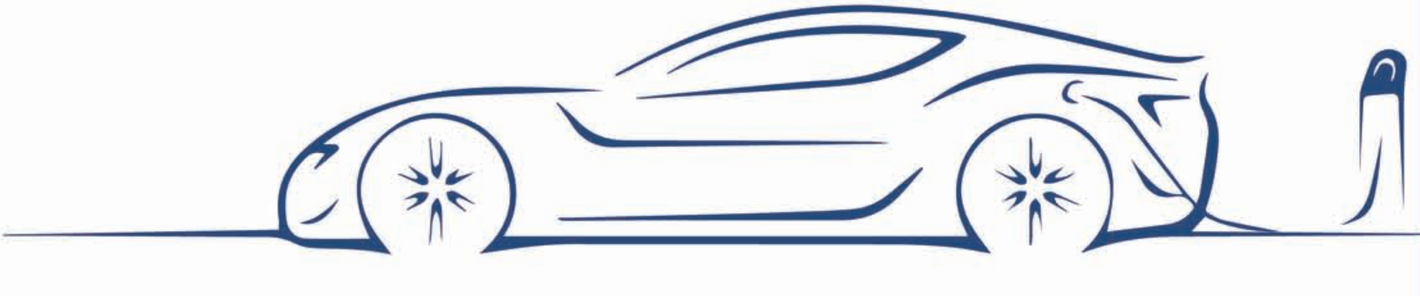
TIANNENG POWER
INTERNATIONAL LIMITED
天能動力國際有限公司
(Incorporated in the Cayman Islands with limited liability)
Stock code：00819.HK

2016 ANNUAL REPORT

GREEN DEVELOPMENT
INNOVATION-DRIVEN GROWTH

- Constituent stock of Hong Kong Hang Seng Composite Index
- Constituent stock of MSCI Index
- Shenzhen Hong Kong Stock Connect Security
- Constituent stock of Hang Seng Corporate Sustainability Index



E-Bike
E-Tricycle
E-Vehicle
Recycle
Storage

CONTENTS

Executive Directors

Dr. Zhang Tianren *(Chairman)*
Mr. Zhang Aogen
Mr. Chen Minru
Mr. Shi Borong
Mr. Zhang Kaihong
Mr. Zhou Jianzhong

Independent Non-Executive Directors

Mr. Guo Konghui
Mr. Huang Dongliang
Mr. Wu Feng

Audit Committee Members

Mr. Huang Dongliang *(Chairman)*
Mr. Wu Feng
Mr. Guo Konghui

Remuneration Committee Members

Mr. Wu Feng *(Chairman)*
Mr. Chen Minru
Mr. Huang Dongliang

Nomination Committee Members

Dr. Zhang Tianren *(Chairman)*
Mr. Huang Dongliang
Mr. Wu Feng

Company Secretary

Ms. Hui Wai Man Shirley

Auditor

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

Compliance Adviser

Gram Capital Limited
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Nan Fung Tower
88 Connaught Road Central/73 Des Voeux Road Central
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 3202, Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Principal Share Registrar

Codan Trust Company (Cayman) Limited
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P.O. Box 2681, Grand Cayman
KY1-1111, Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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183 Queen's Road East
Hong Kong

Public Relations

Porda Havas International Finance Communications Group
Units 2009-2018, 20/F, Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

Listing Information

The Stock Exchange of Hong Kong Limited
Stock Code: 00819

Company's Website

http://www.tianneng.com.hk

The Group engages in six major businesses in China, including:

1. New energy vehicle lithium battery
2. Mini electric car motive battery
3. Electric tricycle motive battery
4. Electric bike motive battery
5. Energy storage batteries
6. Old battery recycling business

The Group is the most influential motive battery solution provider in the electric vehicle market in China.

Tianneng Power International Limited ("the Company" or "Tianneng Power" and its subsidiaries, "the Group") adheres to the belief of "New Energy New World" in the People's Republic of China (the "PRC") and aims at achieving the goal of becoming "a world leading new energy solution provider". After 31 years of development, the Group has developed into a new energy high-tech company engaging in businesses such as motive batteries for electric vehicles, wind energy and solar energy storage batteries as well as recycling of resources.

The Company's business started in 1986, and it completed its listing on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2007. As of 31 December 2016, the Group had eight production bases in four provinces of the PRC, which were located at (1) Changxing Headquarter, (2) Meishan Town and (3) Heping Town of Changxing County in Zhejiang Province, (4) Suyang County in Jiangsu Province, (5) Wuhu City and (6) Jieshou City in Anhui Province, and (7) Puyang City and (8) Jiyuan City in Henan Province respectively.

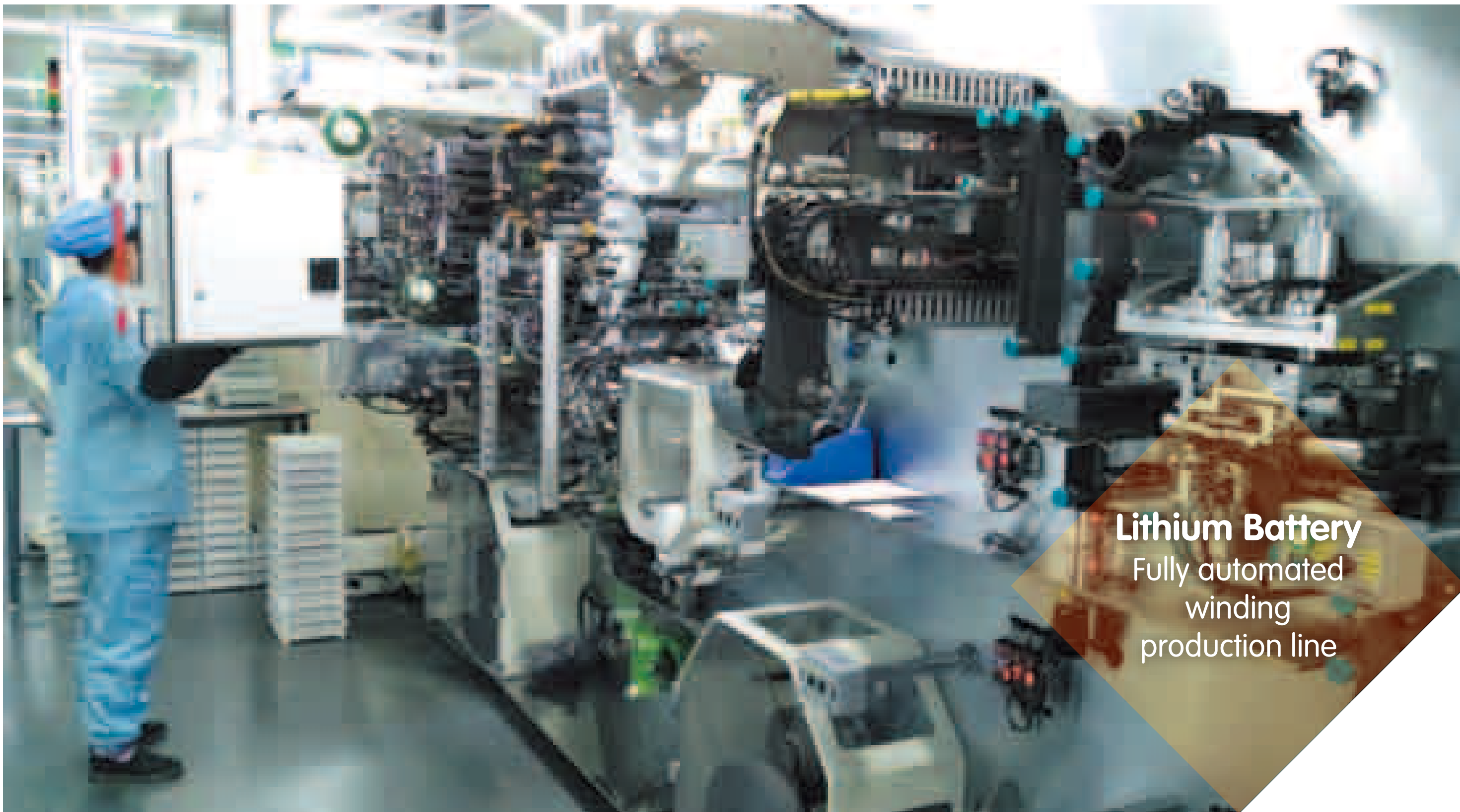
After years of research and observation, the international capital market recognized the results of the Group. The Company has been included as the constituent stocks of the China Low Carbon Index, Hong Kong Hang Seng Composite Index, Hang Seng Global Composite Index, Hang Seng Corporate Sustainability Index, Morgan Stanley Small Cap (China) Index and Shenzhen-Hong Kong Stock Connect Index respectively.

Note: In the "Company Profile" section, electric vehicles include electric car, electric tricycle and electric bike.

COMPANY PROFILE – LITHIUM BATTERY PRODUCTION BASE

Lithium Battery
Fully automated coating production line

Lithium Battery
Charging workshop


Lithium Battery
Fully automated winding production line


18650 Lithium Battery
Fully automated assembly production line

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

Consolidated Statement of Comprehensive Income (Note 1)

	Year ended 31 December				
	2016	2015	2014	2013	2012
Turnover	**21,480,891**	17,804,068	14,043,731	13,635,060	9,887,641
(Loss)/profit before taxation	**1,145,083**	745,629	(407,102)	141,240	912,515
Taxation	**(239,561)**	(117,832)	114,115	(10,915)	(203,116)
(Loss)/profit for the year	**905,522**	627,797	(292,987)	130,325	709,399
Non-controlling interest	**46,976**	16,861	11,930	(4,970)	(738)
(Loss)/profit attributable to owners of the Company	**858,546**	610,936	(304,917)	135,295	710,137
(Losses)/earnings per share (RMB/share)					
– Basic	**0.76**	0.55	(0.27)	0.12	0.65
– Diluted	**0.74**	0.54	(0.27)	0.12	0.64

Consolidated Statement of Financial Position (Note 2)

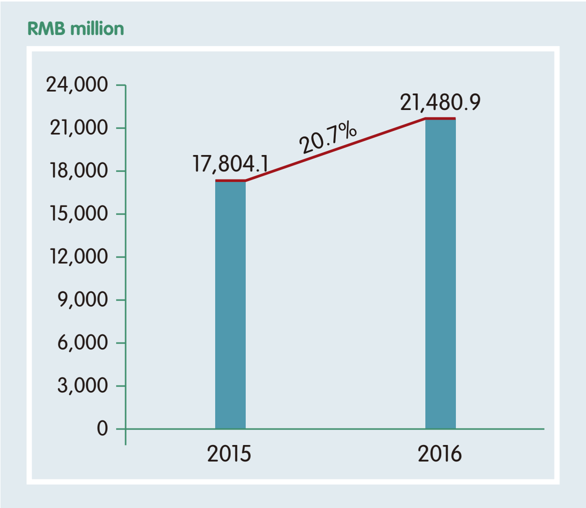
	As at 31 December				
	2016	2015	2014	2013	2012
Total assets	**12,129,825**	10,546,091	8,713,603	7,904,226	7,445,211
Total liabilities	**8,023,225**	7,078,950	5,967,963	4,841,959	4,322,868
Net assets/Total equity	**4,106,600**	3,467,141	2,745,640	3,062,267	3,122,343

Notes:

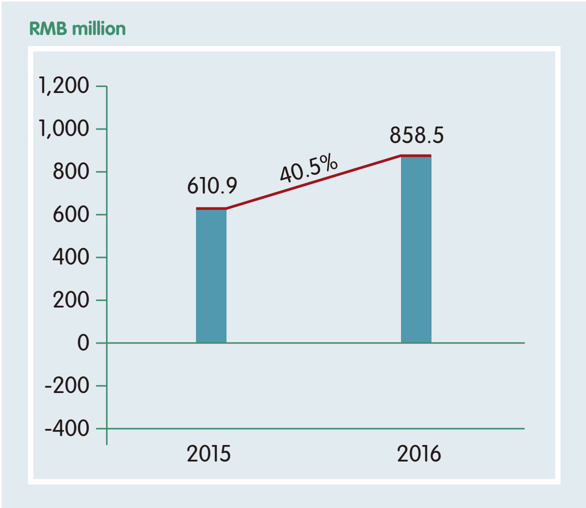
1. The results for the years ended 31 December 2012 and 2013 are set out on page 123 of the Company's 2013 annual report. The results for the years ended 31 December 2014 and 2015 are set out on page 64 of the Company's 2015 annual report. All such information is extracted from the financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRSs").

2. The consolidated statements of financial position as at 31 December 2012 and 2013 are set out on page 124 of the Company's 2013 annual report. The consolidated statements of financial position as at 31 December 2013 and 2014 are set out on page 65 of the Company's 2014 annual report. All such information is extracted from the financial statements prepared under HKFRSs.

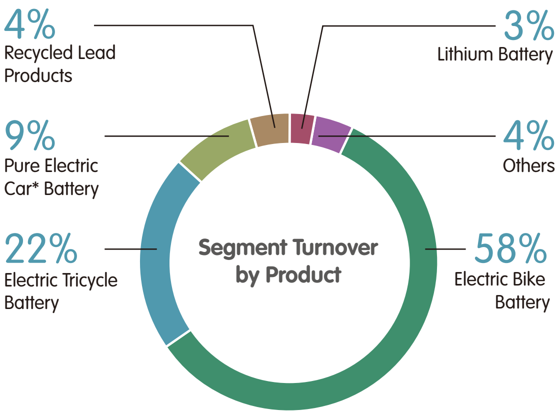
SALES TURNOVER



PROFIT ATTRIBUTABLE TO SHAREHOLDERS



SEGMENT TURNOVER



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

SHARING THE STRATEGIC OPPORTUNITIES WITH ABUNDANT BENEFITS

Dear shareholders,

Profit Attributable to Shareholders and Dividend during the Year

During the year, the Group's consolidated turnover was approximately RMB21,481 million (2015: approximately RMB17,804 million), representing an increase of 20.65% as compared to the previous year. The profit attributable to owners of the Group was approximately RMB859 million (2015: approximately RMB611 million). The Group's basic earning per share was approximately RMB0.76 (2015: approximately RMB0.55). The Company proposes to declare a cash dividend of HK25.60 cents (2015: HK31.80 cents) per ordinary share of the Company (the "Shares") held by the shareholders of the Company (the "Shareholders"). The proposal shall be subject to the approval by the Shareholders at the annual general meeting ("AGM") to be held on 18 May 2017.

2016 • Achieving Stable and Sound Growth in China's Macroeconomy

In 2016, the Chinese government adhered to the main theme of making progress while maintaining stability, as well as the concept of innovative development. It also adhered to the main theme of promoting supply-side structural reform through moderate expansion of aggregate demand, resolutely carrying out reform, properly responding to risks and challenges and shaping a good social expectation under guidance, to secure a steady and sound development in the society and economy, thus making a good start in its "13th Five-year Plan". In 2016, the situation of Chinese economy was generally characterized by stabilizing from slowing down and for better, with the economic growth being maintained at a reasonable rate, the quality and efficiency being steadily improved, the economic structure being further optimized and the green development achieving its initial success. However, there were still many prominent conflicts and problems in the development of Chinese economy, such as the serious contradiction between over-capacity and growing demand, the insufficient endogenous power of economic growth and the concentrated financial risks.

2016 • Accelerating Change and Transformation by Tianneng Power

The year 2016 marks the 30th anniversary of the Group since its establishment. During the year, the Group adhered to the main theme of making progress while maintaining stability and focusing on innovation and change, striving to develop towards the high-end segment of traditional industries and expanding its share in emerging industries, thereby achieving a higher-quality, more efficient and more sustainable growth. The sales income and net profit of the Group increased by 20.65% and 44.24% as compared to that of the previous year, respectively, both hitting historical highs, which enables the Group to rank top among the "Golden Elephant Enterprises (金象企業)" and "Largest Taxpayers (納稅大戶)"in Huzhou City. Moreover, the Group was granted with multiple awards such as the "Benchmarking Enterprise of the Application of the Intellectual Property Rights", the "Pilot Enterprise of the Operation of National Patents", the "National Model Enterprise Promoting Green Growth" (國家綠色增長型示範企業), the "National Project of Intelligentized Factory for the Production of Motive Battery for New Energy Vehicles" (國家新能源汽車動力電池生產智能化工廠項目), the "National System Integration Project of Green Manufacturing" (國家綠色製造系統集成項目), the "National Special Project of Clean Production" (國家清潔生產專項), the "National Quality Benchmarking Enterprise" and the "China Integrated Management System Standards Assessment Pilot Enterprise for the Integration of Informatization and Industrialization" since it was able to continue to maintain a leading position in the industry in China in terms of economic, social and ecological efficiencies.

In 2016, the Group drove business development through new and traditional industries by actively promoting the lead battery industry with automation and intelligent equipment and stepping up its effort to optimize the product structure, thus boosting a strong sale in lead battery of new model, a steady growth in the lithium battery and resources recycling business as well as a rapid growth in foreign trade export. Concurrently, the construction of projects in emerging industries was pushed forward at a rapid pace, among which, a technological modification project for the cleaning and regeneration of used lead-acid batteries with capacity of 150,000 tons/year, a construction project of power (energy storage) battery used for new energy vehicle with power of 15,000,000 kVAh/year and a project of high-energy power (energy storage) lithium battery used for electric car with capacity of 5GWh/year was completed and commissioned in succession. The abovementioned new projects and new industries serve as the renewed hopes and additional drivers for the Group's development in the future.

In 2016, the Group had stimulated employees' passion for innovation and entrepreneurship, enhanced management efficiency, improved product quality, reduced production costs and strengthened its overall competitiveness by comprehensively deepening the reform of systems and mechanisms, fully promoting the development of independent operation entity and completely implemented information management.

In 2016, the Group, by deeply promoting the research and development of technology, had successively and successfully developed and put into production of a series of advanced new technologies and new achievements including casting and rolling technique, acid production from smelter waste gas, battery equalization, high-energy and high-density lithium battery, etc., supported by the nearly 1,000 research talents led by four of the "National One Thousand Talents", five of the "Provincial One Thousand Talents" and two of the "Foreign Experts", and by the scientific research platforms such as national technology centers, national key laboratories, etc.. In addition, 2 mid-to-high-end production lines of industrial batteries and energy storage batteries were newly equipped and nearly one hundred of distinguished and upgraded products were newly launched. Among which, an aggregate of 11 new industrial products of provincial level had passed identification and the application for 496 patents was completed. While in the aspect of international technical cooperation, we had taken a new step and entered into technical cooperation agreements with foreign universities and international organizations such as the University of Wollongong in Australia, the Oregon State University in America, the Advanced Lead Acid Battery Consortium (ALABC), etc..

2017 • Abundant Benefits

Looking forward into 2017, we will firmly seize the strategic opportunities that generate abundant benefits by "comprehensively implementing structural adjustment, deepening the reform and innovation as well as improving quality and efficiency of operation and management".

Benefits of industrial policies. In the "new normal" phase, China's positive economic fundamentals and long-term trajectory remain unchanged. What also remain unchanged are the strong support and conditions favorable for continuous economic growth and the forward movement of the country's economic restructuring and upgrading. Against such background, China is still in an important period of strategic opportunities where much can be accomplished. What's more, the Chinese government picks up its pace to comprehensively deepen reforms. With the "Plan for Development of the National Strategic Emerging Industries During the Period of the 13th Five-Year Plan", the "Made in China 2025" plan and the One Belt One Road initiative entering into an all-sided implementation period, and with the intensive introduction of a series of new policies and initiatives, such as supporting the development of the real economy, actually reducing the cost of corporate entities,etc., the benefits of the policies are released on an ongoing basis, thus creating greater market, exploring more room and offering further opportunities for corporates.

The benefits of industry integration. According to the report of Advanced Lead Acid Battery Consortium (ALABC) which headquartered in London, due to the strengths of lead battery such as low temperature resistance, high safety, high cost efficiency, and recyclability, it is widely used in the fields of fuel vehicles, hybrid vehicles, electric cars, electric bikes, ships, energy storage, communications, etc.. It is expected that by 2020, lead battery will remain hold over 50% of the market share of the world's secondary rechargeable battery and continue to maintain its top position among various types of batteries. The remediation of lead battery industry in China commenced from 2011, and capacity reduction and supply-side reform in industry was also carried out prior to other industries with remarkable achievements. The Ministry of Industry and Information Technology announced that there were only 113 enterprises conform with the "Standardized Conditions of the Industry of Lead-Acid Batteries" (《鉛蓄電池行業規範條件》) during the reporting period. Comparing with that of 2011 when there were totally 1,930 lead-acid battery enterprises in China, techniques and equipment have been further improved and higher entry threshold has been imposed while market share has become more concentrated in the industry of lead-acid battery. The orders for the development of the industry continued to improve. Therefore, the benefits of industry integration will be continuously released.

