TIANNENG POWER INTERNATIONAL LIMITED

天能動力國際有限公司

00819.HK

(Incorporated in the Cayman Islands with limited liability)

2017 ANNUAL REPORT

HIGH QUALITY & SUSTAINABILITY

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

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CORPORATE INFORMATION

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
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Compliance Adviser

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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

COMPANY PROFILE

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 32 years of development, the Group has developed into a new energy high-tech company engaging in businesses such as motive batteries for electric vehicles, smart energy solutions 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 2017, the Group had nine 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, (8) Jiyuan City and (9) Mengzhou 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 Security respectively.

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

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

1. New energy vehicle lithium battery
2. Electric bike motive battery
3. Special-purpose battery
4. Old battery recycling business
5. Smart energy

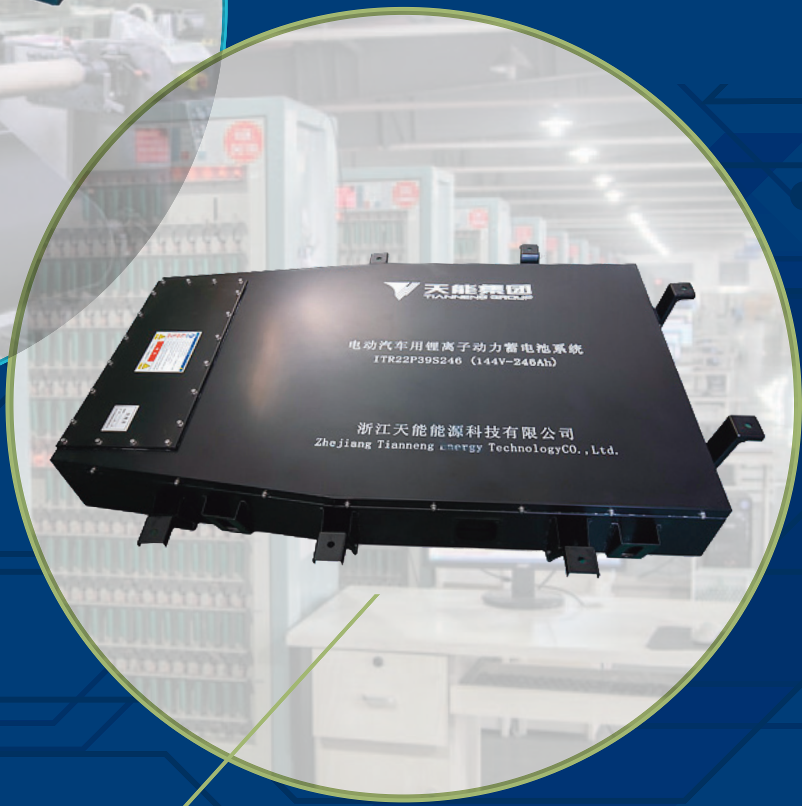
The Group is the most influential motive battery solution provider in the electric vehicle market in China.

Lithium Battery
Fully automated winding production line

18650 Lithium Battery
Fully automated assembly production line

COMPANY PROFILE —
PRODUCTION BASE AND PRODUCT

Advanced Lead Battery



Lithium Battery PACK

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

Consolidated Statement of Comprehensive Income (Note 1)

	2017	2016	2015	2014	2013
Turnover	**26,903,901**	21,480,891	17,804,068	14,043,731	13,635,060
(Loss)/profit before taxation	**1,407,588**	1,145,083	745,629	(407,102)	141,240
Taxation	**(227,356)**	(239,561)	(117,832)	114,115	(10,915)
(Loss)/profit for the year	**1,180,232**	905,522	627,797	(292,987)	130,325
Non-controlling interest	**1,863**	46,976	16,861	11,930	(4,970)
(Loss)/profit attributable to owners of the Company	**1,178,369**	858,546	610,936	(304,917)	135,295
(Losses)/earnings per share (RMB/share)					
– Basic	**1.05**	0.76	0.55	(0.27)	0.12
– Diluted	**1.02**	0.74	0.54	(0.27)	0.12

Consolidated Statement of Financial Position (Note 2)

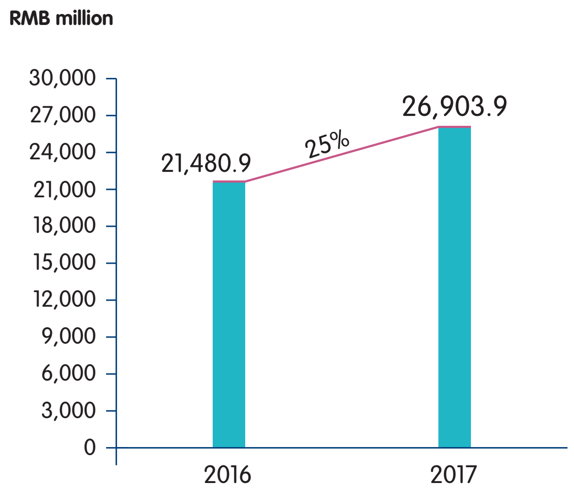
	Year ended 31 December				
	2017	2016	2015	2014	2013
Total assets	**13,981,698**	12,129,825	10,546,091	8,713,603	7,904,226
Total liabilities	**8,918,212**	8,023,225	7,078,950	5,967,963	4,841,959
Net assets/Total equity	**5,063,486**	4,106,600	3,467,141	2,745,640	3,062,267

Notes:

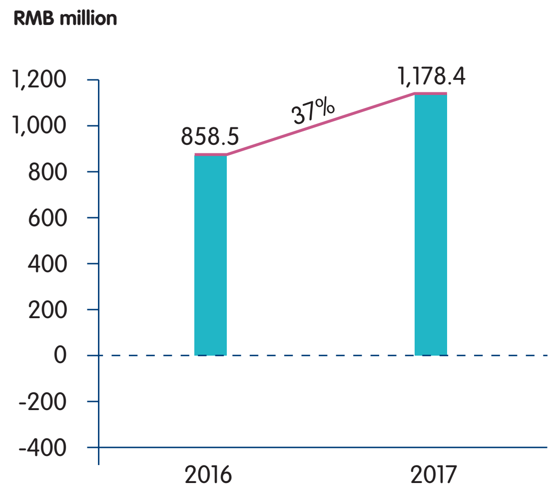
1. The results for the years ended 31 December 2013 and 2014 are set out on page 62 of the Company's 2014 annual report. The results for the years ended 31 December 2015 and 2016 are set out on page 61 of the Company's 2016 annual report. All such information is extracted from the financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRSs").

2. The consolidated statements of financial position as at 31 December 2013 and 2014 are set out on page 63 of the Company's 2014 annual report. The consolidated statements of financial position as at 31 December 2015 and 2016 are set out on page 62 of the Company's 2016 annual report. All such information is extracted from the financial statements prepared under HKFRSs.

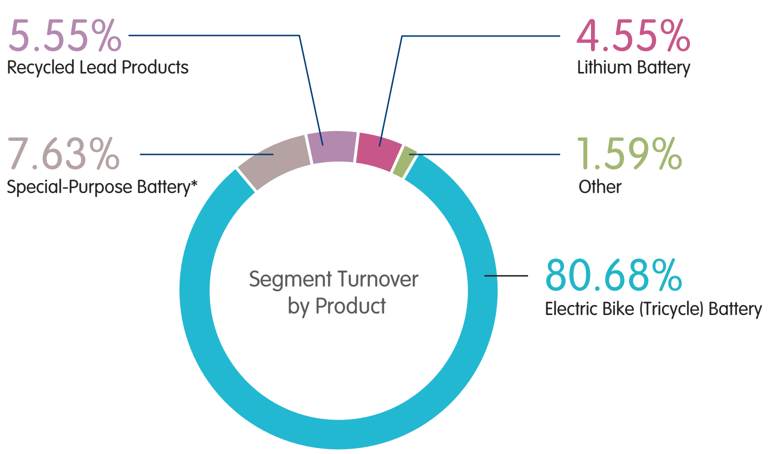
SALES TURNOVER



PROFIT ATTRIBUTABLE TO SHAREHOLDERS



SEGMENT TURNOVER



* Special-purpose battery mainly included car battery, tubular battery, starter battery, energy storage battery and standby battery.

New Era, New Dream, Restart in 2018

Dear shareholders,

In 2017, with our mission "New Energy New World" firmly in mind, the Group remained true to our original aspiration, and persisted in the two-wheel drive of traditional industry and emerging industry, adhered to the development of innovation, green and transformation, and vigorously promoted the innovation in technology, product, management and model. As a result, our works progressed steadily, and the leading position in the industry was consolidated. The major financial indicators hit a record high, and the Group was marching toward the goal of a leading green energy solution provider in the world.

Profit Attributable to Shareholders and Dividend during the Year

During the year, the Group's consolidated turnover was approximately RMB26,904 million (2016: approximately RMB21,481 million), representing an increase of 25.3% as compared to the previous year. The profit attributable to owners of the Group was approximately RMB1,178 million (2016: approximately RMB859 million), representing an increase of 37.3% as compared to the previous year. The Group's basic earning per share was approximately RMB1.05 (2016: approximately RMB0.76). The Company proposes to declare a cash dividend of HK37.00 cents (2016: HK25.60 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 2018.

In 2017, Deepening and Optimizing the Innovation and Development

In the New Normal of Chinese economy, the industry situation and business competition were more complicated. Only deepening and optimizing the innovation and transformation continuously can the Group maintain the evergreen foundation. During the year, the Group's system and mechanism were optimized continuously, the independent operation model was implemented in depth, and a series of strategic transformation initiatives came into force successively. Thus the overall framework of "Four beams and Eight columns" for the transformation were initially set up, the consciousness and philosophy of transformation and innovation have been gaining increasing popularity, the enthusiasm of innovation and entrepreneurship of the staff have been fully stimulated, and a solid foundation for sustainable and high-quality development have been laid.

Improving core competitiveness through technological innovation. During the reporting period, the Group held a total of eleven national high-tech enterprises, and actively applied for nine high-level research and development platforms, including National Identified Enterprise Technology Center, National Key Laboratory, National Postdoctoral Research Station, National Demonstration Academician and Expert Workstations, Industrial Center of China National Light Industry Council, and Zhejiang Power Battery & Materials Engineering Technology Research Center. Professor Wu Feng, an independent director of the Group, was elected as an academician of Chinese Academy of Engineering, and Professor Chen Jun, an expert of the Group, was elected as an academician of Chinese Academy of Sciences. Furthermore, a sophisticated R&D team with more than 1,000 technical staff, including 6 academicians, 4"National One Thousand Talents", more than ten foreign experts, and 33 professors or doctors, were established as well. Some new technologies and new achievements were successfully developed in succession, such as new type of lignin material, new material of graphene, high-performance lithium-ion ternary cathode material, new alloy, electric vehicle battery optimization portfolio, constant temperature formation, high temperature paste, and intelligent converter smelting, etc.. The Group is holding over 1,923 authorized patents and participates in the development of more than 60 national and industry standards. The lead-tin-graphene composite and its preparation methods and applications independently researched and developed by the Group was awarded the "China Patent Award of Excellence" by the State Intellectual Property Office, and the construction of intellectual energy projects were started successively, including roof distributed photovoltaic power generation and intelligent micro-grid lead carbon energy storage project in lithium-ion battery plant phase III. Therefore, the Group was appraised as "National Intellectual Property Demonstration Enterprise" and "National Intellectual Property Advanced Enterprise" by the State Intellectual Property Office.

