industry and Information Technology (MIIT).

2011 ZHEJIANG ENTERPRISES IN NATIONAL TOP 500

In June 2011, the Company's subsidiary was honored the "2011 Zhejiang Enterprises in National Top 500" by Zhe Shang Magazine.

2011 CHINESE BEST BRAND OF MOTIVE BATTERY

In November 2011, the company was granted "2011 Chinese Best Brand of Motive Battery" by Frost and Sullivan for successive four years from 2008 to 2011.



GLOBAL TOP 500 NEW ENERGY COMPANIES

In September 2011, the Company's subsidiary was honored the "GLOBAL TOP 500NEW ENERGY COMPANIES" by China Energy News.

2011 TOP 100 FOREIGN OWNED ENTERPRISE OF ZHEJIANG PROVINCE

In September 2011, the Company's subsidiary was honored the "2011 Top 100 Foreign Owned Enterprise of Zhejiang Province" by Department of Commerce of Zhejiang Province, Zhejiang Provincial Department of Finance, Zhejiang Provincial Office, SAT, etc.

2011 CLEAN PRODUCTION AND ENVIRONMENT – FRIENDLY ENTERPRISE

In October 2011, the Company's subsidiary was honored the "2011 Clean Production and Environment – Friendly Enterprise" by China Battery Industry Association.

NATIONAL TORCH PROGRAM HIGH-TECH ENTERPRISES

In October 2011, the Company's subsidiary was honored the "National Torch Program High-Tech Enterprises" by the Ministry of Science and Technology of China.

NATIONAL HIGH-TECH ENTERPRISES

In October 2011, the Company's subsidiary was honored the "National High-Tech Enterprises" by Science Technology Department of Zhejiang Province, Zhejiang Provincial Department of Finance, Zhejiang Provincial Office, SAT and Zhejiang Local Taxation Bureau.

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 2011, 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

As at 31 December 2011, the Board comprised nine 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 had three independent non-executive directors comprising of one-third of the members of the Board, namely, Mr. Ho Tso Hsiu, 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 41 to 44 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 being 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.

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 seven meetings during the year ended 31 December 2011. 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	7	5
Mr. Zhang Aogen	7	5
Mr. Chen Minru	7	7
Mr. Zhang Kaihong	7	5
Mr. Shi Borong	7	5
Mr. Yang Lianming	7	5
Independent Non-executive Directors		
Mr. Ho Tso Hsiu	7	3
Dr. Cheng Cheng Wen (note)	7	2
Mr. Huang Dongliang	7	5
Mr. Wang Jingzhong	7	5

(Note: Dr. Cheng Cheng Wen has retired as an independent non-executive Director and has not been re-elected at the annual general meeting in 2011.)

The term of appointment of the non-executive directors is as follows:

Mr. Ho Tso Hsiu	11 June 2011 to 10 June 2012
Mr. Huang Dongliang	11 June 2011 to 10 June 2012
Mr. Wang Jingzhong	11 June 2011 to 10 June 2012

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.

Directors' Training

To comply with the new Listing Rules which will become effective on 1 April 2012, all the directors of the Company will be required to provide records of training they receive for the next accounting period ended 31 December 2012 to the Company and disclose in the corporate governance report how each director, by name comply with the new rule I(i). Directors are encouraged to fill in the prescribed training record form distributed by the Company and reported their training for every six months for easy assessment. Code provision on directors' training can be satisfied in a number of ways, e.g. by attending in-house briefings, by giving talks, by attending training relevant to the Company's business conducted by lawyers, or by reading material relevant to the director's duties and responsibilities.

Company Secretary's Training

With effect from 1 January 2012, the Company Secretary is required to have fifteen hours' professional training in a financial year. In this circumstance, the Company Secretary shall provide to the Company his/her training records for the forthcoming year.

Shareholders' Rights

Each general meeting other than an annual general meeting, shall be called an extraordinary general meeting. General meetings may be held in any part of the world as may be determined by the Board.

According to Article No.58 of the Company's Articles of Association, any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board of the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

An annual general meeting and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by not less than twenty-one (21) clear days' notice. All other extraordinary general meetings may be called by not less than fourteen (14) clear days' notice.

Shareholders and investors are welcome to visit the Company's website and raise enquiries through our Investor Relations Department and/or our Company's PR representative (Strategic Financial Relations (China) Limited) whose contact details are available on the website.

The Chairman of the annual general meeting and Chairperson/Chairman/members of the Audit Committee and Remuneration Committee were available at the annual general meeting to answer questions from the shareholders.

REMUNERATION OF DIRECTORS

The Company has established a Remuneration Committee with specific terms of reference which deal clearly with its duties and responsibilities. As at 31 December 2011, the Remuneration Committee had three members, comprising Mr. Wang Jingzhong and Mr. Huang Dongliang (independent non-executive Directors) and Mr. Chen Minru (executive Director). The Remuneration Committee was chaired by Mr. Chen Minru during the period under review.

Dr. Cheng Cheng Wen has retired and ceased to be an independent non-executive Director of the Company and a member of the Remuneration Committee with effect from 7 May 2011. In replacement, Mr. Wang Jingzhong was appointed as a member of the Remuneration Committee with effect from 7 May 2011.

To comply with the new Code provisions ("CPs") B.1.1 to B.1.4, Mr. Wang Jinzhong was appointed as the chairman of the Remuneration Committee in place of Mr. Chen Minru ("Mr. Chen") and Mr. Chen remained as a member of the Remuneration Committee with effect from 24 February 2012.

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.

The remuneration package granted to the Directors was not amended during the year ended 31 December 2011. Accordingly, the remuneration committee has not held any meeting during the year to consider the remuneration proposal. No remuneration proposal was proposed to the Board of Directors for approval.

NOMINATION OF DIRECTORS

The Company has established a Nomination Committee with specific terms of reference which deal clearly with its duties and responsibilities. As at 31 December 2011, the Nomination Committee had three members, comprising Mr. Huang Dongliang and Mr. Wang Jingzhong (independent non-executive Directors) and Mr. Zhang Aogen (executive Director). The Nomination Committee was chaired by Mr. Zhang Aogen during the period under review.

To comply with the new CPs A.5.1 to A.5.5, Mr. Zhang Tianren was appointed as the chairman and member of the Nomination Committee in place of Mr. Zhang Aogen ("Mr. Zhang") and Mr. Zhang resigned as a member of the Nomination Committee with effect from 24 February 2012.

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 2011. There has not been any proposed change to the composition of the Board during the year ended 31 December 2011. 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 2011.

AUDIT COMMITTEE

The Company has established an Audit Committee in compliance with the Rule 3.21 of the Listing Rules. As at 31 December 2011, the Company's Audit Committee comprised three independent non-executive Directors, namely Mr. Ho Tso Hsiu, Mr. Huang Dongliang and Mr. Wang Jingzhong. The Audit Committee was initially chaired by Dr. Cheng Cheng Wen ("Dr. Cheng"). Dr. Cheng has retired as an independent non-executive Director and has not been re-elected at the annual general meeting in 2011. Dr. Cheng ceased to be an independent non-executive Director of the Company, the chairman of the Audit Committee and a member of the Remuneration Committee with effect from 7 May 2011. In replacement of Dr. Cheng, Mr. Huang Dongliang was appointed as the chairman of Audit Committee, and Mr. Ho Tso Hsiu was appointed as a member of the Audit Committee with effect from 7 May 2011.

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 CP C.3.3. The Audit Committee held two meetings during the year ended 31 December 2011. Dr. Cheng Cheng Wen attended one meeting, Mr. Ho Tso Hsiu 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 2011. 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 2011, 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 2012.

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 2011 to the issue date of this annual 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 has provided annual statutory audit services in respect of the Company's financial statements prepared under HKFRSs for the year 2011. Deloitte has also reviewed the 2011 unaudited interim financial report of the Company, prepared under HKFRSs.

During the year ended 31 December 2011, the fee paid and payable to Deloitte in respect of audit and audited related services amounted to approximately RMB1.55 million. In respect of non-audit services, the fees paid and payable to Deloitte relating to review on interim financial report amounted to approximately RMB0.5 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 2011. 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.

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 provides with the Shareholders a useful forum and encourages 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 55 and 56.

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 12 March 2012, 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 2011 are disclosed in Note 34 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 35 to page 40 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 the terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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.

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. Zhang 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 the Company's 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 to engage Nanjing Shuang Neng as one of the main suppliers of electrode plates and supply lead alloy to Nanjing Shuang Neng for production of the electrode plates in order to facilitate the quality control of electrode plates sold to the Group.

Pricing basis and policy

In compliance with the Listing Rules, the Company has entered into an agreement dated 2 December 2009 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 2012.

The price of electrode plates to be purchased from Nanjing Shuang Neng will be determined with reference to the lowest lead price as quoted on the website of Shanghai Nonferrous Metals 上海有色網 (http://en.smm.cn/) plus a premium representing the processing fee of such electrode plates as agreed between the Group and Nanjing Shuang Neng. Such premium will be determined by reference to the processing fee of purchase of similar quantities of the same or similar products by the Group from independent third parties at the relevant time when the relevant orders are placed.

The price of lead alloy to be sold to Nanjing Shuang Neng will be determined between the parties with reference to the lowest lead price as quoted on the website abovementioned plus a premium representing the processing fee as agreed between the Group and Nanjing Shuang Neng. Such premium will be determined by reference to the processing fee for similar quantities of the same or similar products sold by the Group to the Independent Third Parties at the relevant time when the relevant orders are placed.

The pricing basis and policy above will be comparable to those of electrode plates purchased from and lead alloy sold to independent third parties by the Group.