The benefits of transformation and upgrade. Building on its persistent efforts and accumulated experiences over the past 30 years, the Group has developed strong and comprehensive strength and competitive edges in terms of management, technology and talent. In particular, with the successive completion and commission of a series of high-end and new projects with great potential, including lithium battery for new energy vehicles, energy storage batteries, resource regeneration, etc., and with the major breakthrough made in the research and development of key technologies such as new materials, battery management system, vehicle-mounted management system, high-end manufacturing equipment, etc., the foundation and conditions to realize leapfrog development are increasingly reinforced. Furthermore, the successive introduction of initiatives to comprehensively deepen reforms has strengthened the endogenous power of innovation and entrepreneurship. Therefore, the benefits of transformation and upgrade will be continuously released.

Looking into future, the Group, by further optimizing the solutions for driving battery system, energy storage battery system and integrated recycling economic industry chain, will put in an active effort in the transformation from a production-oriented manufacturing enterprise into service-oriented manufacturing enterprise and from a traditional enterprise into a platform-based enterprise while accelerating the upgrade of traditional industries, the increase of production volume of emerging industries and the industrialization of scientific research innovation, with the aim to become a world leading new energy solution provider.

I am confident that, driven by the concept of "New Energy New World", the Group will keep a foothold on new directions, integrate new strengths, ignite new momentums, open up new eras and continue to bring better returns to its Shareholders.

Appreciation

I would like to take this opportunity to extend my sincere gratitude to all the employees of the Group for their contribution and hard work and to the Shareholders, business partners and various sectors of the society for their full support.

Zhang Tianren
Chairman
Hong Kong, 24 March 2017

GREEN DEVELOPMENT DRIVEN BY INNOVATION

Review of Operations

During 2016, by focusing on quality and efficiency as well as innovation and change, striving to develop towards the high-end segment of traditional industries, expanding its share in emerging industries and promoting informatization and independent operation in its management, the Group achieved a development mode of higher quality and efficiency, with very strong performance in each principal business index.

During the Reporting Period, the Group recorded a revenue of approximately RMB21,481 million (2015: approximately RMB17,804 million) and a net profit of approximately RMB906 million (2015: approximately RMB628 million), both hitting historical highs. Revenue from lithium battery for new energy vehicles was approximately RMB616 million, representing an increase of 10.74% year-on-year and accounting for 2.87% of total revenue; revenue from lead batteries for mini electric cars was approximately RMB1,928 million, representing an increase of 10.17% year-on-year and accounting for 8.98% of total revenue; revenue from lead motive batteries for electric bicycles and electric tricycles were approximately RMB12,515 million and RMB4,600 million, increasing by approximately 15.71% and 17.54% and accounting for 58.26% and 21.41% of total revenue, respectively; external revenue from used battery recycling business was approximately RMB955 million, representing an increase of 73.60% year-on-year and accounting for 4.45% of total revenue.

I. Accelerating the Pace of Transformation and Upgrade of Lead Battery Business. The lead battery business generates strong cash flow to the Group. During the year, revenue from lead batteries for electric bicycles and electric tricycles were approximately RMB17,115 million, increasing by 16.20% year-on-year. Revenue from lead batteries for mini electric cars was approximately RMB1,928 million, representing an increase of 10.17% year-on-year.

Through research and development during the year, the Group has launched various new lead battery products characterised by outstanding performance in balance, life, distance and loading capacity respectively, with its graphene battery garnering national patent of invention. New techniques, equipments and processes, such as casting and rolling, green container formation, centralised lead feeding, fully automatic and enclosed lead powder production, fully enclosed and automatic paste-mixing, mechanised cutting and brushing, mechanised sheathing and automatic casting, have been widely applied in each production base. The lead battery production line has successfully realized automatic, enclosed and negative pressure production. Meanwhile, the Group has actively implemented its recycling policy on used battery, solid waste, waste water, power and waster acid. With the implementation of all-round informatisation management in the whole course of business and to all staff of the Group, combined with the development of independent operation through decreasing the percentage of OEM production capacity, the Group's production efficiency has been greatly improved, with higher product quality but lower material and energy consumption, reducing the risk of environment pollution. Besides, the addition of production facilities for industrial battery and energy storage battery has broadened the application area of lead battery.

With accelerated urbanisation and popularisation of e-commerce in China, electric bicycles and electric tricycles have become the major traffic tools of citizens in the second and third tier cities as well as farmers in China. The number of ownership of mini electric cars has increased in a stable way in Shandong, Henan, Hebei and Jiangsu province. Lead motive battery has been the first preference for electric bicycles, electric tricycles and mini electric cars owing to its resistance to low temperature, high level of safety, high cost-efficiency and recyclability. As forecasted in Ipsos Industry Reports, demand for battery for electric bicycles and tricycles in the PRC will be over US$10 billion by 2020.

The consolidation of lead battery industry by the government enables the Group's long term development. During the Reporting Period, only 113 enterprises conformed with the "Standardized Conditions of the Industry of Lead-Acid Batteries" (《鉛蓄電池行業規範條件》), as announced by the Ministry of Industry and Information Technology of the People's Republic of China (MIIT). In comparison with 2011, when there were 1,930 lead battery enterprises in China, techniques and equipments for lead-acid battery industry have been further improved and higher entry threshold has been imposed, leading to a more concentrated market share and further-improved order for the development of the industry. The benefits of consolidation of the industry will sustain.

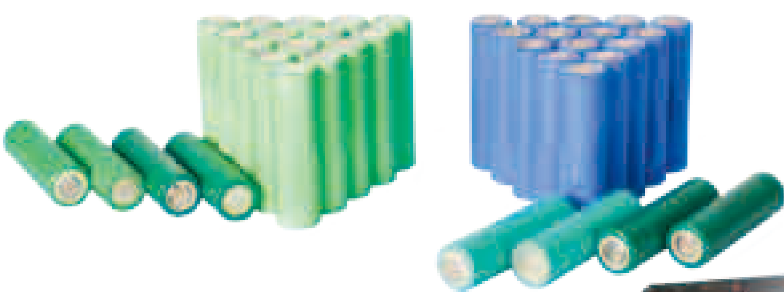
(National Small Electric Vehicle Test Competition 2016 Organised by the Group)

II. Recycling Business Leading Domestic Development of the Industry. During the Reporting Period, external revenue from used battery recycling business of the Group was approximately RMB955 million, representing a increase of 73.60% year-on-year, accounting for 4.45% of total revenue, which greatly mitigated the risk of lead price volatility.

In December 2016, the Group's technological modification project of waste lead-acid battery recycling commenced operation, with additional capacity of 150,000 tons per annum. Another two recycling bases of the Group in Zhejiang Province and Henan Province aggregately contribute a used battery recycling capacity of 400,000 tons per annum, making the Group the largest benchmarking enterprise in waste and used lead battery recycling business in China. The Group was recognized as a "National Advanced Enterprise for Comprehensive Utilization of Resources" (全國資源綜合利用企業), "Pilot Enterprise for the National Circular Economy" (國家循環經濟試點企業) and "Key Technological Modification Project for National Industrial Revitalization" (國家產業振興重點技術改造項目) by the National Development and Reform Commission (NDRC), a "Key Promoting Project of Integration of Informatization and Industrialization for Promoting Energy-Saving and Emission Reduction in China" (國家兩化融合促進節能減排重點推進項目) by the MIIT and a "National Science and Technology Supporting Program" (國家科技支撐計劃項目) by the Ministry of Science and Technology (MOST), with increasingly apparent economic, social and ecological benefits.

III. Lithium Battery Business Ranking Top in China. According to the "List of Top 20 Lithium Battery Enterprises 2016, China" (《2016年度中國動力鋰離子電池20強企業名單》) issued by China Industrial Association of Power Sources in February 2017, the Group's lithium battery of ternary materials ranks fourth in terms of sales volume, successfully emerging itself as a Leading enterprise in the industry in China. The Group's advantages in developing lithium battery business includes: (1) Technical edge. Leveraging on independent technical research and development and technical elites identified worldwide, the Group's lithium battery technology and product performance have been close to global-leading level. Doctor Li Wenbo, Doctor Guo Zaiping, Doctor Li chonghui and Doctor Bai Minshan, experts of the Group in lithium battery industry, have been on the expert list of the national "Thousand Talents Plan" (國家千人計劃); (2) Equipment advantage. The Group applied global-leading smart production line and process, facilitating fully-automatic production of lithium battery and ensuring product uniformity, high finished product ratio and safety. In June 2016, the Group became one of the three lithium battery enterprises on the list of "Smart Manufacturing Project 2016" (2016年智能製造綜合標準化與新模式應用項目) published by the MIIT. In July 2016, the Group became one of the six lithium battery enterprises on the "List of Key State Laboratories" (國家重點實驗室名單) approved by China National Light Industry Council; and (3) Client strength. The Group has accumulated huge client resources relying on its leading techniques, products, brands and services plus 30 years of experience in the industry. Many well-known new energy vehicle enterprises including BAIC Automotive Group, Chery Automobile Co., Kandi Electric Vehicles Group, ZOTYE Auto, Brilliance Auto Group, Holley Worldwide Holdings, and Nanjing Golden Dragon Bus Co., Ltd., have been key clients of the Group, besides over 100 mini electric vehicle clients, to which the Group have been ready to supply lithium battery.

IV. Technology Innovation Improving Core Competitiveness. The Group's R&D team comprises of 1,000 members, including academicians, experts of the national "Thousand Talents Plan" and the provincial "Thousand Experts Plan", 112 engineering experts, battery experts from the United States, Japan and Korea, and doctors. Relying on various high-end R&D platforms, including national technology centers, national recognized testing laboratories, first batch of engineering research centers, first batch of key state lithium battery laboratories, national post-doctoral research centers and national research centers for academicians and experts, the Group completed the research and development of high-nickel NCA ternary battery, 3500Mah lithium battery cell, pouch cell, light weight PACK process, smart BMS, graphene battery, H6 balance technology battery and casting and rolling techniques during the Reporting Period. To date, the Group obtained a total of 1,681 licensed patents and participated in formulating over 50 national industry standards. During the Reporting Period, the Group won "National Outstanding Patent Award" (國家優秀專利獎) and the Golden Prize of "National Invention and Innovation Award" (國家發明創新金獎), and was recognised as a "Quality Benchmarking Enterprise" (質量標杆企業) by the MIIT and "National Model Enterprise of Technical Innovation" (國家技術創新示範企業).



(High Energy Density Ternary Cylindrical Battery Cell)

(Li Chen, the Celebrity Endorsement of the Group, on the New Product Release Conference of H6 Balance Technology Battery.)

V. Accelerating Military-Civilian Integration. In July 2016, the State Council and relevant authorities issued "Opinions on Co-development of Economic Construction and Defense Construction" (《關於經濟建設和國防建設融合發展的意見》), urging the introduction of leading private enterprises to the area of scientific research and production and maintenance of military equipments, deepening military and civilian cooperation in multiple aspects and of high efficiency. In January 2017, the Chinese government established a new central commission for integrated military and civilian development (中央軍民融合發展委員會), scaling a new height of military-civilian integration. The Group has received the "Certificate of Quality Control System of Military Equipments of the People's Liberation Army" (中國人民解放軍武器裝備質量管理體系證書), "Certificate of Confidentiality in Scientific Research and Production of Military Equipments" (武器裝備科研生產保密資格證書), "Permit of Scientific Research and Production of Military Equipments" (武器裝備科研生產許可證) and "Certificate of Military Equipment Manufacturer" (裝備承制單位資格證書), satisfying the conditions of carrying on business of military projects. The Group was also elected to be the Vice President Unit of the Science and Technology and Equipment Industry Chamber of Commerce of All-China Federation of Industry & Commerce (全國工商聯科技裝備業商會副會長單位).

VI. "One Belt, One Road" Initiative Broadening New Market. During the year, the Group recorded foreign trade income of RMB132 million, representing an increase of eight times year-on-year. The Group mainly exports products to countries included in "One Belt, One Road" initiative, such as Vietnam, India, Philippines, Malaysia, Bengal, Turkey and Brazil.

Electrification of traffic tools has been a rising development trend globally. With a population of nearly 2 billion, countries in Southeast Asia including Vietnam and India have a rising demand for electric bicycles and tricycles from China. According to statistics of China Bicycle Association, in 2015, China exported 1,339,000 electric bicycles, which increased to approximately 1,500,000 in 2016, up approximately 12% year-on-year. On 13 September 2016, the Group entered into an agreement with TREE Movement (M) Sdn Bhd in Malaysia Pavilion at the 13th China-ASEAN EXPO in relation to the construction of "Smart City" and development of electric auto industry in Malaysia. Meanwhile, the Group actively cooperates with international giants such as Schneider and Eaton and supplies batteries for power plants, banks and telecommunication operators. It also provides comprehensive power solutions to international peacekeeping force.

(September 2016, the Group Entering into a Strategic Partnership Agreement with TREE Movement (M) Sdn Bhd in the presence of Dato' Zainuddin Bin Yahya, the Malaysian Ambassador to China)

VII. Capital Market in the Interests of the Company and Shareholders. With the completion of subscription of shares of Energy Technology by the management and the restructuring of Energy Technology into a joint-stock company during the year, the Group has established a benefit-sharing mechanism, pursuant to which the key management and technicians of the Group can work together in developing lithium battery business, thus laying a solid foundation for the sustainable growth of the Group in the future. On 18 May 2016, a resolution was passed in the annual general meeting of the Group to approve the purchase, during the Relevant Period, of no more than 10% of the number of issued shares of the Company as at the date of passing such resolution. During the year, the Group applied approximately HK$107 million in purchasing 17,222,000 shares, representing 1.51% of the total share capital of the Company. Mr. Zhou Jianzhong, an executive director of the Group, increased his shareholding by 2,050,000 shares at a consideration of approximately HK$14.15 million, showing confidence in the future development of the industry and the Company. With its excellent operation results, the Group was honoured with the "Most Growing Potential Enterprise" (最具成長性上市公司), "Best Investment Value Award for Listed Companies" (最具投資價值上市公司), and "Best Investor Relationship Management Award" (最佳投資者關係管理) respectively by the Chinese Securities Association of Hong Kong and other intermediaries during the year. It has also been included in Hang Seng Composite Index, Hang Seng Corporate Sustainability Benchmark Index, MSCI Index and Shenzhen-Hong Kong Stock Connect Programme. In the future, the Group will continue to identify target companies for merger and acquisition worldwide in implementing its development strategy of global research and development, global manufacturing and global sales.

Future Prospects and Development Strategy

In the future, the Group will continue to develop the industry-based and innovation-driven business with a focus on quality and efficiency and always adhering to the main theme of making progress while maintaining stability. Its priority is to create solutions to advanced lead battery system, high-end lithium battery system, integrated recycling economic industry chain, and energy storage battery system respectively, enabling its shift from production-oriented manufacturing to service-oriented manufacturing and from traditional enterprise to platform enterprise. It will accelerate the implementation of its "Development Strategy by 2020", and the progress of "informationisation, lean management and globalisation", and establish itself as an industry-leading international new energy group receiving social respects and to the satisfaction of its employees.

I. Solution to High-end Lithium Battery System: Making Full Preparation for Booming Market

The government of China shows strong determination in developing new energy vehicles strategically. On 22 December 2016, President Xi jinping organised the fourteenth meeting of the Central Leading Group on Financial and Economic Affairs. It stressed that the development of new energies in a faster pace and the usage of new energy traffic tools are necessary in compliance with the 13th Five-Year Plan in order to mitigate environmental pollution. On 29 December 2016, the MIIT, the Ministry of Finance, the MOST and the NDRC further issued the "Circular on Adjustment of Fiscal Subsidy Policy on Promotion and Application of New Energy Vehicles" (關於調整新能源汽車推廣應用財政補貼政策的通知), the government will procure the allocation of subsidies to enterprises which underline technologic research and development and which are of strong competitiveness in the market so as to instruct enterprises to put more efforts in the research and development of battery technology and particularly the energy density of battery. Such move will benefit the development of ternary battery with higher energy density and greatly accelerate the progress of market reshuffle in motive battery industry. The Group will firmly grasp the strategic opportunities emerged in the process of industry reshuffle and in a booming market, and be fully prepared in the aspect of technology, client and production capacity, in a bid to become a globally leading lithium battery enterprise.

In terms of technology, the Group will actively comply with domestic policies and industry trend to strengthen in-house research and development, identify global talents, make great effort to develop ternary cylindrical batteries of high specific energy density and various specifications, as well as other new battery technologies, and deliver customized cylindrical battery cell, pouch cell, prismatic hard-case battery, PACK system and BMS, and ensure the conformity, stability and high level of safety of its products. On 29 April 2016, Tianneng Lithium Battery was listed in the third batch of Catalogue for Enterprises under the "Conditions for Standardisation of the Vehicle Rechargeable Battery Industry (《汽車動力蓄電池行業規範條件》)" (a total of 25 companies for the first three batches), by the MIIT. In June 2016, a number of motive battery models of Tianneng Lithium Battery have successfully passed the mandatory inspection under the new international standard for motive batteries. All of the above have secured initial development opportunity for Tianneng with advantages in technology, standard and market entry.

In respect of client, the Group will continue to deepen its business cooperation with existing new energy vehicle manufacturers, proactively explore electric bus and electric logistics companies, while accelerating the test of lithium battery application together with mini electric vehicle manufacturers to drive the upgrade and normalised development of electric vehicles.

As for production capacity, the plant constructed by the Group in Changxing, Zhejiang Province for the production of motive (energy storage) lithium batteries for new energy vehicles commenced operation in December 2016, with an annual production capacity of 5GWh currently, which will reach 5.5GWh after full operation. According to figures released by China Industrial Association of Power Sources in February 2017, the Group's ternary lithium battery ranks top 5 in China in terms of sales volume. In the future, the Group will release its total production capacity of lithium battery in stages and in an orderly manner based on its master plan.

II. Solution to Advanced Lead Battery System: from Excess Capacity to Oligopoly, Benefits of Consolidation Gradually Emerging

Development of lead battery industry reflects the transformation and upgrading process of traditional industries. Against the backdrop of the government's strong efforts in promoting the supply-side reform, the lead battery industry have been out of the dilemma of excess production capacity in the industry firstly. Under the instruction of government and driven by market, the industry adopted various means including entry verification, equipment and technical upgrade to kick small-sized low-efficient and fragmented capacity out and encourage high-efficient capacity, which initially led to a duopoly market structure.

Industry consolidation improves profitability. Consolidation of lead battery industry carried out by the MIIT and the Ministry of Environmental Protection from 2011 improved the mandatory entry standard to the benefit of the industry's long term development, enabling the improvement of economy efficiency of large enterprises.

New equipments and processes improve production efficiency. The Group will continue to lead the industry's thorough reform in equipments and processes, research, develop and promote new equipments, new techniques and new processes, improve production efficiency and product quality, and reduce material and energy consumption.

From 2012 to 2016, revenue of the Group significantly increased from approximately RMB9,888 million to approximately RMB21,481 million, representing a CAGR of 21.41%. However, during the same period, number of employees reduced 1.69% from 18,422 to 18,110.

Lean management reduces management cost. The Group will continue to improve management efficiency through informatisation, to reduce cost through lean management, to initiate employees' passion in innovation through independent operation and to realise global research and development, global manufacturing and global sales through internationalisation.

Lead battery continues to flourish. As clearly stated in the interpretation document for "Standardized Conditions of the Industry of Lead-Acid Batteries (2015 Version)" (《鉛蓄電池行業規範條件(2015年本)》) by the MIIT, lead battery product has a long history of development. Owing to its mature skill, low cost, high resistance to high and low temperature, and other significant advantages in uniformity, recyclability, safety and reliability, it has been widely applied in all kinds of areas including automobile, vessel, aviation, power, telecommunication, bank and military project. As a basic product, it plays an essential role for sustainable development of national economy and the society. Besides, lead battery has also been the most widely-used battery product with the largest market share among chemical power sources. It is not expected to be replaced by another product in a quite long period in the future. The lead battery industry will continue to play an indispensable key role in national economy. Currently, advanced lead battery is a primary power source for electric bicycle, electric tricycle and mini electric vehicle in China. Basic demand for lead battery both in primary and secondary market has been growing stably.

III. Solution to Integrated Recycling Economic Industry Chain: Aiming to be a New Engine for Green Development

In January 2017, the NDRC issued the "Catalogue of Key Products in Strategic Emerging Industries" (《戰略性新興產業重點產品目錄》) to include resource recycling industry a an emerging industry entitling to receive various tax subsidies. In December 2016, the "Conditions for Standardisation of Lead Recycling Industry" (《再生鉛行業規範條件》) issued by the MIIT imposes higher requirement on the size of production: at least 100,000 tons per annum for pretreatment project of waste lead batteries and 60,000 tons secondary lead per annum for pretreatment – smelting project respectively. Currently, the Group owns two bases for the recycling of used batteries in Eastern China and Northern China. The Eastern China recycling base owns the only license for used battery recycling in Zhejiang province with an annual design capacity of 300,000 tons, among which, 150,000-ton has been reached, another 150,000-ton will be reached after full operation in 2017. The Northern China recycling base located in Puyang, Henan Province has an annual design capacity of 100,000 tons. Besides, the Group is identifying the opportunities to construct new battery recycling bases and is planning lithium battery recycling business in other provinces. The Group believes used battery recycling business is likely to be a new key driver for future development.