The Group comprehensively promoted the construction of standardization system and successfully organized the IEC/TC21WG2 International Standards Review 2017 to further standardize four international standards, including *Lead-acid batteries for start and stop, Lead-acid batteries for motorcycles, Lead-acid batteries for start and Lead-acid batteries for electric mopeds.* Leading the development of lead-acid battery industry's first green design product evaluation technical specifications, and organizing the drafting work conference for national compulsory standard Electric Safety Requirements for Electric Bicycle and standard review meeting for *Green Design Product Evaluation Technical Specifications – Lithium-ion Battery,* the Group was awarded the "Good Conduct of Standardization Demonstration Enterprise" by China Electrical Equipment Industry Association

Enhancing new growth drivers through product innovation. The Group developed a new new-energy automobile battery system using high-safety PACK technology and smart BMS technology, which had been successfully applied to new energy vehicle manufacturers such as Chery and Kandi, and was awarded "China Excellent Auto Parts Supplier" by China Automotive News and "Excellent Cooperation Performance Award 2017" by Chery New Energy Vehicle. The Group actively assisted the enterprises of sharing e-bike, such as No. 7 e-bike to realize the combination of strong brands and accelerate the opening of a new era of safety and smart travel for the users! The newly developed products of the Group will become new business growth points in the future, including high-energy flexible lithium-containing batteries, new high-durability batteries for electric vehicles, true black gold batteries, lead-carbon batteries, high-energy graphene composite modified lead batteries for micro electric vehicles, tubular batteries for electric forklifts, high-rate batteries for micro-hybrid start-stop system, high-capacity nickel-cobalt-aluminum power lithium battery for new energy vehicles, military batteries and photovoltaic solar energy storage system.

Strengthening development foundation through management innovation. The Group actively introduced and further conducted the advanced management methods and systems such as Lean Management, Performance Excellence Management, SAP System and Intellectual Property Management System. The lithium-ion battery base vigorously promoted the MES intelligent manufacturing management system, which enabled the traceable product sources, the flexible, informationized and intelligence production mode, and was successfully selected as the "Pilot and Demonstration Projects of Manufacturing and Internet Convergence Development 2017" by the Ministry of Industry and Information Technology. The lead battery base actively implemented the portfolio of automatic charging and formation, and widely introduced new technologies, processes and equipment of continuous casting and rolling. The Group won two second prizes at the 2nd Asian Symposium on Quality Functions Expanding and Innovating and 2017 Innovative Method Exchange for China Quality Awards. Making full use of the coordinating from quality and cost synergies team, promoting the benchmarking exchange and inspection guidance, conducting monthly quality management activities and organizing competitions in skills, the Group achieved remarkable results. The Group's innovative management based on cloud platform and big data won the first prize of Zhejiang Province Enterprise Management Modernization Innovation Achievements, the TOP10 innovative projects of enterprises informationization in Zhejiang Province, and was awarded "The Most Influential Enterprise in Chinese Electronic Information Industry 2017" by the World Internet Conference. The green design platform construction and industrial application project for high-performance lead-acid battery was selected in the first batch of "Green Manufacturing Integration Projects", the first batch of "National Green Manufacturing System Demonstration Plants" and the first batch of "National Green Supply Chain Management Demonstration Enterprises" by the Ministry of Industry and Information Technology.

In 2018, further promoting the high-quality and sustainable development

2018 is the first year of the Group's further transformation, and the endeavor year to achieve high quality and sustainable development. The Group will adhere to the stable progress as the overall tone, the quality and efficiency as the focus, and the innovation and transformation as the cardinal line. It will always follow the problems and let the results speak for themselves. Also it will insist on using new technologies, formats and models to vigorously transform and upgrade traditional industries and lay a solid foundation for development to make emerging industrial clusters bigger and stronger, as well as develop and enlarge the new growth drivers. The Group will strengthen the creating of an innovative enterprise, grasp the trend of the world's new round of scientific and technological revolution and industrial transformation, and further implement the innovation-driven strategy to constantly enhance the economic innovation and competitiveness; Also, it will strengthen the construction of enterprise innovation system and the basic research and application technology research to accelerate the transformation and application of innovative achievements; The Group will strengthen the implementation and improvement of innovation and incentive system and mechanism, reform the remuneration management system, and further promote the change of performance evaluation from process-oriented to result-oriented. Being determined and innovative all along, the Group will endeavor to build a beautiful new Tianneng with sufficient innovation vitality, excellent quality and efficiency, high sustainable level and comprehensive competitiveness.

I am convinced that, driven by the mission of "New Energy New World", the Group will remain true to our original aspiration, keep our mission firmly in mind, deeply conduct transformation to accumulate new growth drivers 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, 23 March 2018

Tianneng Power International Limited ("Tianneng" or "the Company" and its subsidiaries, "the Group") has five major businesses in the People's Republic of China (the "PRC"), including the R&D, production and sales of: 1) new energy lithium motive battery; 2) special purpose lead motive battery; 3) lead motive battery for electric bicycles; 4) used battery recycling; and 5) smart energy.

Review of Operations

In 2017, the Group adhered to the stable progress as the overall tone. With the deepened transformation and innovation, the operation and management were gradually strengthened, and the quality and efficiency were continuously optimized. As a result, all major businesses achieved the remarkable results and the high-quality and sustainable development was realized.

During the Reporting Period, the Group recorded a revenue of approximately RMB26,904 million (2016: approximately RMB21,481 million) and a net profit of approximately RMB1,180 million (2016: approximately RMB906 million), both hitting historical highs. Revenue from lithium-ion batteries for new energy was approximately RMB1,223 million, representing an increase of 98.68% year-on-year and accounting for 4.55% of total revenue; revenue from special purpose batteries was approximately RMB2,054 million, representing an increase of 5.10% year-on-year and accounting for 7.63% of total revenue; revenue from lead motive batteries for electric bicycles and electric tricycles was approximately RMB21,707 million, increasing by 26.83% year-on-year and accounting for 80.68% of total revenue.

I. Steady growth of traditional industry

The lead batteries continued to be the mainstream and provide a solid cash flow to the Group. During the year, revenue from batteries for electric bicycles and electric tricycles was approximately RMB21,707 million, increasing by 26.83% year-on-year. Revenue from special purpose batteries was approximately RMB2,054 million, representing an increase of 5.10% year-on-year.

The Group continued to consolidate its leading position with the steadily rising market share in the industry of electric bicycles and electric tricycle motive batteries. It actively worked with the government and enterprises in the same industry to strengthen self-discipline and standardized management to jointly safeguard the order of the industry. With the development and implementation in succession of the new national standards for electric bicycles, the electric vehicles industry will surely develop in a more healthy and orderly direction.

Benefiting from the urbanization and development of e-commerce in China, electric bicycles and electric tricycles have become the daily traffic tools of ordinary Chinese people and delivery tools of logistics terminals. According to Ipsos Business Consulting, the demand for electric bicycles and electric tricycle batteries will reach RMB60 billion by 2025.

The Group vigorously promoted intelligent manufacturing and extensively applied the new technologies and processes of continuous casting and rolling at all production bases. The lead battery production lines were upgraded to digitalization, informationization and intelligence based on automation. The quality control in the process and on-site fine management were strengthened to improve product quality, energy conservation and emission reduction. Therefore, in the sharp fluctuations of lead prices in 2017, the sales and economic benefits of traditional business were not affected but significantly increased. Meanwhile, the Group implemented the megamarketing strategy and shared the distribution channel resources, so the number of high quality suppliers increased continuously, and the market share was steadily improved. For the first time, Tianneng named a G-series high-speed train, and the brand awareness and reputation were promoted accordingly. The market and product management were strengthened to enhance marketing service capabilities.

II. Growing emerging businesses

Revenue from lithium-ion batteries for new energy was approximately RMB1,223 million during the year, representing an increase of 98.68% year-on-year. According to the National Bureau of Statistics, 716,000 new energy vehicles were produced and sold in China in 2017, increasing by 51% year-on-year, and representing the world's largest new energy automotive market.

The lithium-ion battery business of the Group was successfully selected as the "Pilot and Demonstration Projects of Manufacturing and Internet Convergence Development 2017" and "Intelligent Manufacturing Project" by the Ministry of Industry and Information Technology. Furthermore, the Group has a key laboratory of lithium-ion battery and system in the first batch approved by China National Light Industry Council. The Group's R&D team with more than 1,000 technical staff, including 6 academicians, 4 "National One Thousand Talents", 10 foreign experts and 33 professors or doctors, established the producing-studying-researching platform with eleven domestic and overseas universities and a whole industry chain of R&D and production for lithium-ion battery materials, ternary lithium batteries, lithium iron phosphate batteries, and BMS and PACK system. With its leading technology, products, brands and services, the Group has accumulated the comprehensive customer structure, including new-energy automobile manufacturers, high-end electric bicycle manufacturer, shared electric bicycle companies and 3C digital companies, etc.. Zhejiang Tianneng Energy Technology Co., Ltd. ("Tianneng Energy"), a subsidiary of the Group, was selected as enterprise of Lithium-ion Battery Industry Standard Conditions in the second batch by the Ministry of Industry and Information Technology, and participated in the development of two national standards for lithium-ion battery industry. Tianneng Lithium Battery won the Excellent New Energy Vehicle Parts Supplier of China on December 8, 2017, at "China New Energy Vehicle Development Forum 2017" organized by China Automotive News. During the reporting period, the Group was also awarded the "Excellent Partnership Performance 2017" by Chery New Energy.

(Tianneng lithium-ion battery, the major choice of Chery eQ1)

(Tianneng Batteries assist the electric vehicles of LEVDEO to explore the Great Wall)

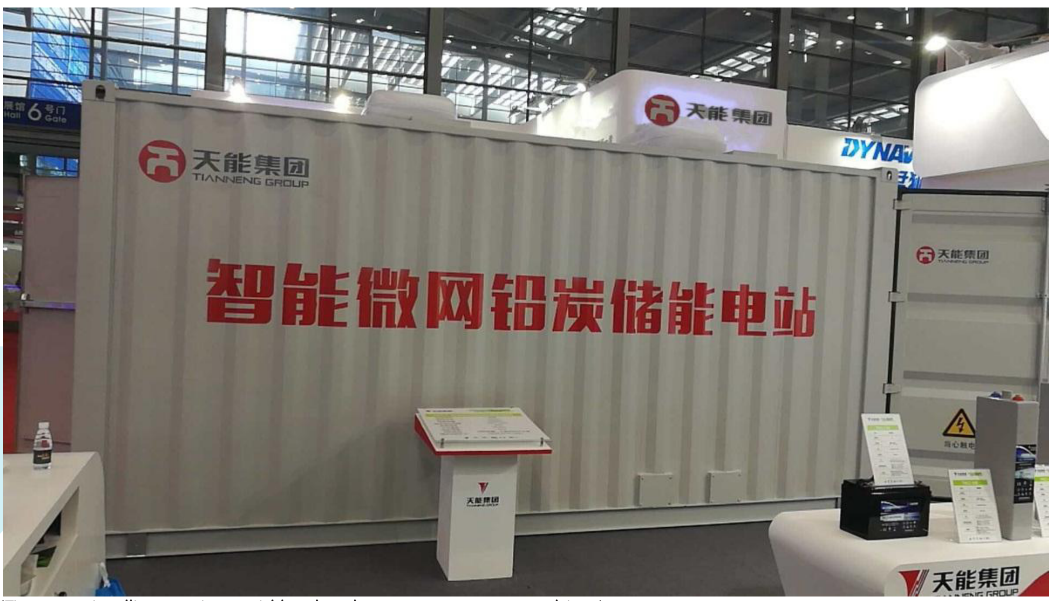
(No. 7 e-bike chooses Tianneng lithium-ion batteries)

(Tianneng won the Excellent New Energy Vehicle Parts Supplier of China)

(“Excellent Partnership Performance 2017” awarded by Chery New Energy)

The Group actively explored the new markets for battery applications, and the new applications, including tubular batteries for electric forklifts, starting batteries for conventional vehicles and energy storage battery systems for wind and solar energy, expanded the field of application of batteries. According to China Industry Information Network, the annual logistics volume of China has exceeded RMB220 trillion, and the annual sales of forklifts is more than 370,000, of which the share of electric forklifts has risen rapidly from 11% in 2011 to 40% in 2017, with tremendous growth potential in the future. During the year, the Group established the strategic partnership with leading forklift manufacturers, including Anhui Heli(600761.SH) and Hangcha Group(603298.SH), etc., to significantly increase industry influence. Meanwhile, the starting batteries business of the Group accelerated the development of distribution channels, successfully opened up its market and set up its brand. The photovoltaic energy storage business channels were simultaneously promoted. During the year, the 1.65 MWp roof distributed photovoltaic power generation and intelligent micro-grid lead carbon energy storage project, generating 1.9 million degrees of electricity and saving 635 tonnes of standard coal, were constructed in the plant of the Group, and its integrated system of photovoltaic power generation and storage can generate and store electricity during the day, provide power at night, and offer high-quality, clean, environmentally friendly and recyclable electricity to the Group.