Payment terms

Amount payable by the Company for the purchase of electrode plates shall be settled by way of bankers' acceptance bill or telegraph transfer within 10 days after receiving value-added tax invoice. The payment terms will be similar to those offered to the Group by the Independent Third Parties.

Amount receivable from Nanjing Shuang Neng for the sale of lead alloy shall be settled by way of bankers' acceptance bill or telegraph transfer within 10 days after receiving value-added tax invoice. The payment terms will be similar to those offered by the Group to the Independent Third Parties.

Annual cap

The annual cap for the year 2011 and 2012 in respect of the agreement with Nanjing Shuang Neng is RMB115 million and RMB162 million (for the purchase of electrode plates) respectively.

Actual transaction value during the year

The total transactions amounts under the agreement with Nanjing Shuang Neng during the year ended 31 December 2011 were RMB10,032,970 (2010: RMB78,372,000) (for the purchase of electrode plates) and nil (2010: nil) (for the sale of lead alloy).

Cancellation of Nanjing Shuang Neng company registration

In the year 2011, the company registration of Nanjing Shuang Neng has been cancelled. Afterwards, the Group has no connected transactions with Nanjing Shuang Neng.

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 December 2009.

All of the Procurement Agreements currently in force are for a term of approximately three years ended on 31 December 2012. 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 in relation to which the relevant Procurement Agreements in force during the year 2011 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 Qinfeng (陳勤峰)	ZHANG Tianren (張天任), ZHANG Aogen (張敖根)	Nephew
3. SHE Peiqing (佘培青)	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. CHEN Ying (陳英)	ZHANG Tianren (張天任), ZHANG Aogen(張敖根)	Cousin
12. DU Yueping (杜月萍)	ZHANG Aogen (張敖根)	Nephew

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 2011, there were a total 20 (2010: 16) Sales Representatives, out of which 12 (2010: 12) 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

Commission of the Connected Sales Representatives will be calculated based on the difference between the Group's uniform ex-factory prices and the selling prices of the Group's products. Pursuant to the New Procurement Agreement, each of the Connected Sales Representatives has agreed to guarantee the payment obligation of the customers procured by them. The pricing basis and policy will be comparable to those offered to independent sales representatives of the Group.

Payment terms

Commission of the Connected Sales Representatives will be computed and paid monthly in general. The payment terms will be comparable to those offered to independent sales representatives of the Group.

Annual cap

The annual cap for the year 2011 and 2012 in respect of the Procurement Agreements with the Connected Sales Representative is RMB16 million and RMB23 million respectively.

Actual transaction value during the year

The total commissions amount under the Procurement Agreements during the year ended 31 December 2011 was RMB9,223,000 (2010: RMB9,549,000).

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.	CHEN Lingling (陳玲玲)	ZHANG Tianren (張天任), ZHANG Aogen (張敖根)	Cousin
2.	CHEN Huichi (陳會池)	YANG Lianming (楊連明)	Brother-in-law
3.	CHEN Haichi (陳海池)	YANG Lianming (楊連明)	Brother-in-law
4.	YANG Liancheng (楊連成)	YANG Lianming (楊連明)	Brother
5.	SHE Boxing (佘伯興)	SHI Borong (史伯榮)	Son-in-law
6.	DU Peiming (杜培明)	ZHANG Aogen (張敖根)	Nephew
7.	ZHANG Jinfeng (張金豐)	ZHANG Kaihong (張開紅)	Son
8.	ZHANG Kaiming (張開明)	ZHANG Kaihong (張開紅)	Cousin
9.	ZHANG Zhifeng (張志峰)	ZHANG Kaihong (張開紅)	Nephew
10.	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.

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 2011, there were a total 952 (2010: 833) Exclusive Distributors, out of which 10 (2010: 10) 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 Connected Exclusive Distributors purchase products from the Group at the Group's uniform ex-factory price plus uniform fixed delivery fee for reselling. The pricing basis and policy will be similar to those offered to independent exclusive distributors of the Group.

Our Company has entered into a contract (the "After Sale Contract") with each of the Exclusive Distributors in December 2009 for a term of approximately three years ending on 31 December 2012 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.

Payment terms
Full payment shall be made in advance by cash or bank draft by the Connected Exclusive Distributors. Payment terms offered to the Connected Exclusive Distributors will be comparable to those offered to the independent exclusive distributors of the Group.

Annual cap
The annual cap for the year 2011 and 2012 in respect of the Distribution agreements with the Connected Exclusive Distributors is RMB70 million and RMB100 million respectively.

Actual transaction value during the year
The total purchase amount under the agreements with the Connected Exclusive Distributors during the year ended 31 December 2011 was RMB56,172,000 (2010: RMB47,488,000).

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Dr. ZHANG Tianren (張天任), aged 49, 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 25 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 and an engineer.

In addition to his key position in our Group, Mr. ZHANG has held various roles in the energy, battery and other related industries in China. Mr. ZHANG is currently a vice chairman of the Asian Photovoltaic Industry Association, 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, the chairman of the Rechargeable Battery Industry Association in Zhejiang Province, the chairman of Zhejiang Merchants Association and a Representative of Zhejiang Province People's Congress. 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 awarded 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 and 2012 Bauhinia Cup Outstanding Entrepreneur. Mr. ZHANG is the younger brother of Mr. ZHANG Aogen.

Mr. ZHANG Aogen (張敖根), aged 54, is our executive Director and vice-president and is responsible for our customer relationship and management, the formulation of sales strategies and procurement management. 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 25 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 52, is our executive Director and Standing vice president and is responsible for our capital market, financial market, corporate management and information technology 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, a senior economist and an affiliated member of the Association of International Accountants. He has 33 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 58, 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 in 2010. In September 2011, Mr SHI was appointed as chief executive of Puyang Cycle Economic Development Zone. 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 22 years of management experience in rechargeable battery enterprises.

Mr. ZHANG Kaihong (張開紅), aged 54, 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 25 years' experience in research and development, quality control and management of rechargeable battery enterprises.

Mr. YANG Lianming (楊連明), aged 49, 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 18 years of management experience in rechargeable battery enterprises.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HO Tso Hsiu (何祚庥), aged 84, 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.

Mr. HUANG Dongliang (黃董良), aged 56, was appointed as an independent non-executive Director in February 2007. Mr. HUANG graduated from Zhongnan Finance University in 1988 with a bachelor degree majored in economics. Mr. HUANG has been the assistant to principal of Zhejiang College of Finance and Economics since 2004. Mr. HUANG obtained the qualifications of professor, senior accountant and registered tax agent in China. Mr. HUANG is a certified public accountant registered under the Chinese Institute of Certified Public Accountants. Mr. Huang is currently an independent director of Zhejiang Conba Pharmaceutical Co., Ltd. and Zhejiang Daoming Optical Chemical Co., Ltd., which are listed companies on Shanghai Stock Exchange in China.

Mr. WANG Jingzhong (王敬忠), aged 55, 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.

SENIOR MANAGEMENT

Mr. ZHAO Haimin (趙海敏), aged 47, 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. Later, he attended the seminar of business management for senior president in Zhejiang University from August 2007 to September 2008 and enrolled in 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. REN Anfu (任安福), aged 43, 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. In September 2011, Mr. REN was appointed as Chief Engineer of the Group. 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.

Mr. ZHOU Jianzhong (周建中), aged 41, assistant to the president. Mr. ZHOU is responsible for the management of the following companies: Tianneng Battery, Tianning Power Supply and Tianneng Energy Technology. In the meantime, Mr. ZHOU is also 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 17 years' experience in the sales and management of rechargeable batteries and corporate management.

Mr. YANG Huiqiang (楊惠強), aged 37, vice president. Mr. YANG is responsible for the Group's business in Jiangsu Province. He joined the Group in 1992 as an administrative officer of Tianneng Battery and served as a manager of marketing department of Tianneng Battery, the deputy general manager of Tianneng Battery (Jiangsu) and deputy general manager of the Jiangsu management centre of Tianneng Group. From August 2007 to September 2008, Mr. YANG attended the seminar of business management for senior president in Zhejiang University. Mr. YANG is a standing committee member of Shuyang County in Jiangsu Province and a committee member of CPPCC of Suqian City in Jiangsu Province. He has been awarded "Excellent Foreign Youth Entrepreneur in Ten Aspects of Shuyang", "Honorary Citizen of Suqian City", "Model Worker of Suqian City" and one of the "Ten Special Contributors to the Economic Development of Suqian City". Mr. YANG is a nephew of Mr. Zhang Tianren.

Ms. HUI Wai Man, Shirley (許惠敏), aged 44, 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 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. HUI has over 22 years' professional experience in public accounting and corporate financing.

Mr. WANG Zhikun (王志坤), aged 42, the vice president. Mr. WANG is responsible for the administration and investment management. He joined the Group in 2005. He was appointed as listing office director, chief investment officer and Head of President Office. Mr WANG was promoted to vice president in 2010. Mr. WANG obtained a MBA from SOUTHERN CALIFORNIA UNIVERSITY FOR PROFESSIONAL STUDIES in America. 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 19 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.

Mr. LAU Siu Fai (劉兆煇), aged 42, vice president. Mr. LAU is responsible for the corporate finance, acquisition and merger and investor relations of the Group. He joined the Group in 2010. Prior to joining us, he held various managerial positions in three medium-to-large sized Hong Kong listed companies and an international accounting firm. Mr. LAU has more than 18 years' managerial working experience in direct investment, project management, corporate finance and financial management. He obtained a bachelor degree in Accountancy from the City University of Hong Kong. He is also a fellow member of Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants. In 2010, he completed a 15-month senior executives development programme organised by the University of Western Ontario.