Management Analysis

Gross profit

The Group's gross profit and gross profit margin increased to approximately RMB2,975 million and approximately 13.85% respectively in 2016 from approximately RMB2,428 million and approximately 13.64% respectively in 2015, representing an increase of approximately 22.53% and 0.21 percentage points respectively as compared to the previous year. The increase was mainly attributable to the increase in income and the improvement of management.

Other income

Other income of the Group increased by approximately 33.65% from approximately RMB166 million in 2015 to approximately RMB222 million in 2016. The increase was mainly attributable to the increase in government grants income.

Selling and distribution costs

Selling and distribution costs of the Group decreased by approximately 1.87% from approximately RMB598 million in 2015 to approximately RMB587 million in 2016. The slight decrease in selling and distribution costs were mainly due to our strict control on expenses.

Administrative expenses

Administrative expenses increased by approximately 15.24% from approximately RMB324 million in 2015 to approximately RMB373 million in 2016. Such increase was mainly due to the increase in staff cost and consultancy expenses.

Finance costs

Finance costs decreased by approximately 14.64% from approximately RMB163 million in 2015 to approximately RMB139 million in 2016, which was mainly due to deduction of total borrowings and decrease in borrowing rate during the year.

Taxation

Tax credit of the Group increased by approximately 103.31% from approximately RMB118 million in 2015 to approximately RMB240 million in 2016, which was mainly due to the increase in profit during the year.

Liquidity and Financial Resources

The net cash from operating activities for the year of 2016 was approximately RMB2,089 million (2015: RMB2,010 million). In this year, the Group had better profit and strengthened management of account receivables and account payables so as to enable the overall cash flow of operating activities to maintain in a good level.

As at 31 December 2016, the bank balances and cash (including pledged bank deposits) of the Group was approximately RMB3,114 million (31 December 2015: approximately RMB2,126 million). As at 31 December 2016, the Group obtained undrawn banks facilities of approximately RMB3,016 million (31 December 2015: approximately RMB2,531 million). The bank balances and cash (including pledged bank deposits) approximately of RMB2,927 million, RMB171 million and RMB15.65 million were denominated in Renminbi, Hong Kong Dollars and US Dollars respectively. As the bank balances in Hong Kong Dollars and US Dollars collectively accounted for approximately 5.98% of the total balances, the Group's relevant exchange risk is low.

As at 31 December 2016, the Group's held-for-trading investments were approximately RMB58 million (31 December 2015:RMB93 million). During the investment process, the Group fully considered the use of funds, reasonable returns, liquidity and market conditions and other factors, and prioritised the control of associated risks to implement the Group's prudent financial policies.

As at 31 December 2016, the net current assets of the Group were approximately RMB627 million (31 December 2015: net current assets of approximately RMB734 million). The decrease was primarily attributable to improvement of the operating capacity by the Company and increase in account payables and advances. The Company believes that it will be able to meet its liabilities as and when they fall due and meet the capital requirement for operations. The Company is able to control the level of its liabilities and financial risks.

As at 31 December 2016, the bank borrowings, finance leases and loan notes (together as "interest bearing loans") of the Group with maturity of within one year totally amounted to approximately RMB1,179 million (31 December 2015: approximately RMB822 million). The interest bearing loans of the Group with maturity of more than one year amounted to approximately RMB833 million (31 December 2015: RMB1,338 million). The interest bearing loans of RMB1,401 million carried fixed and variable interest rates ranging from 3.65% to 8.00% (2015: 3.94% to 8.00%) per annum. The interest bearing loans amounting to HK$436 million carried a fixed interest rate ranging from 1.47% to 1.49% (2015: 1.64%). 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 healthy capital structure to minimize the capital cost through prudent financial management. During the year under review, the Group continued to further make use of long-term loans in order to optimize its loan structure.

Financial Position

Assets

As at 31 December 2016, the total assets of the Group were approximately RMB12,130 million, representing an increase of 15.02% as compared to approximately RMB10,546 million as at 31 December 2015. Among them, non-current assets increased by approximately 5.80% to approximately RMB4,361 million and current assets increased by approximately 20.93% to approximately RMB7,769 million. The major reason for the increase of non-current assets was due to the capital expenditure on production plants (mainly lithium batteries project and recycling project). The increase in current assets was mainly attributable to the increase in inventories, bank deposits and pledged bank deposits.

Liabilities

As at 31 December 2016, the total liabilities of the Group were approximately RMB8,023 million, representing an increase of approximately 13.34% as compared to approximately RMB7,079 million as at 31 December 2015. Among them, current liabilities increased by approximately 25.51% to approximately RMB7,142 million, mainly due to the increase in account payables/advances. Non-current liabilities decreased by approximately 36.55% to approximately RMB881 million, mainly due to the decrease in long-term interest bearing loans.

Analysis by Key Financial KPIs

Profitability:

	2016	2015
Return on equity	**22.05%**	18.11%
Gross profit margin	**13.85%**	13.64%
Net profit margin	**4.22%**	3.53%

The gross profit margin increased by 0.21 percentage points from 13.64% in 2015 to 13.85% in 2016, which was mainly due to the increase in gross profit margin of carts and tricycles battery compared to that of the previous year, driving the increase in gross profit margin in 2016.

Liquidity:

	2016	2015
Current ratio	1.09	1.13
Quick ratio	0.82	0.89

Both the ratios above for 2016 slightly decreased when comparing with those of 2015, mainly due to current liabilities increased at a greater extent as compared to that of the current assets.

Operating Cycle:

	2016	2015
Inventory turnover days	32	34
Account receivables turnover days	14	11
Account payables turnover days	30	24
Bills and account receivables turnover days	40	35
Bills and account payables turnover days	61	46

The inventory turnover days decreased by 2 days to 32 days in 2016 due to our optimization of inventory management in 2016. Account receivables turnover days increased by 3 days to 14 days in 2016 as compared that of in 2015, which was due to the increase in sales income in 2016. Account payables turnover days for 2016 increased by 6 days to 30 days, mainly due to the increase of account payables. Bills and account receivables turnover days and bills and account payables turnover days increased by 5 days and 15 days respectively, resulting from the respective increase of 22.71% and 40.60% for the amounts of account receivables and payables at the end of 2016 comparing with those at the end of 2015.

Capital:

	2016	2015
Net debt ratio	3.24%	21.98%
Interest coverage ratio (Note)	11.13	6.55

Note: EBITDA divided by total interest expenses

As the interest bearing debt ("Debt") and the cash and bank balances as at 31 December 2016 were RMB2,011 million and RMB1,878 million respectively, thus the net Debt was RMB133 million. The net debt ratio had a substantial reduction from 21.98% to 3.24%. Total deposits increased and total loans decreased during the year.

The interest coverage ratio improved significantly, mainly due to an increase in net profit in 2016 and the reduction of interest expenses arising from scaling down of the Debt.

Return of Shareholders:

	2016	2015
Earning per share (Basic)	0.757	0.548
Dividend payout ratio ("DPR")	30% (Note)	50%

Note: the index is derived from the dividend to be proposed by the Company's board of directors for 2016, which is subject to approval at the annual general meeting.

Capital Expenditure

The capital expenditure in 2016 was approximately RMB716 million (2015: approximately RMB487 million). A majority of expenditure was incurred on the construction of lithium batteries production project, Wushang base in Changxing, Puyang base in Henan and Shuyang base in Jiangsu.

Capital Commitments

The amount contracted for but not stated in the consolidated financial statements in respect of the acquisition of property, plant and equipment as at 31 December 2016 was approximately RMB241 million (31 December 2015: approximately RMB322 million).

Gearing Ratio

The Group's gearing ratio (which is based on the amount of total interest bearing loans divided by total assets multiplied by 100%) as at 31 December 2016 was approximately 16.58% (31 December 2015: approximately 20.48%).

Exposure to Exchange Rate Fluctuation

As the Group's operations were mainly conducted in China and the majority of businesses were transacted in Renminbi, and the Group entered into foreign currency forward contracts in 2016 for the bank borrowings of HK$436 million to reduce exposure to foreign currency, the Board is of the view that the Company's operating cash flow and liquidity are not subject to significant foreign exchange rate risk.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2016 (31 December 2015: Nil).

Pledge of Assets

As at 31 December 2016, the bank facilities of the Group were 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 approximately RMB2,169 million (31 December 2015: RMB2,092 million).

Employee and Remuneration Policies

As at 31 December 2016, the Group employed a total of 18,110 employees (31 December 2015: 18,127 employees). Staff costs excluding directors' emoluments of the Group for the year of 2016 amounted to approximately RMB1,265 million (2015: RMB1,154 million). The costs included basic salaries and benefits as well as staff benefits such as discretionary bonus, medical and insurance plans, pension scheme (including the schemes under the statutory requirement of the government such as pension insurance in China and mandatory provident fund in Hong Kong), unemployment insurance plans and share option scheme etc. Competitive remuneration packages were offered to employees. The Company has adopted incentive programs (including share option scheme) to encourage employee performance and provided a range of training programs for the development of its staff.

Please refer to the paragraphs headed "Emolument Policy" in the "Directors' Report" section of this annual report for the mechanism for determining the emolument payable to the Directors.

Significant Investments Held

Save as the disclosures in Note 22 to the Consolidated Financial Statements, there were no other significant investments held by the Group as at 31 December 2016 (31 December 2015: Nil). During the year under review, the Group recorded a gain of approximately RMB22,700,000 (2015: a loss of approximately RMB12,400,000) for held-for-trading investments as the capital market was under fluctuation. Such investment's future prospect remains uncertain under the fluctuating capital market.

Material Acquisition and Disposal

There was no material acquisition and disposal during the year.

Purchase, Sale or Redemption of the Company's Listed Shares

Please refer to the paragraphs headed "Share Capital and Issue of Securities" as set out in the "Directors' Report" section of this annual report for the purchase, sales and redemption of the Company's shares in this year.

Principal Risks and Uncertainties

Many economic experts closely monitor whether the global and China economy growth will slow down in coming years. The Group's sales of traditional business such as the e-bike battery may be under uncertainties if the consumer market downturn exists. It is the reason that the Group started industries transformation and upgrading a few years ago, aiming to diversify the risk of over reliance on any single business segment.

In the past few years, labour cost in China continuously increased and the production-oriented entities in China were facing the increasing pressure of higher production cost. The Group will apply more resources in establishing production automation system in order to reduce manpower per production unit. At the same time, the new incentive scheme will be adopted as the other way for improving the manpower efficiency.

Please refer to note 4 to 6 to the consolidated financial statements for other risks and uncertainties.

Future Development

For the Group's future plans and development, please refer to the "Future Prospects and Development Strategy" section in the Business Review.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 12 May 2017 to Thursday, 18 May 2017, 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 of this year, all share certificates, together with duly completed transfer forms, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 11 May 2017.

Further, the register of members of the Company will be closed from Thursday, 1 June 2017 to Monday, 5 June 2017 (both days inclusive). In order to establish entitlements to the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 31 May 2017.

Executive Directors

Dr. ZHANG Tianren (張天任)

Aged 54, is the chairman of our Board, president and founder of our Group. Dr. ZHANG is responsible for our overall management and formulation of our business strategies. Dr. ZHANG has 31 years of experience in technological research and development and management of rechargeable battery industry in China. Dr. 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 addition to his key position in our Group, Dr. ZHANG has held various roles in the new energy, battery and other related industries in China. Dr. ZHANG is currently a vice chairman of the Asian Photovoltaic Industry Association, first council chairman of the New Battery Industry Technology Innovation Strategic Alliance (新型電池產業技術創新戰略聯盟首任理事長), vice council chairman of China Industrial Association of Power Sources, vice council chairman of China Battery Industry Association, vice council chairman of China Electrical Equipment Industry Association, member of China EV100, vice president of the National Technology and Equipment Industry Association (全國工商聯科技裝備業商會副會長), vice president of Zhejiang Entrepreneurs Association, executive president of Zhejiang Private Enterprise Development Association (浙江省民營企業發展聯合會) and the visiting professor of Zhejiang Sci-Tech University.

Dr. ZHANG was elected as a member of the 12th National People's Congress in 2013 and 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, 2012 Bauhinia Cup Outstanding Entrepreneur, the 2012 Ernst & Young Entrepreneur of the Year, 2014 Honorary Zhejiang Merchant and Distinguished Zhejiang Merchant (二零一四年光榮浙商、傑出浙商), 8th Outstanding Entrepreneur of China and 2016 Global New Energy Business Leader. Dr. ZHANG is the younger brother of Mr. ZHANG Aogen.

Mr. ZHANG Aogen (張敖根)

Aged 59, is our executive Director and vice-president and is responsible for the procurement centre and Material Trading Co., Limited. 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 2001. 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 30 years of management experience in sales of rechargeable battery products. Mr. ZHANG is also an elder brother of Dr. ZHANG Tianren, chairman of our Board.

Mr. CHEN Minru (陳敏如)

Aged 57, is our executive Director and senior vice president and is responsible for our capital market and party building. 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), majoring 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 a qualified accountant, a senior economist and an affiliated member of the Association of International Accountants. He has 38 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 63, is our executive Director and vice-president and is fully responsible for the business of the production base of our Group in Jieshou. Mr. SHI joined Zhejiang Changxing Storage Battery Factory in 1989 and was promoted as deputy factory manager of Zhejiang Changxing Storage Battery Factory in 1990. He acted as deputy general manager of Tianneng Battery in 2003 and was appointed as the standing deputy general manager of Tianneng Battery in 2010. In September 2013, Mr. SHI was appointed as the chairman of Tianneng Battery (Anhui) Co., Ltd. and Anhui Zhongneng Power Supply Co., Ltd. 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 27 years of management experience in rechargeable battery enterprises.

Mr. ZHANG Kaihong
(張開紅)

Aged 59, is our executive Director and vice-president and is fully responsible for the management of our Wuhu branch. 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. From February 2014, Mr. ZHANG was appointed as a vice-president of national level technology centre of Tianneng Group. 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 30 years of experience in research and development, quality control and corporate management of rechargeable battery products.

Mr. ZHOU Jianzhong
(周建中)

Aged 46, is our executive Director and vice president. Mr. ZHOU is in charge of the sales management centre and also takes charge of Zhejiang Tianneng Energy Technology Co., Ltd., Tianneng Battery Group Co., Ltd. and Zhejiang Tianneng Power Energy Co., Ltd. Mr. ZHOU joined the Group in 1996 and has been the head of market management section and standing deputy general manager of Tianneng Battery, standing deputy general manager of Tianneng Energy Technology, general manager of Tianneng Power Energy and general manager of Tianneng Power Supply Material. He was appointed as vice-president of the Group in 2011. 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 22 years of experience in the sales and management of rechargeable batteries and corporate management.

Independent Non-Executive Directors

Mr. GUO Konghui (郭孔輝)

Aged 82, was appointed as an independent non-executive Director in June 2015. Mr. GUO graduated from Jilin University of Technology (吉林工業大學) in 1956 with a bachelor degree of engineering. Mr. GUO is currently the honorary dean, professor and tutor of PHD students of the College of Automotive Engineering of Jilin University. Mr. GUO led a number of fundamental scientific research projects of Chinese automobile industry and the development and production of the new FAW automobiles. Mr. GUO is reputed as a pioneering scholar in the field of automobile who has introduced the system dynamics and the random vibration theory to the research of automobile vibration and loading, a major founder of mechanics of automobile tyre in China and a major pioneer and leader in the field of pursuing steadiness and smoothness of Chinese automobile operations. Mr. GUO was elected as one of the first batch of academician of Chinese Academy of Engineering in 1994. Mr. GUO is currently an independent director of Hualing Xingma Automobile (Group) Co., Ltd. and Zhejiang Shibao Company Limited, which are listed companies on Shanghai Stock Exchange and Shenzhen Stock Exchange in China, respectively.

Mr. WU Feng (吳鋒)

Aged 66, was appointed as an independent non-executive Director in June 2015. Mr. WU graduated from Taiyuan Institute of Technology (太原工學院) in 1981 with a master degree of engineering. In 2014, Mr. WU was awarded an honorary doctorate degree by the University of Massachusetts Boston in America. Mr. WU is currently the professor, tutor of PHD students and the chief professor of the energy and environmental materials discipline of Beijing Institute of Technology, the academician of the International Eurasian Academy of Sciences and vice council chairman of China Battery Industry Association. Mr. WU takes the lead in the field of new secondary battery and related energy resources in China. He took charge of and undertook multiple important and key national researches and special projects. Mr. WU was appointed as the "Chief Scientist of the Special Project of New Secondary Battery of National (973) Key Basic Research Program" by the Ministry of Science and Technology of the PRC for three times in a row. Mr. WU is currently an independent director of EVE Energy Co., Ltd. and BST Power (Shenzhen) Limited, which are listed companies on Shenzhen Stock Exchange and the National Equities Exchange and Quotations, respectively.

Mr. HUANG Dongliang (黃董良)

Aged 61, 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 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 Medicine Co., Ltd. (浙江醫藥股份有限公司) and Lander Sports Development Co., Ltd. (萊茵達體育發展股份有限公司), which are listed companies on Shanghai Stock Exchange and Shenzhen Stock Exchange in China, respectively.

Senior Management

Mr. ZHAO Haimin (趙海敏)

Aged 52, is the vice-president of the Group. Mr. ZHAO is responsible for managing the research centre as well as the quality of technology of the Group. Mr. ZHAO joined us in 2004 as an assistant to the general manager and deputy general manager, etc. of Tianneng Battery Company. Mr. ZHAO was responsible for after-sale services, human resources and sales management of the Group, during which he organized and implemented the first tracking system of laser printing for quality and after-sale informationalization and the introduction of overseas high-end talents under the national "Thousand Talents Program" (國家千人) in respect of the field of new energy. Mr. ZHAO graduated from Bengbu Industrial Technology Institute (蚌埠工業技術學校), majoring in textile. Later, he attended a vocational school and a university for corporate management and was enrolled in the MBA programme in China University of Geosciences in 2009. Mr. ZHAO is a senior engineer. He has extensive knowledge in non-woven fabrics and battery separators. 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 technology, production and sales.

Mr. WANG Zhikun (王志坤)

Aged 47, is the vice-president of the Group and an executive director of Zhejiang Tianneng Innovative Investment Management Co., Ltd (浙江天能創新投資管理有限公司). Mr. WANG is responsible for the strategy management, capital market and investor relationship of the Group. He joined the Group in 2005. He was appointed as listing office director, chief investment officer, Head of President Office and a member of the investment decision committee. Mr. WANG was promoted as our vice-president in 2010. Mr. WANG graduated from Zhejiang University of Technology in July 1991 with a bachelor degree of engineering, and obtained a master degree of business administration from Southern California University for Professional Studies in America in August 2003. He also attended the seminar of international financing in Fudan University (Shenzhen Party School of CPC) in 1999, the seminar of business management for senior president in Zhejiang University from August 2007 to September 2008 and the senior seminar of investment, merger & acquisition and market value management in Zhejiang Business College (浙商商學院) from August 2015 to October 2016. Mr. WANG is a senior economist with 24 years of experience in investment management, international financing and capital operation who holds the qualification of secretary to the board of directors of Shanghai Stock Exchange. Mr. WANG also acts as the chief secretary of Huzhou Technical Equipment Industry Association (湖州市科技裝備業商會) and committee member of Huzhou Senior Economist Appraisal Committee (湖州市高級經濟師評審委員會). Prior to joining us, Mr. WANG worked in Century Securities (Shenzhen) Company Limited and Zhejiang Huaxin Home Textile Company Limited and was responsible for the investment management and corporate management.

Ms. HUI Wai Man, Shirley (許惠敏)

Aged 49, is the company secretary of the Company. Ms. HUI is responsible for the company secretarial affairs of the Group. She joined the Group in September 2009. She is a certified public accountant in Hong Kong, a fellow member of Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Secretaries and Administrators as well as a fellow member 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 27 years of professional experience in public accounting and corporate financing.

Ms. WANG Jing (王靜)

Aged 53, is our financial controller. Ms. WANG is responsible for the financial management of the Group. She joined the Group in 2004 as the manager of financial department of Tianneng Battery and was appointed as our financial controller in 2009. She has more than 36 years of financial management experience. Ms. WANG graduated from Hangzhou Institute of Electrical Engineering in Industrial Accounting in July 1988 and attended the advanced seminar of modern management (CFO) in Zhejiang Institute 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 Kingsafe Group (湖州金三發集團) and Huzhou Tianheng United CPA Firm (湖州天衡聯合會計師事務所) and was responsible for the financial management and audit.

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.

Corporate Governance Code

The Company has adopted the provisions of the Corporate Governance Code (the "Code") during the period from 1 January 2016 to 31 December 2016 as 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 2016, except for the code provision A.2.1, the Company has complied with the provisions set out in the Code. Dr. 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 2016, the Board comprised nine members. Dr. 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. Zhou Jianzhong. 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. Guo Konghui, Mr. Huang Dongliang and Mr. Wu Feng. Mr. Huang Dongliang has appropriate professional accounting experience and expertise.

All directors of the Company (the "Directors" and each of the Directors a "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 26 to 29 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.