(Tianneng batteries apply to electric forklifts)



(Tianneng intelligent micro-grid lead carbon energy storage cabinet)

III. Fully promoted green development

From R&D, manufacturing to harmless treatment, the Group has created an economic system of green and low-carbon development to deeply practice the concept of "Lucid waters and lush mountains are invaluable assets" and resolutely implement green development and the producer responsibility extension system.

During the year, the Group's R&D achievements of green product was listed in the Green Product Leading List, and awarded Green Design Pioneer Team and Green Design International Award by the International Exchange Conference on Green Production and Consumption in 2017. Furthermore, the Group won bronze award in the First China Energy Conservation and Environmental Protection Innovation Application Contest, and was selected as the first batch of Green Manufacturing System Demonstration Plants in 2017 and the Green Supply Chain Management Demonstration Enterprises by the Ministry of Industry and Information Technology, while green manufacturing got remarkable returns.

Based on the circular economy industrial park, the Group has comprehensively deepened the used batteries recycling business. During the year, revenue from used batteries recycling was approximately RMB1,492 million, representing an increase of 56.24% year-on-year and accounting for 5.55% of total revenue, which greatly eased the impact of lead price fluctuations on production costs. The Group has two major used batteries recovery bases in Zhejiang and Henan, with an annual processing capacity of 400,000 tonnes. Therefore, the Group has become a benchmark enterprise for the harmless treatment of used batteries recycling, and has been named as a resource comprehensive utilization enterprise and national circular economy standardization pilot enterprises by National Development and Reform Commission. During the year, "A Copper Removal Composition for Recycled Lead Refining and Its Application", independently researched and developed by the Group, won the national invention patent award. The green closed-loop from R&D, production, sales to recycling has been realized, showing good economic, social and ecological benefits.

IV. Expanding the markets in "The Belt and Road"

During the year, along "The Belt and Road", the products of the Group were exported to Southeast Asia, Middle East, Africa, Europe and South America.

The electrification of vehicles is a global trend. Because of its low price and light weight, electric bicycles are the major substitutes for motorcycles and are widely used in developing countries in Southeast Asia and South America, etc.. Overseas markets of energy storage are mainly concentrated in the United States, the European Union and Australia. According to the latest research report released by P&S Market Research, a global energy market research organization, the global energy storage market is approximately USD2.663 billion and will reach USD26.137 billion by 2022, with a compound annual growth rate of 46.3% over the period. Yadea Electric Vehicle, the major customer of the Group, has signed with the 2018 World Cup Organizing Committee of Russia to become the official designated Asian sponsor of the 2018 World Cup in Russia. In December 2017, the Group won the Belt and Road Outstanding Contribution Award for International New Energy Smart Manufacturing by the New Energy Alliance.

(Tianneng won the Belt and Road Outstanding Contribution Award for International New Energy Smart Manufacturing)

V. Increasing interests of the company and shareholders in capital market

During the reporting period, the Group used its own funds to increase the holding of Chaowei Power (00951.HK), an excellent company in the industry, and up to 112 million shares in 2018, with total investment at HKD558 million (the transaction costs are not included) to show its confidence to the future development of the industry. The Group has been successfully listed into Hang Seng Composite Index, MSCI Index, Hang Seng Corporate Sustainability Index and Shenzhen-Hong Kong Stock Connect. During the year, with its active investor relations activities, the Group performed outstandingly in the "First China Excellence IR Award" , obtained recognition in the capital market, and won the "First China Excellence IR Award for Best Director".

(The Group conducts active investor relations activities)

(Tianneng Power won the First China Excellence IR Award for Best Director)

Development strategy in the future

In the future, the Group will adhere to the stable progress as the overall tone and the quality and efficiency as the focus, and continuously implement innovation and transformation. The transformation from a manufacturer to a service enterprise and from a traditional enterprise to a platform enterprise, the progress of intelligence, platformization and globalization, and the construction of global technological innovation platform, flexible and intelligent manufacturing platform, big data and cloud drive platform, and congregation innovation platform, will all be accelerated to realize the new pattern of coordinated development of five major businesses: lead batteries, smart energy, new energy, recycling, and finance and modern services, and make the Group the world's leading green energy solutions provider.

Management Analysis

Gross profit

The Group's gross profit and gross profit margin increased to approximately RMB3,507 million and approximately 13.04% respectively in 2017 from approximately RMB2,975 million and approximately 13.85% respectively in 2016, representing an increase of approximately 17.90% and a decrease of 0.81 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 39.29% from approximately RMB222 million in 2016 to approximately RMB309 million in 2017. The increase was mainly attributable to the increase in government grants income and interest income.

Selling and distribution costs

Selling and distribution costs of the Group increased by approximately 15% from approximately RMB587 million in 2016 to approximately RMB675 million in 2017. The slight increase in selling and distribution costs was mainly due to the increase in transportation expenses..

Administrative expenses

Administrative expenses increased by approximately 20.21% from approximately RMB373 million in 2016 to approximately RMB449 million in 2017. Such increase was mainly due to the increase in staff cost and consultancy expenses.

Finance costs

Finance costs increased by approximately 9.71% from approximately RMB139 million in 2016 to approximately RMB153 million in 2017, which was mainly due to the increase in total borrowings during the year.

Taxation

Tax charges of the Group decreased by approximately 5.09% from approximately RMB240 million in 2016 to approximately RMB227 million in 2017, which was mainly due to the increase in profit generated by high-tech companies during the year.

Liquidity and Financial Resources

The net cash from operating activities for the year of 2017 was approximately RMB2,202 million (2016: RMB2,089 million). In this year, the Group had better profit and strengthened management of account receivables and account payables enabling the overall cash flow of operating activities to maintain at a good level.

As at 31 December 2017, the bank balances and cash (including pledged bank deposits) of the Group was approximately RMB4,600 million (31 December 2016: approximately RMB3,114 million). As at 31 December 2017, the Group obtained undrawn banks facilities of approximately RMB2,843 million (31 December 2016: approximately RMB3,016 million). The bank balances and cash (including pledged bank deposits) approximately of RMB4,579 million, RMB9.05 million and RMB11.53 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 0.45% of the total balances, the Group's relevant exchange risk is low.

As at 31 December 2017, the net current assets of the Group were approximately RMB1,208 million (31 December 2016: net current assets of approximately RMB627 million). The decrease was primarily attributable to improvement of the operating capacity of the Company and increase in account payables and other payables. 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 2017, the interest bearing borrowings, finance leases and loan notes (together as "interest bearing loans") of the Group with maturity of within one year totally amounted to approximately RMB1,329 million (31 December 2016: approximately RMB1,179 million). The interest bearing loans of the Group with maturity of more than one year amounted to approximately RMB904 million (31 December 2016: RMB833 million). The interest bearing loans of RMB2,066 million carried fixed and variable interest rates ranging from 3.85% to 8.00% (2016: 3.65% to 8.00%) per annum. The interest bearing loans amounting to HK$200 million carried a variable interest rate ranging from 2.44% to 3.19% per annum (2016: fixed interest rate ranging from 1.47% to 1.49% per annum). The Company will closely monitor the changes in interest rate and assess the interest rate risk.

The objective of the Company's financial policy is to maintain 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 2017, the total assets of the Group were approximately RMB13,982 million, representing an increase of 15.27% as compared to approximately RMB12,130 million as at 31 December 2016. Among them, non-current assets increased by approximately 10.81% to approximately RMB4,832 million and current assets increased by approximately 17.77% to approximately RMB9,149 million. The major reason for the increase of non-current assets was due to the capital expenditure on production plants and equipment upgrading. The increase in current assets was mainly attributable to the increase in inventories and bank deposits.

Liabilities

As at 31 December 2017, the total liabilities of the Group were approximately RMB8,918 million, representing an increase of approximately 11.15% as compared to approximately RMB8,023 million as at 31 December 2016. Among them, current liabilities increased by approximately 11.19% to approximately RMB7,942 million, mainly due to the increase in account payables. Non-current liabilities increased by approximately 10.86% to approximately RMB977 million, mainly due to the increase in long-term interest bearing borrowings.

Analysis by Key Financial KPIs

Profitability:

	2017	2016
Return on equity	**23.31%**	22.05%
Gross profit margin	**13.04%**	13.85%
Net profit margin	**4.39%**	4.22%

The gross profit margin decreased by 0.81 percentage points from 13.85% in 2016 to 13.04% in 2017, which was a combined effect of increased unit gross profit of carts and tricycles battery and rising unit price, resulting in an increase in gross profit margin compared to the previous year.

Liquidity:

	2017	2016
Current ratio	**1.15**	1.09
Quick ratio	**0.88**	0.82

Both the ratios above in 2017 slightly rose when compared with those in 2016, mainly due to a greater increase of current assets as compared to that of the current liabilities.

Operating Cycle:

	2017	2016
Inventory turnover days	**31**	32
Account receivables turnover days	**12**	14
Account payables turnover days	**32**	30
Bills and account receivables turnover days	**30**	40
Bills and account payables turnover days	**52**	61

The inventory turnover days decreased by 1 day to 31 days in 2017 due to optimization of inventory management in 2017. Account receivables turnover days decreased by 2 days from 2016 to 12 days in 2017 due to improved management of account receivables in 2017. Account payables turnover days for 2017 increased by 2 days to 32 days mainly due to the increase in account payables. Bills and account receivables turnover days and bills and account payables turnover days decreased by 10 days and 9 days respectively due to 15.17% decrease and 23.06% decrease in bills receivables and payables respectively at the end of 2017 compared to the end of 2016.

Capital:

	2017	2016
Net debt ratio	**-32.38%**	3.24%
Interest coverage ratio (Note)	**10.92%**	11.13%

Note: EBITDA divided by total interest expenses

As the interest bearing debt ("Debt") and the cash and bank balances as at 31 December 2017 were RMB2,233 million and RMB3,872 million respectively, the net debt was RMB-1,639 million. The net debt ratio substantialy reduced from 3.24% to -32.38%. Total deposits increased and total loans decreased during the year.

The interest coverage ratio decreased slightly, mainly due to an increase in net profit in 2017 and the increase of interest expenses.

Return of Shareholders:

	2017	2016
Earning per share (Basic)	**1.05**	0.76
Dividend payout ratio ("DPR")	**30% (Note)**	30%

Note: the index is derived from the dividend to be proposed by the Company's board of directors for 2017, which is subject to approval at the annual general meeting.

Capital Expenditure

The capital expenditure in 2017 was approximately RMB555 million (2016: approximately RMB716 million). A majority of expenditure was incurred on the construction of 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 2017 was approximately RMB302 million (31 December 2016: approximately RMB241 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 2017 was approximately 15.97% (31 December 2016: approximately 16.58%).

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 2017 for the bank borrowings of HK$150 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 2017 (31 December 2016: Nil).

Pledge of Assets

As at 31 December 2017, 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 RMB1,546 million (31 December 2016: RMB2,169 million).

Employee and Remuneration Policies

As at 31 December 2017, the Group employed a total of 19,027 employees (31 December 2016: 18,110 employees). Staff costs excluding directors' emoluments of the Group for the year of 2017 amounted to approximately RMB1,387 million (2016: RMB1,265 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 18 to the Consolidated Financial Statements, there were no other significant investments held by the Group as at 31 December 2017. Such investment refers to its increased holdings of those excellent companies in the industry, reflecting its confidence in the prospect of the industry.

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, 39 and 40 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 Tuesday, 15 May 2018 to Friday, 18 May 2018, 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 Monday, 14 May 2018.

Further, the register of members of the Company will be closed from Friday, 25 May 2018 to Tuesday, 29 May 2018 (both days inclusive), during which period no transfer of the shares of the Company will be registered. 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 Thursday, 24 May 2018. Subject to the approval of the shareholders at the AGM of the Company to be held on 18 May 2018, the proposed final dividend is expected to be paid on or before Friday, 29 June 2018.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Dr. ZHANG Tianren
張天任博士

Aged 55, 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 graduated from Zhejiang University with a master degree of management, and was an honorary doctorate of the International American University (美國加州國際大學) and a visiting professor of the Zhejiang Sci-tech University. Dr. ZHANG has 32 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 was also a member of the 12th and 13th National People's Congress, an executive committee member of All-China Federation of Industry and Commerce and vice chairman of Zhejiang Federation of Industry and Commerce. Besides, he was a vice president of China Electrical Equipment Industry Association, vice council chairman of China Battery Industry Association, a 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), president of Battery Industry Association of Zhejiang Province and etc..

