



TIANNENG POWER
INTERNATIONAL LIMITED
天能動力國際有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code : 00819



2019
INTERIM REPORT

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Dr. ZHANG Tianren (*Chairman*)
Mr. ZHANG Aogen
Mr. SHI Borong
Mr. ZHANG Kaihong
Mr. ZHOU Jianzhong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HUANG Dongliang
Mr. WU Feng
Mr. ZHANG Yong

AUDIT COMMITTEE MEMBERS

Mr. HUANG Dongliang (*Chairman*)
Mr. WU Feng
Mr. ZHANG Yong

REMUNERATION COMMITTEE MEMBERS

Mr. WU Feng (*Chairman*)
Mr. HUANG Dongliang
Mr. ZHANG Aogen

NOMINATION COMMITTEE MEMBERS

Dr. ZHANG Tianren (*Chairman*)
Mr. HUANG Dongliang
Mr. WU Feng

COMPANY SECRETARY

Ms. HUI Wai Man Shirley

AUDITOR

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

PUBLIC RELATIONS

Porda Havas International Finance
Communications Group
Unit 2401, 24/F
Admiralty Centre Tower II,
18 Harcourt Road,
Admiralty, Hong Kong

STATUTORY ADDRESS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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18 Harbour Road
Wanchai
Hong Kong

CORPORATE INFORMATION

COMPANY'S WEBSITE

www.tianneng.com.hk

PRINCIPAL SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited
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KY1-1111, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 00819

MANAGEMENT DISCUSSION AND ANALYSIS

Tianneng Power International Limited (“**Tianneng**” or the “**Company**” and together with its subsidiaries, the “**Group**”) has three major businesses in the People’s Republic of China (“**PRC**” or “**China**”), namely the research and development (R&D), production and sales of: 1) high-end eco-friendly batteries and their related products; 2) new energy batteries and their related products; 3) green renewable materials and their related products.

REVIEW OF OPERATIONS

During the six months ended 30 June 2019, with the complex and volatile macroeconomic environment, the increased operational pressure on the real economy and intensifying competition in the industry, the Group adhered to its guiding principle of being “stable and progressive” in its work, steering its direction towards green wisdom (綠色智造), focusing on quality and efficiency and aiming at reform and innovation, thereby achieving the Group’s high-quality and sustainable development. According to the “List of Top 100 Battery Enterprises in China for 2018” (《2018年度中國電池行業百強企業名單》) issued by the China Industrial Association of Power Sources in July 2019, Tianneng continued to rank top in the top 100 enterprises in the battery industry of China.

During the reporting period, the Group recorded a revenue of approximately RMB20,087 million, representing an increase of 38.47% as compared with the same period last year, and a net profit of approximately RMB554 million, representing an increase of 3.78% as compared with the same period last year.

A. High-end eco-friendly batteries

High-end eco-friendly batteries are one of the Group’s traditional major businesses, providing the Group with a solid cash flow. During the reporting period, the sales revenue of high-end eco-friendly batteries was approximately RMB12,561 million.

1. *Electric bicycle and electric tricycle battery*

With the continuous growth of China’s economy, the continuous increase of the consumption level, the increase of people’s awareness of environmental protection, and the promotion of energy conservation and emission reduction policies, the market of electric vehicles is expected to continue to grow steadily. Meanwhile, following the rapid development of the modern service sector, practitioners of emerging forms of businesses will become a new consumer group.

MANAGEMENT DISCUSSION AND ANALYSIS

The national standards of “Safety Technical Specifications for Electric Bicycles” (hereinafter referred to as the “**New National Standard**”) promulgated by four government departments including the State Administration for Market Regulation, Standardization Administration of China, Ministry of Public Security and Ministry of Industry and Information Technology have become effective since 15 April 2019. The introduction of the New National Standard is of great significance for the steady development of the industries. The New National Standard has regulated market order, improved product safety performance, and fostered market competition for the best to remain.

The Group benefited from the favorable opportunities introduced by the promulgation of the New National Standard to further enhance the research and development level of products and technologies and strengthen social influence and the reliability of our products, in order to increase consumers’ awareness of our brand. This is mainly shown in the following aspects:

- (1) Deepening the strategic cooperation with leading vehicle enterprises, strengthening the foundation of trust, enhancing the Group’s influence in the new market of electric bicycle assembly, accelerating product standardization and modularized production, as well as achieving quality and efficiency improvements at the operation side.
- (2) The Group continued to lead the world in technological upgrades and intelligent manufacturing in the advanced manufacturing industry, adopting crafts and techniques such as continuous casting and rolling, rare earth alloy and other formulas to improve batteries performance and production efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

- (3) Giving full play to brand advantages and channel advantages to accelerate the coordinated development of lead and lithium and providing high-quality solutions to customers. During the reporting period, the Group's exclusive distributors and end-user stores continued to be optimized and upgraded, with a sales network spreading across the country and competitive edges gradually emerging.



MANAGEMENT DISCUSSION AND ANALYSIS

2. *Micro electric vehicles*

Micro electric vehicles are four-wheel low-speed vehicles entirely driven by electricity. This kind of vehicle is of small volume, affordable, and commonly used for short-distance travelling.

Driven by diversified traffic conditions and consumption upgrade, micro electric vehicles have become a convenient, low-carbon and eco-friendly vehicle for the people. In the “Key points of standardization working plan for new energy vehicles of 2018” (《2018年新能源汽車標準化工作要點》) issued by the Ministry of Industry and Information Technology, micro electric vehicles were included in the category of new energy vehicles for the first time, which demonstrated that the nation and government at all levels have started to place importance on the development of micro electric vehicles, and the micro electric vehicle market may enjoy further growth. Being the power source of micro electric vehicles, the motive battery is the core component part that ensures the rapid development of the micro electric vehicle industry. It has crucial influences on the quality, lifespan and cruising mileage of micro electric vehicles, as well as being the key element in determining whether a micro electric vehicle manufacturing enterprise possesses core competency. Tianneng continued to maintain its market leading position in batteries for micro vehicles.



MANAGEMENT DISCUSSION AND ANALYSIS

3. *Other high-end eco-friendly batteries* (1) **Electric forklift**

With the development of internet economy and the logistic sector, the electric forklift market has grown rapidly. Currently, the Group's forklift battery is designed in accordance with top international standards, with attributes such as service life and safety performance indicators leading the industry. The Group will increase its market share by further increasing its efforts to continue to optimise the after-sales market and striving for innovation in its business models.



MANAGEMENT DISCUSSION AND ANALYSIS

(2) **Start-stop battery**

From the perspective of market use, starting batteries of vehicles, being consumables, have a large replacement market capacity. Additionally, domestic vehicle manufacturers are affected by the national energy conservation and emission reduction policies, from which the pressure on fuel consumption limits has increased. It is expected that the loading rate of the new vehicle start-stop system will increase significantly in the coming years, and the market for start-stop batteries is huge. Currently, the assembly rate for start-stop battery vehicles in China still has room for development and is in the development stage, and it is expected to enter in a rapid development phase in the future. The Group will continue to strengthen its sales teams, optimise the market structure, enhance international technical cooperations, capture the end-user market in advance and raise its market position.

The Group not only possesses strong brand, marketing, service, and industrial leading advantages, but also has plenty of recovery channels for used batteries of vehicles, through which the Group collaborates with starting battery manufacturers to achieve a win-win situation in the replacement market. During the reporting period, the Group rapidly developed its vehicle battery business, possessing world-class automated production processes and adopting industry-leading equipment and management concepts. The Group established strategic cooperation with various starting battery manufacturers in the sector, integrated resources by collaborating with top manufacturers and saw its teams of distributors go from strength to strength. The Group successfully gained a foothold in the starting battery market and set up the Tianneng brand.



MANAGEMENT DISCUSSION AND ANALYSIS

(3) Smart energy

The Group saw peak and frequency modulation as well as base station power storage as targeted markets in the domestic market, and actively expanded its overseas market. The Group adopted a number of world-class advanced technologies, including the lead-carbon battery and the lithium-ion, to meet the demands of different customers, and provided the smart micro-grids energy system solution and the composite power storage system solution.