Mr. Huang Dongliang, being an independent non-executive director of the Company, has served the Company in this capacity for more than nine years. Notwithstanding his long term service, given his extensive business experience and not connected with any director or substantial shareholder of the Company, the Board is of the opinion that Mr. Huang continue to bring independent and objective perspectives to the Company's affairs.

Apart from Mr. Zhang Aogen being an elder brother of Dr. 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 sufficient 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.

There is a formal schedule of matters specifically reserved to and delegated by the Board. The Board had given clear directions to the management of the Company that certain matters (including the following) must be reserved to the Board:

– Publication of final, interim and quarterly results (if any) of the Company;

– Dividend distribution or other distributions;

– Treasury policy, accounting policy and remuneration policy;

– Review on internal control system and risk management;

– Changes to major group corporate structure or Board composition requiring notification by announcement;

– Notifiable transaction and non-exempted connected transaction/continuing connected transaction;

– Proposed transaction requiring Shareholders' approval;

– Capital re-structuring and issue of new securities;

– Joint-venture with outside party involving capital commitment from the Group of over 5% of the relevant size test of the Company; and

– Financial assistance to Directors.

In addition, the Board carries the function of reviewing the corporate governance practice and disclosure system as follows:

– Review the Company's policies and practices on corporate governance;

– Review and monitor the training and continuous professional development of Directors and senior management;

– Review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

– Review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

– Review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

The Company held nine Board meetings and one general meeting during the year ended 31 December 2016. The attendance of individual Directors at these meetings were as follows:

Name	Attendance of Board meeting in person	Attendance of general meeting in person
Executive Direct		
Dr. Zhang Tianren	9/9	1/1
Mr. Zhang Aogen	4/9	1/1
Mr. Chen Minru	9/9	1/1
Mr. Zhang Kaihong	4/9	1/1
Mr. Shi Borong	4/9	1/1
Mr. Zhou Jianzhong	4/9	1/1
Independent Non-executive Directors:		
Mr. Huang Dongliang	4/9	1/1
Mr. Guo Konghui	3/9	1/1
Mr. Wu Feng	3/9	1/1

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

Mr. Huang Dongliang	11 June 2016 to 10 June 2017
Mr. Guo Konghui	6 June 2016 to 5 June 2017
Mr. Wu Feng	6 June 2016 to 5 June 2017

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.

Board Diversity

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. According to Provision A.5.6 of the Code, the above board diversity policy of the Company has been approved by the Board and adopted by the Nomination Committee on 30 August 2013.

The Nomination Committee holds meeting at least once a year to review the diversity of the Board and discusses the measurable objectives, including knowledge, appropriate professional qualifications, relevant business background and experience, skills, related management expertise and independence of directors, and give recommendation to the Board. During the year, the Nomination Committee took the view that the measurable objectives were achieved to a large extent. It pays particular attention on the cultural and educational background, professional and technical experience, and skills of the members of Board and also reviewed the composition between executive Directors and independent non-executive Directors so to ensure appropriate independency within the Board.

Directors' Training

Pursuant to Provision A.6.5 of the Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors have been given relevant guideline materials to ensure that they are apprised of the latest changes in the commercial, legal and regulatory requirements in relation to the Company's businesses, and to refresh their knowledge and skills on the roles, functions and duties of a listed company director.

For the period from 1 January 2016 to 31 December 2016, all Directors provided their records of training to the Company. All Directors, namely Dr. Zhang Tianren, Mr. Zhang Aogen, Mr. Chen Minru, Mr. Zhang Kaihong, Mr. Shi Borong, Mr. Zhou Jianzhong, Mr. Guo Konghui, Mr. Huang Dongliang and Mr. Wu Feng, participated in this continuous professional development mainly by reading various materials regarding directors' responsibilities, prevention of breaching listing rules and disclosure of inside information, etc.

Company Secretary's Training

Pursuant to Rule 3.29 of the Listing Rules, the Company Secretary must take no less than 15 hours of relevant professional training in each financial year. The Company Secretary provided her training records to the Company indicating she took more than 15 hours of relevant professional development by means of attending in-house briefings, attending seminars and reading relevant guideline materials.

Shareholders' Rights

Set out below is a summary of certain rights of the shareholders as required to be disclosed pursuant to the Code.

Convening an extraordinary general meeting and procedures for putting forward proposals by shareholders at general meeting

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 Secretary of the Board 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 months after the deposit of such requisition.

If within twenty-one 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.

Any requisition to convene an extraordinary general meeting or proposal to be put forward at the general meeting can be addressed to the principal place of business of the Company in Hong Kong marked with the attention of the Company Secretary. The requisitionists must state in their request(s) the objects of the extraordinary general meeting to be convened, and such request must be signed by all the requisitionists. Upon receipt, the Company will verify the requisitionists' particulars and if the request is in order, the Company will convene the extraordinary general meeting in accordance with its articles of association.

Enquiries from Shareholders to the Board

In order to ensure effective communication between the Shareholders and the Board, the Company adopted the shareholders communication procedures on 24 February 2012. According to the shareholders communication procedures, the Board should be responsible for maintaining an on-going dialogue with Shareholders and in particular, use annual general meetings or other general meetings to communicate with them and encourage their participation. The chairman of the Board should attend the annual general meeting. He should also invite the independent non-executive Directors, chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, the chairman should invite another member of the committee or failing this, his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval.

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 (Porda Havas International Finance Communications (Group) Holdings Company Limited) whose contact details are available on the website.

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 2016, the Remuneration Committee had three members, comprising Mr. Wu Feng (Chairman), Mr. Huang Dongliang (independent non-executive Directors) and Mr. Chen Minru (executive Director).

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 Committee shall meet at least once a year. One committee meeting was held in 2016 to approve and adopt the revised terms of reference of the Remuneration Committee. The attendance of each member is set out as follows:

Name	**Meeting held**	**Meeting attended in person**
Mr. Huang Dongliang	1	1
Mr. Chen Minru	1	1
Mr. Wu Feng	1	1

During the Remuneration Committee meeting, proposal for adjustment of remuneration package for Directors and senior management ("the Proposal") was reviewed and approved by the Remuneration Committee and the Proposal was proposed to the Board of Directors for approval. The Proposal was approved by the Board of Directors.

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 2016, the Nomination Committee had three members, comprising Dr. Zhang Tianren (Chairman) (executive Director), Mr. Huang Dongliang and Mr. Wu Feng (independent non-executive Directors).

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.

The Nomination Committee shall meet at least once a year. One committee meeting was held in 2016 to review the composition of the Board, consider the independence of the independent non-executive Directors and the retirement of Directors. The attendance of each member is set out as follows:

Name	**Meeting held**	**Meeting attended in person**
Dr. Zhang Tianren	1	1
Mr. Huang Dongliang	1	1
Mr. Wu Feng	1	1

Remuneration of the Senior Management

The remuneration of the senior management of our Group for the year ended 31 December 2016 falls within the following band:

	人數
Nil to RMB1,000,000	4

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 2016.

Audit Committee

The Company has established an Audit Committee in compliance with the Rule 3.21 of the Listing Rules. As at 31 December 2016, the Company's Audit Committee comprised three independent non-executive Directors, namely Mr. Huang Dongliang (chairman), Mr. Guo Konghui and Mr. Wu Feng.

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.

The written terms of reference, which describes the authority and duties of the Audit Committee, are regularly reviewed and was updated by the Board to comply with Provision C.3.3 of the Code in 2016. The Audit Committee held two meetings during the year ended 31 December 2016. The attendance of each member is set out as follows:

Name	Meeting held	Meeting attended in person
Mr. Huang Dongliang	2	2
Mr. Guo Konghui	2	2
Mr. Wu Feng	2	2

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 statements 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. With effect from 1 January 2016, the Audit Committee will also oversee the Group's risk management system.

The Audit Committee reviewed and discussed with the management and independent external auditors the Group's financial statements for the year ended 31 December 2016. 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 six months ended 30 June 2016 and the year ended 31 December 2016, 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 2017.

Compliance Adviser

To better perform the responsibility set out in the Listing Rules, the Company engaged Convoy Capital Hong Kong Limited as its compliance adviser throughout the year under review and until 17 January 2017. Subsequently, the Company engaged Gram Capital Limited as its compliance adviser for a term of service from 20 January 2017 to 19 January 2018.

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 2016. Deloitte has also reviewed the 2016 unaudited interim financial report of the Company, prepared under HKFRSs.

During the year ended 31 December 2016, the fee paid and payable to Deloitte in respect of audit and audit related services amounted to approximately RMB1.77 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 and Risk Management

The Board is responsible for maintaining an adequate system of internal controls within the Group 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 Group'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 Risk Assurance Limited ("Baker Tilly"), to assess and evaluate the risk and effectiveness of its system of internal controls up to 31 December 2016. 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 Group, and the Audit Committee is satisfied that the internal control system of the Group is sound and adequate. Pursuant to the system improvement recommendations made by Baker Tilly, the Group 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.

Going forward, the Company will conduct regular reviews of the Company's internal control and risk management systems and their 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 page 57.

Constitutional Documents

There are no significant changes in the Company's constitutional documents during the year ended 31 December 2016.

ENVIRONMENTAL PROTECTION AND COMMUNITY RELATIONS

The Company has actively put its effort into environmental protection and vastly promoted the use of clean production to ensure the natural and harmonious development of the Company. The Company has adopted a series of environmental protection policies and utilized modern equipment to control and monitor the waste level on a regular basis. The Company also complies with the regulatory requirements on environmental protection.

In 2016, the Company exerted great efforts to improve the levels of technology and equipment to speed up the transformation of production process, thus comprehensively enhancing the level of environmental protection and smart manufacturing. Multiple awards were granted such as the "National Model Enterprise Promoting Green Growth" (國家綠色增長型示範企業), the "National Project of Intelligentized Factory for the Production of Motive Battery for New Energy Vehicles" (國家新能源汽車動力電池生產智能化工廠項目), the "National System Integration Project of Green Manufacturing" (國家綠色製造系統集成項目), the "National Special Project of Clean Production" (國家清潔生產專項), and the "China Integrated Management System Standards Assessment Pilot Enterprise for the Integration of Informatization and Industrialization". The full enhancement of environmental protection capabilities of the Company has become one of the core competitiveness for the long and mid-term development of the Group.

In 2016, to the best knowledge of the Directors, the Company complied with the relevant laws, rules and regulations that have a significant impact on the Company.

Meanwhile, the Company will publish the Corporate Social Responsibility Report (CSR Report), fully describing the Company's work on environmental protection and social responsibility from corporate governance, market operations, working environment, Community Relations, environmental protection and other aspects.

Significant related party transactions entered into by the Group for the year ended 31 December 2016 are disclosed in Note 39 to the consolidated financial statements. The said related party transactions constituted connected transactions under the Listing Rules but were fully exempted from shareholders' approval, annual review and other disclosure requirements.

Non-exempt connected transactions

1. Subscription of additional registered capital representing 40% of enlarged equity interests in Zhejiang Tianneng Energy Technology Co., Ltd. (浙江天能能源科技有限公司)

Introduction

On 18 January 2016, Zhejiang Tianneng Energy Technology Co., Ltd (浙江天能能源科技有限公司, "Tianneng Energy"), an indirect wholly-owned subsidiary of the Company, entered into a subscription agreement ("the Subscription Agreement") pursuant to which Partnership A, Partnership B and Partnership C (as defined below) would subscribe for 40% of Tianneng Energy's enlarged equity interest with an aggregate consideration of approximately RMB114.2 million.

Major Terms

Major terms of the Subscription Agreement are as follows:

Date: 18 January 2016

Parties: (a) ***Issuer:*** Tianneng Energy

(b) ***The then existing shareholders of Tianneng Energy:***

1) Zhejiang Tianneng Battery Co., Ltd. (天能電池集團有限公司, "Tianneng Battery"), an indirect wholly-owned subsidiary of the Company

2) Zhejiang Changxing Tianneng Power Supply Co., Ltd. (浙江省長興天能電源有限公司, "Tianneng Power Supply"), an indirect wholly-owned subsidiary of the Company

(c) ***Subscribers:***

1) Changxing Tianhao Investment Management Partnership Enterprise (長興天昊投資管理合夥企業, "Partnership A")

2) Changxing Tianze Investment Management Partnership Enterprise (長興天澤投資管理合夥企業, "Partnership B")

3) Changxing Tianshun Investment Management Partnership Enterprise (長興天順投資管理合夥企業, "Partnership C")

As at the date of the Subscription Agreement:

(a) Changxing Tianfu Shareholding Investment Management Co., Ltd. (長興天富股權投資管理有限公司,"Tianfu"), being a company owned by Dr. Zhang Tianren, an executive Director and controlling shareholder of the Company as to 95%, and owned by Mr. Zhou Jianzhong, an executive Director of the Company as to 5%, is the general partner of Partnership A and Partnership B. Tianfu also has approximately 0.52% and 2.75% partnership interests in Partnership A and Partnership B respectively. Accordingly, each of Partnership A and Partnership B are connected persons of the Company under the Listing Rules; and

(b) Changxing Tianzhi Business Management Co., Ltd. (長興天智商業管理有限公司, "Tianzhi"), being a company owned by Mr. Shi Liyong, an executive director of Tianneng Energy as to 95%, and owned by Mr. Wang Jiangang as to 5%, is the general partner of Partnership C. Tianzhi also has approximately 0.78% partnership interest in Partnership C. Accordingly, Partnership C is a connected person of the Company under the Listing Rules.

Consideration and subscription percentage of the enlarged issued share capital of Tianneng Energy:

Subscriber	Consideration	Subscription % of the enlarged issued share capital of Tianneng Energy
Partnership A	approximately RMB86.6 million	Approximately 30.32%
Partnership B	approximately RMB16.2 million	Approximately 5.68%
Partnership C	approximately RMB11.4 million	Approximately 4%
Total	approximately RMB114.2 million	Approximately 40%

Terms of payment: The consideration shall be paid in full in cash by the respective subscribers to Tianneng Energy within twenty (20) days from the date the Subscription Agreement.

Reasons for and benefits of the subscription

The Subscription will raise sufficient capital for the research and development and expansion of production capacity of the lithium battery product business and to provide incentive to and reward to the directors, senior management and employees of the enlarged Group (including Tianneng Energy) for their past contributions to, and continuing efforts to promote the interests of the enlarged Group. The Board is of the view that such incentives and rewards will positively motivate and retain senior and experienced staffs.

Completion:

The completion of the subscription took place on 27 January 2016 in accordance with the terms of the Subscription Agreement. Upon completion, Tianneng Energy is indirectly held as to approximately 60% by the Company (through Tianneng Battery as to 54% and Tianneng Power Supply as to 6%), approximately 36% by Partnership A and Partnership B, and approximately 4% by Partnership C. Tianneng Energy remains a subsidiary and is a connected subsidiary of the Company under the Listing Rules and its account will continue to be consolidated in the accounts of the Company.

2. Shareholder's loan and guarantees

Introduction

On 12 October 2016, Tianneng Battery entered into a shareholder's loan agreement with Tianneng Energy, pursuant to which Tianneng Battery agreed to grant to Tianneng Energy a shareholder's loan for the sum of up to RMB150 million. As at the date of the shareholder's loan agreement, Tianneng Energy has applied for certain bank loans which are pending approval from Bank of China Limited, Changxing Branch ("BOC"), China Construction Bank Corporation, Changxing Branch ("CCB") and Shanghai Pudong Development Bank Co., Ltd., Huzhou Changxing Branch ("SPD Bank"). The purpose of the shareholder's loan is to fund the internal working capital of Tianneng Energy, pending the drawdown of the loans by Tianneng Energy from BOC, CCB and SPD Bank respectively.

As mentioned above, Tianneng Energy become a connected subsidiary of the Company after the completion of the subscription of its equity interest by Partnership A, Partnership B and Partnership C, therefore it is a connected person of the Company under Chapter 14A of the Listing Rules. Thus, the shareholder's loan constituted connected transaction of the Company under Chapter 14A of the Listing Rules.

Major terms

The principal terms of the shareholder's loan agreement are as follows:

Date:	12 October 2016
Lender:	Tianneng Battery
Borrower:	Tianneng Energy
Principal amount:	up to RMB150 million.
Term:	From 12 October 2016 to the earlier of (i) 11 April 2017, or (ii) upon the bank loans from BOC, CCB and SPD Bank being readily available to Tianneng Energy
Interest rate:	4.35% per annum, having considered the benchmark market borrowing interest rate in the PRC, as calculated based on a daily rate according to the actual number of days of the duration of the shareholder's loan, and to be adjusted if the Group adjusts the benchmark interest rate. Interest shall be paid monthly. In the event of default, a default interest rate of 20% per annum shall be imposed.
Repayment terms:	The principal amount of the shareholder's loan together with all interests payable shall be repaid upon the expiration of the term of the shareholder's loan.

As mentioned above, as at the date of the shareholder's loan agreement, Tianneng Energy has applied for certain bank loans which were pending approval from BOC, CCB and SPD Bank. Tianneng Battery proposed to guarantee the repayment obligations of Tianneng Energy under the loans to be granted by BOC, CCB and SPD Bank up to the amount of RMB107 million, RMB60 million and RMB150 million respectively, with a guarantee fee of 0.5% on the aggregate amount of the loans to be paid by Tianneng Energy in a lump sum.

Non-exempt continuing connected transactions

1. Lease Agreements

Introduction and major terms

Tianneng Energy, which became a connected subsidiary of the Company on 27 January 2016, has entered into a lease agreement with Tianneng Battery and Tianneng Power Supply respectively, which constitute continuing connected transactions of the Company under chapter 14A of the Listing Rules, details of which are set out below:

Lease Agreement between Tianneng Energy and Tianneng Battery

Date:	28 January 2016
Lessor:	Tianneng Energy
Lessee:	Tianneng Battery
Premises:	Such portion of office space, staff quarters, research and development building and storeroom at Changxing Headquarter, Zhicheng Town, Changxing County, Zhejiang Province, PRC with a total leased area of 21,092.79 square metres
Term:	1 January 2016 to 31 December 2018
Rental:	RMB248,591.98 per month for the year ending 31 December 2016, RMB273,451.17 per month for the year ending 31 December 2017 and RMB300,796.29 per month for the year ending 31 December 2018. The monthly rent is payable in advance quarterly, on the fifth to tenth day of every quarter.

Lease Agreement between Tianneng Energy and Tianneng Power Supply

Date:	28 January 2016
Lessor:	Tianneng Energy as the lessor
Lessee:	Tianneng Power Supply as the lessee
Premises:	Such portion of office space, staff quarters and research and development building at Changxing Headquarter, Zhicheng Town, Changxing County, Zhejiang Province, PRC with a total leased area of 21,221.95 square metres
Term:	1 January 2016 to 31 December 2018
Rental:	RMB192,649.41 per month from 1 January 2016 to 30 June 2016; RMB241,336.51 per month from 1 July 2016 to 31 December 2016; RMB265,470.16 per month for the year ending 31 December 2017 and RMB292,036.14 per month for the year ending 31 December 2018. The monthly rent is payable in advance quarterly, on the fifth to tenth day of every quarter.

Annual Caps

Based on the terms of the above lease agreements, the Annual Caps to be paid by Tianneng Battery and Tianneng Power Supply to Tianneng Energy for each of the three financial years ending 31 December 2018 will not be more than the respective amounts as follows:

For the financial year ended 31 December 2016	For the financial year ending 31 December 2017	For the financial year ending 31 December 2018
RMB5,587,019	RMB6,467,056	RMB7,113,989

The actual rent paid by Tianneng Battery and Tianneng Power Supply during the year under review is approximately RMB5,587,019.

Reasons for the entering into the lease agreements

The terms of the lease agreements are in line with, and with reference to, other similar leased properties in the PRC. An independent property valuer has been appointed by the Company to review the rent payable under the lease agreements and confirmed that such rent was at the prevailing market rent as at 31 December 2014 and there will be an estimated increase in rent of 10% per annum from 2016 to 2018.

2. Consignment sale framework agreement

Introduction and major terms

Tianneng Energy has entered into a consignment sale framework agreement with Tianneng Power Supply, which constitutes a continuing connected transaction of the Company under chapter 14A of the Listing Rules upon Tianneng Energy becoming a connected subsidiary of the Company, details of which are set out below

Date:	28 January 2016
Consignor:	Tianneng Energy as the consignor
Consignee:	Tianneng Power Supply as the consignee
General terms:	Tianneng Energy appoints Tianneng Power Supply as its consignee to, from time to time, sell on its behalf, the Lithium and Ni-MH Battery Products manufactured by Tianneng Energy at the online sales platforms operated by the Remaining Group
Term:	1 January 2016 to 31 December 2018
Pricing policy:	Based on the unit price of the Lithium and Ni-MH Battery Products or the product price list determined by Tianneng Energy from time to time on normal commercial terms, which shall be not less favourable than those offered to other independent third parties. The pricing for each product must be with reference to the market price for similar products offered to independent third parties having regards to the quality, market demands and the costs of sales of the products.