Ms. WANG Jing (王靜), aged 48, financial controller. 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. She has more than 31 years' financial management experience. 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 2011.

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 principal subsidiaries are shown in note 35 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 57. The Directors recommend the payment of a final dividend of HK20.8 cents per share (equivalent to RMB16.9 cents (per share) amounting to approximately RMB183,768,000.

PROPERTY, PLANT AND EQUIPMENT

During the year, approximately RMB135,607,000 and RMB116,009,000 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 buildings, plant and machinery for approximately RMB54,308,000. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 17 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.

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 2011, approximately RMB17.6 million proceeds from the subscription have been utilized. The whole amount was used in the construction of Changxing Wushan production base.

SHARE CAPITAL

Details of the movement during the year in the share capital of the Company are set out in note 29 to the consolidated financial statements.

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

DISTRIBUTIVE RESERVES OF THE COMPANY

At the end of the reporting date, the Company's reserve available for distribution amounted to approximately RMB1,008,275,000 (2010: RMB710,109,000). 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

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
Mr. Huang Dongliang
Mr. Wang Jingzhong

Note: Dr. Cheng Cheng Wen has retired as an independent non-executive Director and has not been re-elected at the annual general meeting in 2011.

The term of appointment of the non-executive directors is as follows:

Mr. Ho Tso Hsiu	11 June 2011 to 10 June 2012
Mr. Huang Dongliang	11 June 2011 to 10 June 2012
Mr. Wang Jingzhong	11 June 2011 to 10 June 2012

In accordance with Article 87 of the Company's Articles of Association, Mr. Zhang Tianren, Mr. Zhang Aogen, Mr. Huang Dongliang and Mr. Wang Jingzhong will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' 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. The service contracts of all the executive directors were expired on 10 June 2010. Thereafter, the terms of the executive directors have been renewed for a further term of one year in each year. By mutual agreement of both parties, the term of service was renewed for a further year commencing 11 June 2011.

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

DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, 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	Number of underlying shares of share options of the Company	Aggregate approximate percentage of issued share capital of the Company
Zhang Tianren	Interest of a controlled corporation (note 1)	398,279,650	–	36.55%
	Interest of spouse (note 1)	500,000	–	0.05%
Zhang Aogen	Interest of a controlled corporation (note 2)	19,591,022	–	1.80%
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	–	2.43%
Shi Borong	Interest of a controlled corporation (note 5)	22,336,141	–	2.05%
Yang Lianming	Interest of a controlled corporation (note 6)	6,859,151	–	0.63%

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

(a) Long positions (Continued)

Name of director	Capacity	Number of shares held	Number of underlying shares of share options of the Company	Aggregate approximate percentage of issued share capital of the Company
Ho Tso Hsiu	Beneficial owner (note 7)	71,000	245,000	0.03%
Huang Dongliang	Beneficial owner (note 7)	71,000	245,000	0.03%
Wang Jingzhong	Beneficial owner (note 7)	71,000	245,000	0.03%

Notes:

1. The 398,279,650 shares are held by Prime Leader Global Limited, which is wholly-owned by Mr. Zhang Tianren. The interest in 500,000 shares arises from the share options granted to Ms. Yang Yaping, spouse of 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 22,336,141 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 and exercised under the share options scheme of the Company. Further details can be referred to the section "Share Options" in this report.

(b) Other interests and short positions

Saved for the disclosed above, on 22 November 2010, a total of 1,680,000 options were granted to the associates of directors in accordance with Company's share option scheme. The names of other grantees who are associates of directors were listed on the announcement dated 22 November 2010.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group are set out in note 33 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed on page 52, 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, subsisting at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, 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)	398,279,650	36.55%
	Interest of spouse (note 1)	500,000	0.05%
Prime Leader Global Limited	Beneficial owner	398,279,650	36.55%
Yang Yaping	Beneficial owner (note 1)	500,000	0.05%
	Interest of spouse (note 1)	398,279,650	36.55%

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of issued share capital of the Company
Deutsche Bank Aktiengesellschaft	Beneficial owner	23,362,882(L) 23,358,382 (S)	2.14% 2.14%
	Investment manager	4,337,000(L)	0.40%
	Person having a security interest in shares	52,530,000 (L)	4.82%
	Custodian corporation/ approved lending agent	1,030,000 (L) 1,030,000 (P)	0.09% 0.09%

(L): long position

(S): short position

(P): lending post

Notes:

1. The 398,279,650 shares are held by Prime Leader Global Limited, which is wholly-owned by Mr. Zhang Tianren. The interest in 500,000 Shares arises from the shares options granted to Ms Yang Yaping, spouse of Mr. Zhang Tianren. Ms Yang Yaping, being the spouse of Mr Zhang Tianren, is deemed to be interested in the shares held by Mr Zhang Tianren.

SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed by the then shareholders on 26 February 2007 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. Details of the Company's share option scheme are set out in the note 30 to the financial statements.

On 30 March 2009, a total of 36,340,000 share options were offered to the eligible participants under the Scheme. 35,310,000 share options were accepted and granted on the same day. On 22 November 2010, a total of 44,720,000 share options were offered and granted to Directors and eligible participants under the Scheme. The details movement of Company's share options during the period under review are as follows:

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of Company's shares immediately before the date of grant (HK$)	Weighted average closing price of Company's shares immediately before the date of exercise (HK$)	Number of option outstanding as at 1 January 2011	Number of options granted during the period	Number of options exercised during the period	Number of options forfeited during the period	Number of options lapsed in accordance with the terms of the options or the share option scheme during the period	Number of options outstanding as at 31 December 2011	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Ho Tso Hsiu (Independent non-executive Director)	30/3/2009	30/3/2010 to 25/02/2017	1.22	1.22	4.21	315,000	–	(70,000)	–	–	245,000	0.02%
Huang Dongliang (Independent non-executive Director)	30/3/2009	30/3/2010 to 25/02/2017	1.22	1.22	4.21	315,000	–	(70,000)	–	–	245,000	0.02%
Wang Jingzhong (Independent non-executive Director)	30/3/2009	30/3/2010 to 25/02/2017	1.22	1.22	4.21	315,000	–	(70,000)	–	–	245,000	0.02%
Other eligible participants	30/3/2009	30/03/2010 to 25/02/2017	1.22	1.22	4.21	28,557,000	–	(6,262,000)	(749,000)	–	21,546,000	1.98%
	22/11/2010	22/11/2011 to 21/11/2020	3.18	3.02	–	44,170,000	–	–	(2,290,000)	–	41,880,000	3.84%
						73,672,000	–	(6,472,000)	(3,039,000)	–	64,161,000	5.89%

No share option granted was granted during the period under review, no price disclosure is applicable.

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.

The letters of appointment with the Company and independent non-executive directors expired on 10 June 2010. Thereafter, the terms of the independent non-executive directors have been renewed for a further term of one year in each year. By mutual agreement of both parties, the appointment was renewed for a further year commencing 11 June 2011.

CONNECTED TRANSACTIONS

Details of the connected transactions entered into during the year are set out in the "Connected Transactions" section of 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 15% of the Group's turnover. During the year, the largest supplier accounted for 9.86% of the Group's total purchase and the Group's five largest suppliers accounted for 34.61% 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.

CORPORATE GOVERNANCE

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

AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") in accordance with the requirements of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules") for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. As at 31 December 2011, the Audit Committee comprised three independent non-executive directors, namely, Mr. Ho Tso Hsiu, 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.

Dr. Cheng Cheng Wen ("Dr. Cheng") has retired as an independent non-executive Director and has not been re-elected at the annual general meeting in 2011. Dr. Cheng ceased to be an independent non-executive Director of the Company, the chairman of the Audit Committee and a member of the Remuneration Committee with effect from 7 May 2011. In replacement of Dr. Cheng, Mr. Huang Dongliang was appointed as the chairman of Audit Committee, and Mr. Ho Tso Hsiu was appointed as a member of the Audit Committee with effect from 7 May 2011.

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2011.

DONATIONS

During the year ended 31 December 2011, the Group made charitable donations of RMB1,406,000.

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 2011 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
24 March 2012

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 57 to 111, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 entity's preparation of the consolidated financial statements that give a true and fair view 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.