The Group's power storage battery technology was at the leading position in China. The system solutions provided by the Group were able to incorporate the bidirectional converter into public grids for power storage, and could achieve functions such as peak-load shifting, frequency modulation and independent power supply after connecting to the main network, thus satisfying users' demands for distributed power access, power quality, reliability and safety of power supply.



MANAGEMENT DISCUSSION AND ANALYSIS

B. Green energy industry

1. *New energy batteries*

The Group has a sophisticated R&D team that comprises various academicians, “National One Thousand Talents”, foreign experts, and professors or doctors. The Group successfully created a whole industrial chain regarding the R&D and production of lithium battery material, the ternary lithium battery, the lithium iron phosphate battery as well as BMS and PACK systems. Leveraging its leading technology, products, brands and services, the Group has accumulated a comprehensive customer structure, including new-energy vehicle manufacturers, high-end electric bicycle manufacturers, shared electric bicycle companies and mobile energy storage companies, etc. Zhejiang Tianneng Energy Technology Co., Ltd. (hereinafter referred to as “**Tianneng Energy**”), a subsidiary of the Group, was selected as an enterprise of the second batch of the Lithium-ion Battery Industry Standard Conditions by the Ministry of Industry and Information Technology, and participated in the development of two national standards for the lithium battery industry. During the reporting period, the revenue from new energy batteries was RMB255 million.

The Group will continue to develop its lithium battery business and other related businesses. Through continuous technology improvement and market expansion, the Group will leverage its own channels and brand advantages in the field of lithium battery bicycles to research and develop advanced materials, high-performance components and leading products etc., thus further enhancing the Group’s market position in the new energy battery field.

MANAGEMENT DISCUSSION AND ANALYSIS

2. *Green renewable materials*

Environmental issues have become the focus of international attention, and environmental protection measures have also been constantly evolving with the development of society and the advancement of science and technology. The signing of the “Kyoto Protocol” and the “Paris Agreement” signified the support for and promotion of the development of recycling renewable industries on a global scale. Promoting the building of a green ecological civilization is an important measure to realize “sustainable development” in China. Upon the arrival of the dual opportunities of policies and market, the Group participated in the formulation of the national standard of General Guideline of Standard System for Circular Economy of Industrial Enterprises and Parks (工業企業和園區循環經濟標準體系) and Industrial Standard for Recycling Used Batteries (廢蓄電池回收規範行業標準), and acted as the representative of manufacturers, actively striving for state support in policies in various aspects and being granted many honours and awards. During the reporting period, the external revenue from green renewable materials was RMB508 million.

The Group strived to build a circular industry chain integrating “recycling-smelting-reproduction” all the way, turning the enterprise into a pioneering demonstration base for green, low-carbon and recycling development. The Group deepened the green circular economy comprehensively, with the adoption of the state-of-the-art oxygen-rich side-blowing furnace technology, and became a benchmark enterprise for the harmless treatment of used batteries. A two-way development path was opened up relying on the resources of the Group and the needs of society. The Group further expanded its recycling channels to achieve an integrated construction of the industry chain of the “production-sales-after-sale service” and “scrap metal recycling-smelting-reproduction” of batteries. In the future, the Group will continue to increase its contribution to the recycling industry, gradually expand the categories of renewable materials for recycling that have market values, and at the same time extend to the up and down streams in the industry and expand relevant derivative product equipment.



MANAGEMENT DISCUSSION AND ANALYSIS

3. *Executing global strategy to expand the market*

In response to the national policy, the Group established its presence along the “Belt and Road” and to the world, and mainly exported its products to such regions as South Asia, Southeast Asia, West Asia, Europe and Africa, demonstrating great potential in its market development.

(1) International trade

In terms of the high-end eco-friendly battery industry, the focus of the Group is on underdeveloped regions and developing countries, with the aim of helping them with their infrastructure construction. In terms of new energy batteries, many products have obtained international certifications and have accordingly been introduced to the high-end consumer markets in developed countries such as Europe and Australia. Leveraging its leading technology and excellent products in the sector, the Group has been mainly expanding international markets including Southeast Asia, Australia, and Europe. In particular, electric vehicles have become a trend in densely populated South Asian and Southeast Asian countries and will see a golden age in its market development.

(2) Global research and development, global manufacturing, global recycling

The Group actively collaborated with overseas scientific research platforms and brought together world-leading technological experts to create core technological advantages in the whole industrial chain. Meanwhile, the Group actively explored opportunities of merge and acquisition in the up and down streams, conducted research and site selection, and will build an overseas R&D and production base in due course, thereby gradually developing into local production, recycling and smelting, and simultaneously creating a global supply chain system.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Others

On 9 November 2018, upon the approval of the Board, the Group submitted a proposal on the Proposed Spin-off to the The Stock Exchange of Hong Kong Limited pursuant to Practice Note 15 of the Listing Rules. For details, please refer to the announcement published by the Group on 9 November 2018 in relation to the “Proposed Spin-off and separate listing of the batteries business by way of Proposed A Shares Listing of the Spin-off Group on a Stock Exchange in the PRC”. On 12 July 2019, an extraordinary general meeting was held by the Group, and the Group considered and approved the resolution regarding the approval of the spin-off of 天能電池集團股份有限集團 Tianneng Battery Group Co., Ltd.* (the “**Spin-off Group**”), and a separate listing of the shares of the Spin-Off Group on the Shanghai Stock Exchange (the “**Proposed Spin-off**”).

For details, please refer to the “Proposed Spin-off and Separate Listing of the Batteries Business by way of Proposed A Shares Listing of the Spin-off Group on the Shanghai Stock Exchange and Deemed Disposal and Major Transaction” circular disclosed by the Group on 24 June 2019.

Prospects

With the dual opportunities of industrial consumption upgrade and stricter environmental protection governance, the Group will continue to consolidate and enhance the development edges of its traditional major businesses, accelerate the breakthrough of new technologies for innovative sectors, and achieve new progress in promoting the integration of technology and materials, accelerating the construction of the green manufacturing industrial park and turning it into a demonstration base for transformation and upgrade and platform-type corporate construction. It will promote the industry towards the mid-to-high end and gradually extend the production capacity to the overseas market, creating more favorable conditions for the Group to compete internationally. Meanwhile, we must initiate breakthroughs in the green recycling industry, new energy batteries, start-stop batteries and forklift batteries, speed up the empowerment of smart manufacturing such as big data, digitalization and information technology for the Group’s industry, continue to enrich the industrial landscape and improve product efficiency. We should also keep contributing to green energy by adopting a dual-engine strategy of technological innovation and business model innovation, with the aim of creating a better life, as well as building Tianneng in its better version and as one of the most respected world-class new energy enterprises with our unremitting efforts.

* For identification purposes only

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

The Group's turnover for the reporting period was approximately RMB20,087 million, representing an increase of approximately 38.47% as compared with the same period last year.

Gross profit

The gross profit for the reporting period was approximately RMB1,823 million, representing an increase of 6.70% as compared with the same period last year. It was mainly attributable to an increase in sales volume and a growth in the battery gross profit margin. The gross profit margin for the reporting period was approximately 9.08%, representing a decrease of 2.7 percentage points as compared with the same period last year, of which the gross profit margin of the manufacturing industry was approximately 13.53%, representing an increase of 1.75 percentage points as compared with the same period last year. It was mainly attributable to a low gross profit margin of the trading segment newly added during the second half year of 2018, which led to a decrease in the overall gross profit margin. The gross profit margin of the manufacturing industry increased due to a decrease in the lead price during the first half of the year and enhanced management of the Company.

Other income

The Group's other income for the reporting period was approximately RMB245.47 million (for the six months ended 30 June 2018: approximately RMB173.66 million), representing an increase of approximately 41.35% as compared with the same period last year. It was mainly attributable to the increase in government grants.

Selling and distribution costs

Selling and distribution costs increased from approximately RMB362 million in the same period last year to approximately RMB424 million for the reporting period, which was mainly attributable to the increase in transportation cost.