Based on the terms of the above consignment sale framework agreement, the Annual Caps to be paid by Tianneng Power Supply to Tianneng Energy for each of the three financial years ending 31 December 2018 will not be more than the respective amounts as follows:

	For the financial year ending 31 December 2016	For the financial year ending 31 December 2017	For the financial year ending 31 December 2018
	RMB15,000,000	RMB26,000,000	RMB40,000,000

The actual transaction amount in the year under review is approximately RMB1,519,000.

Reasons for the entering into the consignment sale framework agreement

The consignment sale framework agreement provides a framework to allow Tianneng Power Supply to sell the Lithium and Ni-MH Battery Product on behalf of Tianneng Energy on the online sales platforms operated by Tianneng Power Spply.

The independent non-executive Directors have reviewed the above continuing connected transactions, and confirmed that they have been entered into:

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

b) on normal commercial terms; and

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

The auditor of the Company was engaged to perform works on the continuing connected transactions set out above in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has provide a letter to the Board confirming that the continuing connected transactions disclosed above:

(1) have been approved by the Board;

(2) were, in all material respects, in accordance with the pricing policies of the Group (if applicable);

(3) were entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

(4) have not exceeded the cap.

A copy of the auditor's letter will be provided by the Company to the Hong Kong Stock Exchange.

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2016.

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 40 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 61. The Directors propose to declare a final dividend of HK25.60 cents per Share (2015: HK31.80 cents).

Property, Plant and Equipment

During the year, approximately RMB77 million and RMB285 million 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 RMB157 million. 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.

Business Review

Details of the Company's business review are set out in the "Business Review" section of this annual report, of which this Directors' Report forms part.

Share Capital and Issue of Securities

During the year, the Company repurchased a total of 17,222,000 Shares of HK$0.10 each in the capital of its own shares on the Stock Exchange, details of which are as follows:

Month of repurchase	**number of shares repurchased**	**Highest price paid per Share** (HK$)	**Lowest price paid per Share** (HK$)	**Approximate aggregate consideration** (HK$'000) (include relevant expenses)
April 2016	6,334,000	6.36	6.11	39,920
May 2016	6,976,000	6.20	5.92	42,492
June 2016	1,966,000	5.28	4.68	9,833
December 2016	1,946,000	7.50	7.31	14,527
	17,222,000			106,772

The issued share capital of the Company was reduced by the par value of the repurchased Shares which had been cancelled on 16 May 2016, 31 May 2016, 30 June 2016 and 28 December 2016. The repurchases of Shares were effected by the Directors pursuant to the general mandate to repurchase Shares which was duly approved by the Shareholders at the annual general meeting of the Company held on 18 May 2016.

Share Capital and Issue of Securities (Continued)

The repurchases were made for the benefit of the Company and the Shareholders as a whole with a view to enhancing the net assets value per share of the Company and earnings per Share.

Details of the movement during the year in the share capital of the Company are set out in note 31 to the consolidated financial statements.

As at 31 December 2016, two tranches of corporate bonds in an aggregate amount of RMB800 million (2015: RMB800 million) issued by Tianneng Battery Group Co., Ltd., a wholly-owned subsidiary of the Company, to PRC domestic institutional investors for a term of 5 years and 6 years respectively remained outstanding. Further details of the issues can be referred to the announcements of the Company dated 7 March 2014, 10 March 2014, 18 September 2014 and 26 September 2014.

Except as disclosed above, 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

As at 31 December 2016, the Company's reserve available for distribution amounted to approximately RMB809 million (2015: RMB927 million). 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:
Dr. Zhang Tianren *(Chairman)*
Mr. Zhang Aogen
Mr. Chen Minru
Mr. Zhang Kaihong
Mr. Shi Borong
Mr. Zhou Jianzhong

Independent non-executive directors:
Mr. Huang Dongliang
Mr. Guo Konghui
Mr. Wu Feng

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

Mr. Huang Dongliang	11 June 2016 to 10 June 2017
Mr. Guo Konghui	6 June 2016 to 5 June 2017
Mr. Wu Feng	6 June 2016 to 5 June 2017

In accordance with Article 86 and/or Article 87 (as the case may be) of the Company's articles of association, Dr. Zhang Tianren, Mr. Zhang Aogen and Mr. Huang Dongliang will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

All of the executive directors and independent non-executive directors of the Company have entered into services contracts or a letter of appointment with the Company respectively. The term of appointment of Dr. Zhang Tianren, Mr. Zhang Aogen, Mr. Chen Minru, Mr. Zhang Kaihong, Mr. Shi Borong and Mr. Huang Dongliang, is 3 years from 11 June 2007; the term of appointment of Mr. Zhou Jianzhong is 3 years from 27 March 2015; the term of appointment of Mr. Guo Konghui and Mr. Wu Feng, is 1 year from 6 June 2015. The term of appointment of each Director is renewable by mutual agreement of both parties unless terminated by not less than three months' prior notice in writing served by either party. All the directors are subject to retirement by rotation and re-election at the Company's annual general meeting at least once every three years in accordance with Article No. 87 of the Company's articles of association.

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

Permitted Indemnity

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.

Directors' Interest in Shares, Underlying Shares and Debentures

As at 31 December 2016, the interests and the short positions of the directors and the chief executive of the Company in the shares, underlying shares and the debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the registered maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

(a) Long positions

Ordinary shares of HK$0.1 each of the Company:

Name of director	Capacity	Number of interested shares held (note 1)	Aggregate approximate percentage of issued share capital of the Company
Zhang Tianren	Interest of a controlled corporation (note 2)	410,355,650 (L)	36.42%
	Interest of spouse (note 2)	438,000 (L)	0.04%
Zhang Aogen	Interest of a controlled corporation (note 3)	13,641,022 (L)	1.21%
Chen Minru	Interest of a controlled corporation (note 4)	5,343,152 (L)	0.47%
Zhang Kaihong	Interest of a controlled corporation (note 5)	18,884,174 (L)	1.67%
Shi Borong	Interest of a controlled corporation (note 6)	15,686,141 (L)	1.39%
Zhou Jianzhong	Interest of a controlled corporation (note 7)	2,362,815 (L)	0.20%
Huang Dongliang	Beneficial owner (note 8)	240,000 (L)	0.02%

Directors' Interest in Shares, Underlying Shares and Debentures (Continued)

(a) Long positions (Continued)

Notes:

1. The letters "L" and "S" denote long position and short position in the shares of the Company respectively.

2. The 410,355,650 shares are held by Prime Leader Global Limited, which is wholly-owned by Dr. Zhang Tianren. 438,000 shares are held by Ms. Yang Yaping and the interest in the remaining 180,000 shares arises from the share options granted to Ms. Yang Yaping, spouse of Dr. Zhang Tianren.

3. The 13,641,022 shares are held by Top Benefits International Limited, which is wholly-owned by Mr. Zhang Aogen.

4. The 5,343,152 shares are held by Profit Best International Limited, which is wholly-owned by Mr. Chen Minru.

5. The 18,884,174 shares are held by Plenty Gold Holdings Limited, which is wholly-owned by Mr. Zhang Kaihong.

6. The 15,686,141 shares are held by Precise Asia Global Limited, which is wholly-owned by Mr. Shi Borong.

7. The 2,362,815 shares are held by Centre Wealth Limited, which is wholly-owned by Mr. Zhou Jianzhong.

8. Among which the interest in 90,000 shares arises from the share options granted to Mr. Huang Dongliang.

(b) Other interests and short positions

Save 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. On 16 June 2014, the Company has granted 58,660,000 Options to subscribe for Shares. Among the Options, 2,215,000 Options were granted to the associates of the Directors. The names of the grantees who are associates of directors were listed on the announcement dated 16 June 2014.

Retirement Benefits Scheme

Details of the retirement benefits scheme of the Group are set out in note 38 to the consolidated financial statements.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed on page 54, at no time during the year was the Company, its parent 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 has any interest in a business which competes or may compete with the business of the Group.

Directors' Interests in Contracts of Significance

No transaction, arrangement or contract of significance, to which the Company, or its subsidiaries was a party and in which a Director or any entity in connection with the Directors 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 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following persons, other than a Director or chief executive of the Company, had notified the Company of relevant interests and short positions in the shares or underlying shares of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO in the issued share capital of the Company:

Ordinary shares of HK$0.1 each of the Company:

Name of shareholder	**Capacity**	**Number of interested shares**	**Approximate percentage of issued share capital of the Company** (note 6)
Zhang Tianren	Interest of a controlled corporation (note 1)	410,355,650 (L)	36.42%
	Interest of spouse (note 1)	438,000 (L)	0.04%
Prime Leader Global Limited	Beneficial owner	410,355,650 (L)	36.42%
Yang Yaping	Beneficial owner (note 1)	438,000 (L)	0.04%
	Interest of spouse (note 1)	410,355,650 (L)	36.42%
BlackRock Inc.	Interest of controlled corporation(s) (note 2)	67,669,679 (L)	5.99%
		2,200,000 (S)	0.19%
UBS AG	Person having security interest in shares (note 3)	55,975,005(L)	4.96%
		13,791,696(S)	1.22%
UBS Group AG	Person having security interest in shares (note 4)	55,975,005 (L)	4.96%
		13,791,696 (S)	1.22%
Morgan Stanley	Interest of controlled corporation(s) (note 5)	56,126,235 (L)	4.90%
		47,678,217 (S)	4.16%

(L): long position
(S): short position

Substantial Shareholders (Continued)

Notes:

1. The 410,355,650 Shares are held by Prime Leader Global Limited, which is wholly-owned by Dr. Zhang Tianren. 438,000 Shares are held by Ms. Yang Yaping and the interest in the remaining 180,000 Shares arises from the share options granted to Ms Yang Yaping, spouse of Dr. Zhang Tianren. Ms Yang Yaping, being the spouse of Dr. Zhang Tianren, is deemed to be interested in the Shares held by Dr. Zhang Tianren.

2. According to the corporate substantial shareholder notice of BlackRock Inc. filed for the relevant event dated 26 October 2016 as shown on the website of the Stock Exchange, BlackRock Inc. is interested in 67,669,679 Shares and is holding a short position in 2,200,000 Shares.

3. According to the corporate substantial shareholder notice of UBS AG filed for the relevant event dated 14 June 2016 as shown on the website of the Stock Exchange, UBS AG is interested in 55,975,005 Shares and is holding a short position in 13,791,696 Shares.

4. According to the corporate substantial shareholder notice of UBS Group AG filed for the relevant event dated 14 June 2016 as shown on the website of the Stock Exchange, UBS Group AG is interested in 55,975,005 Shares and is holding a short position in 13,791,696 Shares.

5. According to the corporate substantial shareholder notice of Morgan Stanley filed for the relevant event dated 3 May 2016 as shown on the website of the Stock Exchange, Morgan Stanley is interested in 56,126,235 Shares and is holding a short position in 47,678,217 Shares through the holding of certain unlisted cash-settled equity derivatives.

6. Shareholding percentage is based on 1,126,546,500 issued shares of the Company as at 31 December 2016.

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 33 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.

An Ordinary Resolution was passed at the Annual General Meeting on 16 May 2014 relating to the refreshment of scheme mandate limit of the share option scheme to 111,190,800 Shares as set out in the supplemental notice of Annual General Meeting, representing approximately 9.72% of the total issued share capital of the Company as at the date of this annual report.

The Scheme shall be valid and effective till 25 February 2017.

Share Options (Continued)

After the refreshment of the share option scheme, on 16 June 2014, a total of 58,660,000 options were offered and granted to Directors and eligible participants. The details of movement of the 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 2016	Number of options granted during the period	Number of options exercised during the period	Number of options cancelled 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 2016	Approximate shareholding percentage of the underlying shares for the options in the share capital of the Company
Ho Tso Hsiu (Independent non-executive Director)	16/6/2014	16/6/2015 to 15/06/2024	2.90	2.89	–	90,000	–	–	–	–	90,000	0.01%
Huang Dongliang (Independent non-executive Director)	16/6/2014	16/6/2015 to 15/06/2024	2.90	2.89	–	90,000	–	–	–	–	90,000	0.01%
Wang Jingzhong (Independent non-executive Director)	16/6/2014	16/6/2015 to 15/06/2024	2.90	2.89	–	90,000	–	–	–	–	90,000	0.01%
Other eligible participants	22/11/2010	22/11/2011 to 21/11/2020	3.18	3.02	–	680,000	–	–	–	–	680,000	0.06%
	16/06/2014	16/06/2015 to 15/06/2024	2.90	2.89	–	45,749,500	–	–	–	(3,314,500)	42,435,000	3.77%
						46,699,500	–	–	–	(3,314,500)	43,385,000	4.15%

During the year ended 31 December 2016, no share options were exercised.

Independent Non-Executive Directors

Mr. Huang Dongliang has signed a letter of appointment with the Company for an initial 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. 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 2015. Mr. Guo Konghui (appointed on 6 June 2015) and Mr. Wu Feng (appointed on 6 June 2015) have signed the letters of appointment with the Company for an initial period of one year commencing 6 June 2015 to 5 June 2016. 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 Listing Rules. The Company considers all of the independent non-executive directors are independent.

Mr. Huang Dongliang, being an independent non-executive director of the Company, has served the Company for more than nine years in respect of this position. Notwithstanding Mr. Huang's long term service, given Mr. Huang's extensive business experience and not connected with any director or substantial shareholder of the Company, the Board is of the opinion that Mr. Huang continues to bring independent and objective perspectives to the Company's affairs.

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, options of 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 6.71% of the Group's turnover. The largest customer accounted for 1.58% of the Group's total turnover. During the year, the largest supplier accounted for 7.29% of the Group's total purchase and the Group's five largest suppliers accounted for 19.78% 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.

Environmental Protection

Details of the Company's environmental policy and performance are set out in the "Environmental Protection and Community Relations" section of this annual report and the separate CSR Report to be published by Group.

Audit Committee

The Company established an audit committee ("Audit Committee") in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. As at 31 December 2016, the Audit Committee comprised three independent non-executive Directors, namely, Mr. Guo Konghui, Mr. Huang Dongliang and Mr. Wu Feng.

The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2016.

Donations

During the year ended 31 December 2016, the Group made charitable donations of approximately RMB2.11 million (2015: RMB1.9 million).

Sufficiency Of Public Float

From information publicly available to the Company and within the knowledge of its directors as at the latest practicable date prior to the issue of this report, at least 25% of the Company's total issued share capital is held by the public throughout the year ended 31 December 2016 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

Chen Minru
Director

Hong Kong, 24 March 2017

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)

Opinion

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 61 to 123, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Warranty provision	
We identified the warranty provision, referring to Note 26 of the consolidated financial statements, as a key audit matter due to its nature involving key estimation made by the directors of the Company and its significant balance as at 31 December 2016. At 31 December 2016, the warranty provision was RMB468,426,000. The Group provides a warranty up to fifteen months on all lead-acid motive battery products. For lead-acid motive battery products found to be defective under the terms of the warranty, the Group undertakes to replace the battery free of charge for products returned within eight months from the date of sale, and to repair the battery free of charge for products returned between the ninth month to the fifteenth month after the date of sale. The directors of the Company would estimate the amount of warranty provision based on factors, including the actual warranty claims, unit sales history, the estimated replacement costs for returned products, predicted future warranty claim rate with reference to prior experiences and volumes of products sold.	Our procedures in relation to management's warranty provision included: – testing the design, implementation and operating effectiveness of the Group's controls relating to the collection of input data used in the process of warranty provision calculation – understanding and assessing reasonableness of the methodology adopted by management by comparing with the historical estimates against actual claims, our knowledge in the Group and the industry practices – challenging the key assumptions on the estimated replacement cost for returned products and predicted future warranty claim rate made by management and – checking mathematic accuracy of calculation provided by management.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lo Kin Cheong.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Turnover	8	**21,480,891**	17,804,068
Cost of sales		**(18,505,980)**	(15,376,105)
Gross profit		**2,974,911**	2,427,963
Other income	9	**222,065**	166,159
Other gains and losses	10	**(124,378)**	(45,678)
Selling and distribution costs		**(587,076)**	(598,269)
Administrative expenses		**(373,203)**	(323,856)
Research and development costs		**(696,500)**	(565,838)
Other operating expenses		**(132,766)**	(151,476)
Share of profit of an associate		**1,493**	–
Finance costs	11	**(139,463)**	(163,376)
Profit before taxation	12	**1,145,083**	745,629
Taxation	14	**(239,561)**	(117,832)
Profit and total comprehensive income for the year		**905,522**	627,797
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**858,546**	610,936
Non-controlling interests		**46,976**	16,861
		905,522	627,797
Earnings per share	16		
– Basic		**RMB0.757**	RMB0.548
– Diluted		**RMB0.744**	RMB0.544

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	17	**3,787,843**	3,551,121
Goodwill		**499**	499
Prepaid lease payments	18	**162,846**	199,364
Interest in an associate	19	**10,493**	–
Deferred tax assets	20	**333,005**	329,614
Deposit for acquisition of property, plant and equipment		**66,229**	41,243
		4,360,915	4,121,841
Current assets			
Inventories	21	**1,884,761**	1,354,284
Held-for-trading investments	22	**57,645**	92,717
Bills, trade and other receivables	23	**2,687,101**	2,845,452
Amounts due from a related party	27	**598**	–
Prepaid lease payments	18	**5,621**	5,730
Derivative financial instruments	22	**19,422**	–
Pledged bank deposits	25	**1,235,675**	728,512
Bank balances and cash	25	**1,878,087**	1,397,555
		7,768,910	6,424,250
Current liabilities			
Bills, trade and other payables	26	**5,828,350**	4,824,706
Amounts due to related parties	27	**12,457**	15,815
Taxation payable		**122,692**	28,089
Bank borrowings – current portion	28	**1,163,692**	821,895
Obligations under finance leases – due within one year	29	**15,006**	–
		7,142,197	5,690,505
Net current assets		**626,713**	733,745
Total assets less current liabilities		**4,987,628**	4,855,586
Non-current liabilities			
Bank borrowings – non-current portion	28	**36,000**	546,818
Deferred tax liabilities	20	**48,395**	50,650
Obligations under finance leases – due after one year	29	**4,275**	–
Long-term loan notes	30	**792,358**	790,977
		881,028	1,388,445
		4,106,600	3,467,141

	NOTE	2016 RMB'000	2015 RMB'000
Capital and reserves			
Share capital	31	**109,889**	111,356
Reserves		**3,821,278**	3,276,969
Attributable to the owners of the Company		**3,931,167**	3,388,325
Non-controlling interest		**175,433**	78,816
Total equity		**4,106,600**	3,467,141

The consolidated financial statements on pages 61 to 123 were approved and authorised for issue by the board of directors on 24 March 2017 and are signed on its behalf by:

Zhang Tianren
DIRECTOR

Chen Minru
DIRECTOR

	Attributable to owners of the Company											
	Share capital RMB'000	**Share premium** RMB'000	**Special reserve** RMB'000 (Note 32)	**Capital reserve** RMB'000 (Note 32)	**Share options reserves** RMB'000	**Non-distributable reserve** RMB'000 (Note 32)	**Statutory surplus reserve fund** RMB'000 (Note 32)	**Discretionary surplus reserve fund** RMB'000 (Note 32)	**Accumulated profits** RMB'000	**Total** RMB'000	**Non-controlling interest** RMB'000	**Total** RMB'000
At 1 January 2015	108,710	745,954	10,000	61,204	56,581	12,460	347,429	110,487	1,221,060	2,673,885	71,755	2,745,640
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	610,936	610,936	16,861	627,797
Transfer	–	–	–	–	–	–	47,778	17,725	(65,503)	–	–	–
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(9,800)	(9,800)
Issue of new shares upon exercise of share option	3,001	136,503	–	–	(45,214)	–	–	–	–	94,290	–	94,290
Forfeiture of share options	–	–	–	–	(8,668)	–	–	–	8,668	–	–	–
Recognition of equity-settled share based payments (note 33)	–	–	–	–	19,742	–	–	–	–	19,742	–	19,742
Repurchase of ordinary shares (note 31)	(355)	(10,173)	–	–	–	–	–	–	–	(10,528)	–	(10,528)
At 31 December 2015 and 1 January 2016	111,356	872,284	10,000	61,204	22,441	12,460	395,207	128,212	1,775,161	3,388,325	78,816	3,467,141
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	858,546	858,546	46,976	905,522
Transfer	–	–	–	–	–	–	61,465	11,418	(72,883)	–	–	–
Capital contribution from non-controlling interest (note 34)	–	–	–	64,600	–	–	–	–	–	64,600	49,641	114,241
Payment of dividends	–	–	–	–	–	–	–	–	(304,430)	(304,430)	–	(304,430)
Forfeiture of share options	–	–	–	–	(3,456)	–	–	–	3,456	–	–	–
Recognition of equity-settled share based payments (note 33)	–	–	–	–	15,143	–	–	–	–	15,143	–	15,143
Repurchase of ordinary shares (note 31)	(1,467)	(89,550)	–	–	–	–	–	–	–	(91,017)	–	(91,017)
At 31 December 2016	109,889	782,734	10,000	125,804	34,128	12,460	456,672	139,630	2,259,850	3,931,167	175,433	4,106,600