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 2011 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
24 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Turnover	8	**5,438,321**	3,752,813
Cost of sales		**(3,906,161)**	(2,881,371)
Gross profit		**1,532,160**	871,442
Other income	9	**91,005**	74,601
Other gains and losses	10	**11,044**	(21,139)
Selling and distribution costs		**(261,911)**	(224,718)
Administrative expenses		**(197,940)**	(110,917)
Research and development costs		**(197,990)**	(112,419)
Other operating expenses		**(67,525)**	(33,787)
Share of loss of an associate		**(341)**	–
Finance costs	11	**(78,817)**	(14,311)
Profit before taxation	12	**829,685**	428,752
Taxation	14	**(213,698)**	(82,472)
Profit and total comprehensive income for the year attributable to the owners of the Company		**615,987**	346,280
Earnings per share	16		
– Basic		**RMB0.566**	RMB0.320
– Diluted		**RMB0.559**	RMB0.315

Consolidated Statement of Financial Position

At 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	17	**1,583,479**	981,644
Prepaid lease payments	18	**102,241**	97,276
Interest in an associate	19	**1,459**	1,800
Deferred tax assets	20	**51,054**	34,582
Deposit for acquisition of property, plant and equipment		**27,358**	24,222
		1,765,591	1,139,524
Current assets			
Inventories	21	**1,124,737**	818,774
Held-for-trading investments	22	**34,611**	–
Bills, trade and other receivables	23	**822,166**	634,824
Prepaid lease payments	18	**2,261**	2,117
Time deposit	24	**110,000**	–
Pledged bank deposits	24	**166,100**	64,983
Bank balances and cash	24	**752,885**	424,303
Other financial assets	25	**4,500**	–
		3,017,260	1,945,001
Current liabilities			
Bills, trade and other payables	26	**709,980**	545,439
Amount due to a related company	27	**65**	46
Taxation payable		**83,886**	37,878
Bank borrowings	28	**1,470,391**	515,000
		2,264,322	1,098,363
Net current assets		**752,938**	846,638
Total assets less current liabilities		**2,518,529**	1,986,162
Non-current liabilities			
Bank borrowings	28	**–**	30,000
Deferred tax liabilities	20	**18,055**	–
		2,500,474	1,956,162
Capital and reserves			
Share capital	29	**106,917**	106,377
Reserves		**2,393,557**	1,849,785
Total equity		**2,500,474**	1,956,162

The financial statements on pages 57 to 111 were approved and authorised for issue by the board of directors on 24 March 2012 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 2011

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Capital reserve RMB'000 (Note b)	Share options reserves RMB'000	Non-distributable reserve RMB'000 (Note c)	Statutory surplus reserve fund RMB'000 (Note d)	Discretionary surplus reserve fund RMB'000 (Note d)	Accumulated profits RMB'000	Total RMB'000l
At 1 January 2010	106,085	702,650	10,000	57,010	4,528	12,460	109,765	21,608	658,416	1,682,522
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	346,280	346,280
Transfer	–	–	–	–	–	–	40,708	6,458	(47,166)	–
Issue of new shares upon exercise of share options	292	4,613	–	–	(1,338)	–	–	–	–	3,567
Dividend recognised as distribution (note 15)	–	–	–	–	–	–	–	–	(83,852)	(83,852)
Recognition of equity-settled share based payments (note 30)	–	–	–	–	7,645	–	–	–	–	7,645
At 31 December 2010 and 1 January 2011	106,377	707,263	10,000	57,010	10,835	12,460	150,473	28,066	873,678	1,956,162
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	615,987	615,987
Transfer	–	–	–	–	–	–	73,434	28,042	(101,476)	–
Issue of new shares upon exercise of share options	540	8,818	–	–	(2,775)	–	–	–	–	6,583
Dividend recognised as distribution (note 15)	–	–	–	–	–	–	–	–	(105,394)	(105,394)
Forfeiture of share options	–	–	–	–	(1,623)	–	–	–	1,623	–
Recognition of equity-settled share based payments (note 30)	–	–	–	–	27,136	–	–	–	–	27,136
At 31 December 2011	106,917	716,081	10,000	57,010	33,573	12,460	223,907	56,108	1,284,418	2,500,474

Notes:

(a) 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.

(b) The capital reserve of the Group arose in June 2003 when the substantial shareholder and Executive Director, Mr. Zhang Tianren, transferred 26.3% of his shares in Tianneng Battery Group Co., Ltd. ("Tianneng Battery Group") 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.

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

(d) 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 2011

	2011 RMB'000	2010 RMB'000
Operating activities		
Profit before taxation	**829,685**	428,752
Adjustments for:		
Interest income	**(5,982)**	(2,949)
Interest expenses	**78,817**	14,311
Share of loss of an associate	**341**	–
Depreciation	**77,756**	63,386
Amortisation of prepaid lease payments	**2,097**	1,989
Loss on disposal of property, plant and equipment	**10,963**	11,431
Allowance for bad and doubtful debts	**9,162**	3,396
Reversal of allowance for inventories	**(2,120)**	(18)
Share option expenses	**27,136**	7,645
Net gains on held-for-trading investments	**(27,176)**	–
Operating cash flows before movements in working capital	**1,000,679**	527,943
Increase in inventories	**(303,843)**	(219,669)
Increase in bills, trade and other receivables	**(171,695)**	(254,636)
Increase in trade and other payables	**125,738**	89,658
Increase in amount due to a related company with trade nature	**19**	29
Purchases of held-for-trading investments	**(142,150)**	–
Proceeds upon disposals of held-for-trading investments	**130,808**	–
Dividend income received	**3,320**	–
Cash generated from operations	**642,876**	143,325
Interest paid	**(64,579)**	(14,047)
PRC Enterprise Income Tax paid	**(166,107)**	(68,104)
Net cash from operating activities	**412,190**	61,174
Investing activities		
Interest received	**5,982**	2,949
Proceeds from disposal of property, plant and equipment	**5,262**	822
Purchase of property, plant and equipment	**(679,626)**	(334,359)
Asset-related government grants received	**13,905**	–
Purchase of other financial assets	**(4,500)**	–
Placement of pledged bank deposits	**(166,100)**	(64,983)
Withdrawal of pledged bank deposits	**64,983**	94,843
Deposit for acquisition of property, plant and equipment	**(27,358)**	(24,222)
Placement of time deposit	**(110,000)**	–
Prepaid lease payments	**(12,788)**	(15,175)
Investment in an associate	**–**	(1,800)
Net cash used in investing activities	**(910,240)**	(341,925)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
Financing activities		
Bank borrowings raised	**2,324,391**	765,000
Proceeds from issue of shares	**6,583**	3,567
Repayments of bank borrowings	**(1,399,000)**	(340,000)
Dividends paid	**(105,342)**	(83,850)
Net cash from financing activities	**826,632**	344,717
Net increase in cash and cash equivalents	**328,582**	63,966
Cash and cash equivalents at the beginning of the year	**424,303**	360,337
Cash and cash equivalents at the end of the year, represented by bank balances and cash	**752,885**	424,303

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. Its parent company and ultimate holding company is Prime Leader Global Ltd. incorporated in the British Virgin Islands with limited liability. Its ultimate controlling party is Mr. Zhang Tianren. 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 35.

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 issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to I HK (IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of the new and revised standards, amendments and interpretations in the current year has had no material effect on the consolidated financial statements.

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

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

HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (Revised 2011)	Employee Benefits[2]
HKAS 27 (Revised 2011)	Separate Financial Statements[2]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

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

HKFRS 13 Fair Value Measurement (Continued)

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The director anticipated that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and the application of the new standard may affect the amounts reported in the consolidated financial standards and result in more extensive disclosure in the consolidated financial statements.

The application of other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

Change in presentation of consolidated statement of comprehensive income

In the current year, the directors of the Company decided to change the classification of certain line items in the consolidated statement of comprehensive income by presenting net foreign exchange difference, allowance for bad and doubtful debts, losses due to a fire accident occurred in a factory (net of proceeds from insurance compensation, disposal of damaged property, plant and equipment and inventories) as part of the Group's other gains and losses to better reflect the relevance of financial information of the Group's activities. Prior year figures have been re-presented to reflect the new presentation. The reclassification has had no net effect on the results of the Group for the year ended 31 December 2010.

The effect of changes in presentation for the prior year by line items presented in the consolidated statement of comprehensive income is as follows:

	Originally stated RMB'000	**Adjustments** RMB'000	**Restated** RMB'000
Other income	74,806	(205)	74,601
Other operating expenses	(55,131)	21,344	(33,787)
Other gains and losses	–	(21,139)	(21,139)
Change in profit for the year		–	

No consolidated statement of financial position as at 1 January 2010 has been presented as the change in accounting policy and re-classifications disclosed above have no effects on the financial position of the Group presented in the consolidated statement of financial position in respect of the end of the previous financial year.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. 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 (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for held-for-trading investments and other financial assets that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

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.

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 the sale of goods is recognised when the goods are delivered and title have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably; and
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. 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 on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

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 in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Interest in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest in an associate (Continued)

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interest in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net interest in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Asset as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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 lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasehold land for own use (Continued)

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

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. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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 (or a cash-generating unit) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified into loans and receivables and financial assets at fair value through profit or loss ("FVTPL"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

The Group's held-for-trading investments are classified as financial assets at FVTPL.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend earned on the financial assets and is included in the other gains and losses' line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in note 10.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets at FVTPL (Continued)

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, pledged bank deposits, time deposit 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).

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 when 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
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, where the carrying amount 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.

For financial assets measured at amortised cost, 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 of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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 (including all fees and points paid or received that form an integral part of effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group either transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition (Continued)

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial when, and only when, the Group's obligations are discharged, cancelled or expire. 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, and a reliable estimate can be made of the amount of 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 of time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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.

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 temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those 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 and associates, 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.

Current and 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 current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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 not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. 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 recognised 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 original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, 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.

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 the key assumptions concerning the future, and other 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.

Useful lives and residual value of property, plant and equipment

The Group's management determines the residual values, useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual residual value and useful lives of property, plant and equipment of similar nature and functions and may vary significantly as a result of technical innovations and keen competitions from competitors, resulting in higher depreciation charge and/or write-off or write-down of technically obsolete assets when residual value or useful lives are less than previously estimated.

At 31 December 2011, the carrying amount of property, plant and equipment amounted to approximately RMB1,583,479,000 (2010: RMB981,644,000).

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 provision 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Inventories (Continued)

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 RMB 2,120,000 (2010: RMB18,000) was recognised (note 12). As at 31 December 2011, the carrying amount of inventories is approximately RMB 1,124,737,000 (2010: RMB 818,774,000).