Administrative expenses

Administrative expenses increased from approximately RMB267 million in the same period last year to approximately RMB303 million for the reporting period, which was mainly attributable to the increase in salary.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and development costs

R&D costs increased from approximately RMB453 million in the same period last year to approximately RMB506 million for the reporting period, which was mainly attributable to the increase in the number of R&D projects and optimization of the R&D team.

Finance costs

Finance costs increased from approximately RMB72.45 million in the same period last year to approximately RMB124.69 million for the reporting period, which was mainly due to the increase in loans.

Operating activities cash flow

The net cash generated from operating activities of the Group decreased from RMB1,159 million in the same period last year to approximately RMB812 million for the reporting period. It was mainly attributable to the increase in inventory.

CAPITAL STRUCTURE, FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2019, equity attributable to the owners of the Company amounted to approximately RMB5,718 million (31 December 2018: approximately RMB5,540 million). The Group's capital structure is the equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

As at 30 June 2019, the Group had total assets of approximately RMB19,348 million, increasing by approximately 16.27% as compared with approximately RMB16,641 million as at 31 December 2018, including total current assets of approximately RMB13,884 million and total non-current assets of approximately RMB5,464 million, increasing by approximately 22.10% and 3.68% respectively. The increase in current assets was mainly due to the increase in inventory, prepayments and bank deposits. The increase in non-current assets was mainly due to the increase in deposits for the acquisition of property, plant and equipment.

As at 30 June 2019, total liabilities of the Group were approximately RMB13,351 million, increasing by approximately 22.85% as compared with approximately RMB10,868 million as at 31 December 2018, including total current liabilities of approximately RMB12,620 million and total non-current liabilities of approximately RMB731 million, increasing by approximately 22.55% and 28.22% respectively. The increase in current liabilities was mainly due to the increase in bank notes and short-term loans held by the Group. The increase in non-current liabilities was mainly due to the increase in redeemable shares of a subsidiary.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2019, the cash and bank balances of the Group (including pledged bank deposits and bank deposits) were approximately RMB5,645 million (31 December 2018: approximately RMB4,902 million), of which approximately RMB156 million and approximately RMB6.03 million are denominated in Hong Kong Dollars and United States Dollars respectively. As at 30 June 2019, the interest bearing borrowings and loan notes of the Group with maturity of within one year amounted to approximately RMB3,104 million (31 December 2018: approximately RMB2,235 million). The interest bearing borrowings and loan notes (together as “**interest bearing loans**”) with maturity of more than one year amounted to approximately RMB467 million (31 December 2018: approximately RMB467 million). The interest bearing loans of approximately RMB3,571 million was denominated in Renminbi. The loans denominated in RMB had fixed interest rates ranging from 4% to 8% (2018: 3.92% to 8%) per annum. In conclusion, the borrowings of the Group as at 30 June 2019 remained at a healthy and controllable level. With unutilized credit facilities of RMB4,640 million, the Group will take a cautious stance and maximize the interests of the Shareholders and the Company by striking a balance between borrowings and funding utilization. Moreover, with continuously improving the fund structure as our financial objective in the long run, the Group will optimize its loan structure with further use of long term loans.

Pledge of assets

As at 30 June 2019, the bank facilities and bank borrowings of the Group were secured by its bank deposits, bills receivables, property, plant and equipment, and land use rights. The aggregate net book value of the assets pledged amounted to approximately RMB3,215 million (31 December 2018: approximately RMB2,898 million).

Gearing ratio

As at 30 June 2019, the Group’s gearing ratio, defined as the percentage of the sum of current and non-current portions of interest bearing loans against the total assets, was approximately 19.52% (31 December 2018: approximately 16.24%).

Exposure to exchange rate fluctuations

As the Group’s operations were mainly conducted in China and the majority of its businesses were transacted in Renminbi, the Board is of the view that the Company’s operating cash flow and liquidity are not subject to significant foreign exchange rate risk.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2019 (31 December 2018: Nil).

Capital commitments

For details, please refer to note 24 to the condensed consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the Group employed a total of 20,965 employees (30 June 2018: 20,449). Staff cost of the Group for the reporting period was approximately RMB881 million (for the six months ended 30 June 2018: approximately RMB695 million). The cost included basic salaries and staff benefits such as discretionary bonus, medical and insurance plans, pension scheme, unemployment insurance plan, etc. Competitive remuneration packages were offered to employees by the Group. The Company has adopted incentive programs to encourage employees' performance and a range of training programs for the development of its staff.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the reporting period (for the six months ended 30 June 2019: Nil).

SIGNIFICANT INVESTMENTS HELD

During the reporting period, the Group recorded a net profit of approximately RMB13.68 million (for the six months ended 30 June 2018: net loss of approximately RMB15.26 million) for the financial assets at fair value through profit or loss as the capital market was under fluctuation. During the reporting period, apart from the investments held in Chaowei Power Holdings Limited and the disclosure made in note 16 to the condensed consolidated statement of financial position, there were no significant investments held by the Group as at 30 June 2019 (31 December 2018: Nil, apart from the disclosures made in note 19 to the consolidated financial statements in the 2018 annual report and note 25 to the consolidated financial statements in the 2018 interim report).

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITION AND DISPOSAL

During the reporting period, the Group had no material acquisition or disposal of subsidiaries and associates.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

For details, please refer to note 22 to the condensed consolidated financial statements.

IMPORTANT EVENTS SINCE THE END OF THE FINANCIAL PERIOD

There is no important event affecting the Group which has occurred since the end of the financial period covered by this report.

CORPORATE GOVERNANCE

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. The Company has adopted and complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), during the reporting period except for the code provision A.2.1 of the CG Code. Dr. Zhang Tianren is both the chairman ("**Chairman**") and Chief Executive Officer ("**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.

The primary duties of the Company's audit committee (inter alia) are to review the financial reporting system, the risk management and internal control systems 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 Company's audit committee has reviewed this interim report with the management of the Company and the Company's independent external auditors and recommended its adoption by the Board.

The interim financial information of the Company in this report has not been audited. However, it has been prepared in accordance with HKAS 34 "Interim Financial Reporting" and has been reviewed by the Company's independent external auditors, Deloitte Touche Tohmatsu, in accordance with the Hong Kong Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules. Having made specific enquiry, all Directors confirmed that they have complied with the required standard for securities transactions set out in the Model Code throughout the six months ended 30 June 2019.

Other than the above disclosures, the Company has also complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules and appointed three independent non-executive Directors including one with financial management expertise.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

**To the Board of Directors of
Tianneng Power International Limited**

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Tianneng Power International Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 23 to 70, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“**HKAS 34**”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants
Hong Kong

30 August 2019

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	NOTES	Six months ended 30 June	
		2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Revenue	3	20,086,907	14,506,647
Cost of sales		(18,263,716)	(12,797,975)
Gross profit		1,823,191	1,708,672
Other income	5	245,473	173,663
Other gains and losses	6	(14,068)	(41,743)
Impairment losses reversed (recognised) under expected credit loss model		4,238	(3,662)
Distribution and selling expenses		(424,468)	(362,108)
Administrative expenses		(302,886)	(266,505)
Research and development costs		(506,415)	(452,887)
Other expenses		(8,956)	(21,064)
Share of profit of an associate		-	2,073
Finance costs		(124,685)	(72,453)
Profit before tax	7	691,424	663,986
Income tax expense	8	(137,061)	(129,839)
Profit for the period		554,363	534,147

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Other comprehensive expenses:		
<i>Items that will not be reclassified to profit or loss:</i>		
Fair value loss on investments in equity instruments at fair value through other comprehensive income ("FVTOCI")	(9,998)	(58,657)
Income tax relating to items that will not be reclassified to profit or loss	-	2,775
	(9,998)	(55,882)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Fair value (loss) gain on debt instruments measured at FVTOCI	(340)	2,989
Income tax relating to items that may be reclassified subsequently to profit or loss	81	(747)
	(259)	2,242
Other comprehensive expenses for the period, net of income tax	(10,257)	(53,640)