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
Operating activities		
Profit before taxation	**1,145,083**	745,629
Adjustments for:		
Interest income	**(37,099)**	(39,960)
Interest expenses	**139,463**	163,376
Share of profit of an associate	**(1,493)**	–
Depreciation	**347,456**	311,418
Amortisation of prepaid lease payments	**4,506**	5,490
Write-off/loss on disposal of property, plant and equipment	**85,362**	47,045
Impairment loss on property, plant and equipment	**2,517**	2,965
Recognition (reversal) of allowance for bad and doubtful debts	**71,338**	(4,832)
Recognition (reversal) of allowance for inventories	**3,292**	(11,152)
Share option expenses	**15,143**	19,742
Gain on fair value change of held-for-trading investments	**(759)**	(6,336)
Gain on fair value change of derivative financial instruments	**(19,422)**	–
Operating cash flows before movements in working capital	**1,755,387**	1,233,385
(Increase) decrease in inventories	**(533,769)**	207,650
Decrease (increase) in bills, trade and other receivables	**87,013**	(1,566,430)
Increase in bills, trade and other payables	**1,039,391**	2,459,977
(Decrease) increase in amounts due to related parties with trade nature	**(3,358)**	2,926
Increase in amounts due from a related party with trade nature	**(598)**	–
Decrease (increase) in held-for-trading investments	**35,831**	(86,381)
Cash generated from operations	**2,379,897**	2,251,127
Interest paid	**(140,173)**	(158,650)
Withholding tax paid on dividend	**(20,300)**	–
Income tax paid	**(130,304)**	(82,705)
Net cash from operating activities	**2,089,120**	2,009,772
Investing activities		
Interest received	**37,099**	39,960
Proceeds from disposal of property, plant and equipment	**44,295**	21,911
Purchase of property, plant and equipment	**(779,125)**	(422,090)
Placement of pledged bank deposits	**(1,235,675)**	(728,512)
Withdrawal of pledged bank deposits	**728,512**	164,926
Asset-related government grants received	**91,605**	49,974
Deposit for acquisition of property, plant and equipment	**(55,353)**	(16,028)
Acquisition of investment in an associate	**(9,000)**	–
Prepaid lease payments	**–**	(5,218)
Net cash used in investing activities	**(1,177,642)**	(895,077)
Financing activities		
Bank borrowings raised	**1,906,692**	2,390,646
Proceeds from issue of shares – option exercise	**–**	94,290
Repayments of bank borrowings	**(2,075,713)**	(3,726,910)
Repayments of loan notes	**–**	(80,000)
Dividends paid	**(304,430)**	–
Dividends paid to non-controlling interest	**–**	(9,800)
Payment on repurchase of shares	**(91,017)**	(10,528)
Capital contribution from non-controlling interests	**114,241**	–
Proceeds from a sale and leaseback transaction	**26,316**	–
Repayment of obligations under finance leases	**(7,035)**	–
Net cash used in financing activities	**(430,946)**	(1,342,302)
Net increase (decrease) in cash and cash equivalents	**480,532**	(227,607)
Cash and cash equivalents at the beginning of the year	**1,397,555**	1,625,162
Cash and cash equivalents at the end of the year, represented by bank balances and cash	**1,878,087**	1,397,555

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 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") with effect from 11 June 2007. The 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. The principal activities of its subsidiaries are set out in note 40. The Company and its subsidiaries are collectively referred as to the "Group".

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

2. Application of New Hong Kong Financial Reporting Standards ("HKFRSs") and Amendments to HKFRSs

2.1 Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to Hong Kong Accounting Standard ("HKAS") 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. Application of New Hong Kong Financial Reporting Standards ("HKFRSs") and Amendments to HKFRSs (Continued)

2.2 New HKFRSs and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new HKFRSs and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the measurement of the Group's financial assets. The expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

2. Application of New Hong Kong Financial Reporting Standards ("HKFRSs") and Amendments to HKFRSs (Continued)

2.2 New HKFRSs and amendments to HKFRSs issued but not yet effective (Continued)

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing/operating cash flows respectively.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB38,455,000 as disclosed in note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

2. Application of New Hong Kong Financial Reporting Standards ("HKFRSs") and Amendments to HKFRSs (Continued)

2.2 New HKFRSs and amendments to HKFRSs issued but not yet effective (Continued)

Amendments to HKAS 7 Disclosure Initiative (Continued)

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

Except as described above, the directors of the Company anticipated that the application of other new HKFRSs and amendments to HKFRSs in issue but not yet effective will have no material impact on the Group's consolidated financial position and performance as well as disclosures.

3. Significant Accounting Policies

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

The consolidated financial statements have been prepared on the historical cost basis except for held-for-trading investments and derivative financial instruments that are measured at fair values at the end of each reporting period, 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 and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

3. Significant Accounting Policies (Continued)

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 and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. Significant Accounting Policies (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- Assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

3. Significant Accounting Policies (Continued)

Business combinations (Continued)

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Interest in an associate

An associate is an entity over which the Group has significant influence. 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.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment 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 associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment 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 the associate.

3. Significant Accounting Policies (Continued)

Interest in an associate (Continued)

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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 Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) 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.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's condensed consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. Significant Accounting Policies (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and title has passed.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income 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.

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.

The Group as leasee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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.

3. Significant Accounting Policies (Continued)

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.

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.

Leasehold land is derecognised upon disposal. Any gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the leasehold land and is recognised in profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At 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.

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)

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 defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 33 to the Group's consolidation financial statements.

For grants of share options that are conditional upon satisfying specified vesting conditions, 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.

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 profit or loss and other 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 interest in an associate, 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 rates (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)

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 construction in progress 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.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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.

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 of disposal 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 (or a cash-generated unit) 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.

3. Significant Accounting Policies (Continued)

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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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.

The amount recognised as a provisions is 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.

Provisions for the expected cost of warranty obligations under the relevant sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

3. Significant Accounting Policies (Continued)

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: 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 debt instrument 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 debt instrument, 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, of which interest income is included in net gains and losses.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading (ii) it is designated as at FTVPL (iii) contingent consideration that may be received by an acquirer as part of a business combination to which HKFRS 3 applies.

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
- on initial recognition, it is a part of an identified portfolio of financial instruments that the Group manages together and has a 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 any gains or losses arising on remeasurement recognised directly in profit or loss. The net gain or loss recognised in profit or loss includes any dividend earned on the financial assets and is included in other gains and losses in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 6.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (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, amounts due from a related party, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are considered to be 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 of the loans and receivables 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 amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of bills, trade and other receivables, 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 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

Debt 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 an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Financial liabilities including bills, trade and other payables, amounts due to related parties, obligations under finance lease, loan notes and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

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 the 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.

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 neither 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.

The Group derecognises financial liabilities 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.

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.

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 aging 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 aging listing on a periodical basis to identify any aged inventories. The carrying value of the aged inventory items is then compared to the respective net realisable value in order to ascertain whether allowance is required to be made for any obsolete and slow-moving items.

In addition, physical count on all inventories are carried out on a periodical basis in order to determine whether allowance need to be made in respect of any obsolete and defective inventories identified. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for obsolete and slow-moving inventories has been made in the consolidated financial statements. The management estimates the net realisable value for finished goods and consumables based primarily on the latest market prices and current market conditions. The net realisable value for finished goods and consumables will be affected if the actual future market prices and market conditions are less than expected.

As at 31 December 2016, the carrying amount of inventories is approximately RMB1,884,761,000 (2015: RMB1,354,284,000), details of which are set out in note 21.

4. Key Sources of Estimation Uncertainty (Continued)

Bills, trade and other receivables

Bills, 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 aging 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 2016, the carrying amounts of bills, trade and other receivables are approximately RMB1,399,111,000 (2015: RMB1,727,615,000), RMB781,799,000 (2015: RMB666,123,000) and RMB275,084,000 (2015: RMB158,254,000) respectively. The cumulative doubtful debts provision as at 31 December 2016 of trade and other receivables are RMB103,245,000 (2015: RMB51,954,000) and RMB18,733,000 (2015: RMB18,377,000), respectively. Details of the balances are set out in note 23.

Warranty

The Group provides a warranty up to fifteen months on all lead-acid motive battery products. Under the terms of warranty, the Group undertakes to repair or replace the battery free of charge in the event of any malfunctioning within the warranty period. Estimated costs related to product warranty are accrued at the time of sale and are based on factors including the actual warranty claims, unit sales history, the estimated replacement costs for returned products, predicted future warranty claim rate with reference to prior experiences and volumes of products sold. The amount of warranty is adjusted as required to reflect the actual costs incurred when information becomes available. As at 31 December 2016, the Group recognised provision for warranty amounted to RMB468,426,000 (2015: RMB373,247,000) and details are disclosed in note 26.

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 net debts, which includes bank borrowings, obligations under finance leases and long-term loan notes as disclosed in note 28, 29 and 30, net of bank deposits and cash, 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 semi-annual 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, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

6. Financial Instruments

Categories of financial instruments

	2016 RMB'000	2015 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**5,506,008**	4,678,059
Financial assets at FVTPL		
Held-for-trading investments	**57,645**	92,717
Derivative financial instrument	**19,422**	–
Financial liabilities		
Amortised cost	**5,803,659**	5,765,161

Financial risk management objectives and policies

The Group's major financial instruments include held-for-trading investments, bills, trade and other receivables, amounts due from a related party, pledged bank deposits, bank balances and cash, bills, trade and other payables, amounts due to related parties, obligations under finance leases, loan notes 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 with these financial instruments and the management policies remain unchanged from prior year.

Market risk

Currency risk

The Group collects most 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 bank borrowings of the Group which are denominated in foreign currencies of the relevant group entities. Except for the bank balances, held-for-trading investments, trade and other receivables, certain bank borrowings, and other payables 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 carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of reporting date are as follows:

	Assets		**Liabilities**	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
United States dollars ("US$")	**90,724**	2,039	**–**	–
Hong Kong dollars ("HK$")	**189,953**	117,936	**393,205**	2,996

6. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

The Group has set up hedging policy to strike a balance between uncertainty and the risk of opportunity loss due to the growing significance of its exposures to fluctuations in foreign currencies. Foreign currency forward contracts can be used to eliminate the currency exposures. During the year, the Group has entered into certain foreign currency forward contracts closely monitoring the movement of foreign currency rate, details of which are set out in note 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% (2015: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2015: 5%) is the sensitivity rate used when reporting foreign currency risk internally to the key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting date for a 5% (2015: 5%) change in foreign currency rates. The analysis illustrates the impact for a 5% (2015: 5%) strengthening of RMB against the relevant currency. For a 5% (2015: 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)**	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
(Decrease) increase in post-tax profit for the year as a result of a 5% strengthening of RMB against the foreign currency	**(3,497)**	(87)	**7,238**	(9,491)

(i) This is mainly attributable to the exposure outstanding on US$ denominated trade receivables and bank balances of the Group at the end of the reporting period.

(ii) This is mainly attributable to the exposure to outstanding HK$ denominated bank balances and bank borrowings of the Group at the end of the reporting period.

6. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation pledged bank deposits, bank balances, bank borrowings and loan notes (see notes 25, 28 and 30 for details of these pledged bank deposits, bank balances, bank borrowings and loan notes 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.

A 10 basis point (2015: 10 basis point) increase or decrease in interest rates on variable bank balances, and a 100 basis point (2015: 100 basis point) increase or decrease in interest rates on variable-rate borrowings represent managements' assessment of the reasonably possible changes in interest rates.

If interest rates on variable-rate bank balances had been 10 basis points (2015: 10 basis points) higher and all other variables were held constant, a positive number below indicates an increase in post-tax profit.

	Year ended 31 December	
	2016 **RMB'000**	2015 RMB'000
Increase in post-tax profit for the year	**1,538**	1,111

The post-tax profit for the year would be decreased by the same amount as mentioned above if interest rates on variable-rate bank balances had been 10 basis points (2015: 10 basis points) lower and all other variables were held constant.

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	
	2016 **RMB'000**	2015 RMB'000
Decrease in post-tax profit for the year	**1,802**	1,594

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

6. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

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 the battery industry sector quoted on the Hong Kong 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 the 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 10% in current year as a result of the volatile financial market.

If the prices of the respective equity instruments had been 10% (2015: 10%) higher/lower, post-tax profit for the year ended 31 December 2016 would increase/decrease by approximately RMB59,000 (2015: RMB536,000) as a result of the changes in fair value of held-for-trading investments.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties, failure to meet 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 and bank balances for the Group as at 31 December 2016 and 31 December 2015. As at 31 December 2016, balances with the four largest banks accounted for 34% (2015: 49%) of total pledged deposits and bank balances of the Group. The credit risk on liquid funds is limited because the 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 spreads 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 and other borrowings. In addition, banking facilities have been put in place for contingency purposes.

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 31.12.2016 RMB'000
2016						
Non-derivative financial liabilities						
Non-interest bearing	–	2,623,456	1,095,755	73,117	3,792,328	3,792,328
Fixed rate instruments	5.31%	171,566	761,763	888,357	1,821,686	1,650,050
Variable rate instruments	4.27%	59,401	253,228	38,885	351,514	342,000
Obligations under finance leases	4.75%	4,863	10,693	4,337	19,893	19,281
		2,859,286	2,121,439	1,004,696	5,985,421	5,803,659

	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 31.12.2015 RMB'000
2015						
Non-derivative financial liabilities						
Non-interest bearing	–	2,018,358	1,321,062	266,051	3,605,471	3,605,471
Fixed rate instruments	4.17%	212,521	670,066	1,337,239	2,219,826	1,963,772
Variable rate instruments	6.74%	4,981	43,369	185,053	233,403	195,918
		2,235,860	2,034,497	1,788,343	6,058,700	5,765,161

In addition to the amounts shown in the above table as at 31 December 2016, the Group may also be required to settle the maximum exposure to loss arising from discounted bills and endorsed bills arrangements with full recourse as detailed in note 23 on maturity, amounting to RMB167,369,000 (2015: nil) and RMB285,551,000 (2015: RMB3,015,298,000), respectively.

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 other 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); 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 RMB57,645,000 (2015: RMB92,717,000) were level 1 measurement and derivative financial instruments with carrying amount of RMB19,422,000 (2015: no forward exchange contract) were level 2 measurement at 31 December 2016. The details are as follows:

Financial assets	Fair value as at 31.12.2016	Fair value as at 31.12.2015	Fair value hierarchy	Basis of fair value measurement	Relationship of Significant unobservable input	Unobservable inputs to fair value
Listed equity securities classified as held-for-trading investments in the consolidated statement of financial position	Listed equity securities in Hong Kong: Manufacturing Industry RMB0 Listed equity securities in Mainland China: Manufacturing Industry – RMB57,645,000	Listed equity securities in Hong Kong: – Manufacturing Industry – RMB74,888,000 Listed equity securities in Mainland China: – Manufacturing Industry – RMB17,829,000	Level 1	Quoted bid prices in an active market.	N/A	N/A
Foreign currency forwards contracts classified as derivative financial instruments in the consolidated statement of financial position	Assets: RMB19,422,000	Nil	Level 2	Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates.	N/A	N/A

7. Operating Segments

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive directors, the chief operating decision maker (the "CODM"), in order to allocate resources to the segments and to assess their performance. However, the financial information provided to the CODM does not contain profit or loss information of each product line or each market segment and the CODM review the operating results 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 motive batteries and battery related accessories.

Segment revenues and results

The financial information presented to the CODM is consistent with the consolidated statement of profit or loss and other comprehensive income.

The CODM consider 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

	2016 **RMB'000**	2015 RMB'000
An analysis of turnover is as follows:		
Lead-acid motive battery products:		
Electrical Bicycle Battery	**12,514,981**	10,815,755
Electrical Tricycle Battery	**4,599,828**	3,913,575
Pure Electric Car Battery (Note)	**1,928,400**	1,750,311
Recycled lead products	**955,055**	550,132
Lithium battery products	**615,500**	555,784
Others	**867,127**	218,511
	21,480,891	17,804,068

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

9. Other Income

	2016 RMB'000	2015 RMB'000
Government grants (Note)	**154,364**	105,582
Interest income	**37,099**	39,960
Sales of raw material	**9,203**	–
Others	**21,399**	20,617
	222,065	166,159

Note: The government grants mainly represent unconditional subsidies from the relevant development zone administrative committees and PRC local governments to encourage the operations of certain subsidiaries. The government grants are accounted for as immediate financial support with no future related costs expected to be incurred and are not related to any assets.

10. Other Gains and Losses

	2016 RMB'000	2015 RMB'000
Net gains (losses) on held-for-trading investments (note i)	**22,700**	(12,412)
Net gains on derivative financial instruments (note ii)	**19,422**	–
(Allowance for) reversal of bad and doubtful debts	**(71,338)**	4,832
Written off/loss on disposal of property, plant and equipment (note iii)	**(85,362)**	(47,045)
Impairment loss recognised in respect of property, plant and equipment (note 17)	**(2,517)**	(2,965)
Net foreign exchange (losses) gains	**(7,283)**	11,912
	(124,378)	(45,678)

Note:

(i) Net gains (losses) on held-for-trading investments included dividend income of approximately RMB3,192,000 (2015: RMB436,000), gains on disposal of approximately RMB18,749,000 (2015: losses RMB19,184,000) and gains arising on changes in fair value of RMB759,000 (2015: RMB6,336,000), which were earned on these held-for-trading investments during the year ended 31 December 2016.

(ii) Net gains on derivative financial instruments represented gains arising on changes in fair value of foreign currency forward contracts.

(iii) During year ended 31 December 2016, fire accidents occurred in several factories. Certain property, plant and equipment of carrying amount approximately RMB20,409,000 were damaged, which after netting off insurance compensation received of approximately RMB22,258,000, resulting in a gain of approximately RMB1,849,000; inventories of carrying amount approximately RMB7,892,000 were also damaged, which were fully compensated by insurance compensation received of approximately RMB7,892,000, resulting in no gain or loss.

The remaining carrying amount of property, plant and equipment of approximately RMB109,248,000 (2015: RMB68,956,000) was derecognised upon disposal of property, plant and equipment with proceeds of approximately RMB22,037,000 (2015: RMB21,911,000), resulting in a loss of approximately RMB87,211,000 (2015: RMB47,045,000).

11. Finance Costs

	2016 RMB'000	2015 RMB'000
Interest on:		
– Bank borrowings	**60,764**	117,087
– Effective interest on long-term loan notes	**63,473**	66,710
– Factorised bills receivable	**22,419**	3,668
– Finance lease	**374**	–
Total borrowing costs	**147,030**	187,465
Less: amounts capitalised	**(7,567)**	(24,089)
	139,463	163,376

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.57% (2015: 3.67%) per annum to expenditure on qualifying assets.

12. Profit for the Year

	2016 RMB'000	2015 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**347,456**	311,418
Amortisation of prepaid lease payments	**4,506**	5,490
Total depreciation and amortisation	**351,962**	316,908
Capitalised in inventories	**(275,127)**	(246,060)
	76,835	70,848
Auditor's remuneration	**2,270**	2,200
Recognition (reversal) of allowance for inventories (included in cost of sales)	**3,292**	(11,152)
Directors' emoluments (note 13)	**3,909**	4,163
Other staff retirement benefit scheme contributions	**41,394**	36,697
Other staff costs	**1,208,282**	1,098,162
Share-based payment expense for other staff	**15,111**	19,625
Total staff costs	**1,268,696**	1,158,647
Cost of inventories recognised as expense	**18,505,980**	15,232,037

Share-based payment expense of approximately RMB15,143,000 (2015: RMB19,742,000) were recognised in profit or loss during the year ended 31 December 2016 in respect of share options of the Company. Details of transactions are set out in note 33.

13. Directors'/Chief Executive's and Employees' Emoluments

The emoluments paid or payable to each of the nine (2015: twelve) directors for the year ended 31 December 2016 were as follows:

For the year ended 31 December 2016:

	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Share-based payment RMB'000	Total RMB'000
Executive directors (note 1)					
Zhang Tianren (note 2)	–	814	31	–	845
Zhang Aogen	–	474	11	–	485
Chen Minru	–	482	11	–	493
Zhang Kaihong	–	477	11	–	488
Shi Borong	–	501	–	–	501
Zhou Jianzhong (note 3)	–	454	11	–	465
Subtotal	–	3,202	75	–	3,277
Independent non-executive directors (note 1)					
Huang Dongliang	200	–	–	32	232
Guo Konghui (note 4)	200	–	–	–	200
Wu Feng (note 4)	200	–	–	–	200
Subtotal	600	–	–	32	632
Total	600	3,202	75	32	3,909

13. Directors'/Chief Executive's and Employees' Emoluments (Continued)

For the year ended 31 December 2015:

	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Share-based payment RMB'000	Total RMB'000
Executive directors (note 1)					
Zhang Tianren (note 2)	–	809	30	–	839
Zhang Aogen	–	537	10	–	547
Chen Minru	–	554	10	–	564
Zhang Kaihong	–	473	10	–	483
Shi Borong	–	539	–	–	539
Yang Lianming (note 3)	–	51	3	–	54
Zhou Jianzhong (note 3)	–	414	6	–	420
Subtotal	–	3,377	69	–	3,446
Independent non-executive directors (note 1)					
Ho Tso Hsiu (note 4)	83	–	–	39	122
Huang Dongliang	200	–	–	39	239
Wang Jingzhong (note 4)	83	–	–	39	122
Guo Konghui (note 4)	117	–	–	–	117
Wu Feng (note 4)	117	–	–	–	117
Subtotal	600	–	–	117	717
Total	600	3,377	69	117	4,163

Note:

1. The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

2. Dr. Zhang Tianren is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

3. With effect from 27 March 2015, Mr. Yang Lianming has resigned as an executive director; Mr. Zhou Jianzhong has been appointed as an executive director.