Bills, 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 bills and trade receivables, the responsible sales personnel discuss with the relevant customers and counterparties 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 2011, the carrying amounts of bills, trade and other receivables are approximately RMB356,428,000 (2010: RMB184,111,000), RMB276,987,000 (2010: RMB231,257,000) and RMB23,533,000 (2010: RMB26,548,000) respectively. The cumulative doubtful debts as at 31 December 2011 of trade and other receivables are RMB48,272,000 (2010: RMB39,220,000) and RMB5,241,000 (2010: RMB5,131,000) 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.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011 **RMB'000**	2010 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,677,932**	931,202
Financial assets at FVTPL		
Held-for-trading investments	**34,611**	–
Other financial assets	**4,500**	–
	39,111	–
Financial liabilities		
Amortised costs	**1,897,270**	926,180

Financial risk management objectives and policies

The Group's major financial instruments include bills, trade and other receivables, pledged bank deposits, time deposit, bank balances and cash, held-for-trading investments, other financial assets, bills, 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, interest rate risk and other price 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.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

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's sales are denominated in RMB and the disbursements were also mainly settled in RMB, which is the functional currency of the relevant subsidiaries. The Group's exposure to foreign currency risk is arising mainly from the bank balances and held-for-trading investments of the Group which are denominated in foreign currencies of the relevant group entities. Except for the bank balances and held-for-trading investments denominated in foreign currencies of the relevant group entities, the group entities did not have any other monetary assets or liabilities denominated in foreign currencies as at the end of the reporting period. The management conducts periodic review of exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

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

	Assets		**Liabilities**	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
United State dollars ("US$")	**43**	50	**–**	–
Hong Kong dollars ("HK$")	**139,439**	7,333	**108,595**	22

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 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)		**HK$ impact (ii)**	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit for the year	**(2)**	(2)	**2,399**	(365)

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Sensitivity analysis (Continued)

(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$ bank balances and held-for-trading investments at the year end.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate time deposit, pledged bank deposit and bank borrowings (see notes 24 and 28 for details of these time deposit, pledged bank deposit and borrowings). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and variable-rate borrowings (see notes 24 and 28 for details of these bank balances and borrowings, respectively). The directors of the Company monitor interest rate exposures and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments (including bank balances and borrowings) at the end of the reporting period and the stipulated changes taking place at the beginning of the financial year and held constant throughout the reporting period in the case of bank balances and borrowings.

10 basis point (2010: 10 basis point) increase or decrease on variable bank balances, and 100 basis points increase or decrease on variable-rate borrowings represents managements' assessment of the reasonably possible change in interest rates. If interest rates on variable-rate bank balances had been 10 basis point (2010: 10 basis point) higher and all other variables were held constant, a positive number below indicates an increase in post-tax profit.

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Increase in post-tax profit for the year	**623**	383

The post-tax profit for the year would be decreased by the same amount as mentioned above if interest rate on variable-rate bank balances had been 10 basis point (2010: 10 basis point) lower and all other variables were held constant.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Sensitivity analysis (Continued)

If the interest rate on variable-rate borrowings had been 100 basis points higher and all other variables were held constant, a positive number below indicates a decrease in post-tax profit for the year.

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Decrease in post-tax profit for the year	**2,034**	663

The post-tax profit for the year would be increased by the same amount as mentioned above if interest rate on variable-rate borrowings had been 100 basis points lower and all other variables were held constant.

Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The Group's equity price risk is mainly concentrated on equity instruments of an investee operating in battery industry sector quoted in the Stock Exchange. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise. The Group mitigates its price risk by performing detailed due diligence analysis of investment.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. For sensitivity analysis purpose, the sensitivity rate is increased to 10% in current year as a result of the volatile financial market.

If the prices of the respective equity instruments had been 10% higher/lower, post-tax profit for the year ended 31 December 2011 would increase/decrease by approximately RMB3,028,000 as a result of the changes in fair value of held-for-trading investments.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

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.

There is concentration of credit risk on pledged deposits, time deposit and bank balances for the Group as at 31 December 2011 and 31 December 2010. As at 31 December 2011, balances with four largest banks accounted for 67% (2010: 71%) of on pledged deposits, time deposit and bank balances (2010: pledged deposit and bank balances) of the Group. The credit risk on liquid funds is limited because majority of 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.

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 borrowings. In addition, banking facilities have been put in place for contingency purposes. As at 31 December 2011, the Group has available unutilised banking facilities of approximately RMB1,067,910,000 (2010: RMB1,206,000,000).

The following table details the remaining contractual maturity for the Group's financial liabilities based on the agreed repayment terms. 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 %	**On demand and less than 3 months RMB'000**	**3 months to 1 year RMB'000**	**Over 1 year RMB'000**	**Total undiscounted cash flows RMB'000**	**Carrying amounts at 31.12.2011 RMB'000**
2011						
Non-derivative financial liabilities						
Non-interest bearing	**–**	**360,168**	**66,711**	**–**	**426,879**	**426,879**
Fixed rate instruments	**6.91%**	**322,095**	**693,659**	**–**	**1,015,754**	**988,000**
Variable rate instruments	**6.03%**	**173,550**	**321,544**	**–**	**495,094**	**482,391**
		855,813	**1,081,914**	**–**	**1,937,727**	**1,897,270**

	Weighted average interest rate %	On demand and less than 3 months RMB'000	3 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts at 31.12.2010 RMB'000
2010						
Non-derivative financial liabilities						
Non-interest bearing	–	354,033	26,095	1,052	381,180	381,180
Fixed rate instruments	4.94%	5,824	521,736	31,109	558,669	545,000
		359,857	547,831	32,161	939,849	926,180

6. FINANCIAL INSTRUMENTS (Continued)

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values at the end of reporting period.

Fair value measurements recognised in the consolidated statement of financial position

The Group's financial instruments that are measured subsequent to initial recognition at fair value are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) ("Level 2 measurements"); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The held-for-trading investments with carrying amount of RMB34,611,000 were level 1 measurements while the other financial assets with carrying values of approximately RMB4,500,000 were Level 2 measurements at 31 December 2011.

7. OPERATING SEGMENTS

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 operating result of the Group on a consolidated basis. Therefore, the operation of the Group constitutes one single reportable segment, being the manufacture and sales of lead-acid batteries and battery related accessories.

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 both years.

8. TURNOVER

	2011 **RMB'000**	2010 RMB'000
An analysis of turnover is as follows:		
Lead-acid battery products		
Electrical Bicycle Battery	**4,973,929**	3,526,890
Storage Battery	**42,258**	18,903
Pure Electric Car Battery (Note)	**276,432**	118,271
Battery for other usage	**2,075**	4,104
Nickel hydride and lithium battery products	**95,352**	64,395
Others	**48,275**	20,250
	5,438,321	3,752,813

Note: It includes battery products mainly for pure electronic sedans, electric forklifts, electric patrol cars and special-purpose electric cars etc.

9. OTHER INCOME

	2011 **RMB'000**	2010 RMB'000
Government grants (note)	**70,541**	63,232
Interest income	**5,982**	2,949
Others	**14,482**	8,420
	91,005	74,601

Note: The government grants mainly represent subsidies from the relevant development zones administrative committees and PRC local government to encourage the operations of certain subsidiaries in development zones of approximately RMB55,894,000 (2010: RMB53,095,000).

During the year ended 31 December 2010, 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 RMB1,657,000. There were no unfulfilled conditions attached to these grants and, therefore, the Group recognised the grants upon receipts.

10. OTHER GAINS AND LOSSES

	2011 **RMB'000**	2010 RMB'000
Net gains on held-for-trading investments (note i)	**27,176**	–
Allowance for bad and doubtful debts	**(9,162)**	(3,396)
Loss on disposal of property, plant and equipment (note ii)	**(10,963)**	(11,431)
Loss on disposal of inventory (note ii)	**–**	(6,015)
Net foreign exchange gains (losses)	**3,993**	(297)
	11,044	(21,139)

Note:

(i) Net gains on held-for-trading investments included dividend income of approximately RMB3,320,000, gains on disposals of approximately RMB23,526,000 and gains arising on change in fair value of approximately RMB330,000, which earned on these held-for-trading investments during the year ended 31 December 2011.

(ii) During the year ended 31 December 2011, the amount of property, plant and equipment with carrying amounts of approximately RMB16,225,000 (2010: RMB3,563,000) was derecognised upon disposals of property, plant and equipment with proceeds of approximately RMB5,262,000 (2010: RMB822,000), resulting in a loss of approximately RMB10,963,000 (2010: RMB2,741,000). During the year ended 31 December 2010, the carrying amount of certain property, plant and equipment, net of proceeds of insurance compensation, of approximately RMB8,690,000 and inventories of approximately RMB6,015,000 was written off/disposed of due to a fire accident occurred in a factory.

11. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interests on:		
Bank borrowings wholly repayable within five years	**63,566**	12,638
Factorised bills receivable	**15,251**	1,673
	78,817	14,311

12. PROFIT BEFORE TAXATION

	2011 RMB'000	2010 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments (note 13)	**2,973**	3,174
Other staff retirement benefits scheme contributions	**19,482**	12,754
Other staff costs	**403,195**	265,107
Share-based payment expense	**26,980**	7,645
Total staff costs	**452,630**	288,680
Reversal of allowance for inventories (included in cost of sales) (note)	**(2,120)**	(18)
Amortisation of prepaid lease payments	**2,097**	1,989
Auditor's remuneration	**3,091**	2,219
Cost of inventories recognised as expense	**3,906,161**	2,881,371
Depreciation	**77,756**	63,386

Note: During the year ended 31 December 2011, the Group sold inventories of approximately RMB2,120,000 which were fully impaired in prior periods. As a result, a reversal of allowance for inventory of approximately RMB2,120,000 (2010: RMB18,000) have been recognised.