Dr. ZHANG was 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, the Personalities for the Year in the Chinese Market Economy Award 2011, 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
張敖根先生

Aged 60, is our executive Director and vice-president and is responsible for our foreign trade and overseas investment functions. 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 experience in sales management, procurement management as well as trade and investment. Mr. ZHANG is also an elder brother of Dr. ZHANG Tianren, chairman of our Board.

Mr. CHEN Minru
陳敏如先生

Aged 58, is our executive Director and senior vice president. 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 39 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
史伯榮先生

Aged 64, is our executive Director and vice president and is fully responsible for the business of the production bases of the Group in Jieshou and in Wuhu. 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 28 years of management experience in rechargeable battery enterprises.

Mr. ZHANG Kaihong
張開紅先生

Aged 60, is our executive Director, vice president and the chief expert of technical center. 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 31 years of experience in research and development, quality control and corporate management of rechargeable battery products.

Mr. ZHOU Jianzhong
周建中先生

Aged 47, is our executive Director and vice president. Mr. ZHOU is responsible for promoting the development of strategic and emerging industries of our Group as well as assisting the president in operations and management. Mr. ZHOU joined the Group in 1996 and has been the head of market management section of Tianneng Battery, standing deputy general manager of Tianneng Power Supply, 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, and attended the training program for general managers in China Europe International Business School from July 2017 to March 2018. He is a senior economist with 23 years of experience in the sales and management of rechargeable batteries and corporate management.

Independent Non-Executive Directors

Mr. GUO Konghui
郭孔輝先生

Aged 83, 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
吳鋒先生

Aged 67, 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 Chinese Academy of Engineering, 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 Shenzhen Senior Technology Material Co., Ltd., which are listed companies on Shenzhen Stock Exchange in China, respectively.

Mr. HUANG Dongliang
黃董良先生

Aged 62, 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
趙海敏先生

Aged 53, is the vice-president of the Group. Mr. ZHAO is responsible for managing the research centre as well as the information technology commission 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 aftersale 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 aftersale 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
王志坤先生

Aged 48, 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, a member of the investment decision committee and director of the strategic development center. Mr. WANG was promoted as our vicepresident 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 25 years of experience in investment management, mergers and acquisitions of enterprises, 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. WANG Jing
王靜女士

Aged 54, 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 37 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.

Ms. HUI Wai Man, Shirley
許惠敏女士

Aged 50, 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 28 years of professional experience in public accounting and corporate financing.

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 investors' confidence.

Corporate Governance Code

The Company has adopted the provisions of the Corporate Governance Code (the "Code") during the period from 1 January 2017 to 31 December 2017 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 2017, 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 2017, 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 27 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.

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 four Board meetings and one general meeting during the year ended 31 December 2017. 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 Directors		
Dr. Zhang Tianren	4/4	1/1
Mr. Zhang Aogen	4/4	0/1
Mr. Chen Minru	4/4	1/1
Mr. Zhang Kaihong	4/4	1/1
Mr. Shi Borong	4/4	1/1
Mr. Zhou Jianzhong	4/4	1/1
Independent Non-executive Directors:		
Mr. Huang Dongliang	4/4	1/1
Mr. Guo Konghui	4/4	0/1
Mr. Wu Feng	4/4	0/1

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

Mr. Huang Dongliang	11 June 2017 to 10 June 2018
Mr. Guo Konghui	6 June 2017 to 5 June 2018
Mr. Wu Feng	6 June 2017 to 5 June 2018

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 2017 to 31 December 2017, 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 2017, 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 2017 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 2017, 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 2017 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 2017 falls within the following band:

	Number of People
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 Rules. Having made specific enquiry, all Directors have complied with the required standard set out in the Model Code throughout the year of 2017.

Audit Committee

The Company has established an Audit Committee in compliance with the Rule 3.21 of the Listing Rules. As at 31 December 2017, 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 2017. The Audit Committee held two meetings during the year ended 31 December 2017. 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 2018, the Audit Committee will also oversee the Group's risk management system.

The Audit Committee reviewed and discussed the Group's financial statements for the year ended 31 December 2017 with the management and independent external auditors. 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, 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 2017 and the year ended 31 December 2017, 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 2018.

Compliance Adviser

To better perform the responsibility set out in the Listing Rules, the Company engaged Gram Capital Limited as its compliance adviser from 20 January 2017 and until 19 January 2019.

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 2017. Deloitte has also reviewed the 2017 unaudited interim financial report of the Company, prepared under HKFRSs.

During the year ended 31 December 2017, the fee paid and payable to Deloitte in respect of audit and audit related services amounted to approximately RMB1.84 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 2017. 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 staffs 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 to prepare 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 to page 60.

Constitutional Documents

There are no significant changes in the Company's constitutional documents during the year ended 31 December 2017.

CONNECTED TRANSACTIONS

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 ended 31 December 2017	For the financial year ended 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 RMB6,225,056.

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

The actual transaction amount in the year under review is approximately RMB1,248,556.

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.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2017.

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 44 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2017 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 HK37.00 cents per Share (2016: HK25.60 cents).

Property, Plant and Equipment

During the year, approximately RMB78 million and RMB100 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 RMB225 million. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 15 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

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 2017, two tranches of corporate bonds in an aggregate amount of RMB780 million (2016: 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.

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 2017, the Company's reserve available for distribution amounted to approximately RMB800 million (2016: RMB809 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 2017 to 10 June 2018
Mr. Guo Konghui	6 June 2017 to 5 June 2018
Mr. Wu Feng	6 June 2017 to 5 June 2018

In accordance with Article 86 and/or Article 87 (as the case may be) of the Company's articles of association, Mr. Zhou Jianzhong, Mr. Zhang Kaihong and Mr. Guo Konghui 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 2017, 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:

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

(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%

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.

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

(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 2017, 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)	55,971,373 (L)	4.97%
		756,000 (S)	0.07%
UBS AG	Person having security interest in shares (note 3)	55,975,005 (L)	4.95%
		13,791,696 (S)	1.22%
UBS Group AG	Person having security interest in shares (note 4)	55,975,005 (L)	4.95%
		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 55,971,373 Shares and is holding a short position in 756,000 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 2017.

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 34 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 9.87% 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 10 June 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 2017	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 2017	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	-	42,435,000	-	-	-	(2,533,500)	39,901,500	3.54%
						43,385,000	-	-	-	(2,533,500)	40,851,500	3.63%

During the year ended 31 December 2017, 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. 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. By mutual agreement of both parties, the appointment was renewed for a further year commencing 6 June 2017. 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.

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 7.55% of the Group's turnover. The largest customer accounted for 1.65% of the Group's total turnover. During the year, the largest supplier accounted for 8.30% of the Group's total purchase and the Group's five largest suppliers accounted for 24.27%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 published in the separate Environmental, Social and Governance Report which will be available at the Company's website and the website of the Stock Exchange not later than 3 months after the publication of this annual report.

Audit Committee

The Company established an audit committee ("Audit Committee") in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. As at 31 December 2017, 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 2017.

Donations

During the year ended 31 December 2017, the Group made charitable donations of approximately RMB2.21 million (2016: RMB2.11 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 2017 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, 23 March 2018

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 121, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Warranty provision</td></tr>
<tr><td>We identified the warranty provision, referring to note 29 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 2017.

At 31 December 2017, the warranty provision was RMB449,158,000. 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 and the fifteenth month after the date of sale.

The directors of the Company would estimate the amount of warranty provision based upon on factors, including the actual warranty claims, unit sales history, the estimated replacement cost and repair cost for returned products, predicted future warranty claim rate with reference to prior experiences and volumes of products sold.</td><td>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 and repair cost for returned products and predicted future warranty claim rate made by management; and

– checking mathematic accuracy of calculation provided by management.</td></tr>
</table>

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

23 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Turnover	6	**26,903,901**	21,480,891
Cost of sales		**(23,396,623)**	(18,505,980)
Gross profit		**3,507,278**	2,974,911
Other income	7	**309,325**	222,065
Other gains and losses	8	**(146,559)**	(124,378)
Selling and distribution costs		**(675,164)**	(587,076)
Administrative expenses		**(448,617)**	(373,203)
Research and development costs		**(882,663)**	(696,500)
Other operating expenses		**(108,088)**	(132,766)
Share of profit of an associate		**5,081**	1,493
Finance costs	9	**(153,005)**	(139,463)
Profit before taxation		**1,407,588**	1,145,083
Taxation	10	**(227,356)**	(239,561)
Profit for the year	11	**1,180,232**	905,522
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Fair value gain on available-for-sale financial assets, net of income tax	18	**14,042**	–
Total comprehensive income for the year		**1,194,274**	905,522
Profit for the year attributable to:			
Owners of the Company		**1,178,369**	858,546
Non-controlling interests		**1,863**	46,976
		1,180,232	905,522
Total comprehensive income for the year attributable to:			
Owners of the Company		**1,192,411**	858,546
Non-controlling interests		**1,863**	46,976
		1,194,274	905,522
Earnings per share	14		
– Basic		**RMB 1.05**	RMB 0.76
– Diluted		**RMB 1.02**	RMB 0.74

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	15	**3,949,384**	3,787,843
Goodwill		**499**	499
Prepaid lease payments	16	**240,449**	162,846
Interest in an associate	17	**15,574**	10,493
Available-for-sale investments	18	**226,000**	–
Deferred tax assets	19	**336,434**	333,005
Deposit for acquisition of property, plant and equipment		**63,896**	66,229
		4,832,236	4,360,915
Current assets			
Inventories	20	**2,132,701**	1,884,761
Held-for-trading investments	21	**–**	57,645
Bills, trade and other receivables	22	**2,392,492**	2,687,101
Amounts due from related parties	26	**17,096**	598
Prepaid lease payments	16	**7,219**	5,621
Derivative financial instruments	21	**–**	19,422
Pledged bank deposits	24	**727,562**	1,235,675
Bank balances and cash	24	**3,872,392**	1,878,087
		9,149,462	7,768,910
Current liabilities			
Bills, trade and other payables	25	**5,970,617**	5,359,924
Amounts due to related parties	26	**62,142**	12,457
Derivative financial instruments	21	**7,561**	–
Taxation payable		**123,190**	122,692
Borrowings – current portion	27	**1,324,561**	1,163,692
Obligations under finance leases – due within one year	28	**4,275**	15,006
Provisions	29	**449,158**	468,426
		7,941,504	7,142,197
Net current assets		**1,207,958**	626,713
Total assets less current liabilities		**6,040,194**	4,987,628
Non-current liabilities			
Borrowings – non-current portion	27	**129,800**	36,000
Deferred tax liabilities	19	**72,567**	48,395
Obligations under finance leases – due after one year	28	**–**	4,275
Long-term loan notes	30	**774,341**	792,358
		976,708	881,028
		5,063,486	4,106,600

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTE	2017 RMB'000	2016 RMB'000
Capital and reserves			
Share capital	31	**109,889**	109,889
Reserves		**4,768,671**	3,821,278
Attributable to owners of the Company		**4,878,560**	3,931,167
Non-controlling interests		**184,926**	175,433
Total equity		**5,063,486**	4,106,600

The consolidated financial statements on pages 61 to 121 were approved and authorised for issue by the board of directors on 23 March 2018 and are signed on its behalf by:

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	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	Investment revaluation reserve RMB'000 (Note 18)	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 interests RMB'000	Total RMB'000
At 1 January 2016	111,356	872,284	10,000	73,664	22,441	–	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)	–	–	–
Disposal of partial interests in a subsidiary without losing control	–	–	–	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 34)	–	–	–	–	15,143	–	–	–	–	15,143	–	15,143
Repurchase of ordinary shares (note 31)	(1,467)	(89,550)	–	–	–	–	–	–	–	(91,017)	–	(91,017)
At 31 December 2016 and 1 January 2017	109,889	782,734	10,000	138,264	34,128	–	456,672	139,630	2,259,850	3,931,167	175,433	4,106,600
Profit and total comprehensive income for the year	–	–	–	–	–	14,042	–	–	1,178,369	1,192,411	1,863	1,194,274
Transfer	–	–	–	–	–	–	110,461	3,582	(114,043)	–	–	–
Non-controlling interests arising on the acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	7,630	7,630
Payment of dividends	–	–	–	–	–	–	–	–	(254,005)	(254,005)	–	(254,005)
Forfeiture of share options	–	–	–	–	(2,640)	–	–	–	2,640	–	–	–
Recognition of equity-settled share-based payments (note 34)	–	–	–	–	8,987	–	–	–	–	8,987	–	8,987
At 31 December 2017	109,889	782,734	10,000	138,264	40,475	14,042	567,133	143,212	3,072,811	4,878,560	184,926	5,063,486

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	NOTE	2017 RMB'000	2016 RMB'000
Operating activities			
Profit before taxation		**1,407,588**	1,145,083
Adjustments for:			
Interest income		**(62,542)**	(37,099)
Interest expenses		**153,005**	139,463
Share of profit of an associate		**(5,081)**	(1,493)
Depreciation		**342,706**	347,456
Amortisation of prepaid lease payments		**6,098**	4,506
Write-off/loss on disposal of property, plant and equipment		**28,651**	85,362
Impairment loss on property, plant and equipment		**–**	2,517
Recognition of allowance for bad and doubtful debts		**82,743**	71,338
(Reversal) recognition of allowance for inventories		**(6,406)**	3,292
Share option expenses		**8,987**	15,143
Gain on fair value change of held-for-trading investments		**–**	(759)
Loss (gain) on fair value change of derivative financial instruments		**16,006**	(19,422)
Operating cash flows before movements in working capital		**1,971,755**	1,755,387
Increase in inventories		**(178,520)**	(533,769)
Decrease in bills, trade and other receivables		**246,110**	87,013
Increase in bills, trade and other payables		**483,779**	944,212
(Decrease) increase in provisions		**(19,268)**	95,179
Increase (decrease) in amounts due to related parties with trade nature		**49,685**	(3,358)
Increase in amounts due from related parties with trade nature		**(16,498)**	(598)
Decrease in held-for-trading investments		**57,645**	35,831
Cash generated from operations		**2,594,688**	2,379,897
Interest paid		**(172,044)**	(140,173)
Withholding tax paid on dividend		**(6,565)**	(20,300)
Income tax paid		**(213,774)**	(130,304)
Net cash from operating activities		**2,202,305**	2,089,120
Investing activities			
Interest received		**62,542**	37,099
Proceeds from disposal of property, plant and equipment		**22,544**	44,295
Purchase of property, plant and equipment		**(388,116)**	(779,125)
Purchases of available-for-sale investments		**(209,183)**	–
Payment for derivative financial instruments		**(378,065)**	–
Proceeds from derivative financial instruments		**389,042**	–
Placement of pledged bank deposits		**(727,562)**	(1,235,675)
Withdrawal of pledged bank deposits		**1,235,675**	728,512
Asset-related government grants received		**55,925**	91,605
Deposit for acquisition of property, plant and equipment		**(57,978)**	(55,353)
Acquisition of investment in an associate		**–**	(9,000)
Acquisition of prepaid lease payments		**(46,756)**	–
Net cash outflow relating to acquisition of a subsidiary	33	**(12,559)**	–
Net cash used in investing activities		**(54,491)**	(1,177,642)

	2017 RMB'000	2016 RMB'000
Financing activities		
Bank borrowings raised	**3,493,961**	1,906,692
Repayments of bank borrowings	**(3,358,092)**	(2,075,713)
Repayments of loan notes	**(20,367)**	–
Dividends paid	**(254,005)**	(304,430)
Payment on repurchase of shares	**–**	(91,017)
Disposal of partial interests in a subsidiary without losing control	**–**	114,241
Proceeds from a sale and leaseback transaction	**–**	26,316
Repayment of obligations under finance leases	**(15,006)**	(7,035)
Net cash used in financing activities	**(153,509)**	(430,946)
Net increase in cash and cash equivalents	**1,994,305**	480,532
Cash and cash equivalents at the beginning of the year	**1,878,087**	1,397,555
Cash and cash equivalents at the end of the year, represented by bank balances and cash	**3,872,392**	1,878,087

1. General

Tianneng Power International Limited (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 43. The Company and its subsidiaries are collectively referred to as the "Group".

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

2. Application of New And Revised Hong Kong Financial Reporting Standards ("HKFRSs")

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 Hong Kong Accounting Standard ("HKAS") 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*

Except as described below, 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.

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. 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 cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following 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.

A reconciliation between the opening and closing balances of these items is provided in note 41. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 41, the application of these amendments has had no impact on the Group's consolidated financial statements.

2. Application of New And Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

2.2 New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised 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]
HKFRS 17	*Insurance Contracts*[4]
HK(IFRIC)-Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Interpretation 23	*Uncertainty over Income Tax Treatments*[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 9	*Prepayment Features with Negative Compensation*[2]
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 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*[1]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*[2]

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 2021

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

2. Application of New And Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

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

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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair values at 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 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

Bills, trade and other receivables and amount due from related parties classified as receivables carried at amortised cost as disclosed in note 22 and note 26 respectively: these are held within a business model whose objective is achieved by collecting contractual cash flows and the contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Bills receivables classified as FVTOCI: these are held within a business model whose objective is selling the bills receivables to banks or suppliers. Accordingly, the bills receivables will be subsequently measured at FVTOCI upon the application of HKFRS 9, and the fair value gains or losses accumulated in the other revaluation reserve will be subsequently reclassified to profit or loss when the bills are derecognised or reclassified.

2. Application of New And Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

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

HKFRS 9 Financial Instruments (Continued)

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss model would reduce the opening accumulated profits and increase the deferred tax assets at 1 January 2018.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods.

2. Application of New And Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

2.2 New and revised 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 while other operating lease payments are presented as operating cash flows. Upon application of 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 by the Group.

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 2017, the Group has non-cancellable operating lease commitments of RMB 23,725,000 as disclosed in note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, 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.

Furthermore, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, the directors of the Company do not anticipate that the application of new requirements will have a material impact on the measurement, presentation and disclosure.

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs 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, available-for-sale 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.

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.

3. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

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 and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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.

3. Significant Accounting Policies (Continued)

Business combinations (Continued)

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 are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

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 (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

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. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. 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) upon disposal/partial disposal of the relevant associate.

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 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 lessee

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.

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.

3. Significant Accounting Policies (Continued)

Leasehold land for own use

When the Group makes payments for a property interest which includes both leasehold 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 property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant 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 leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

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 or 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.

Share-based payment arrangements

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 34 to the Group's consolidated financial statements.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserves).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest based on assessment of all relevant non-market vesting conditions. 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 reserves.

At the time when the share options are exercised, the amount previously recognised in share options reserves 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 reserves 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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 interest 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.

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.

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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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 relevant 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 asset individually, 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, financial assets at fair value through profit or loss ("FVTPL") and available-for-sale ("AFS") financial assets. 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.

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.

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 line item includes any dividend earned on the financial assets and is included in the 'other gains and losses' item. Fair value is determined in the manner described in note 40.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

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 related parties, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets 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 of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For loans and receivables, 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.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

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.

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.

Financial liabilities at amortised cost

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

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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 is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. 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 on-going 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.

4. Key Sources of Estimation Uncertainty (Continued)

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 all estimated costs of completion and costs necessary to make the sale.

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. 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 based primarily on the latest market prices and current market conditions. The net realisable value for finished goods will be affected if the actual market prices and market conditions are less than expected.

As at 31 December 2017, the carrying amount of inventories was approximately RMB2,132,701,000 (2016: RMB1,884,761,000), details of which are set out in note 20.

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 or loss when there is objective evidence that the asset is impaired.

In making the estimates, management considered detailed procedures have been in place to monitor this risk as a significant proportion of the Group's financial assets is devoted to bills, 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 2017, the carrying amounts of bills, trade and other receivables were approximately RMB1,186,894,000 (2016: RMB1,399,111,000), RMB724,622,000 (2016: RMB781,799,000) and RMB223,660,000 (2016: RMB275,084,000) respectively. The cumulative doubtful debts provision as at 31 December 2017 of trade and other receivables were RMB181,947,000 (2016: RMB103,245,000) and RMB18,597,000 (2016: RMB18,733,000), respectively. Details of the balances are set out in note 22.

4. Key Sources of Estimation Uncertainty (Continued)

Warranty provision

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 and the fifteenth month after the date of sale. Estimated costs related to product warranty are accrued at the time of sales and are based upon various factors including the actual warranty claims, unit sales history, the estimated replacement cost and repair cost 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 2017, the Group recognised provision for warranty amounted to RMB449,158,000 (2016: RMB468,426,000) and details are disclosed in note 29.

5. 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.

6. Turnover

	2017 RMB'000	2016 RMB'000
An analysis of turnover is as follows:		
Electrical Bicycle (Tricycle) Battery (note i)	**21,706,836**	17,114,809
Special-purpose Battery (note ii)	**2,053,741**	1,954,102
Recycled lead products	**1,492,224**	955,055
Lithium battery products	**1,222,933**	615,500
Others	**428,167**	841,425
	26,903,901	21,480,891

Note:

i. It includes battery products mainly for electrical bicycle and electrical tricycle.

ii. It includes battery products mainly for pure electric car battery, tubular battery, lead-acid starter battery, energy storage battery and standby battery.

7. Other Income

	2017 RMB'000	2016 RMB'000
Government grants (note)	**212,132**	154,364
Interest income	**62,542**	37,099
Sales of raw materials	**7,623**	9,203
Others	**27,028**	21,399
	309,325	222,065

Note: The government grants mainly represent unconditional subsidies from the relevant development zone administrative committees and the local governments of the People's Republic of China ("PRC") 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.

8. Other Gains and Losses

	2017 RMB'000	2016 RMB'000
Net gains on held-for-trading investments (note i)	**9,679**	22,700
Net (losses) gains on foreign currency forward contracts (note ii)	**(15,722)**	19,422
Net losses on commodity derivative contracts (note iii)	**(28,525)**	–
Allowance for bad and doubtful debts	**(82,743)**	(71,338)
Written off/loss on disposal of property, plant and equipment (note 15)	**(28,651)**	(85,362)
Impairment loss recognised in respect of property, plant and equipment (note 15)	**–**	(2,517)
Net foreign exchange losses	**(597)**	(7,283)
	(146,559)	(124,378)

Note:

i. Net gains on held-for-trading investments included dividend income of approximately RMB1,186,000 (2016: RMB3,192,000), and gains arising on changes in fair value of RMB8,493,000 (2016: RMB19,508,000), which were earned on these held-for-trading investments during the year ended 31 December 2017.

ii. Net (losses) gains on foreign currency forward contracts represented realised losses of RMB8,445,000 (2016: nil) and unrealised losses of RMB7,277,000 (2016: gains of RMB19,422,000) on changes in fair value of foreign currency forward contracts.

iii. Net losses on commodity derivative contracts represented realised losses of RMB28,241,000 (2016: nil) and unrealised losses of RMB284,000 (2016: nil) arising on changes in fair value of commodity derivative contracts.

9. Finance Costs

	2017 RMB'000	2016 RMB'000
Interest on:		
– Borrowings	**90,237**	60,764
– Effective interest on long-term loan note	**62,408**	63,473
– Factorised bills receivable	**21,636**	22,419
– Finance lease	**550**	374
Total borrowing costs	**174,831**	147,030
Less: amounts capitalised	**(21,826)**	(7,567)
	153,005	139,463

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.32% (2016: 4.57%) per annum to expenditure on qualifying assets.

10. Taxation

The charge comprises:

	2017 RMB'000	2016 RMB'000
Hong Kong		
– Current tax	**2,723**	–
PRC Enterprise Income Tax ("EIT"):		
– Current tax	**239,908**	203,225
– (Over) under provision in prior years	**(28,360)**	21,682
	211,548	224,907
Deferred tax (note 19):		
Current year	**(18,770)**	14,654
Attributable to a change in tax rate	**31,855**	–
	227,356	239,561

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

Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profit for the year ended 31 December 2017.