4. With effect from 6 June 2015, Mr. Ho Tso Hsiu has resigned as an independent non-executive director and a member of the audit committee; Mr. Wang Jingzhong has resigned as an independent non-executive director, a member of the audit committee, a member of the nomination committee and the chairman of the remuneration committee; Mr. Guo Konghui has been appointed as an independent non-executive director and a member of the audit committee; and Mr. Wu Feng has been appointed as an independent non-executive director, a member of the audit committee, a member of the nomination committee and the chairman of the remuneration committee.

13. Directors'/Chief Executive's and Employees' Emoluments (Continued)

The five highest paid individuals included two (2015: one) directors of the Company, details of whose emolument is set out above. The emoluments of the remaining three (2015: four) highest paid individual during the year are as follows:

	2016 RMB'000	2015 RMB'000
Basic salaries and allowances	1,267	2,648
Retirement benefits scheme contributions	18	41
Share option expense	279	376
	1,564	3,065

The emoluments are within the following band:

	Number of employees	
	2016	2015
HK$ Nil to HK$1,000,000	3	3
HK$1,000,001 to HK$1,500,000	–	1
	3	4

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

The charge comprises:

	2016 RMB'000	2015 RMB'000
Hong Kong		
– Current tax	–	–
PRC Enterprise Income Tax ("EIT"):		
– Current tax	203,225	97,259
– Under (over) provision in prior years	21,682	(9,176)
	224,907	88,083
Deferred tax expenses (note 20)	14,654	29,749
	239,561	117,832

14. Taxation (Continued)

The Company was incorporated in the Cayman Islands and is exempted from income tax.

Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profit for the year ended 31 December 2016. No provision for Hong Kong Profits Tax was made in the consolidated financial statements, as no assessable profit was generated in Hong Kong.

Pursuant to the Enterprise Income Tax Law and Implementation Regulations of the Law of the PRC (the "New PRC Tax Law") which became effective on 1 January 2008, the applicable tax rate of PRC subsidiaries is 25% during the two years except for Tianneng Battery Group Co., Ltd. ("Tianneng Battery"), Tianneng Battery Group (Anhui) Co., Ltd. ("Tianneng Battery Anhui"), Zhejiang Tianneng Energy Technology Co., Ltd. ("Zhejiang Tianneng Energy"), Zhejiang Tianneng Power Energy Co., Ltd. ("Zhejiang Tianneng Power") and Tianneng Battery (Wuhu) Co., Ltd. ("Tianneng Battery Wuhu"), which were recognised as High-Tech companies and enjoyed a tax rate of 15% for the years ended 31 December 2016 and 31 December 2015.

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

	2016		2015	
	RMB'000	%	RMB'000	%
Profit before taxation	1,145,083		745,629	
Tax at the applicable income tax rate of 25% (2015: 25%)	286,271	25.0	186,407	25.0
Tax effect of expenses not deductible for tax purposes	1,817	0.2	8,947	1.2
Tax effect of tax losses not recognised	3,551	0.3	6,434	0.9
Tax effect of deductible temporary differences not recognised	(324)	(0.1)	(491)	(0.1)
Ulitisation of tax losses previously not recognised	(1,974)	(0.2)	(1,603)	(0.2)
Income tax at concessionary rates	(13,056)	(1.1)	(1,603)	(0.2)
Under (over) provision in prior years	21,682	1.9	(9,176)	(1.2)
Tax effect of additional deduction related to research and development costs and certain staff costs	(72,306)	(6.3)	(86,986)	(11.7)
Withholding tax on undistributed profits of PRC subsidiaries	13,900	1.2	14,300	1.9
Taxation charge and effective tax rate for the year	239,561	20.9	117,832	15.8

15. Dividends

	2016 RMB'000	2015 RMB'000
Dividends recognised as distribution during the year: 2016: 2015 final dividend of HK31.80 cents (equivalent to RMB26.67 cents) per ordinary share (2015: 2014 final dividend nil)	**304,430**	–

A final dividend of HK25.60 cents (equivalent to RMB22.90 cents) (2015: HK31.80 cents (equivalent to RMB26.67 cents)) in respect of the year ended 31 December 2016 per ordinary share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

16. Earnings per Share

	2016 RMB'000	2015 RMB'000
Earnings for the purposes of calculating basic and diluted earnings per share – attributable to the owners of the Company	**858,546**	610,936
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,133,770,145**	1,113,869,807
Effect of dilutive potential ordinary shares – share options	**20,886,482**	8,237,759
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,154,656,627**	1,122,107,566

17. Property, Plant and Equipment

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2015	1,498,578	1,637,128	52,186	168,415	794,713	4,151,020
Additions	108,739	61,246	3,703	10,685	302,769	487,142
Transfer	364,398	346,646	–	7,252	(718,296)	–
Disposal/write-off	(1,236)	(109,708)	(4,300)	(3,253)	–	(118,497)
At 31 December 2015	1,970,479	1,935,312	51,589	183,099	379,186	4,519,665
Additions	24,161	92,064	8,656	40,822	550,649	716,352
Transfer	57,122	284,772	588	1,299	(343,781)	–
Disposal/write-off	(10,575)	(211,417)	(4,770)	(16,076)	–	(242,838)
At 31 December 2016	2,041,187	2,100,731	56,063	209,144	586,054	4,993,179
DEPRECIATION AND IMPAIRMENT						
At 1 January 2015	225,551	362,543	29,377	86,231	–	703,702
Provided for the year	94,743	172,665	8,049	35,961	–	311,418
Impairment loss recognised in profit or loss	–	2,960	–	5	–	2,965
Eliminated on disposal/write-off	(1,050)	(43,638)	(3,156)	(1,697)	–	(49,541)
At 31 December 2015	319,244	494,530	34,270	120,500	–	968,544
Provided for the year	104,322	195,091	8,651	39,392	–	347,456
Impairment loss recognised in profit or loss	–	2,517	–	–	–	2,517
Transfer	(5,860)	(57)	–	–	5,917	–
Eliminated on disposal/write-off	(6,268)	(90,618)	(4,111)	(12,184)	–	(113,181)
At 31 December 2016	411,438	601,463	38,810	147,708	5,917	1,205,336
CARRYING VALUES						
At 31 December 2016	1,629,749	1,499,268	17,253	61,436	580,137	3,787,843
At 31 December 2015	1,651,235	1,440,782	17,319	62,599	379,186	3,551,121

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

17. Property, Plant and Equipment (Continued)

As at 31 December 2016, included in buildings held for own use are buildings with aggregate carrying amount of approximately RMB752,055,000 (2015: RMB765,835,000) whose property certificates are in the process of obtaining.

During the year ended 31 December 2016, the Group received government grants of approximately RMB59,484,000 (2015: RMB49,973,700) in relation to certain property, plant and equipment of the Group. The Group recognised the amount as a deduction from the carrying amount of the relevant assets and will transfer this to profit or loss over the useful lives of the assets.

During the year ended 31 December 2016, the Group carried out a review of the recoverable amount of a manufacturing plant and its machinery and determined that a number of those assets were impaired due to physical damage and technical obsolescence. The review led to the recognition of an impairment loss of RMB2,517,000 (2015: RMB2,965,000) which has been recognised in profit and loss. The recoverable amounts of the relevant assets have been determined on the basis of their value in use.

18. Prepaid Lease Payments

	2016 RMB'000	2015 RMB'000
Non-current	162,846	199,364
Current	5,621	5,730
	168,467	205,094

As at 31 December 2016, included in prepaid lease payments are land use rights of RMB6,930,000 (2015: RMB8,375,000) whose land use rights certificates are in process of obtaining.

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

During the year ended 31 December 2016, RMB32,121,000 was received as government grants and recognised as a deduction from the carrying amount of the relevant assets and will transfer this to profit or loss over the useful lives of the land leases. (2015: nil).

19. Interest in an Associate

	2016 RMB'000	2015 RMB'000
Cost of unlisted investment in an associate	9,000	–
Share of post-acquisition results	1,493	–
	10,493	–

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

Name of entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
			2016	2015	2016	2015	
天能銀玥(上海)新能源材料有限公司 (Tianneng Yinyue (Shanghai) New Energy Material Co., Ltd., "Tianneng Yinyue")	PRC	PRC	45%	N/A	45%	N/A	Trading of material

20. Deferred Taxation

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

	Asset-related government grants RMB'000	Withholding tax on undistributed profits RMB'000	Fair value adjustment on property, plant and equipment and prepaid lease payments arising from acquisition of subsidiaries RMB'000	Interest capitalisation RMB'000	Fair value changes of held-for-trading investments RMB'000	Provision for inventories, trade and other receivables RMB'000	Fair value changes of derivative financial instruments RMB'000	Accrued warranty RMB'000	Accrued expenses RMB'000	Impairment loss on property, plant and equipment RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	50,909	–	(1,391)	(24,556)	–	23,957	–	34,817	96,193	6,661	127,815	(5,692)	308,713
(Charge)/credit to profit or loss	3,487	(14,300)	(102)	(4,474)	43	3,001	–	22,547	13,469	(415)	(53,267)	262	(29,749)
At 31 December 2015 and 1 January 2016	54,396	(14,300)	(1,493)	(29,030)	43	26,958	–	57,364	109,662	6,246	74,548	(5,430)	278,964
(Charge)/credit to profit or loss	15,408	(13,900)	(101)	(1,641)	(190)	(190)	(2,913)	19,500	2,463	(1,615)	(28,897)	260	(14,654)
Reversal on payment of withholding tax on distribution of earnings from PRC subsidies	–	20,300	–	–	–	–	–	–	–	–	–	–	20,300
At 31 December 2016	69,804	(7,900)	(1,594)	(30,671)	(147)	23,930	(2,913)	76,864	112,125	4,631	45,651	(5,170)	284,610

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

	2016 RMB'000	2015 RMB'000
Deferred tax assets	**333,005**	329,614
Deferred tax liabilities	**(48,395)**	(50,650)
	284,610	278,964

For the year ended 31 December 2016, the Group had unused tax losses of approximately RMB16,844,000 (2015: RMB25,735,000) available to offset against future profits, in respect of which, no deferred tax assets have been recognised due to the unpredictability of future profit streams. Such unrecognised losses will expire at various dates up to and including 2021 (2015: 2020).

Under the EIT Law, starting from 1 January 2008, 10% withholding income tax is imposed on dividends declared in respect of profits earned in year 2008 onwards and distributed to foreign investors for companies established in the PRC. For investors incorporated in Hong Kong, a preferential rate of 5% will be applied where appropriate. Other than the PRC withholding income tax provided in respect of undistributed profits of PRC subsidiaries as above, no deferred taxation has been provided for the remaining retained profits of approximately RMB2,463 million as at 31 December 2016 (2015: RMB1,670 million), which was derived from the PRC subsidiaries since 1 January 2008 as the Group has set aside such sum for non-distributable purpose, and is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

21. Inventories

	2016 RMB'000	2015 RMB'000
Raw materials	319,880	267,645
Work-in-progress	1,485,878	778,212
Finished goods	79,003	308,427
	1,884,761	1,354,284

22. Held-For-Trading Investments/Derivative Financial Instuments

	2016 RMB'000	2015 RMB'000
– Equity securities listed in Mainland China	57,645	17,829
– Equity securities listed in Hong Kong	–	74,888
	57,645	92,717

At 31 December 2016, the fair value of the investments of equity securities are determined with reference to quoted market bid prices.

	2016 RMB'000	2015 RMB'000
Foreign currency forward contracts	19,422	–

The foreign currency forward contracts were entered into by the Group for the purpose of reducing its exposure to foreign currency. These foreign currency forward contracts were not accounted for under hedge accounting.

23. Bills, Trade and Other Receivables

	2016 RMB'000	2015 RMB'000
Bills receivables	**1,399,111**	1,727,615
Trade receivables	**885,044**	718,077
Less: Allowance for bad and doubtful debts	**(103,245)**	(51,954)
	781,799	666,123
Other receivables	**293,817**	176,631
Less: Allowance for bad and doubtful debts	**(18,733)**	(18,377)
	275,084	158,254
Prepayments	**62,679**	62,606
PRC value added tax receivables	**168,428**	230,854
	2,687,101	2,845,452

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

	2016 RMB'000	2015 RMB'000
0 to 180 days	**1,337,100**	1,727,615
180 to 365 days	**62,011**	–
	1,399,111	1,727,615

No interest is charged on the trade receivables. Customers including independent third parties of batteries and battery related products are normally granted an average credit period of 45 days (2015: 45 days). The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

23. Bills, Trade and Other Receivables (Continued)

	2016 RMB'000	2015 RMB'000
0 to 45 days	**398,107**	450,061
46 to 90 days	**216,815**	162,486
91 to 180 days	**71,718**	44,335
181 to 365 days	**95,159**	9,241
	781,799	666,123

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

The trade receivable balances of RMB398,107,000 (2015: RMB450,061,000) are neither past due nor impaired at the end of the reporting period for which the Group has not provided for impairment loss since they have no default history and of good credit quality.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB383,692,000 (2015: RMB216,062,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss.

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

	2016 RMB'000	2015 RMB'000
46 to 90 days	**216,815**	162,486
91 to 180 days	**71,718**	44,335
181 to 365 days	**95,159**	9,241
	383,692	216,062

Management closely monitors any change in the credit quality of trade receivables. Based on the historical experience of the Group and the assessment of the management, 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.

23. Bills, Trade and Other Receivables (Continued)

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

The Group has provided fully for trade and other receivables over 1 year which are expected to be 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

	2016 RMB'000	2015 RMB'000
1 January	51,954	62,637
Allowance for bad and doubtful debts	71,088	4,279
Reversal of bad and doubtful debts	(329)	(6,481)
Amounts written off as uncollectible	(19,468)	(8,481)
31 December	103,245	51,954

Other receivables are unsecured and interest-free.

Movement in the allowance for doubtful debts – other receivables

	2016 RMB'000	2015 RMB'000
1 January	18,377	21,031
Allowance for bad and doubtful debts	775	–
Reversal of bad and doubtful debts	(196)	(2,630)
Amounts written off as uncollectible	(223)	(24)
31 December	18,733	18,377

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.

24. Transfers of Financial Assets

At 31 December 2016 and 31 December 2015, the Group has discounted bank issued bills receivables to banks and transferred bank issued bills receivables to its suppliers to settle its payables through endorsing the bank issued bills to its suppliers. The Group has derecognised these bank issued bills receivables and the payables to suppliers in their entirety. In the opinion of the directors of the Company, the Group has limited exposure in respect of the settlement obligation of these bank issued bills receivable under relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant.

As at 31 December 2016, the Group's maximum exposure to loss, which is the same as the amount payable by the Group to banks or the suppliers in respect of the discounted bank issued bills and endorsed bank issued bills, should the issuing banks fail to settle the bills on maturity, amounted to RMB167,370,000 (2015: nil) and RMB285,551,000 (2015: RMB3,015,298,000), respectively.

All the bank issued bills receivables discounted to banks or endorsed to suppliers of the Group have a maturity date of less than one year from the end of the reporting period.

25. Pledged Bank Deposits/Bank Balances and Cash

Pledged bank deposits represented bank deposits pledged to banks to secure short-term banking facilities granted to the Group. The pledged deposits at 31 December 2016 carried an interest rate which ranged from 0.3% to 1.35% (2015: 2.95% to 5.1%) per annum.

At 31 December 2016, Bank balances carry interest at market rates which ranged from 0.01% to 0.35% (2015: 0.01% to 0.35%) per annum.

26. Bills, Trade and Other Payables

	2016 **RMB'000**	2015 RMB'000
Trade payables	**1,769,406**	1,258,470
Bills payables	**1,402,981**	1,715,787
Other payables and accrued charges (Note)	**2,655,963**	1,850,449
	5,828,350	4,824,706

Note:

The Group provided a warranty of up to fifteen months on all lead-acid motive battery products. For lead-acid motive battery products found to be defective under the terms of the warranty, the Group undertakes to replace the battery free of charge for products returned within eight months from the date of sale, and to repair the battery free of charge for products returned between the ninth month to the fifteenth month after the date of sale. A warranty provision is estimated and accrued at the time of sale and is based on factors including the actual warranty claims, unit sales history, the estimated replacement costs for returned products, predicted future warranty claim rate with reference to prior experiences and volumes products sold. The amount of accrued warranty is adjusted as required to reflect the actual costs incurred when information becomes available.

26. Bills, Trade and Other Payables (Continued)

At 31 December 2016, included in the other payables and accrued charges is a warranty provision of RMB468,426,000 (2015: RMB373,247,000) which represents management's best estimate of the Group's liability within the fifteen-month warranty period granted on the Group's lead-acid motive battery products. Details of the movement in the warranty provision are set out as below:

	2016 RMB'000	2015 RMB'000
At 1 January	**373,247**	229,179
Provision in the year	**741,907**	675,884
Utilisation of provision	**(646,728)**	(531,816)
At 31 December	**468,426**	373,247

The Group normally receives credit terms of 5 days to 90 days (2015: 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:

	2016 RMB'000	2015 RMB'000
0 to 90 days	**1,449,588**	1,117,788
91 to 180 days	**94,033**	89,598
181 to 365 days	**127,944**	30,546
1 to 2 years	**89,016**	11,551
Over 2 years	**8,825**	8,987
	1,769,406	1,258,470

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

	2016 RMB'000	2015 RMB'000
0 to 180 days	**1,402,981**	1,715,787

27. Amounts due to Related Parties/Amounts due from a Related Party

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

Name of related parties	2016 RMB'000	2015 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 1)	461	400
濟源市萬洋冶煉(集團)有限公司 Jiyuan City Wangyang Smelting (Group) Co., Ltd. ("Wanyang Group") (note 2)	11,996	15,415
	12,457	15,815

Details of the amounts due from a related party is as follow:

Name of a related party	2016 RMB'000	2015 RMB'000
Tianneng Yinyue (note 3)	598	–

Note:

1. Xin Xin Packaging is beneficially owned by Ms. Chen Pingping and Ms. She Fangli, who are the cousin and niece respectively of Dr. Zhang Tianren ("Dr. Zhang"). As at 31 December 2016, 410,355,650 shares of the Company (approximately 36.42% of the total issued shares of the Company as at 31 December 2016) are held by Prime Leader Global Limited which is incorporated in the British Virgin Island and is wholly-owned by Dr. Zhang. Dr. Zhang is also a director of the Company.

2. Wanyang Group is a party which holds 49% interest of Jiyuan Wanyang (as defined in note 40), a 51% owned subsidiary of the Group.

3. Tianneng Yinyue is a 45% owned associate of the Group.

The amounts due to/from Xin Xin Packaging, Wanyang Group and Tianneng Yinyue are trade nature and have no fixed repayment terms and age less than 180 days.

28. Bank Borrowings

	2016 RMB'000	2015 RMB'000
Secured	**492,000**	550,795
Unsecured	**707,692**	817,918
	1,199,692	1,368,713
Carrying amounts repayable:		
Within one year	**1,163,692**	821,895
More than two years but not more than five years	**36,000**	546,818
	1,199,692	1,368,713
Less: Amounts due within one year shown under current liabilities	**(1,163,692)**	(821,895)
Amounts shown under non-current liabilities	**36,000**	546,818

At 31 December 2016, the bank borrowings of RMB809,690,000 (2015: RMB1,217,908,000) carry fixed and variable interest rates ranging from 3.65% to 6.77% (2015: 3.94% to 6.90%) per annum, and the bank borrowings of HK$436,000,000 (approximately equivalent to RMB390,002,000) (2015: HK$188,000,000 (approximately equivalent to RMB150,805,000)) carry a fixed interest rate ranging from 1.47% to 1.49% (2015:1.64%) per annum.

Details of assets pledged by the Group at the end of the reporting period are set out in note 36.

29. Obligations under Finance Leases

	2016 RMB'000	2015 RMB'000
Analysed for reporting purposes as:		
Current liabilities	**15,006**	–
Non-current liabilities	**4,275**	–
	19,281	–

It is the Group's policy to lease certain of its equipment under finance leases. The lease term is two years (31 December 2015: nil). Interest rate underlying the obligations under finance leases is fixed at respective contract date 4.75% per annum.