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2019

	NOTE	Six months ended 30 June	
		2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Total comprehensive income for the period		544,106	480,507
Profit (losses) for the period attributable to:			
Owners of the Company		564,471	513,125
Non-controlling interests		(10,108)	21,022
		554,363	534,147
Total comprehensive income (expenses) for the period attributable to:			
Owners of the Company		554,214	459,120
Non-controlling interests		(10,108)	21,387
		544,106	480,507
Earnings per share	10		
- Basic		RMB50.1 cents	RMB45.5 cents
- Diluted		RMB49.1 cents	RMB44.4 cents

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	NOTES	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	11	4,137,804	4,113,612
Right-of-use assets	11	373,039	–
Prepaid lease payments	11	–	324,615
Goodwill		499	499
Equity instruments at FVTOCI		287,359	297,357
Deferred tax assets	12	379,779	366,999
Deposits for acquisition of property, plant and equipment		285,793	167,404
		5,464,273	5,270,486
Current assets			
Inventories		4,200,288	3,130,048
Trade and other receivables	13	1,703,534	1,250,010
Amounts due from related parties	26	5,582	8,901
Prepaid lease payments		–	9,497
Debt instruments at FVTOCI	14	692,513	969,300
Financial assets at fair value through profit or loss ("FVTPL")	16	1,636,996	1,100,849
Pledged bank deposits		1,698,353	1,068,449
Bank balances and cash		3,946,833	3,833,751
		13,884,099	11,370,805

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2019

	NOTES	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Current liabilities			
Bills, trade and other payables	17	7,511,301	6,131,130
Amounts due to related parties	26	9,295	25,550
Taxation liabilities		44,893	232,495
Borrowings – current portion	18	3,103,512	1,856,650
Long-term loan notes – due within one year	19	–	378,588
Lease liabilities		6,970	–
Provisions		593,737	549,230
Contract liabilities		1,350,457	1,124,451
		12,620,165	10,298,094
Net current assets		1,263,934	1,072,711
Total assets less current liabilities		6,728,207	6,343,197
Non-current liabilities			
Deferred tax liabilities	12	64,033	102,609
Borrowings – non-current portion	18	68,800	68,800
Long-term loan notes	19	398,409	398,508
Lease liabilities		16,451	–
Redeemable shares of a subsidiary	20	183,041	–
		730,734	569,917
		5,997,473	5,773,280

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2019

	NOTE	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Capital and reserves			
Share capital	21	109,905	109,905
Share premium and reserves		5,607,885	5,429,922
Equity attributable to the owners of the Company		5,717,790	5,539,827
Non-controlling interests		279,683	233,453
Total equity		5,997,473	5,773,280

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company											Non-controlling interests		Total
	Share capital	Share premium	Special reserve	Capital reserve	Share options	Investment revaluation reserve	Other FVTOCI reserve	Statutory reserve fund	Discretionary surplus reserve	Accumulated profits	Subtotal	Non-controlling interests		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2019 (audited)	109,905	783,403	10,000	26,027	41,647	(120,299)	(3,478)	642,165	143,212	3,907,245	5,539,827	233,453	5,773,280	
Profit (losses) for the period	-	-	-	-	-	-	-	-	-	564,471	564,471	(10,108)	554,363	
Other comprehensive expense for the period	-	-	-	-	-	(9,998)	(259)	-	-	-	(10,257)	-	(10,257)	
Total comprehensive income (expenses) for the period	-	-	-	-	-	(9,998)	(259)	-	-	564,471	554,214	(10,108)	544,106	
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	49,000	49,000	
Disposal of partial interests in a subsidiary without losing control	-	-	-	-	-	-	-	-	-	-	-	9,021	9,021	
Dividend recognised as distribution (note 9)	-	-	-	-	-	-	-	-	-	(376,251)	(376,251)	-	(376,251)	
Dividend paid / payable to non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	(2,793)	(2,793)	
Forfeiture of share options	-	-	-	-	(1,142)	-	-	-	-	1,142	-	-	-	
Recognition of equity-settled share-based payment (note 22)	-	-	-	-	-	-	-	-	-	-	-	1,110	1,110	
At 30 June 2019 (unaudited)	109,905	783,403	10,000	26,027	40,505	(130,297)	(3,737)	642,165	143,212	4,096,607	5,717,790	279,683	5,997,473	
At 31 December 2017 (audited)	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	
Adjustments	-	-	-	-	-	-	(7,802)	-	-	(3,521)	(11,323)	(2,687)	(14,010)	
At 1 January 2018 (restated)	109,889	782,734	10,000	138,264	40,475	14,042	(7,802)	567,133	143,212	3,069,290	4,867,237	182,239	5,049,476	
Profit for the period	-	-	-	-	-	-	-	-	-	513,125	513,125	21,022	534,147	
Other comprehensive (expenses) income for the period	-	-	-	-	-	(55,882)	1,877	-	-	-	(54,005)	365	(53,640)	
Total comprehensive (expenses) income for the period	-	-	-	-	-	(55,882)	1,877	-	-	513,125	459,120	21,387	480,507	
Dividend recognised as distribution (note 9)	-	-	-	-	-	-	-	-	-	(340,769)	(340,769)	-	(340,769)	
Dividend paid / payable to non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	(49,000)	(49,000)	
Forfeiture of share options	-	-	-	-	(318)	-	-	-	-	318	-	-	-	
Recognition of equity-settled share-based payment (note 22)	-	-	-	-	2,730	-	-	-	-	-	-	2,730	2,730	
At 30 June 2018 (unaudited)	109,889	782,734	10,000	138,264	42,887	(41,840)	(5,925)	567,133	143,212	3,241,964	4,988,318	154,626	5,142,944	

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Net cash from operating activities	812,437	1,159,202
Investing activities		
Purchase of equity instruments at FVTOCI	-	(210,273)
Payments for derivative financial instruments	(12,370)	(9,558)
Asset-related government grants received	35,272	33,168
Interest received	39,602	41,715
Dividend received from an associate	-	2,924
Proceeds from disposal of property, plant and equipment	7,489	9,314
Purchase of property, plant and equipment	(306,367)	(207,670)
Deposits paid for the acquisition of property, plant and equipment	(266,186)	(104,780)
Payments for right-of-use assets/leasehold lands	(17,972)	-
Placement of structured bank deposits	(5,423,000)	(1,108,350)
Withdrawal of structured bank deposits	4,939,996	-
Placement of pledged bank deposits	(1,698,353)	(1,472,376)
Withdrawal of pledged bank deposits	1,068,449	727,562
Net cash used in investing activities	(1,633,440)	(2,298,324)
Financing activities		
Bank borrowings raised	4,044,283	2,284,334
Repayments of bank borrowings	(2,797,421)	(1,091,379)
Repayments of loan notes	(380,000)	-
Dividends paid	(263,220)	(237,554)
Dividends paid to non-controlling interests	(2,793)	(25,029)
Proceeds from issuance of redeemable shares of a subsidiary	183,041	-
Considerations received for subscribing restricted shares of a subsidiary	107,400	-
Capital contribution from a non-controlling shareholder	49,000	-
Repayment of lease liabilities/obligations under finance leases	(6,205)	(4,275)

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Net cash from financing activities	934,085	926,097
Net increase (decrease) in cash and cash equivalents	113,082	(213,025)
Cash and cash equivalents at the beginning of the period	3,833,751	3,872,392
Cash and cash equivalents at the end of the period, represented by bank balances and cash	3,946,833	3,659,367

INTERIM FINANCIAL INFORMATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

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 Company and its subsidiaries are collectively referred to as the “**Group**”.

The Group’s condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Company.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are stated at fair values.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2018.

INTERIM FINANCIAL INFORMATION

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to Hong Kong Accounting Standards ("HKAS") 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

INTERIM FINANCIAL INFORMATION

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("**HKAS 17**"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of property that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

INTERIM FINANCIAL INFORMATION

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

INTERIM FINANCIAL INFORMATION

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* (“**HKFRS 9**”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

INTERIM FINANCIAL INFORMATION

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities (Continued)

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

INTERIM FINANCIAL INFORMATION

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

INTERIM FINANCIAL INFORMATION

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee

The Group has applied HKFRS 16 for the first time in the current interim period using the modified retrospective approach without restating comparative information. For the purpose of applying the modified retrospective approach to all leases, the Group elected to measure the right-of-use asset at an amount equal to the lease liability, adjusted by any prepaid or accrued lease payments, at the date of initial application, 1 January 2019.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.c8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.90%.