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 the PRC subsidiaries is 25% during the year ended 31 December 2017 except that, 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"), Tianneng Battery (Wuhu) Co., Ltd. ("Tianneng Battery Wuhu"), Anhui Zhongneng Power Supply Co., Ltd., Tianneng Group (Henan) Energy Technology Co., Ltd, Jiyuan Wanyang Green Energy Co., Ltd. ("Jiyuan Wanyang"), and Tianneng Battery Group Jiangsu Technology Co., Ltd which were recognised as High-Tech companies and enjoyed a tax rate of 15% for the year ended 31 December 2017 (1.1.2016 to 31.12.2016:15% applicable for Tianneng Battery, Zhejiang Tianneng Energy, Tianneng Battery Anhui, Zhejiang Tianneng Power and Tianneng Battery Wuhu).

10. Taxation (Continued)

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:

	2017 RMB'000	2017 %	2016 RMB'000	2016 %
Profit before taxation	**1,407,588**		1,145,083	
Tax at the applicable income tax rate of 25% (2016: 25%)	**351,897**	**25.0**	286,271	25.0
Tax effect of expenses not deductible for tax purposes	**6,870**	**0.5**	1,817	0.2
Tax effect of tax losses not recognised	**16,364**	**1.2**	3,551	0.3
Tax effect of deductible temporary differences not recognised	**9,752**	**0.7**	(324)	(0.1)
Utilisation of tax losses previously not recognised	**(3,824)**	**(0.3)**	(1,974)	(0.2)
Income tax at concessionary rates	**(102,605)**	**(7.3)**	(13,056)	(1.1)
Effect of change in tax rate	**31,855**	**2.3**	–	–
(Over) under provision in prior years	**(28,360)**	**(2.0)**	21,682	1.9
Tax effect of additional deduction related to research and development costs and certain staff costs	**(70,665)**	**(5.0)**	(72,306)	(6.3)
Effect of different tax rates of subsidiary operating in other jurisdiction	**(1,403)**	**(0.1)**	–	–
Withholding tax on undistributed profits of PRC subsidiaries	**17,475**	**1.2**	13,900	1.2
Taxation charge and effective tax rate for the year	**227,356**	**16.2**	239,561	20.9

11. Profit for the Year

	2017 RMB'000	2016 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**342,706**	347,456
Amortisation of prepaid lease payments	**6,098**	4,506
Total depreciation and amortisation	**348,804**	351,962
Capitalised in inventories	**(264,923)**	(275,127)
	83,881	76,835
Auditor's remuneration	**2,340**	2,270
(Reversal) recognition of allowance for inventories (included in cost of sales)	**(6,406)**	3,292
Directors' emoluments (note 12)	**4,603**	3,909
Other staff retirement benefit scheme contributions	**33,409**	41,394
Other staff costs	**1,344,472**	1,208,282
Share-based payment expense for other staff	**8,967**	15,111
Total staff costs	**1,391,451**	1,268,696
Cost of inventories recognised as expense	**23,396,623**	18,505,980

Share-based payment expense of approximately RMB8,987,000 (2016: RMB15,143,000) were recognised in profit or loss during the year ended 31 December 2017 in respect of share options of the Company. Details of transactions are set out in note 34.

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

The emoluments paid or payable to each of the nine (2016: nine) directors for the year ended 31 December 2017 were as follows:

For the year ended 31 December 2017:

	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)	–	1,459	31	–	1,490
Zhang Aogen	–	512	11	–	523
Chen Minru	–	508	11	–	519
Zhang Kaihong	–	441	11	–	452
Shi Borong	–	511	–	–	511
Zhou Jianzhong	–	477	11	–	488
Subtotal	–	3,908	75	–	3,983
Independent non-executive directors (note 1)					
Huang Dongliang	200	–	–	20	220
Guo Konghui	200	–	–	–	200
Wu Feng	200	–	–	–	200
Subtotal	600	–	–	20	620
Total	600	3,908	75	20	4,603

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	–	454	11	–	465
Subtotal	–	3,202	75	–	3,277
Independent non-executive directors (note 1)					
Huang Dongliang	200	–	–	32	232
Guo Konghui	200	–	–	–	200
Wu Feng	200	–	–	–	200
Subtotal	600	–	–	32	632
Total	600	3,202	75	32	3,909

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. Mr. 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.

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

The five highest paid individuals included one (2016: two) director(s) of the Company, details of whose emolument is set out above. The emoluments of the remaining four (2016: three) highest paid individuals during the year are as follows:

	2017 RMB'000	2016 RMB'000
Basic salaries and allowances	2,697	1,267
Retirement benefits scheme contributions	45	18
Share option expense	176	279
	2,918	1,564

The emoluments of the five highest paid individuals whose remuneration fell within the following band is as below:

	Number of employees 2017	2016
Hong Kong dollars ("HK$") Nil to HK$1,000,000	4	5
HK$1,500,001 to HK$2,000,000	1	–
	5	5

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

13. Dividends

	2017 RMB'000	2016 RMB'000
Dividends recognised as distribution during the year: 2017: 2016 final dividend of HK25.60 cents (equivalent to RMB22.90 cents) per ordinary share (2016: 2015 final dividend of HK31.80 cents (equivalent to RMB26.67 cents))	254,005	304,430

A final dividend of HK37.00 cents (equivalent to RMB30.93 cents) (2016: HK25.60 cents (equivalent to RMB22.90 cents)) in respect of the year ended 31 December 2017 per ordinary share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. Earnings Per Share

	2017 RMB'000	2016 RMB'000
Earnings for the purposes of calculating basic and diluted earnings per share – attributable to the owners of the Company	1,178,369	858,546
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,126,546,500	1,133,770,145
Effect of dilutive potential ordinary shares – share options	23,224,559	20,886,482
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,149,771,059	1,154,656,627

15. 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 2016	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
Acquired on acquisition of a subsidiary (note 33)	60,042	39,439	240	372	673	100,766
Additions	64,380	161,060	11,232	13,837	204,167	454,676
Transfer	77,507	99,692	41	1,420	(178,660)	–
Disposal/write-off	(7,560)	(92,937)	(4,320)	(14,058)	–	(118,875)
At 31 December 2017	2,235,556	2,307,985	63,256	210,715	612,234	5,429,746
DEPRECIATION AND IMPAIRMENT						
At 1 January 2016	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
Provided for the year	104,683	204,366	5,591	28,066	–	342,706
Transfer	5,860	57	–	–	(5,917)	–
Eliminated on disposal/write-off	(3,236)	(49,284)	(3,166)	(11,994)	–	(67,680)
At 31 December 2017	518,745	756,602	41,235	163,780	–	1,480,362
CARRYING VALUES						
At 31 December 2017	1,716,811	1,551,383	22,021	46,935	612,234	3,949,384
At 31 December 2016	1,629,749	1,499,268	17,253	61,436	580,137	3,787,843

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

As at 31 December 2017, included in buildings held for own use are buildings with aggregate carrying amount of approximately RMB591,841,000 (2016: RMB752,055,000) whose property certificates are in the process of obtaining.

During the year ended 31 December 2017, the Group received government grants of approximately RMB20,325,000 (2016: RMB59,484,000) in relation to encouraging the Group's purchase of 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.

15. Property, Plant and Equipment (Continued)

During the year ended 31 December 2017, the Group carried out a review of the recoverable amount of a manufacturing plant and its machinery and determined that no assets were impaired. Based on the review, no impairment loss (2016: impairment loss of RMB2,517,000) has been recognised in profit or loss. The recoverable amounts of the relevant assets have been determined on the basis of their value in use.

16. Prepaid Lease Payments

	2017 RMB'000	2016 RMB'000
Non-current	**240,449**	162,846
Current	**7,219**	5,621
	247,668	168,467

As at 31 December 2017, included in prepaid lease payments are land use rights of RMB16,856,000 (2016: RMB6,930,000) 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 2017, RMB35,600,000 (2016: RMB32,121,000) was received as government grants in relation to the Group's acquisition of certain land use right 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.

17. Interest in an Associate

	2017 RMB'000	2016 RMB'000
Cost of unlisted investment in an associate	**9,000**	9,000
Share of post-acquisition results	**6,574**	1,493
	15,574	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
			2017	2016	**2017**	2016	
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%**	45%	**45%**	45%	Trading of material

18. Available-For-Sale Investments

	2017 RMB'000	2016 RMB'000
Equity securities listed on the Hong Kong Stock Exchange	**226,000**	–

The above listed equity investments represent investments in listed equity securities issued by a public company listed on the Hong Kong Stock Exchange. They are measured at fair value at the end of the reporting period by using the quoted bid prices in an active market.

19. 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 values adjustments on property, plant and equipment and prepaid lease payments arising from acquisition of subsidiaries RMB'000	Interest capitalisation RMB'000	Fair value change of held-for-trading investments RMB'000	Provision for inventories, trade and other receivables RMB'000	Fair value change of derivative financial instruments RMB'000	Fair value change on available-for-sale investments 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 2016	54,396	(14,300)	(1,493)	(29,030)	43	26,958	-	-	57,364	109,662	6,246	74,548	(5,430)	278,964
Credit/(charge) to profit or loss	15,408	(13,900)	(101)	(1,641)	(190)	(3,028)	(2,913)	-	19,500	2,463	(1,615)	(28,897)	260	(14,654)
Reversal on payment of withholding tax on distribution of earnings from the PRC subsidiaries	-	20,300	-	-	-	-	-	-	-	-	-	-	-	20,300
At 31 December 2016 and 1 January 2017	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
(Charge)/credit to profit or loss	5,127	(17,475)	(295)	(2,062)	147	9,818	4,005	-	17,797	(4,647)	(261)	6,358	258	18,770
Charge to other comprehensive income	-	-	-	-	-	-	-	(2,775)	-	-	-	-	-	(2,775)
Effect of change in tax rate	(12,168)	-	-	-	-	-	-	-	(12,400)	(5,492)	(1,795)	-	-	(31,855)
Acquisition of a subsidiary	-	-	(11,448)	-	-	-	-	-	-	-	-	-	-	(11,448)
Reversal on payment of withholding tax on distribution of earnings from the PRC subsidiaries	-	6,565	-	-	-	-	-	-	-	-	-	-	-	6,565
At 31 December 2017	62,763	(18,810)	(13,337)	(32,733)	-	33,748	1,092	(2,775)	82,261	101,986	2,575	52,009	(4,912)	263,867

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

	2017 RMB'000	2016 RMB'000
Deferred tax assets	**336,434**	333,005
Deferred tax liabilities	**(72,567)**	(48,395)
	263,867	284,610

19. Deferred Taxation (Continued)

For the year ended 31 December 2017, the Group had unused tax losses of approximately RMB155,206,000 (2016: RMB16,844,000) available to offset against future profits, in respect of which no deferred tax assets recognised, due to the unpredictability of future profit streams. Such unrecognised losses will expire at various dates up to and including 2022 (2016: 2021).

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 the PRC subsidiaries as above, no deferred taxation has been provided for the remaining accumulated profits of approximately RMB3,287 million as at 31 December 2017 (2016: RMB2,463 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.

20. Inventories

	2017 **RMB'000**	2016 RMB'000
Raw materials	**175,673**	319,880
Work-in-progress	**1,901,831**	1,485,878
Finished goods	**55,197**	79,003
	2,132,701	1,884,761

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

Held-for-trading investments

	2017 **RMB'000**	2016 RMB'000
Equity securities listed in Mainland China	**–**	57,645

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

Derivative financial instruments

	2017		2016	
	Assets **RMB'000**	**Liabilities** **RMB'000**	Assets RMB'000	Liabilities RMB'000
Foreign currency forward contracts	**–**	**7,277**	19,422	–
Commodity derivative contracts	**–**	**284**	–	–
	–	**7,561**	19,422	–

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

22. Bills, Trade and Other Receivables

	2017 RMB'000	2016 RMB'000
Bills receivables	**1,186,894**	1,399,111
Trade receivables	**906,569**	885,044
Less: Allowance for bad and doubtful debts	**(181,947)**	(103,245)
	724,622	781,799
Other receivables	**242,257**	293,817
Less: Allowance for bad and doubtful debts	**(18,597)**	(18,733)
	223,660	275,084
Prepayments	**126,254**	62,679
PRC value added tax receivables	**131,062**	168,428
	2,392,492	2,687,101

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

	2017 RMB'000	2016 RMB'000
0 to 180 days	**1,183,019**	1,337,100
180 to 365 days	**3,875**	62,011
	1,186,894	1,399,111

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 (2016: 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:

	2017 RMB'000	2016 RMB'000
0 to 45 days	**508,715**	398,107
46 to 90 days	**163,153**	216,815
91 to 180 days	**24,564**	71,718
181 to 365 days	**28,190**	95,159
	724,622	781,799

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 RMB508,715,000 (2016: RMB398,107,000) 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 RMB215,907,000 (2016: RMB383,692,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss.