29. Obligations under Finance Leases (Continued)

	Minimum lease payments 31/12/2016 RMB'000	Present value of Minimum lease payments 31/12/2016 RMB'000
Obligations under finance leases payable:		
Within one year	15,556	15,006
More than two years but not more than two years	4,337	4,275
	19,893	19,281
Less: future finance charges	(612)	–
Present value of lease obligations	19,281	19,281
Less: Amount due for settlement with 12 months (shown under current liabilities)		(15,006)
Amount due for settlement after 12 months		4,275

30. Loan Notes

	2016 RMB'000	2015 RMB'000
Guaranteed loan notes	792,358	790,977
Analysed as:		
Long-term loan notes (Note)	792,358	790,977

Note:

(1) On 11 March 2014, Tianneng Battery Group Co,. Ltd issued a long-term loan notes with principal amount of RMB400,000,000 at a discount and received proceed of RMB392,400,000. The long-term loan notes bear interest at 7.31% per annum and are repayable on 11 March 2019.

At 31 December 2016 and 31 December 2015, the amount is stated at amortised cost with effective interest rate at 7.78% per annum.

(2) On 9 October 2014, Tianneng Battery Group Co,. Ltd issued a long-term loan notes with principal amount of RMB400,000,000 at a discount and received proceed of RMB395,400,000. The long-term loan notes bear interest at 8% per annum and are repayable on 9 October 2020.

At 31 December 2016 and 31 December 2015, the amount is stated at amortised cost with effective interest rate at 8.25% per annum.

31. Share Capital

	Number of shares		Amount equivalent to	
	2016	2015	**2016**	2015
			RMB'000	RMB'000
Shares of the Company with nominal value of HK$0.1 each				
Authorised:				
At 1 January 2015, 31 December 2015, and 31 December 2016	**2,000,000,000**	2,000,000,000	**212,780**	212,780
Issued and fully paid:				
At beginning of year	**1,143,768,500**	1,111,908,000	**111,356**	108,710
Repurchase and cancellation of shares	**(17,222,000)**	(4,500,000)	**(1,467)**	(355)
Exercise of share options	**–**	36,360,500	**–**	3,001
At end of year	**1,126,546,500**	1,143,768,500	**109,889**	111,356

Note:

During the year ended 31 December 2016, no share options were exercised. All the shares issued by the Company ranked pari passu in all respects with all shares in issue.

During the year ended 31 December 2016 and 2015, the Company repurchased and cancelled its own shares through the Hong Kong Stock Exchange as follows:

Month of repurchase and cancellation	**No. of ordinary shares of HK$0.10 each of the Company**	**Price per share**		**Aggregate consideration paid**
		Highest	**Lowest**	
		HK$	HK$	HK$'000
For the year ended 31 December 2016				
April 2016	6,334,000	6.36	6.11	39,920
May 2016	6,976,000	6.20	5.92	42,492
June 2016	1,966,000	5.28	4.68	9,833
December 2016	1,946,000	7.50	7.31	14,527
	17,222,000			106,772
For the year ended 31 December 2015				
July 2015	3,300,000	2.75	2.45	8,801
July 2015	1,200,000	3.80	3.64	4,494
	4,500,000			13,295

31. Share Capital (Continued)

During the year, the nominal value of approximately HK$1,722,200 (2015: HK$450,000) (equivalent to approximately RMB1,467,000 (2015: RMB355,000)) of the shares, and the premium paid and the related costs incurred for the repurchase of approximately HK$105,050,000 (2015: HK$12,845,000) (equivalent to approximately RMB89,550,000 (2015: RMB10,173,000)) was charged against share premium account of the Company.

During the year ended 31 December 2016, a total of 17,222,000 (2015: 4,500,000) shares were repurchased and cancelled.

32. Reserves

Special reserve

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.

Capital reserve

(1) The capital reserve of the Group of RMB57,010,000 arose in June 2003 when the substantial shareholder and Executive Director, Dr. Zhang Tianren, ("Dr. Zhang") transferred 26.3% of his shares in Tianneng Battery Group Co., Ltd. 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 Dr. Zhang from the key management personnel of approximately RMB14,378,000.

(2) The increase of RMB4,194,000 during the year ended 31 December 2013 is related to the acquisition of the remaining 30% interest in Anhui Zhongneng Power Supply Co., Ltd.

(3) As set out in the Company's announcement dated 23 November 2015, the Group is considering and exploring the possibility of a possible spin-off and quotation of the shares of a subsidiary, 浙江天能能源科技有限公司 Zhejiang Tianneng Energy Technology Co., Ltd. ("Zhejiang Tianneng Energy"), on the 全國中小企業股份轉讓系統 National Equities Exchange and Quotation System ("NEEQ", commonly known as the New Third Board 新三板) in the People's Republic of China (the "PRC") (the "Proposed NEEQ Quotation").

A subscription agreement was entered into on 18 January 2016, pursuant to which a group comprising, among others, Dr. Zhang and other management and employees of the Group (the "Management Group") agreed to subscribe 40% of the enlarged total equity interests of Zhejiang Tianneng Energy at a total consideration of RMB114,241,000. The Group's interests in Zhejiang Tianneng Energy is accordingly reduced from 100% to 60% upon the completion of the subscription by the Management Group. Details of the subscription by the Management Group is set out in the Company's announcement dated 18 January 2016. The reduction of the Group's equity interests from 100% to 60% is treated as a deemed disposal. The changes in the Group's equity interests in Zhejiang Tianneng Energy do not result in the Group losing control over Zhejiang Tianneng Energy and are accordingly accounted for as equity transactions. The surplus of RMB64,600,000, representing the difference between the consideration of RMB114,241,000 and the amount of non-controlling interests approximately RMB49,641,000, is credited to the capital reserve, details of which are set out in note 34.

As set out in the Company's announcement dated 17 August 2016, having considered the recent capital market situation, Zhejiang Tianneng Energy and the Company have decided to postpone the application for the Proposed NEEQ Quotation to a later stage.

32. Reserves (Continued)

Non-distributable reserve

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 Dr. Zhang and the non-controlling interests' share of net assets of the subsidiaries at the date of the acquisition.

Statutory surplus reserve fund/Discretionary surplus reserve fund

As stipulated by the relevant laws and regulations in 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.

33. Share Option Schemes

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

The total number of shares issued and which may fall to be issued upon exercise of the options granted pursuant to the Scheme to an eligible participant in any 12-month period shall not exceed 1% of the number of shares in issue unless approved by shareholders in a general meeting. The maximum number of shares in respect of which options may be granted under the Scheme shall not in aggregate exceed 10% of the shares in issue on the date on which dealings in the shares first commence on the Hong Kong Stock Exchange, i.e. a total of 100,000,000 shares (the "Option Limit"). Pursuant to an annual general meeting held on 16 May 2014, the Option Limit has been refreshed to 10% of the shares in issue on the date of the annual general meeting, i.e. a total of 111,190,800 shares.

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

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

No share option is granted during the year ended 31 December 2015 and 31 December 2016.

33. Share Option Schemes (Continued)

The following tables disclosed movements of the Company's options granted under the Scheme during the year ended 31 December 2016 and 2015:

Option	Name of grantee	Date of grant	Exercisable period	Exercise price HK$	Outstanding as at 1.1.2016	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31.12.2016
	Directors								
Option C	Huang Dongliang	16.6.2014	16.6.2015 – 15.6.2024	HK$2.90	90,000	–	–	–	90,000
Option C	Ho Tso Hsiu (Note)	16.6.2014	16.6.2015 – 15.6.2024	HK$2.90	90,000	–	–	–	90,000
Option C	Wang Jingzhong (Note)	16.6.2014	16.6.2015 – 15.6.2024	HK$2.90	90,000	–	–	–	90,000
	Employees								
Option C	Employees	16.6.2014	16.6.2015 – 15.6.2024	HK$2.90	45,749,500	–	–	(3,314,500)	42,435,000
Option B	Employees	22.11.2010	22.11.2011 – 21.11.2020	HK$3.18	680,000	–	–	–	680,000
					46,699,500	–	–	(3,314,500)	43,385,000
	Exercisable at the end of the year								2,323,000
	Weighted average exercise price				HK$2.90	–	–	HK$2.90	HK$2.90

Option	Name of grantee	Date of grant	Exercisable period	Exercise price HK$	Outstanding as at 1.1.2015	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31.12.2015
	Directors								
Option C	Huang Dongliang	16.6.2014	16.6.2015 – 15.6.2024	HK$2.90	100,000	–	(10,000)	–	90,000
Option C	Ho Tso Hsiu (Note)	16.6.2014	16.6.2015 – 15.6.2024	HK$2.90	100,000	–	(10,000)	–	90,000
Option C	Wang Jingzhong (Note)	16.6.2014	16.6.2015 – 15.6.2024	HK$2.90	100,000	–	(10,000)	–	90,000
	Employees								
Option C	Employees	16.6.2014	16.6.2015 – 15.6.2024	HK$2.90	56,630,000	–	(4,880,500)	(6,000,000)	45,749,500
Option B	Employees	22.11.2010	22.11.2011 – 21.11.2020	HK$3.18	34,210,000	–	(31,450,000)	(2,080,000)	680,000
					91,140,000	–	(36,360,500)	(8,080,000)	46,699,500
	Exercisable at the end of the year								680,000
	Weighted average exercise price				HK$3.01	–	HK$3.14	HK$2.97	HK$2.90

Note: With effect from 6 June 2015, Mr. Ho Tso Hsiu and Mr. Wang Jingzhong has resigned as an independent non-executive director of the Company.

33. Share Option Schemes (Continued)

At 31 December 2016, the total number of shares in respect of which options under the Scheme had been granted and remained outstanding was 43,385,000 (2015: 46,699,500), representing 3.85% (2015: 4.08%) of the shares of the Company in issue at that date.

During the year ended 31 December 2016, no share options were exercised. During the year ended 31 December 2015, the weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK$6.49 per share.

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

The closing price of the Company's shares on 16 June 2014, the date of grant of Option C, was HK$2.89 (equivalent to approximately RMB2.29) and the total estimated fair value of the Option C granted on that date was HK$70,620,000 (equivalent to approximately RMB56,065,000).

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

	Option C 16.6.2014	**Option B 22.11.2010**
Stock price as at grant date	HK$2.89	HK$3.15
Exercise price	HK$2.90	HK$3.18
Expected volatility	55%	64%
Expected life of options	10 years	10 years
Risk free rate	2.055%	2.427%
Expected dividend yield	4.26%	2.9%
Sub-optimal exercise factor for directors/ senior management/employees	3.5/3.5/3.5	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 2016, the Group recognised total expenses of RMB15,143,000 (2015: RMB19,742,000) in relation to share options granted by the Company.

34. Deemed Disposal of a Subsidiary

As explained in note 32, the reduction of the Group's equity interests in Zhejiang Tianneng Energy during the year was accounted for as equity transaction, details are set out below:

Consideration received

	RMB'000
Consideration received in cash	114,241

Analysis of assets and liabilities of the subsidiary at the date of disposal:

	RMB'000
Current assets	
Inventories	119,488
Trade and other receivables	237,862
Bank balances and cash	33,544
Non-current assets	
Property, plant and equipment	205,979
Intangible assets	10,430
Deferred tax assets	5,526
Available-for-sales financial assets	18,050
Current liabilities	
Bank borrowings – current portion	(120,000)
Trade and other payables	(280,688)
Tax payable	(1,357)
Non-current liabilities	
Bank borrowings – non-current portion	(100,000)
Deferred revenue	(4,733)
Net assets	124,101
Consideration received	114,241
Non-controlling interests recognised	49,641
Gain on disposal credited to reserve	64,600

The changes in the Group's equity interests in Tianneng Energy do not result in the Group losing control over Tianneng Energy so the gain on disposal is treated as equity transaction and is credited to the capital reserve.

35. Operating Leases

The Group as lessee

	Year ended 31/12/16 RMB'000	Year ended 31/12/15 RMB'000
Minimum lease payments paid for the year under operating leases for premises	**10,248**	13,407

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31/12/16 RMB'000	31/12/15 RMB'000
Within one year	**14,929**	8,238
In the second to fifth years inclusive	**17,687**	14,108
Over five years	**5,839**	8,902
	38,455	31,248

Operating lease payments represent rentals payable by the Group for certain of its properties. Leases are negotiated for terms ranging from one to seven years.

36. Pledge of Assets

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

	2016 RMB'000	2015 RMB'000
Bank deposits	**1,235,675**	728,512
Bills receivables	**774,195**	1,170,148
Property, plant and equipment	**136,607**	74,302
Prepaid lease payments	**22,770**	118,732
	2,169,247	2,091,694

37. Capital Commitments

	2016 RMB'000	2015 RMB'000
Contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	**240,802**	321,923

38. Retirement Benefit Schemes

The Group's full-time employees in the PRC are covered by a government-sponsored defined contribution pension scheme, and are entitled to a monthly pension from their retirement dates. The PRC Government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the retirement plan at an average rate of 20% of employees' salaries, which are charged as an expense when the employees have rendered services entitling them to the contributions and the contributions are due.

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 the trustee. The Group basically contributes 5% of the relevant payroll costs to the scheme.

As at 31 December 2016, contributions of RMB4,707,000 (31 December 2015: RMB2,928,000) due in respect of the year had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.

39. Related Party Transactions

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

Name of related company	**Nature of transaction**	2016 RMB'000	2015 RMB'000
Changxing Jin Ling Hotel	Hotel expenses	**2,447**	2,617
Xin Xin Packaging	Purchase of consumables	**908**	1,443
Wanyang Group	Purchase of materials	**739,263**	763,901
Wanyang Group	Sales of materials	**141,062**	–
Wanyang Group	Rental expenses	**2,496**	4,640
Tianneng Yinyue	Purchase of materials	**226,186**	–
Tianneng Yinyue	Rental income	**598**	–

(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 parties are set out in note 27.

40. Particulars of Principal Subsidiaries of the Company

Particulars of the Company's principal subsidiaries at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place/Country of incorporation/ establishment and operations	Issued and fully paid share/ registered capital	Effective proportion of nominal value of issued share/ registered capital held by the Company		Principal activities
			2016	2015	
Tianneng International Investment Holdings Limited (Note 1)	British Virgin Islands/ Hong Kong 15 November 2004	Share – US$1 (2015: US$1)	100%	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 – RMB108,000,000 (2015: RMB108,000,000)	100%	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 (2015: RMB615,000,000)	100%	100%	Investment holding, research and development, manufacture and sales of lead-acid batteries and battery related accessories
浙江天能能源科技股份有限公司 Zhejiang Tianneng Energy Technology Co., Ltd. ("Zhejiang Tianneng Energy") (Note 2)	PRC – Limited liability company 1 July 2004	Registered capital – RMB226,666,000 (2015: RMB136,000,000)	60%	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 2005	Registered capital – RMB450,000 (2015: RMB450,000)	100%	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 2005	Registered capital – RMB230,000,000 (2015: RMB230,000,000)	100%	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 2005	Registered capital – RMB200,000,000 (2015: RMB200,000,000)	100%	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 8 January 2008	Registered capital – RMB120,000,000 (2015: RMB120,000,000)	100%	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 2 July 2009	Registered capital – RMB300,000,000 (2015: RMB300,000,000)	100%	100%	Manufacture and sale of lead-acid batteries

40. Particulars of Principal Subsidiaries of the Company (Continued)

Name of subsidiary	Place/Country of incorporation/ establishment and operations	Issued and fully paid share/ registered capital	Effective proportion of nominal value of issued share/ registered capital held by the Company 2016	2015	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 2 July 2009	Registered capital – RMB100,000,000 (2015: RMB100,000,000)	100%	100%	Research and development of recycled batteries
浙江天能物資貿易有限公司 Zhejiang Tianneng Material Trading Co., Ltd.	PRC – Limited liability company 25 March 2009	Registered capital – RMB80,000,000 (2015: RMB80,000,000)	100%	100%	Sales of metal materials
天能電池集團(安徽)有限公司 Tianneng Battery Group (Anhui) Co., Ltd.	PRC – Limited liability company 4 November 2010	Registered capital – RMB200,000,000 (2015: RMB100,000,000)	100%	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 27 July 2009	Registered capital – RMB20,000,000 (2015: RMB20,000,000)	100%	100%	Sales of metal materials
濟源市萬洋綠色能源有限公司 Jiyuan Wanyang Green Energy Co., Ltd. ("Jiyuan Wangyang")	PRC – Limited liability company 27 October 2010	Registered capital – RMB102,160,000 (2015: RMB102,160,000)	51%	51%	Manufacture and sale of lead-acid batteries
安徽中能電源有限公司 Anhui Zhongneng Power Supply Co., Ltd. ("Anhui Zhongneng")	PRC – Limited liability company 17 April 2008	Registered capital – RMB100,000,000 (2015: RMB50,000,000)	100%	100%	Manufacture and sale of electrode plates
浙江赫克力能源有限公司 Zhejiang Hercules Energy Co., Ltd.	PRC – Limited liability company 10 November 2009	Registered capital – RMB60,000,000 (2015: RMB60,000,000)	100%	100%	Manufacture and sales of lead-acid batteries and re-cycled batteries

Note:

(1) Directly held by the Company.

(2) As set out in the Company's announcement dated 23 November 2015 and 29 December 2015, the Group has considered and explored the possibility of a possible spin-off and quotation of the shares of Zhejiang Tianneng Energy on NEEQ in the PRC. Up to the date of this report, no application has been made to NEEQ for the Proposed NEEQ Quotation.

40. Particulars of Principal Subsidiaries of the Company (Continued)

The above table lists the subsidiaries of the Group which, in the opinion of the Company's directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Company's directors, result in particulars of excessive length.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in the PRC. The principal activities of these subsidiaries are summarised as follows:

Principal activities	**Principal place of business**	**Number of wholly-owned subsidiaries**	
		2016	2015
Manufacture and sales of lead-acid batteries	PRC	**6**	4
Batteries recycling	PRC	**1**	1
Investment holding	Hong Kong	**1**	1
Security investment	PRC	**1**	1

During the year, the Group has non-controlling interests in two (2015: one) subsidiary, namely Jiyuan Wanyang and Zhejiang Tianneng Energy shown under particulars of principal subsidiaries of the Company above (2015: Jiyuan Wangyang). The non-controlling interest in the subsidiary is not material to the Group.

Tianneng Battery (Wuhu) Co,. Ltd issued unlisted long-term loan note of RMB80 million in July 2012 and redeemed all of the long-term loan note in July 2015.

Tianneng Battery Group Co,. Ltd issued unlisted long-term loan note of RMB400 million in March 2014 and RMB400 million in October 2014 respectively. Details of which are set out in note 30. All other subsidiaries had not issued any debt securities at the end of the year.

41. Statement of Financial Position and Reserves of the Company

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

	2016 RMB'000	2015 RMB'000
ASSETS		
Property, plant and equipment	**23**	22
Investments in and amounts due from subsidiaries	**1,060,576**	1,055,820
Bank balances and cash	**4,354**	108,849
	1,064,953	1,164,691
LIABILITIES		
Other payables	**111,533**	103,441
Bank borrowings	**–**	–
	111,533	103,441
NET ASSETS	**953,420**	1,061,250

	2016 RMB'000	2015 RMB'000
CAPITAL AND RESERVES		
Share capital	**109,889**	111,356
Share premium	**782,734**	872,284
Reserves	**60,797**	77,610
Total equity	**953,420**	1,061,250

41. Statement of Financial Position and Reserves of the Company (Continued)

Movement in reserves

	Share capital RMB'000	Share premium RMB'000	Share options reserve RMB'000	Accumulated profits(losses) RMB'000	Total RMB'000
At 1 January 2015	108,710	745,954	56,581	(125,452)	785,793
Profits for the year	–	–	–	171,953	171,953
Issue of new shares upon exercise of share option	3,001	136,503	(45,214)	–	94,290
Repurchase and cancellation of shares	(355)	(10,173)	–	–	(10,528)
Forfeiture of share options	–	–	(8,668)	8,668	–
Recognition of equity-settled share based payments	–	–	19,742	–	19,742
At 31 December 2015	111,356	872,284	22,441	55,169	1,061,250
Profits for the year	**–**	**–**	**–**	**272,474**	**272,474**
Repurchase and cancellation of shares	**(1,467)**	**(89,550)**	**–**	**–**	**(91,017)**
Forfeiture of share options	**–**	**–**	**(3,456)**	**3,456**	**–**
Recognition of equity-settled share based payments	**–**	**–**	**15,143**	**–**	**15,143**
Dividend recognised as distribution	**–**	**–**	**–**	**(304,430)**	**(304,430)**
At 31 December 2016	**109,889**	**782,734**	**34,128**	**26,669**	**953,420**

	Year ended 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016 RMB'000**
RESULTS					
Turnover	9,887,641	13,635,060	14,043,731	17,804,068	**21,480,891**
Profit before taxation	912,515	141,240	(407,102)	745,629	**1,145,083**
Taxation	203,116	10,915	(114,115)	117,832	**(239,561)**
Profit for the year	709,399	130,325	(292,987)	627,797	**905,522**

	As at 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016 RMB'000**
ASSETS AND LIABILITIES					
Total assets	7,445,211	7,904,226	8,713,603	10,546,091	**12,129,825**
Total liabilities	4,322,868	4,841,959	5,967,963	7,078,950	**8,023,225**
Net assets	3,122,343	3,062,267	2,745,640	3,467,141	**4,106,600**