INTERIM FINANCIAL INFORMATION

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

	At 1 January 2019
	RMB'000
Operating lease commitments disclosed as at 31 December 2018	35,777
Lease liabilities discounted at relevant incremental borrowing rates	33,118
Less: Recognition exemption – short-term leases	(4,128)
Lease liabilities as at 1 January 2019 relating to operating leases recognised upon application of HKFRS 16	28,990
Analysed as	
Current	12,494
Non-current	16,496
	28,990

INTERIM FINANCIAL INFORMATION

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		28,990
Reclassified from prepaid lease payments	(a)	334,112
		363,102
By class:		
Leasehold lands		334,112
Buildings		28,990
		363,102

- (a) Upfront payments for leasehold lands in the People's Republic of China (the "PRC") were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB9,497,000 and RMB324,615,000 respectively were reclassified to right-of-use assets.

INTERIM FINANCIAL INFORMATION

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

		Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	Notes	RMB'000	RMB'000	RMB'000
Non-current assets				
Prepaid lease payments	(a)	324,615	(324,615)	–
Right-of-use assets		–	363,102	363,102
Current assets				
Prepaid lease payments	(a)	9,497	(9,497)	–
Current liabilities				
Lease liabilities		–	12,494	12,494
Non-current liabilities				
Lease liabilities		–	16,496	16,496

INTERIM FINANCIAL INFORMATION

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
An analysis of revenue is as follows:		
Sales of batteries and battery related accessories		
Lead-acid battery products		
Electrical bicycle (tricycle) battery (note i)	11,606,254	12,178,022
Micro electric vehicle battery	755,491	918,030
Special-purpose battery (note ii)	199,578	217,251
Renewable resources product	508,565	783,471
Lithium battery products	254,861	277,589
Others	260,747	132,284
Trading of materials	6,501,411	–
	20,086,907	14,506,647

Notes:

- i. It includes battery products mainly for electrical bicycle and electrical tricycle.
- ii. It includes battery products mainly for tubular battery, lead-acid starter battery, energy storage battery and standby battery.

All of the Group's revenue is recognised at a point in time during both periods.

INTERIM FINANCIAL INFORMATION

4. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating and reportable segments for the period:

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Segment revenue		
Sales of batteries and battery related accessories	13,585,496	14,506,647
Trading of materials		
- external sales	6,501,411	-
- inter-segment sales	592,735	-
Segment revenue	20,679,642	14,506,647
Eliminations	(592,735)	-
Group revenue	20,086,907	14,506,647

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Segment result		
Sales of batteries and battery related accessories	568,520	520,931
Trading of materials	(3,899)	-
	564,621	520,931
Unallocated		
Other gains and losses	(977)	(4,589)
Corporate administrative expenses	(2,170)	(7,248)
Financial costs	(7,111)	(1,379)
Profit for the period	554,363	534,147

INTERIM FINANCIAL INFORMATION

4. SEGMENT INFORMATION (CONTINUED)

Other segment information

	Sales of batteries and battery related accessories	Trading of materials	Total
	RMB'000	RMB'000	RMB'000
For six months ended 30 June 2019			
Depreciation of property, plant and equipment	209,237	60	209,297
Amortisation of right-of-use assets	8,035	–	8,035
Provisions of allowance for inventories	10,686	–	10,686
Write-off/loss on disposal of property, plant and equipment	(53,497)	–	(53,497)
For six months ended 30 June 2018			
Depreciation of property, plant and equipment	199,693	–	199,693
Amortisation of prepaid lease payment	2,846	–	2,846
Provisions of allowance for inventories	3,554	–	3,554
Write-off/loss on disposal of property, plant and equipment	(20,871)	–	(20,871)

INTERIM FINANCIAL INFORMATION

5. OTHER INCOME

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Government grants (note)	176,998	110,285
Interest income	39,602	41,715
Dividend income from equity instruments at FVTOCI	6,468	–
Others	22,405	21,663
	245,473	173,663

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

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Net gains (losses) on financial assets at FVTPL		
- structured bank deposits	39,616	–
- held-for-trading investments (note i)	13,678	(15,261)
- foreign currency forward contracts	–	(1,336)
- commodity derivative contracts (note ii)	(12,521)	(269)
Write off/loss on disposal of property, plant and equipment	(53,497)	(20,871)
Net foreign exchange losses	(1,344)	(4,006)
	(14,068)	(41,743)

Notes:

- i. Net gains (losses) on FVTPL represented gains (losses) arising on changes in fair value of equity securities.
- ii. Net losses on derivative financial instruments represented losses arising on changes in fair value of commodity derivative contracts.

INTERIM FINANCIAL INFORMATION

7. PROFIT BEFORE TAX

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Profit before tax has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments	–	2,846
Depreciation of right-of-use assets	8,035	–
Provisions of allowance for inventories, net (included in cost of sales)	10,686	3,554
Write down of inventories to net realisable values (included in cost of sales)	323,099	292,838
Depreciation of property, plant and equipment Capitalised in inventories	209,297 (175,649)	199,693 (166,356)
	33,648	33,337

No share-based payment expense (1.1.2018 to 30.6.2018: RMB2,730,000) was recognised in profit or loss during the six months ended 30 June 2019 in respect of share options of the Company granted in prior years. Details of transactions are set out in note 22.

Share-based payments expense of approximately RMB1,110,000 (1.1.2018 to 30.6.2018: nil) was recognised in profit or loss during the six months ended 30 June 2019 in respect of restricted shares of a subsidiary of the Group granted in the current period. Details of transactions are set out in note 22.

INTERIM FINANCIAL INFORMATION

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
PRC Enterprise Income Tax ("EIT")		
- Current tax	146,605	98,445
- (Over) under provision in prior years	(5,491)	15,953
	141,114	114,398
Deferred tax expense (note 12)		
Current period	(20,789)	15,441
Attributable to a change in tax rate	16,736	-
	137,061	129,839

The income tax expense of the Group is recognised based on the PRC EIT rate of 25% (1.1.2018 to 30.6.2018: 25%) during the both periods. Certain subsidiaries of the Group were recognised as High-Tech companies and enjoyed a tax rate of 15%.

INTERIM FINANCIAL INFORMATION

9. DIVIDENDS

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Dividends recognised as distribution during the period:		
1.1.2019 to 30.6.2019: 2018 final dividend of HK\$38.00 cents (equivalent to RMB33.30 cents)		
(1.1.2018 to 30.6.2018: 2017 final dividend of HK\$37.00 cents (equivalent to RMB30.93 cents)) per ordinary share	376,251	340,769

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 and 30 June 2018.

10. EARNINGS PER SHARE

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Earnings:		
Earnings for the purposes of calculating basic and diluted earnings per share – attributable to the owners of the Company	564,471	513,125
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,126,726,500	1,126,546,500
Effect of dilutive potential ordinary shares – share options	22,818,755	28,285,714
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,149,545,255	1,154,832,214

INTERIM FINANCIAL INFORMATION

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS, AND PREPAID LEASE PAYMENTS

The Group spent approximately RMB186,430,000 and RMB108,045,000 (1.1.2018 to 30.6.2018: RMB64,490,000 and RMB196,514,000) on additions of machinery and manufacturing plant and construction in progress in the PRC respectively. The carrying amount of property, plant and equipment of approximately RMB60,986,000 (1.1.2018 to 30.6.2018: RMB30,185,000) was derecognised upon disposals of property, plant and equipment with proceeds of approximately RMB7,489,000 (1.1.2018 to 30.6.2018: RMB9,314,000), resulting in a loss of approximately RMB53,497,000 (1.1.2018 to 30.6.2018: RMB20,871,000).