22. Bills, Trade and Other Receivables (Continued)

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

	2017 RMB'000	2016 RMB'000
46 to 90 days	**163,153**	216,815
91 to 180 days	**24,564**	71,718
181 to 365 days	**28,190**	95,159
	215,907	383,692

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.

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 fully provided 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

	2017 RMB'000	2016 RMB'000
1 January	**103,245**	51,954
Allowance for bad and doubtful debts	**82,906**	71,088
Reversal of bad and doubtful debts	**(32)**	(329)
Amounts written off as uncollectible	**(4,172)**	(19,468)
31 December	**181,947**	103,245

Other receivables are unsecured and interest-free.

Movement in the allowance for doubtful debts – other receivables

	2017 RMB'000	2016 RMB'000
1 January	**18,733**	18,377
Allowance for bad and doubtful debts	**–**	775
Reversal of bad and doubtful debts	**(131)**	(196)
Amounts written off as uncollectible	**(5)**	(223)
31 December	**18,597**	18,733

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.

23. Transfers of Financial Assets

At 31 December 2017 and 31 December 2016, 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 limited exposure in respect of the settlement obligation of these bank issued bills receivable under the 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. In the opinion of the directors of the Company, the Group transferred and did not retain substantially all the risks and rewards of ownership of these bank issued bills. Accordingly, the Group has derecognised these bank issued bills receivables and the payables to suppliers in their entirety.

As at 31 December 2017, 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 RMB646,450,000 (2016: RMB167,370,000) and RMB903,629,000 (2016: RMB285,551,000), 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.

24. 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 2017 carried an interest rate which ranged from 0.35% to 2.10% (2016: 0.3% to 1.35%) per annum.

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with banks and carry interest at prevailing market rate. At 31 December 2017, bank balances carry interest at market rates which ranged from 0.01% to 0.35% (2016: 0.01% to 0.35%) per annum.

25. Bills, Trade and Other Payables

	2017 **RMB'000**	2016 RMB'000
Trade payables	**2,386,628**	1,769,406
Bills payables	**1,079,484**	1,402,981
Other payables and accrued charges	**2,504,505**	2,187,537
	5,970,617	5,359,924

The Group normally receives credit terms of 5 days to 90 days (2016: 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:

	2017 **RMB'000**	2016 RMB'000
0 to 90 days	**1,888,639**	1,449,588
91 to 180 days	**208,838**	94,033
181 to 365 days	**201,448**	127,944
1 to 2 years	**67,095**	89,016
Over 2 years	**20,608**	8,825
	2,386,628	1,769,406

25. Bills, Trade and Other Payables (Continued)

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

	2017 RMB'000	2016 RMB'000
0 to 180 days	**1,079,484**	1,402,981

26. Amounts due to (from) Related Parties

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

Name of related parties	2017 RMB'000	2016 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)	**209**	461
濟源市萬洋冶煉(集團)有限公司 Jiyuan City Wangyang Smelting (Group) Co., Ltd. ("Wanyang Group") (note 2)	**21,129**	11,996
Tianneng Yinyue	**40,804**	–
	62,142	12,457

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

Name of related parties	2017 RMB'000	2016 RMB'000
Tianneng Yinyue	**659**	598
Wanyang Group	**16,437**	–
	17,096	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 Mr. Zhang Tianren ("Mr. Zhang"). As at 31 December 2017, 410,355,650 shares of the Company (approximately 36.42% of the total issued shares of the Company as at 31 December 2017) are held by Prime Leader Global Limited which is incorporated in the British Virgin Islands and is wholly-owned by Mr. Zhang. Mr. Zhang is also a director of the Company.

2. Wanyang Group is a party which holds 49% interest of Jiyuan Wanyang, a 51% owned subsidiary 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 ageing less than 180 days.

27. Borrowings

	2017 RMB'000	2016 RMB'000
Bank borrowings	**1,335,561**	1,199,692
Other borrowings	**118,800**	–
	1,454,361	1,199,692
Secured	**391,600**	492,000
Unsecured	**1,062,761**	707,692
	1,454,361	1,199,692
Carrying amounts repayable:		
Within one year	**1,324,561**	1,163,692
Within a period of more than one year but not exceeding two years	**61,000**	–
Within a period of more than two years but not exceeding five years	**68,800**	36,000
	1,454,361	1,199,692
Less: Amounts due within one year shown under current liabilities	**(1,324,561)**	(1,163,692)
Amounts shown under non-current liabilities	**129,800**	36,000

At 31 December 2017, the bank borrowings of RMB1,168,379,000 (2016: RMB809,690,000) carry fixed and variable interest rates ranging from 3.85% to 4.79% (2016: 3.65% to 6.77%) per annum, and the bank borrowings of HK$200,000,000 (approximately equivalent to RMB167,182,000) carry variable interest rates ranging from 2.44% to 3.19% (2016: HK$436,000,000 (approximately equivalent to RMB390,002,000) carried fixed interest rates ranging from 1.47% to 1.49%) per annum.

At 31 December 2017, other borrowings amounted to RMB118,800,000 (2016: nil) carry variable interest rate at 4.73% (2016: nil) per annum.

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

28. Obligations under Finance Leases

	2017 RMB'000	2016 RMB'000
Analysed for reporting purposes as:		
Current liabilities	4,275	15,006
Non-current liabilities	–	4,275
	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 2016: two years). Interest rate underlying the obligations under finance leases is fixed at respective contract date 4.75% per annum.

	Minimum Lease payments		Present value of minimum lease payments	
	31/12/2017 RMB'000	31/12/2016 RMB'000	31/12/2017 RMB'000	31/12/2016 RMB'000
Obligations under finance lease payable:				
Within one year	4,337	15,556	4,275	15,006
Within a period of more than one year but not exceeding 5 years	–	4,337	–	4,275
	4,337	19,893	4,275	19,281
Less: future finance charges	(62)	(612)	N/A	N/A
Present value of lease obligations	4,275	19,281	4,275	19,281

29. Provisions

	2017 RMB'000	2016 RMB'000
At 1 January	468,426	373,247
Provision in the year	598,697	741,907
Utilisation of provision	(617,965)	(646,728)
At 31 December	449,158	468,426

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 and the fifteenth month after the date of sale. A warranty provision is estimated and accrued at the time of sale and is based upon various factors including the actual warranty claims, unit sales history, the estimated replacement costs and repair cost for returned products, predicted future warranty claim rate with reference to prior experiences and volumes of products sold. The amount of accrued warranty is adjusted as required to reflect the actual costs incurred when information becomes available.

30. Long-Term Loan Notes

	2017 RMB'000	2016 RMB'000
Guaranteed loan notes	**774,341**	792,358
Analysed as:		
Long-term loan notes (Note)	**774,341**	792,358

Note:

(1) On 11 March 2014, Tianneng Battery issued 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, the amount is stated at amortised cost with effective interest rate at 7.78% per annum.

On 11 March 2017, the Company redeemed part of the issued loan notes with principal amount of RMB20,000,000. At 31 December 2017, the amount is stated at amortised cost with effective interest rate at 7.81% per annum.

(2) On 9 October 2014, Tianneng Battery issued 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.

On 29 September 2017, the Company redeemed part of the issued loan notes with principal amount of RMB 367,000. At 31 December 2017 and 31 December 2016, 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**	
	2017	2016	**2017 RMB'000**	2016 RMB'000
Shares of the Company with nominal value of HK$0.1 each				
Authorised:				
At 1 January 2016, 31 December 2016, and 31 December 2017	**2,000,000,000**	2,000,000,000	**212,780**	212,780
Issued and fully paid:				
At beginning of year	**1,126,546,500**	1,143,768,500	**109,889**	111,356
Repurchase and cancellation of shares	**–**	(17,222,000)	**–**	(1,467)
At end of year	**1,126,546,500**	1,126,546,500	**109,889**	109,889

Note:

During the year ended 31 December 2017, nil shares (2016: 17,222,000) were repurchased or cancelled by the Company.

31. Share Capital (Continued)

During the year ended 31 December 2016, 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$0.10 each of the Company	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid 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

During the year ended 31 December 2016, the nominal value of approximately HK$1,722,200 (equivalent to approximately RMB1,467,000) of the shares was cancelled, and the premium paid and the related costs incurred for the repurchase of approximately HK$105,050,000 (equivalent to approximately RMB89,550,000) was charged against share premium account of the Company.

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

	2017 RMB'000	2016 RMB'000
Share-based payment (note i)	**57,010**	57,010
30% interest in Anhui Zhongneng Power Supply Co., Ltd (note ii)	**4,194**	4,194
Reduction of equity interest in Zhejiang Tianneng Energy (note iii)	**64,600**	64,600
Acquisition of additional interest in subsidiary (note iv)	**12,460**	12,460
	138,264	138,264

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

(ii) The increase of RMB4,194,000 is related to the acquisition of the remaining 30% interest in Anhui Zhongneng Power Supply Co., Ltd in 2013.

32. Reserves (Continued)

Capital reserve (Continued)

(iii) 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 PRC (the "Proposed NEEQ Quotation"). A subscription agreement was entered into on 18 January 2016, pursuant to which a group comprising, among others, Mr. 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. 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.

(iv) The capital reserve of the Group of RMB12,460,000 arose from the difference between the consideration paid for acquisitions of additional interests in subsidiaries from non-controlling shareholders who are associates of Mr. 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. Acquisition of a Subsidiary

On 25 November 2017, the Group acquired 81.67% of equity interest of Henan Jingneng Power Co., Ltd. ("Henan Jingneng") for a consideration of RMB34,000,000 from independent third parties. The acquisition has been accounted for using the acquisition method. Henan Jingneng is engaged in the manufacture of lead-acid motive battery products. Henan Jingneng was acquired so as to continue the expansion of the Group's production capacity of lead-acid motive battery products.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	25 November 2017 RMB'000
Non-current assets	
Property, plant and equipment	100,766
Prepaid lease payments	74,143
Current assets	
Inventories	63,014
Trade and other receivables	34,244
Bank balances and cash	5,941
Current liabilities	
Trade and other payables	(106,230)
Other borrowings	(118,800)
Non-current liabilities	
Deferred tax liabilities	(11,448)
	41,630
Non-controlling interests	(7,630)
Net assets attributed to the Group	34,000
Satisfied by:	
Consideration transferred	34,000

Net cash outflow on acquisition of the subsidiary

	Year ended 31/12/2017 RMB'000
Total consideration transferred	**34,000**
Less: consideration recorded in liabilities	**(15,500)**
Cash consideration transferred	**18,500**
Less: cash and cash equivalent balances acquired	**(5,941)**
	12,559

33. Acquisition of a Subsidiary (Continued)

Impact of acquisition on the results of the Group

Included in the profit for the year is a loss of approximately RMB150,000 attributable to Henan Jingneng. Revenue for the year includes approximately RMB51,454,000 in respect of Henan Jingneng.

Had the acquisition been completed on 1 January 2017, total group revenue for the year would have been RMB27,055 million, and profit for the year would have been RMB1,131 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Henan Jingneng been acquired at the beginning of the current year, the directors of the Company have calculated depreciation of plant and equipment and amortisation of prepaid lease payments acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

34. 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 was granted during the year ended 31 December 2016 and 31 December 2017.