Share-based payments expense of approximately RMB27,136,000 (2010: RMB7,645,000) were recognised in profit or loss during the year ended 31 December 2011 in respect of share options of the Company. Details of transactions are set out in note 30.

13. DIRECTORS AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the nine (2010: ten) directors for the year ended 31 December 2011 were as follows:

Year ended 31 December 2011

	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 (note)	Huang Dongliang RMB'000	Wang Jingzhong RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	200	67	200	200	667
Other emoluments											
Salaries and other benefits	591	341	341	291	341	191	–	–	–	–	2,096
Contributions to retirement benefits scheme	9	9	9	9	9	9	–	–	–	–	54
Share option expense	–	–	–	–	–	–	39	39	39	39	156
Total emoluments	600	350	350	300	350	200	239	106	239	239	2,973

Year ended 31 December 2010

	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	–	–	–	–	–	–	200	200	200	200	800
Other emoluments											
Salaries and other benefits	591	341	341	295	341	192	–	–	–	–	2,101
Contributions to retirement benefits scheme	9	9	9	5	9	8	–	–	–	–	49
Share option expense	–	–	–	–	–	–	56	56	56	56	224
Total emoluments	600	350	350	300	350	200	256	256	256	256	3,174

Note: The director was resigned on 7 May 2011.

13. DIRECTORS AND EMPLOYEES' EMOLUMENTS (Continued)

The five highest paid individuals included one (2010: five) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining four (2010: nil) highest paid individuals during the year are as follows:

	2011 **RMB'000**	2010 RMB'000
Basic salaries and allowances	**1,948**	–
Retirement benefits scheme contributions	**38**	–
Share option expense	**630**	–
	2,616	–

Their emoluments are within the following band:

	Number of employees **2011**	2010
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 both years.

14. TAXATION

	2011 **RMB'000**	2010 RMB'000
Hong Kong		
Current tax	**3,857**	–
PRC Enterprise Income Tax ("EIT"):		
Current tax	**200,088**	84,778
Withholding tax	**6,778**	–
Under provision in prior years	**1,392**	5,549
	212,115	90,327
Deferred tax (note 20)		
Current year	**1,583**	(7,855)
	213,698	82,472

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year ended 31 December 2011. No provision for Hong Kong Profits Tax was made for the year ended 31 December 2010 as the Group's income was neither arisen in nor derived from Hong Kong.

14. TAXATION (Continued)

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.

Tianneng Battery Group Co., Ltd. was recognised as High-Tech company and has enjoyed the tax rate of 15% starting from 1 January 2010 until 31 December 2013.

Tianneng Battery (Wuhu) Co., Ltd. ("Tianneng Wuhu") operating in the PRC which was eligible for certain tax holidays and concessions in prior periods has applied standard tax rate of 25% during the year ended 31 December 2011 due to expiry of the relevant tax holidays and concession.

Withholding tax provision of approximately RMB 24,778,000 has been recognised for in the year ended 31 December 2011 based on the dividends policy by the PRC entities to non-PRC residents shareholders.

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

	2011		2010	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**829,685**		428,752	
Tax at the applicable income tax rate of 25% (2010: 25%) (note)	**207,421**	**25.0**	107,188	25.0
Tax effect of expenses not deductible for tax purposes	**5,127**	**0.6**	3,035	0.7
Tax effect of income not taxable for tax purposes	**–**	**–**	(82)	–
Tax effect of tax losses not recognised	**1,285**	**0.2**	2,520	0.5
Tax effect of deductible temporary differences not recognised	**2,793**	**0.3**	–	–
Utilisation of tax losses not recognised	**(160)**	**–**	(66)	–
Income tax on concessionary rate	**(18,744)**	**(2.3)**	(23,508)	(5.5)
Under provision in prior years	**1,392**	**0.2**	5,549	1.3
Tax effect of additional deduction related to research and development cost and certain staff costs	**(10,194)**	**(1.2)**	(12,164)	(2.8)
Withholding tax	**24,778**	**3.0**	–	–
Taxation charge and effective tax rate for the year	**213,698**	**25.8**	82,472	19.2

Note: The domestic income tax rate of 25% (2010: 25%) represents the PRC Enterprise Income Tax rate of which the Group's operations are substantially based.

15. DIVIDENDS

	2011 RMB'000	2010 RMB'000
2010 final dividend declared of HK11.6 cents (equivalent to RMB9.8 cents) (2009: HK8.8 cents (equivalent to RMB7.8 cents)) per ordinary share	**105,394**	83,852
2011 final dividend proposed of HK20.8 cents (equivalent to RMB16.9 cents) (2010: HK11.6 cents (equivalent to RMB9.8 cents)) per ordinary share	**183,768**	105,720

A final dividend of HK20.8 cents (equivalent to RMB16.9 cents) per ordinary share (2010: HK11.6 cents (equivalent to RMB9.8 cents) per share) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

16. EARNINGS PER SHARE

	2011 RMB'000	2010 RMB'000
Earnings:		
Earnings for the purposes of calculating basic and diluted earnings per share – attributable to the owners of the Company	**615,987**	346,280
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,087,883,997**	1,082,597,795
Effect of dilutive potential ordinary shares-share options	**14,499,506**	16,446,444
Weighted average number of ordinary shares for the purpose of calculating diluted earnings for share	**1,102,383,503**	1,099,044,239

Certain outstanding share options of the Company did not have a dilutive effect to the Company's earnings per share during the year ended 31 December 2011 and 31 December 2010 because the exercise prices of these Company's share options were higher than the average market prices of the Company's shares during that year.

17. 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 2010	293,707	418,551	18,685	16,514	747	101,214	849,418
Additions	29,242	49,222	5,654	6,855	–	262,344	353,317
Transfer	67,643	47,952	–	3,522	–	(119,117)	–
Disposals/write-off	(8,907)	(14,890)	(960)	(11)	–	–	(24,768)
At 31 December 2010	381,685	500,835	23,379	26,880	747	244,441	1,177,967
Additions	19,226	35,082	10,386	16,025	–	615,097	695,816
Transfer	135,607	116,009	824	3,579	–	(256,019)	–
Disposals/write-off	(4,477)	(19,321)	(2,306)	(103)	–	(963)	(27,170)
At 31 December 2011	532,041	632,605	32,283	46,381	747	602,556	1,846,613
DEPRECIATION							
At 1 January 2010	43,391	76,659	9,581	6,518	613	–	136,762
Provided for the year	15,209	42,173	2,210	3,739	55	–	63,386
Eliminated on disposals/ write-off	(791)	(2,166)	(864)	(4)	–	–	(3,825)
At 31 December 2010	57,809	116,666	10,927	10,253	668	–	196,323
Provided for the year	19,708	49,291	3,429	5,277	51	–	77,756
Eliminated on disposals/ write-off	(906)	(8,011)	(1,952)	(76)	–	–	(10,945)
At 31 December 2011	76,611	157,946	12,404	15,454	719	–	263,134
CARRYING VALUES							
At 31 December 2011	455,430	474,659	19,879	30,927	28	602,556	1,583,479
At 31 December 2010	323,876	384,169	12,452	16,627	79	244,441	981,644

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

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 2011, included in buildings held for own use are buildings with carrying amount of RMB131,070,000 (2010: RMB52,447,000), of which the official legal titles have not been obtained.

18. PREPAID LEASE PAYMENTS

	2011	2010
	RMB'000	RMB'000
Non-current	**102,241**	97,276
Current	**2,261**	2,117
	104,502	99,393

As at 31 December 2011, included in prepaid lease payments are land use rights of RMB3,939,000 (2010: RMB490,000), 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.

19. INTEREST IN AN ASSOCIATE

	2011	2010
	RMB'000	RMB'000
Cost of investment in an unlisted entity	**1,800**	1,800
Share of post-acquisition losses	**(341)**	–
	1,459	1,800

19. INTEREST IN AN ASSOCIATE (Continued)

Particulars of the Group's associate at 31 December 2011 and 31 December 2010 are as follows:

Name of associate	Place and date of establishment and operation	Fully paid registered capital	Attributable equity interest to the Group 2011	Attributable equity interest to the Group 2010	Principle activity
金華三方新能源汽車服務有限公司 (Sanfang New Energy Automobile Services Co. Ltd.)	PRC – Limited liability company 31 December 2010	Registered capital – RMB6,000,000	30%	30%	Rental of electric motor vehicle

The summarised financial information in respect of the Group's associate is set out below:

	2011 RMB'000	2010 RMB'000
Total assets	5,095	6,000
Total liabilities	232	–
Net assets	4,863	6,000
Group's share of net assets of an associate	1,459	1,800

	2011 RMB'000	2010 RMB'000
Revenue	26	–
Loss for the year	(1,137)	–
Group's share of loss of an associate for the year	(341)	–

20. DEFERRED TAXATION

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

	Withholding Tax RMB'000	Fair value change of held-for-trading investment RMB'000	Provision for inventories, trade and other receivables RMB'000	Accrued warranty RMB'000	Accrued expenses RMB'000	Total RMB'000
At 1 January 2010	–	–	9,361	5,968	11,398	26,727
Credit (charge) to profit or loss	–	–	655	(1,252)	8,452	7,855
At 31 December 2010 and 1 January 2011	**–**	**–**	**10,016**	**4,716**	**19,850**	**34,582**
Charge (credit) to profit or loss	**(18,000)**	**(55)**	**1,958**	**2,746**	**11,768**	**(1,583)**
At 31 December 2011	**(18,000)**	**(55)**	**11,974**	**7,462**	**31,618**	**32,999**

The following is the analysis of the deferred tax balance for financial report presentation purposes.