During the six months ended 30 June 2019, the Group received government grants of approximately RMB35,272,000 (1.1.2018 to 30.6.2018: RMB24,168,000) in relation to certain properties, plant and equipment of the Group. During the six months ended 30 June 2018, the Group received government grants of approximately RMB9,000,000 in relation to certain land leases 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 relevant assets.

During the current interim period, upfront payments for leasehold lands in the PRC, amounting to RMB17,972,000, were recognised by the Group as right-of-use assets for 50 years on lease commencement.

As at 30 June 2019, the official legal titles of buildings with an aggregate carrying amount of approximately RMB297,264,000 (At 31.12.2018: RMB441,483,000) and land use right certificates with carrying amounts of approximately RMB30,232,000 (At 31.12.2018: RMB35,487,000) have not been obtained by the Group.

INTERIM FINANCIAL INFORMATION

12. DEFERRED TAXATION

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

	Defered income	Withholding tax on undistributed profits	Withholding tax on profits arising from acquisition of subsidiaries	Interest capitalisation	Provision for inventories, trade and other receivables	Accrued warranty	Fair value change of financial instruments	Fair value change of equity investment at FFOCI	Fair value change of instrument at FFOCI	Accrued expenses	Impairment loss on property, plant and equipment	Tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017 (audited)	62,763	(10,800)	(13,337)	(32,733)	33,746	82,261	1,092	(2,775)	-	101,996	2,575	5,029	(4,972)	263,867
Adjustments	-	-	-	-	3,290	-	-	-	2,773	-	-	-	-	6,063
At 1 January 2018 (restated)	62,763	(10,800)	(13,337)	(32,733)	37,036	82,261	1,092	(2,775)	2,773	101,996	2,575	5,029	(4,972)	269,930
Credit (charge) to profit or loss (unaudited)	2,478	(7,300)	191	723	551	(2,791)	(140)	-	-	(11,666)	(8)	2,672	190	(15,441)
Credit (charge) to other comprehensive income (unaudited)	-	-	-	-	-	-	-	2,775	(147)	-	-	-	-	2,628
At 30 June 2018 (unaudited)	65,241	(16,300)	(13,146)	(32,010)	37,589	79,470	952	-	2,626	90,330	2,566	5,462	(4,782)	255,517
At 1 January 2019 (audited)	67,273	(15,800)	(14,168)	(30,377)	41,363	87,111	-	-	1,327	118,723	2,566	4,746	(4,654)	264,930
Credit (charge) to profit or loss (unaudited)	4,837	(11,594)	339	2,288	1,846	6,198	-	-	-	(8,774)	(7)	2,6847	129	20,789
Effect of change in tax rate (unaudited)	(545)	-	-	-	(1,465)	(10,688)	-	-	-	(4,020)	-	-	-	(16,736)
Reversal on payment of withholding tax on distribution of earnings from the PRC subsidiaries (unaudited)	-	47,384	-	-	-	-	-	-	-	-	-	-	-	47,384
Charge to other comprehensive income (unaudited)	-	-	-	-	-	-	-	-	(871)	-	-	-	-	(871)
At 30 June 2019 (unaudited)	71,167	(17,000)	(14,429)	(28,079)	41,924	82,620	-	-	1,746	105,979	2,559	74,283	(4,525)	315,146

INTERIM FINANCIAL INFORMATION

12. DEFERRED TAXATION (CONTINUED)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Deferred tax assets	379,779	366,999
Deferred tax liabilities	(64,033)	(102,609)
	315,746	264,390

As at the end of the current interim period, the Group has unused tax losses of approximately RMB196,617,000 (At 31.12.2018: RMB153,786,000) available to offset against future profits, in respect of which no deferred tax assets have been recognised, due to the unpredictability of future profit streams. Such unrecognised losses will expire at various dates up to and including 2030 (At 31.12.2018: 2029).

As at the end of the current interim period, the Group has deductible temporary differences of RMB86,858,000 (At 31 December 2018: RMB74,239,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised.

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 RMB4,558 million (At 31.12.2018: RMB4,164 million), which was derived from the PRC subsidiaries since 1 January 2008 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

INTERIM FINANCIAL INFORMATION

13. TRADE AND OTHER RECEIVABLES

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Trade receivables	990,763	974,577
Less: expected credit loss	(198,746)	(205,500)
	792,017	769,077
Other receivables	142,617	200,244
Prepayments	467,063	197,813
PRC value added tax receivables	301,837	82,876
	1,703,534	1,250,010

The Group allows an average credit period of 45 days to customers other than distributors upon delivery.

The following is an aged analysis of trade receivables net of allowance for credit losses presented based on the invoice dates.

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
0 to 45 days	418,022	432,993
46 to 90 days	191,609	175,356
91 to 180 days	138,579	56,431
181 to 365 days	37,668	45,231
1 year to 2 years	6,139	59,066
	792,017	769,077

INTERIM FINANCIAL INFORMATION

14. DEBT INSTRUMENTS AT FVTOCI

As part of the Group's cash flow management, the Group discounts some of the bills to financial institutions and endorse some of them to suppliers before the bills are due for payment, and derecognise the bills discounted and endorsed on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Thus, the bills receivables held by the Group are managed within a business model whose objective is both to collect the contractual cash flows and to sell.

The following is an aged analysis of debt instruments at FVTOCI, net of fair value remeasurement under the requirement of HKFRS 9, at the end of the reporting period:

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
0 to 180 days	692,513	969,300

The debt instruments at FVTOCI are all issued by reputable banks of good credit quality. The management of the Group considered the credit risk of these bank issued bills is insignificant and no impairment was provided on them at the period end.

INTERIM FINANCIAL INFORMATION

15. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSS (“ECL”) MODEL

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Impairment loss (reversed) recognised in respect of		
trade receivables	(6,755)	2,974
other receivables	2,517	688
	(4,238)	3,662

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

16. FINANCIAL ASSETS AT FVTPL

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Structured bank deposits	1,597,000	1,074,380
Held-for-trading investments		
Equity securities listed in Mainland China	25,022	14,342
Equity securities listed in Hong Kong	14,974	11,976
Commodity derivative contracts	–	151
	1,636,996	1,100,849

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

INTERIM FINANCIAL INFORMATION

17. BILLS, TRADE AND OTHER PAYABLES

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Trade payables	2,443,650	2,100,189
Bills payables	3,229,369	2,062,703
Other payables and accrued charges	1,730,882	1,968,238
Considerations payables for restricted shares of a subsidiary (Note 22)	107,400	—
	7,511,301	6,131,130

The following is an aged analysis of trade payables, presented based on invoice dates at the end of the reporting period:

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
0 to 90 days	1,994,644	1,869,304
91 to 180 days	223,126	117,791
181 to 365 days	158,602	64,973
1 to 2 years	37,945	22,387
Over 2 years	29,333	25,734
	2,443,650	2,100,189

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

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
0 to 180 days	3,229,369	2,062,703

INTERIM FINANCIAL INFORMATION

18. BORROWINGS

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Bank borrowings	2,578,512	1,831,650
Other borrowings	593,800	93,800
	3,172,312	1,925,450
Secured	1,206,100	679,530
Unsecured	1,966,212	1,245,920
	3,172,312	1,925,450
Carrying amounts repayable:		
Within one year	3,103,512	1,856,650
Within a period of more than one year but not exceeding two years	25,000	25,000
Within a period of more than two years but not more than five years	43,800	43,800
	3,172,312	1,925,450
Less: Amounts due within one year shown under current liabilities	(3,103,512)	(1,856,650)
Amounts shown under non-current liabilities	68,800	68,800

Details of assets pledged by the Group at the end of the reporting period are set out in note 23.

INTERIM FINANCIAL INFORMATION

19. LOAN NOTES

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Long-term guaranteed loan notes	398,409	777,096
Carrying amounts repayable:		
Within one year	-	378,588
Within a period of more than one year but not exceeding two years	398,409	398,508
	398,409	777,096
Less: Amounts due within one year shown under current liabilities	-	(378,588)
Amounts shown under non-current liabilities	398,409	398,508

Note:

- (1) On 11 March 2014, Tianneng Battery Group Co., Ltd (“**Tianneng Battery**”) issued a long-term loan notes with principal amount of RMB400,000,000 at a discount and received proceed of RMB392,400,000. The long-term loan notes bear interest at 7.31% per annum and were fully settled on 11 March 2019. The company has provided an irrevocable guarantee on the entire principal amount and interest of the long-term loan notes.