34. Share Option Schemes (Continued)

The following tables disclosed movements of the Company's options granted under the Scheme during the year ended 31 December 2017 and 2016:

Option	Name of grantee	Date of grant	Exercisable period	Exercise price HK$	Outstanding as at 1.1.2017	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31.12.2017
	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	16.6.2014	16.6.2015 – 15.6.2024	HK$2.90	**90,000**	**–**	**–**	**–**	**90,000**
Option C	Wang Jingzhong	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	**42,435,000**	**–**	**–**	**(2,533,500)**	**39,901,500**
Option B	Employees	22.11.2010	22.11.2011 – 21.11.2020	HK$3.18	**680,000**	**–**	**–**	**–**	**680,000**
					43,385,000	**–**	**–**	**(2,533,500)**	**40,851,500**
	Exercisable at the end of the year								**16,707,500**
	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 1.1.2016	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	16.6.2014	16.6.2015 – 15.6.2024	HK$2.90	90,000	–	–	–	90,000
Option C	Wang Jingzhong	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

At 31 December 2017, the total number of shares in respect of which options under the Scheme had been granted and remained outstanding was 40,851,500 (2016: 43,385,000), representing 3.63% (2016: 3.85%) of the shares of the Company in issue at that date.

During the years ended 31 December 2017 and 2016, no share options were exercised.

During the year ended 31 December 2017, the Group recognised total expenses of RMB8,987,000 (2016: RMB15,143,000) in relation to share options granted by the Company.

35. Operating Leases

The Group as lessee

	2017 RMB'000	2016 RMB'000
Minimum lease payments paid for the year under operating leases for premises	**16,504**	10,248

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:

	2017 RMB'000	2016 RMB'000
Within one year	**7,907**	14,929
In the second to fifth years inclusive	**12,545**	17,687
Over five years	**3,273**	5,839
	23,725	38,455

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.

	2017 RMB'000	2016 RMB'000
Bank deposits	**727,562**	1,235,675
Bills receivables	**675,996**	774,195
Property, plant and equipment	**107,357**	136,607
Prepaid lease payments	**34,675**	22,770
	1,545,590	2,169,247

37. Capital Commitments

	2017 RMB'000	2016 RMB'000
Contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	**302,297**	240,802

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 2017, contributions of RMB2,432,000 (31 December 2016: RMB4,707,000) 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. 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 borrowings, obligations under finance leases and long-term loan notes as disclosed in note 27, 28 and 30, net of bank balances 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.

40. Financial Instruments

Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**6,752,226**	5,506,008
Financial assets at FVTPL		
Held-for-trading investments	**–**	57,645
Foreign currency forward contracts	**–**	19,422
Available-for-sale investments	**226,000**	–
Financial liabilities		
Amortised cost	**6,425,180**	5,803,659
Financial assets at FVTPL		
Foreign currency forward contracts	**7,277**	–
Commodity derivative contracts	**284**	–

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 related parties, derivative financial instruments, pledged bank deposits, bank balances and cash, bills, trade and other payables, amounts due to related parties, obligations under finance leases, loan notes and 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.

40. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

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

	Assets		Liabilities	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
United States dollars ("US$")	**12,914**	90,724	**–**	–
HK$	**240,642**	189,953	**170,171**	393,205

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 21.

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% (2016: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2016: 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% (2016: 5%) change in foreign currency rates. The analysis illustrates the impact for a 5% (2016: 5%) strengthening of RMB against the relevant currency. For a 5% (2016: 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)	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
(Decrease) increase in post-tax profit for the year as a result of a 5% strengthening of RMB against the foreign currency	**(549)**	(3,497)	**(3,523)**	7,238

(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.

40. 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 and other borrowings and loan notes (see notes 24, 27 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 (2016: 10 basis point) increase or decrease in interest rates on variable bank balances, and a 100 basis point (2016: 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 (2016: 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	
	2017 **RMB'000**	2016 RMB'000
Increase in post-tax profit for the year	**3,194**	1,538

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 (2016: 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	
	2017 **RMB'000**	2016 RMB'000
Decrease in post-tax profit for the year	**4,306**	1,802

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.

40. 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% (2016:10%) in current year as a result of the volatile financial market.

If the prices of the respective equity instruments had been 10% (2016: 10%) higher/lower:

- post-tax profit for the year ended 31 December 2017 would not be impacted (2016: increase/decrease by RMB59,000) as a result of the changes in fair value of held-for-trading investments; and

- investment revaluation reserve would increase/decrease by RMB32,913,000 (2016: Nil) for the Group as a result of the changes in fair value of available-for-sale 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 bank deposits and bank balances for the Group as at 31 December 2017 and 31 December 2016. As at 31 December 2017, balances with the four largest banks accounted for 35% (2016: 34%) of total pledged bank 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.

40. 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 31.12.2017 RMB'000
2017						
Non-derivative financial liabilities						
Non-interest bearing	–	2,838,013	1,011,860	342,697	4,192,570	4,192,570
Fixed rate instruments	7.05%	113,575	87,274	874,874	1,075,723	943,974
Variable rate instruments	4.13%	551,586	657,501	109,538	1,318,625	1,284,361
Obligations under finance leases	4.75%	2,244	2,093	–	4,337	4,275
		3,505,418	1,758,728	1,327,109	6,591,255	6,425,180
Derivatives – net settlement						
Commodity derivative contracts		284	–	–	–	284
Derivatives – gross settlement						
Foreign currency forward contracts						
– inflow		–	(126,523)	–	–	(126,523)
– outflow		–	133,800	–	–	133,800
		–	7,277	–	–	7,277
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

In addition to the amounts shown in the above table as at 31 December 2017, 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 RMB646,450,000(2016: RMB167,370,000) and RMB903,629,000 (2016: RMB285,551,000), respectively if the issuing banks fail to settle the bills on maturity.

40. 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).

40. Financial Instruments (Continued)

Fair value (Continued)

Fair value measurements recognised in the consolidated statement of financial position (Continued)

The held-for-trading investments with carrying amount of nil (2016: RMB57,645,000) and available-for-sale investments with carrying amount of RMB226,000,000 (2016: nil) were level 1 measurement and foreign currency forward contracts with carrying amount of RMB7,277,000 (2016: RMB19,422,000) and commodity derivative contracts with carrying amount of RMB299,000 (2016:nil) were level 2 measurement at 31 December 2017. The details are as follows:

Financial assets	Fair value as at 31.12.2017	31.12.2016	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	Nil	Listed equity securities in Mainland China: – Manufacturing Industry – RMB57,645,000	Level 1	Quoted bid prices in an active market.	N/A	N/A
Available-for-sale investments	Listed equity securities in Hong Kong Manufacturing Industry RMB 226,000,000	Nil	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	Liabilities: RMB 7,277,000	Assets: RMB19,422,000	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
Commodity derivative contracts classified as derivative financial instruments in the consolidated statement of financial position	Liabilities: RMB 299,000	Nil	Level 2	The fair value of the commodity derivative contracts is estimated by reference to the quoted bid prices of similar standardised commodity derivative contracts at the end of the reporting period.	N/A	N/A

41. Reconciliation of Liabilities arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings (note 27) RMB'000	**Long-term loan notes** (note 30) RMB'000	**Obligations under finance leases** (note 28) RMB'000	**Total** RMB'000
At 1 January 2017	1,199,692	792,358	19,281	2,011,331
Financing cash flows	135,869	(20,367)	(15,006)	100,496
Acquired on acquisition of a subsidiary	118,800	–	–	118,800
Amortisation of unsettled financial charges	–	2,350	–	2,350
At 31 December 2017	1,454,361	774,341	4,275	2,232,977

42. Related Party Transactions

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

Name of related company	**Nature of transaction**	**2017** **RMB'000**	2016 RMB'000
Changxing Jin Ling Hotel (note)	Hotel expenses	**1,965**	2,447
Xin Xin Packaging	Purchase of consumables	**510**	908
Wanyang Group	Purchase of materials	**1,242,116**	739,263
Wanyang Group	Sales of materials	**459,889**	141,062
Wanyang Group	Rental expenses	**2,195**	2,496
Tianneng Yinyue	Purchase of materials	**1,689,870**	226,186
Tianneng Yinyue	Rental income	**–**	598

Note: Changxing Jin Ling Hotel (長興金陵大酒店) is controlled by Mr. Zhang.

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

(c) Details of the balances with related parties are set out in note 26.

43. Particulars of Principal Subsidiaries of the Company

Particulars of the Company's principal subsidiaries at 31 December 2017 and 2016 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
			2017	2016	
Tianneng International Investment Holdings Limited (note i)	British Virgin Islands/ Hong Kong 15 November 2004	Share – US$1 (2016: 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 (2016: 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 (2016: 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")	PRC – Limited liability company 1 July 2004	Registered capital – RMB226,666,000 (2016: RMB226,666,000)	**60%**	60%	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 (2016: 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 (2016: 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 (2016: 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 (2016: 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 (2016: RMB300,000,000)	**100%**	100%	Manufacture and sale of lead-acid batteries
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 (2016: 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 (2016: 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 (2016: RMB200,000,000)	**100%**	100%	Sales of metal materials

43. 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		Principal activities
			2017	2016	
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 (2016: 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.	PRC-Limited liability company 27 October 2010	Registered capital – RMB102,160,000 (2016: 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.	PRC-Limited liability company 17 April 2008	Registered capital – RMB100,000,000 (2016: 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 (2016: RMB60,000,000)	**100%**	100%	Manufacture and sales of lead-acid batteries and re-cycled batteries
河南晶能電源有限公司 Henan Jingneng Energy Co., Ltd.	PRC-Limited liability company 13 March 2009	Registered capital – RMB45,000,000 (2016: NA)	**81.67%**	NA	Manufacture and sales of lead-acid batteries

Note:

(i) Directly held by the Company.

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	
		2017	2016
Manufacture and sales of lead-acid motive batteries	PRC	**8**	6
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 three (2016: two) subsidiaries, namely Jiyuan Wanyang, Zhejiang Tianneng Energy and Henan Jingneng shown under particulars of principal subsidiaries of the Company above (2016: Jiyuan Wangyang and ZhejiangTianneng Energy). The non-controlling interests in the subsidiaries are not material to the Group.

Tianneng Battery 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.

44. Statement of Financial Position and Reserves of the Company

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

	2017 **RMB'000**	2016 RMB'000
Non-current assets		
Property, plant and equipment	**22**	23
Investments in and amounts due from subsidiaries	**1,050,594**	1,060,576
	1,050,616	1,060,599
Current asset		
Bank balances and cash	**5,269**	4,354
	5,269	4,354
Current liability		
Other payables	**105,971**	111,533
	105,971	111,533
Net current liability	**(100,702)**	(107,179)
Total assets less current liability	**949,914**	953,420
Capital and reserves		
Share capital	**109,889**	109,889
Reserves	**840,025**	843,531
Total equity	**949,914**	953,420

Movement in reserves

	Share premium RMB'000	**Share options reserve** RMB'000	**Accumulated profits** RMB'000	**Total** RMB'000
At 1 January 2016	872,284	22,441	55,169	949,894
Profits for the year	–	–	272,474	272,474
Repurchase and cancellation of shares	(89,550)	–	–	(89,550)
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	782,734	34,128	26,669	843,531
Profits for the year	–	–	241,512	241,512
Forfeiture of share options	–	(2,640)	2,640	–
Recognition of equity-settled share based payments	–	8,987	–	8,987
Dividend recognised as distribution	–	–	(254,005)	(254,005)
At 31 December 2017	782,734	40,475	16,816	840,025

FINANCIAL SUMMARY

	Year ended 31 December				
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	**2017** **RMB'000**
RESULTS					
Turnover	13,635,060	14,043,731	17,804,068	21,480,891	**26,903,901**
Profit before taxation	141,240	(407,102)	745,629	1,145,083	**1,407,588**
Taxation	(10,915)	114,115	(117,832)	(239,561)	**(227,356)**
Profit for the year	130,325	(292,987)	627,797	905,522	**1,180,232**

	As at 31 December				
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	**2017** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	7,904,226	8,713,603	10,546,091	12,129,825	**13,981,698**
Total liabilities	4,841,959	5,967,963	7,078,950	8,023,225	**8,918,212**
Net assets	3,062,267	2,745,640	3,467,141	4,106,600	**5,063,486**