	2011 RMB'000	2010 RMB'000
Deferred tax assets	**51,054**	34,582
Deferred tax liabilities	**(18,055)**	–
	32,999	34,582

At 31 December 2011, the Group has not recognised deductible temporary differences on provision for inventories, trade and other receivables, accrued warranty and other accrued expenses of approximately RMB17,217,000 (2010: RMB6,044,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At 31 December 2011, the Group had unused tax losses of approximately RMB45,496,000 (2010: RMB44,927,000) 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 2016 (2010: 2015).

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 RMB1,056 million (31.12.2010: RMB625 million) as the Group is able to control the timing of the reversal of the temporary differences and the Group has determined that this portion of profits derived from these PRC operating subsidiaries will be retained by these subsidiaries and will not be distributed in the foreseeable future, Therefore, it is probable that such difference will not reverse in the foreseeable future..

21. INVENTORIES

	2011 RMB'000	2010 RMB'000
Raw materials	**347,919**	286,099
Work-in-progress	**736,333**	520,022
Finished goods	**40,485**	12,653
	1,124,737	818,774

22. HELD-FOR-TRADING INVESTMENTS

The investments represent equity securities listed in Hong Kong. Fair values are determined with reference to quoted market bid prices.

23. BILLS, TRADE AND OTHER RECEIVABLES

	2011 RMB'000	2010 RMB'000
Bills receivables	**356,428**	184,111
Trade receivables	**325,259**	270,477
Less: Allowance for bad and doubtful debts	**(48,272)**	(39,220)
	276,987	231,257
Other receivables	**28,774**	31,679
Less: Allowance for bad and doubtful debts	**(5,241)**	(5,131)
	23,533	26,548
Prepayments	**63,807**	91,069
Value Added Tax receivables	**101,411**	101,839
	822,166	634,824

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

	2011 RMB'000	2010 RMB'000
0 to 180 days	**354,928**	183,223
181 to 365 days	**1,500**	888
	356,428	184,111

23. BILLS, TRADE AND OTHER RECEIVABLES (Continued)

Included in the above bills receivables of approximately RMB1,500,000 (2010: RMB888,000) 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 (2010: 45 days) for trade debtors. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the end of the reporting period, presented based on the invoice date:

	2011	2010
	RMB'000	RMB'000
0 to 45 days	**227,705**	209,434
46 to 90 days	**17,714**	11,354
91 to 180 days	**21,802**	4,943
181 to 365 days	**9,766**	5,526
	276,987	231,257

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 receivables and considers trade 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 trade receivable balance are debtors with aggregate carrying amount of approximately RMB49,282,000 (2010: RMB21,823,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss.

23. BILLS, TRADE AND OTHER RECEIVABLES (Continued)

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

	2011 **RMB'000**	2010 RMB'000
46 – 90 days	**17,714**	11,354
91 – 180 days	**21,802**	4,943
181 – 365 days	**9,766**	5,526
	49,282	21,823

Based on the historical experience of the Group, trade receivables which are past due for less than one year but not impaired are generally recoverable. The Group does not hold any collateral over these balances.

The Group has no significant concentration of credit risk on bills, trade and other receivables, with exposure 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

	2011 **RMB'000**	2010 RMB'000
1 January	**39,220**	37,658
Allowance for bad and doubtful debts	**9,366**	1,562
Reversal of bad and doubtful debts	**(314)**	–
31 December	**48,272**	39,220

23. BILLS, TRADE AND OTHER RECEIVABLES (Continued)

Movement in the allowance for doubtful debts – other receivables

	2011 RMB'000	2010 RMB'000
1 January	**5,131**	3,297
Allowance for bad and doubtful debts	**504**	1,834
Reversal of bad and doubtful debts	**(394)**	–
31 December	**5,241**	5,131

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

During the year, the Group discounted RMB480,372,000 (2010: RMB126,436,000) 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 recognise the full carrying amount of receivables and has recognised the cash received on the transfer as secured borrowings. As at 31 December 2011, RMB50,000,000 (2010: nil) of bills receivables are discounted to banks with recourse.

24. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH/TIME DEPOSIT

Pledged bank deposits represented bank deposits pledged to banks to secure short-term banking facilities granted to the Group. The pledged deposits in 2011 carried interest rate ranging from 2.2% to 3.3% (2010: fixed rate of 2.2%) per annum.

Bank balances and cash comprise cash at bank 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 0.001% to 1.31% (2010: 0.001% to 1.35%) per annum.

Time deposit represented bank deposits placed in a bank in the PRC with maturing of one year. The interest rate is fixed at 3.25% per annum. The carrying amount of the time deposit approximates its fair value.

At 31 December 2011, certain time deposit, bank balances and cash and pledged bank deposits of approximately RMB908,133,000 (2010: RMB482,579,000) 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.

25. OTHER FINANCIAL ASSETS

	2011 RMB'000	2010 RMB'000
Financial assets designated as at fair value through profit or loss ("FVTPL")	4,500	–

At 31 December 2011, the Group had a contract with a bank for a period of one month. The significant terms and conditions relating to the financial assets as FVTPL were as follows:

Notional amount	Start date	End date	Interest rate
RMB4,500,000	28 December 2011	31 January 2012	variable

The product was a principal-protected deposit. Yield rate was related to the net value of an index, namely Total Assets Spot ("NVTAS") which is a portfolio of debt securities, after deducting management fee payable to the bank on each business date ("Daily Appreciation") during the contracted period. In accordance with the relevant terms of the agreement, the yield rate would be as followings:

(1) Yield rate would be zero if market value of the NVTAS was less than the aggregate amount of the principal amount of the deposit and management fee payable to the bank;

(2) Yield rate would be a proportion of 4.7% per annum if the market value of the NVTAS was higher than details as in (1) above but less than the expected NVTAS as pre-determined on the initial contract date of the transaction; or otherwise,

(3) Yield rate would be 4.7% per annum.

The deposit at 31 December 2011 was designated at fair value through profit or loss upon initial recognition as the deposit formed part of contracts containing embedded derivatives. It was stated at fair value derived from discounted cash flow analysis based on the terms of the products and relevant market inputs, such as changes in fair value of related debt securities included in the portfolio on 31 December 2011, which was provided by the counterparty financial institution.

The other financial assets at 31 December 2011 had been fully settled on 31 January 2012 with yield rate of 4.7%. The director of the Company consider that the fair value of the other financial assets approximated to its carrying value at 31 December 2011.

26. BILLS, TRADE AND OTHER PAYABLES

	2011 RMB'000	2010 RMB'000
Trade payables	**273,958**	191,591
Bills payables	**19,130**	80,000
Other payables and accrued charges (note)	**416,892**	273,848
	709,980	545,439

Note: Included in the other payables and accrued charges is an amount of RMB32,309,000 (2010: RMB21,175,000) 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, presented based on the invoice date:

	2011 RMB'000	2010 RMB'000
0 to 90 days	**224,008**	161,631
91 to 180 days	**31,555**	12,898
181 to 365 days	**14,834**	11,230
1 to 2 years	**1,600**	4,311
Over 2 years	**1,961**	1,521
	273,958	191,591

The Group receives a further credit terms of 90 to 180 days (2010: 90 days) for settlement of trade payables by way of bills. The following is an aged analysis of bills payables at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
0 – 90 days	**11,300**	80,000
91 – 180 days	**7,830**	–
	19,130	80,000

27. AMOUNT DUE TO A RELATED COMPANY

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

Name of related company	**2011 RMB'000**	2010 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)	**65**	46

Note: This related company is beneficially owned by Ms. Chen Pingping and Ms. She Fangli, the cousin and niece of Mr. Zhang Tianren, a substantial shareholder and executive director of the Company.

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

28. BANK BORROWINGS

	2011 RMB'000	2010 RMB'000
Secured	**93,500**	110,000
Unsecured	**1,376,891**	435,000
	1,470,391	545,000
Carrying amounts repayable:		
Within one year	**1,470,391**	515,000
More than one year, but not exceeding two years	**–**	30,000
	1,470,391	545,000
Less: Amounts due within one year shown under current liabilities	**(1,470,391)**	(515,000)
Amounts shown under non-current liabilities	**–**	30,000

The bank borrowings at 31 December 2011 are denominated in RMB and carry fixed and variable interest rates ranging from 3.75% to 8.20% (2010: 4.36% to 6.12%) per annum, respectively.

Details of assets pledged by the Group at the end of the reporting period are set out in note 31.

29. SHARE CAPITAL

	Number of shares 2011	2010	Amount equivalent to 2011 RMB'000	2010 RMB'000
Shares of the Company with nominal value of HK$0.1 each				
Authorised:				
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	**2,000,000,000**	2,000,000,000	**212,780**	212,780
Issued and fully paid:				
At beginning of year	**1,083,327,000**	1,080,000,000	**106,377**	106,085
Exercise of share options	**6,472,000**	3,327,000	**540**	292
At end of year	**1,089,799,000**	1,083,327,000	**106,917**	106,377

Note: During the year ended 31 December 2011, 6,472,000 share options were exercised at a subscription price of HK$1.22 per share (equivalent to approximately RMB1.01 per share), resulting in the issue of 6,472,000 ordinary shares of HK$0.10 each in the Company.

During the year ended 31 December 2010, 3,327,000 share options were exercised at a subscription price of HK$1.22 per share (equivalent to approximately RMB1.08 per share), resulting in the issue of 3,327,000 ordinary shares of HK$0.10 each in the Company.

Shares issued by the Company during the year ended 31 December 2011 and 31 December 2010 ranked pari passu in all respects with all shares in issue.