At 31 December 2018, the amount was stated at amortised cost with effective interest rate at 7.81% per annum.

- (2) On 9 October 2014, Tianneng Battery issued a long-term loan notes with principal amount of RMB400,000,000 at a discount and received proceed of RMB395,400,000. The long-term loan notes bear interest at 8% per annum and are repayable on 9 October 2020. The company has provided an irrevocable guarantee on the entire principal amount and interest of the long-term loan notes.

At 31 December 2018 and 30 June 2019, the amount was stated at amortised cost with effective interest rate at 8.25% per annum.

INTERIM FINANCIAL INFORMATION

20. REDEEMABLE SHARES OF A SUBSIDIARY

In June 2019, Tianneng Battery entered into an agreement with certain investors (“**Strategic Investors**”) (the “**Agreement**”), pursuant to which the Strategic Investors agreed to subscribe 14,300,000 shares of Tianneng Battery at RMB12.80 per share, representing 1.67% interest of enlarged share capital of Tianneng Battery with a total consideration of RMB183,041,000 (“**Redeemable Shares**”).

A supplementary agreement was entered at the same time that Tianneng Holding Group Limited (“**Tianneng Holding**”), a wholly-owned subsidiary of the Company, and Tianneng Battery granted a put option to the Strategic Investors that, if the initial public offering of Tianneng Battery in A-share market (the “**Qualified IPO**”) does not occur by 30 June 2022 or Tianneng Battery abandons the IPO, the Strategic Investors have the right to ask Tianneng Holding and Tianneng Battery to repurchase all or part of the Redeemable Shares at a price determined based on higher of 1) a fixed amount based on RMB12.80 per share plus interest at 8% per annum; and 2) the audited net asset per share of Tianneng Battery as at the redemption date. The put option will be waived one day before Tianneng Battery successfully submits an application of Qualified IPO, but be resumed when the application is withdrawn or rejected.

The obligation of Redeemable Shares is regarded as liability and designated as financial liabilities at FVTPL. The fair value of the Redeemable Shares was initially determined as the present value of the estimated future cash outflows under the put option arrangement, and any changes in fair value subsequently will be recognised as profit or loss, until completion of Qualified IPO, when the financial liabilities have been transferred to non-controlling interest and reserve.

INTERIM FINANCIAL INFORMATION

21. SHARE CAPITAL

	Number of shares	Amount RMB'000
Ordinary shares of the Company with nominal value of HK\$0.10 each		
Authorised:		
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	2,000,000,000	212,780
Issued and fully paid:		
At 1 January 2018 and 30 June 2018	1,126,546,500	109,889
At 1 January 2019 and 30 June 2019	1,126,726,500	109,905

22. SHARE-BASED PAYMENTS

Share options scheme

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

INTERIM FINANCIAL INFORMATION

22. SHARE-BASED PAYMENTS (CONTINUED)

Share options scheme (Continued)

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

INTERIM FINANCIAL INFORMATION

22. SHARE-BASED PAYMENTS (CONTINUED)

Share options scheme (Continued)

The following tables disclosed movements of the Company's options granted under the Scheme during the six months ended 30 June 2019 and 30 June 2018.

Category	Grant date	Exercisable period	Exercise price	Outstanding at 1.1.2019	Forfeited during the period	Outstanding at 30.6.2019
Option B	22.11.2010	22.11.2011-21.11.2020	HK\$3.18	680,000	-	680,000
Option C	16.6.2014	16.6.2015-15.6.2024	HK\$2.90	38,974,500	(1,080,000)	37,894,500
				39,654,500	(1,080,000)	38,574,500
Exercisable at the end of the period						38,574,500

Category	Grant date	Exercisable period	Exercise price	Outstanding at 1.1.2018	Forfeited during the period	Outstanding at 30.6.2018
Option B	22.11.2010	22.11.2011-21.11.2020	HK\$3.18	680,000	-	680,000
Option C	16.6.2014	16.6.2015-15.6.2024	HK\$2.90	40,171,500	(315,000)	39,856,500
				40,851,500	(315,000)	40,536,500
Exercisable at the end of the period						40,536,500

No options were exercised during the six months ended 30 June 2019 and 2018.

During the period, no expense (1.1.2018 to 30.6.2018: RMB2,730,000) was recognised in relation to share options granted by the Company under the Scheme.

INTERIM FINANCIAL INFORMATION

22. SHARE-BASED PAYMENTS (CONTINUED)

Share award scheme of a subsidiary of the Company

Pursuant to the shareholders' resolution approved on 23 May 2019, Tianneng Battery adopted a share award scheme for eligible senior management and eligible employees of Tianneng Battery and its subsidiaries (the "**Selected Employee**") (the "**Share Award Scheme**"). The objective of the Share Award Scheme is to recognise the contribution by the Selected Employee and to provide them with incentives in order to retain them for the continuing operation and development of Tianneng Battery and its subsidiaries.

According to the Share Award Scheme, 41,200,000 shares of Tianneng Battery were granted to certain limited partnerships (the "**Limited Partnership**"), which were legally owned by Zhejiang Tianneng Commercial Management Co., Ltd. ("**Tianneng Commercial**"), a wholly owned subsidiary of the Group, and the Selected Employee and for the purpose of facilitating the purchasing, holding and selling of shares of Tianneng Battery for the benefit of the Selected Employee. The shares have been subscribed at a price of RMB7.69 per share.

These shares are restricted for sale until the fourth anniversary date after the Qualified IPO of Tianneng Battery.

Upon the expiry of restriction of the awarded shares, the Limited Partnership shall dispose the awarded shares at the prevailing market price and transfer the proceeds in relation to the awarded shares to the respective Selected Employee.

If the Qualified IPO does not incur by 31 December 2022, the Selected Employee have the right to ask Tianneng Commercial to repurchase back the awarded shares at a share price of RMB7.69 plus interest at 8% per annum. If the Selected Employee resigned, they are required to sell back the awarded shares at a share price of RMB7.69 plus interest at 115% of the benchmark lending rate of peer loan issued by the People's Bank of China.

The fair values of restricted shares granted to the Selected Employee amounted to approximately RMB178,767,000. During the current interim period, an expense of approximately RMB1,110,000 (1.1.2018 to 30.6.2018: nil) was recognised by the Group in relation to restricted shares granted by Tianneng Battery under the Share Award Scheme.

The consideration of restricted shares granted to the Selected Employee has been fully settled during the current interim period. Financial liabilities of approximately RMB107,400,000 was recognised according to the repurchase consideration to be paid under Share Award Scheme if the granted shares become unvested.

INTERIM FINANCIAL INFORMATION

23. PLEDGE OF ASSETS

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

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Bank deposits	1,698,353	1,068,449
Financial assets at FVTPL – structured bank deposits	1,056,000	1,074,380
Debt instruments at FVTOCI	294,808	453,340
Property, plant and equipment	147,565	186,181
Right-of-use assets	18,298	–
Prepaid lease payments	–	115,565
	3,215,024	2,897,915

24. CAPITAL COMMITMENTS

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	387,604	337,858

INTERIM FINANCIAL INFORMATION

25. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value measurements and valuation process

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of these financial assets and financial liabilities are determined, as well as the level of the fair value hierarchy into which the fair value measurements are categorised (level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are based on quoted prices (unadjusted) in active market for identical assets or liabilities;
- 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).