30. SHARE OPTION SCHEMES

The Company has a share options scheme (the "Scheme") for eligible directors of the Company, eligible employees of the Group and other selected participants. According to the terms of the Scheme, option granted must be taken up within 28 days from the date of grant, upon payment of HK$1.00. The options may be exercised in accordance with the terms of the Scheme at any time during the exercise period determined by the board of directors which shall in any event not be more than ten years from the date of grant. Share options are vested over a period up to a maximum of four years after the first anniversary of the date of grant.

The total number of shares issued and which may fall to be issued upon exercise of the options granted pursuant to the Share Option Scheme to an eligible participant in any 12-month period shall not exceed 1% of the number of shares in issue unless approved by shareholders in general meeting. The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10% of the Shares in issue on the date on which dealings in the Shares first commence on the Stock Exchange, i.e. a total of 100,000,000 shares.

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

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

30. SHARE OPTION SCHEMES (Continued)

The share options outstanding under the Scheme during the year ended 31 December 2011 and 31 December 2010 are as follows:

Name of grantee	Date of grant	Exercisable period	Exercise price HK$	Outstanding as at 1.1.2011	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31.12.2011
Directors								
Ho Tso Hsiu	30.3.2009	30.3.2010-25.2.2017	HK$1.22	**315,000**	**–**	**(70,000)**	**–**	**245,000**
Huang Dongliang	30.3.2009	30.3.2010-25.2.2017	HK$1.22	**315,000**	**–**	**(70,000)**	**–**	**245,000**
Wang Jingzhong	30.3.2009	30.3.2010-25.2.2017	HK$1.22	**315,000**	**–**	**(70,000))**	**–**	**245,000**
Employees								
Employees	30.3.2009	30.3.2010-25.2.2017	HK$1.22	**28,557,000**	**–**	**(6,262,000)**	**(749,000)**	**21,546,000**
Employees	22.11.2010	22.11.2011-21.11.2020	HK$3.18	**44,170,000**	**–**	**–**	**(2,290,000)**	**41,880,000**
				73,672,000	**–**	**(6,472,000)**	**(3,039,000)**	**64,161,000**
Exercisable at the end of the year								**4,188,000**

Name of grantee	Date of grant	Exercisable period	Exercise price HK$	Outstanding as at 1.1.2010	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31.12.2010
Directors								
Ho Tso Hsiu	30.3.2009	30.3.2010-25.2.2017	HK$1.22	350,000	–	(35,000)	–	315,000
Huang Dongliang	30.3.2009	30.3.2010-25.2.2017	HK$1.22	350,000	–	(35,000)	–	315,000
Wang Jingzhong	30.3.2009	30.3.2010-25.2.2017	HK$1.22	350,000	–	(35,000)	–	315,000
Cheng Chengwen	30.3.2009	30.3.2010-25.2.2017	HK$1.22	350,000	–	(35,000)	–	315,000
Employees								
Employees	30.3.2009	30.3.2010-25.2.2017	HK$1.22	32,410,000	–	(3,187,000)	(981,000)	28,242,000
Employees	22.11.2010	22.11.2011-21.11.2020	HK$3.18	–	44,720,000	–	(550,000)	44,170,000
				33,810,000	44,720,000	(3,327,000)	(1,531,000)	73,672,000
Exercisable at the end of the year								–

At 31 December 2011, the number of share in respect of options under the Share Option Scheme had been granted and remained outstanding was 64,161,000 (2010:73,672,000), representing 5.89% (2010: 6.80%) of the shares of the Company in issue at that date.

30. SHARE OPTION SCHEMES (Continued)

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK$4.21 (2010: HK$5.04) per share.

The closing price of the Company's shares immediately before 22 November 2010, the date of grant of the options was HK$3.15 (equivalent to approximately RMB2.70) and the total estimated fair value of the share options granted on that date was HK$73,820,000 (equivalent to approximately RMB63,205,000).

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

	22.11.2010
Stock price as at grant date	HK$3.15
Exercise price	HK$3.18
Expected volatility	64%
Expected life of options	10 years
Risk free rate	2.427%
Expected dividend yield	2.9%
Sub-optimal exercise factor for directors/ senior management/employees	nil/2.8/2.2

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. Expected volatility was determined by using the historical volatility of the Company's share prices over the previous four years. Changes in variables and assumptions may result in changes in the fair value of the options.

During the year ended 31 December 2011, the Group recognised total expenses of RMB27,136,000 (2010: RMB7,645,000) in relation to share options granted by the Company.

31. PLEDGE OF ASSETS

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

	2011 **RMB'000**	2010 RMB'000
Bank deposits	**166,100**	64,983
Bills receivables	**90,506**	35,481
Property, plant and equipment	**59,915**	64,424
Prepaid lease payments	**16,560**	16,948
	333,081	181,836

32. CAPITAL COMMITMENTS

	2011 RMB'000	2010 RMB'000
Contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	**341,426**	170,916

33. 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.

34. RELATED PARTY TRANSACTIONS

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

Name of related company	Nature of transaction	2011 RMB'000	2010 RMB'000
Changxing Jin Ling Hotel	Other expenses	**3,224**	1,951
Xin Xin Packaging	Purchase of consumables	**209**	209

The related companies are controlled by a director and a substantial shareholder of the Company, who has significant influence over 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 13.

(c) Details of the balances with related companies are set out in note 27.

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries at 31 December 2011 and 2010 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 (2010: US$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 (2010: RMB120,000,000)	100%	Manufacture and sales of lead-acid batteries
天能電池集團有限公司 Tianneng Battery Group Co., Ltd. (previously known as 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 (2010: RMB615,000,000)	100%	Investment holding, research and development, manufacture and sales of lead-acid batteries and battery related accessories
浙江天能能源科技有限公司 Zhejiang Tianneng Energy Technology Co., Ltd.	PRC – Limited liability company 1 July 2004	Registered capital – RMB136,000,000 (2010: RMB136,000,000)	100%	Manufacture and sales of lithium 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 (2010: RMB500,000)	100%	Provision of transportation service to group companies
天能電池(蕪湖)有限公司 Tianneng Battery (Wuhu) Co., Ltd.	PRC – Limited liability company 21 October 2006	Registered capital – RMB230,000,000 (2010: RMB230,000,000)	100%	Manufacture and sales of lead-acid batteries
浙江天能電池(江蘇)有限公司 Zhejiang Tianneng Battery (Jiangsu) Co., Ltd.	PRC – Limited liability company 9 May 2006	Registered capital – RMB200,000,000 (2010: RMB200,000,000)	100%	Manufacture and sales of lead-acid batteries
浙江天能電池(江蘇)新能源有限公司 Zhejiang Tianneng Battery (Jiangsu) New Energy Co., Ltd.	PRC – Limited liability company 7 January 2009	Registered capital – RMB120,000,000 (2010: RMB120,000,000)	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.	PRC – Limited liability company 1 July 2009	Registered capital – RMB100,000,000 (2010: RMB70,000,000)	100%	Manufacture and sale of lead-acid batteries

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place and date of incorporation/ establishment and operation	Fully paid registered capital	Attributable equity interest of the Group	Principal activities
浙江天能電源材料有限公司 Zhejiang Tianneng Power Supply Material Co., Ltd.	PRC – Limited liability company 1 July 2009	Registered capital – RMB100,000,000 (2010: RMB30,000,000)	100%	Research and development of recycled batteries
浙江天能能源科技研究院 Zhejiang Tianneng Energy Technology Research Center	PRC private non-enterprise entity 27 May 2009	Registered capital – RMB500,000 (2010: RMB500,000)	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.	PRC – Limited liability company 24 March 2009	Registered capital – RMB80,000,000 (2010: RMB80,000,000)	100%	Sales of metal materials
長興新天物資經營有限公司 Changxing Xintian Material Trading Co., Ltd.	PRC – Limited liability company 24 July 2009	Registered capital – RMB20,000,000 (2010: RMB20,000,000)	100%	Sales of metal materials

Note:

(a) Directly held by the Company.

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

36. SUBSEQUENT EVENT

The Group has signed an agreement with two independent third parties on 22 March 2012 to acquire 100% interest of a PRC company at a cash consideration up to approximately RMB67.62 million. Such company is principally engaged in manufacture and sales of lead-acid battery in Changxing County, Zhejiang Province and is expected to contribute an additional annual production capacity of 3 million units of lead-acid battery product to the Group.

37. FINANCIAL INFORMATION OF THE COMPANY

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

	2011	2010
	RMB'000	RMB'000
ASSETS		
Property, plant and equipment	**46**	117
Investment in and amount due from subsidiaries	**1,142,514**	825,096
Trade and other receivables	**537**	699
Bank balances and cash	**6,748**	2,225
	1,149,845	828,137
LIABILITIES		
Trade and other payables	**1,079**	816
NET ASSETS	**1,148,766**	827,321
CAPITAL AND RESERVES		
Share capital	**106,917**	106,377
Share premium	**716,081**	707,263
Reserves	**325,768**	13,681
Total equity	**1,148,766**	827,321

Financial Summary

	Year ended 31 December				
	2007	2008	2009	2010	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Turnover	1,953,995	2,585,301	2,254,947	3,752,813	**5,438,321**
Profit before taxation	241,428	278,598	319,674	428,752	**829,685**
Taxation	38,539	44,390	48,979	82,472	**213,698**
Profit for the year	202,889	234,208	270,695	346,280	**615,987**

	As at 31 December				
	2007	2008	2009	2010	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,668,024	1,668,194	2,258,414	3,084,525	**4,782,851**
Total liabilities	605,511	431,912	575,892	1,128,363	**2,282,377**
Net assets	1,062,513	1,236,282	1,682,522	1,956,162	**2,500,474**