INTERIM FINANCIAL INFORMATION

25. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key input	Significant unobservable input	Relationship of unobservable inputs to fair value
	30.06.2019 (unaudited)	31.12.2018 (audited)				
Listed equity securities classified as held-for-trading investments in the condensed consolidated statement of financial position	Listed equity securities in Mainland China: Building material industry RMB25,022,000	Listed equity securities in Mainland China: Building material industry RMB14,342,000	Level 1	Quoted bid prices in active markets.	N/A	N/A
	Listed equity securities in Hong Kong: Technology industry RMB14,974,000	Listed equity securities in Hong Kong: Technology industry RMB11,976,000				
Equity instrument at FVTOCI	Listed equity securities in Hong Kong: Manufacturing Industry RMB287,359,000	Listed equity securities in Hong Kong: Manufacturing Industry RMB297,357,000	Level 1	Quoted bid prices in an active market.	N/A	N/A
Commodity derivative contracts classified as held-for-trading investments	Nil	Assets: RMB151,000	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

INTERIM FINANCIAL INFORMATION

25. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key input	Significant unobservable input	Relationship of unobservable inputs to fair value
	30.06.2019 (unaudited)	31.12.2018 (audited)				
Debt instruments at FVTOCI	RMB692,513,000	RMB969,300,000	Level 2	Discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of the debt instruments at FVTOCI	N/A	N/A
Structured bank deposits at FVTPL	RMB1,597,000,000	RMB1,074,380,000	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of the structured bank deposits	An increase in the discount rate would result in a decrease in the fair value measurement of the financial assets at FVTPL, and vice versa.	Estimated return
Redeemable shares of a subsidiary	RMB183,041,000	Nil	Level 3	Discounted cash flow method was used to capture the present value of the redemption amount	An increase in the discount rate would result in a decrease in the fair value measurement of the redeemable shares of a subsidiary, and vice versa.	Estimated discount rate

INTERIM FINANCIAL INFORMATION

26. RELATED PARTY TRANSACTIONS

During the period, the Group had the following transactions with its related companies:

Name of related company	Nature of transactions	Six months ended 30 June	
		2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
浙江長興欣欣包裝有限公司 Zhejiang Changxing Xin Xin Packaging Co., Ltd. ("Xin Xin Packaging") (note i)	Purchase of consumables	244	209
濟源市萬洋冶煉(集團)有限公司 Jiyuan City Wanyang Smelting (Group) Co., Ltd. ("Wanyang Group") (note ii)	Purchase of materials	331,404	598,361
	Sale of goods	51,327	89,448
	Rental expense	1,124	1,108
	Dividends paid/payable	-	49,000
長興金陵大酒店 Changxing Jin Ling Hotel (note iii)	Hotel expense	1,307	1,081
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") (note iv)	Purchase of materials	-	640,785

INTERIM FINANCIAL INFORMATION

26. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Name of related company	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Wanyang Group	9,156	25,426
Xin Xin Packaging	139	124
	9,295	25,550

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

Name of related parties	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Wanyang Group	5,582	8,901

The amounts due to/from related parties are trade in nature and with ageing less than 180 days.

Notes:

- (i) 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**"), the beneficial owner and the director of the Company.
- (ii) Wanyang Group is an entity controlled by the 49% non-controlling equity holder of Jiyuan Wanyang Green Energy Co., Ltd. (濟源市萬洋綠色能源有限公司), which is itself a 51% owned subsidiary of the Company.
- (iii) Changxing Jin Ling Hotel is controlled by Mr. Zhang.
- (iv) Tianneng Yinyue was a then associate of the Group and became a subsidiary of the Group in August 2018. The amount represented the transactions between Tianneng Yinyue and the Group from January to June 2018, before Tianneng Yinyue became the subsidiary of the Group.

INTERIM FINANCIAL INFORMATION

26. RELATED PARTY TRANSACTIONS (CONTINUED)

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Short term employee benefits	1,643	2,090
Share-based payments	-	6
	1,643	2,096

The remuneration of directors and key executives are determined by the remuneration committee and executive directors respectively having regard to the performance of individuals and market trends.

OTHER INFORMATION

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30 June 2019, apart from the details as follows, the Directors and chief executive do not have any other interests and short positions in the shares, underlying shares and 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 register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Ordinary shares of HK\$0.1 each of the Company

Name	Capacity	Number of shares held (Note 1)	Aggregate approximate percentage of issued share capital of the Company (Note 7)
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%
Zhang Kaihong	Interest of a controlled corporation (Note 4)	18,884,174 (L)	1.68%
Shi Borong	Interest of a controlled corporation (Note 5)	15,686,141 (L)	1.39%
Zhou Jianzhong	Interest of a controlled corporation (Note 6)	2,362,815 (L)	0.21%
Huang Dongliang	Beneficial owner	240,000 (L)	0.02%

Notes:

- The letter “L” denotes long position in the shares of the Company.
- The 410,355,650 shares of the Company were held by Prime Leader Global Limited, which was wholly owned by Dr. Zhang Tianren. The interest in 438,000 shares arises from the share options granted to Ms. Yang Yaping, spouse of Dr. Zhang Tianren.

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3. The 13,641,022 shares of the Company were held by Top Benefits International Limited, which was wholly owned by Mr. Zhang Aogen.
4. The 18,884,174 shares of the Company were held by Plenty Gold Holdings Limited, which was wholly owned by Mr. Zhang Kaihong.
5. The 15,686,141 shares of the Company were held by Precise Asia Global Limited, which was wholly owned by Mr. Shi Borong.
6. The 2,362,815 shares of the Company were held by Centre Wealth Limited which was wholly owned by Mr. Zhou Jianzhong.
7. Shareholding percentage is based on 1,126,726,500 issued shares of the Company as at 30 June 2019.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders, 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 or debentures of the Company which would have to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO in the issued share capital of the Company:

OTHER INFORMATION

Ordinary shares of HK\$0.1 each of the Company

Name of Shareholder	Capacity	Number of	Approximate
		shares held (Note 1)	percentage of issued share capital of the Company (Note 4)
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%
Prime Leader Global Limited	Beneficial owner	410,355,650 (L)	36.42%
UBS AG	Person having security interest in shares	55,975,005(L)	4.97%
		13,791,696(S)	1.22%
UBS Group AG	Person having security interest in shares	55,975,005(L)	4.97%
		13,791,696(S)	1.22%
Morgan Stanley	Interest of a controlled corporation (Note 3)	56,126,235(L)	4.98%
		47,678,217(S)	4.23%

Notes:

- The letters "L" and "S" denote long position and short position in the shares of the Company respectively.
- The 410,355,650 shares were held by Prime Leader Global Limited, which was wholly-owned by Dr. Zhang Tianren. The interest in 438,000 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.

OTHER INFORMATION

3. Pursuant to Part XV of the SFO, as at 30 June 2019, Morgan Stanley is deemed or taken to be interested in 56,126,235 shares (long position) and is holding a short position in 47,678,217 shares of the Company. The details of the shareholding interests of the subsidiaries directly or indirectly controlled by Morgan Stanley are set out below:

Name of controlled subsidiary	Number of share
Morgan Stanley Capital Management, LLC	56,126,235 (L) 47,678,217 (S)
Morgan Stanley Domestic Holdings, Inc.	56,126,235 (L) 47,678,217 (S)
Morgan Stanley International Incorporated	52,775,352 (L) 24,607,717 (S)
Morgan Stanley International Incorporated	52,775,352 (L) 24,607,717 (S)
MSDW Investment Holdings (US) LLC	52,775,352 (L) 24,607,717 (S)
Morgan Stanley International Holdings Inc.	52,775,352 (L) 24,607,717 (S)
Morgan Stanley International Holdings Inc.	52,775,352 (L) 24,607,717 (S)
Morgan Stanley International Holdings Inc.	52,775,352 (L) 24,607,717 (S)
Morgan Stanley International Holdings Inc.	52,775,352 (L) 24,607,717 (S)
Morgan Stanley International Limited	52,775,352 (L) 24,607,717 (S)
Morgan Stanley Group (Europe)	52,775,352 (L) 24,607,717 (S)
Morgan Stanley Bramley Investments Limited	52,775,352 (L) 24,607,717 (S)
Morgan Stanley UK Group	52,775,352 (L) 24,607,717 (S)
Morgan Stanley UK Group	52,775,352 (L) 24,607,717 (S)
Morgan Stanley Investments (UK)	52,775,352 (L) 24,607,717 (S)
Morgan Stanley & Co. International plc	52,775,352 (L) 24,607,717 (S)
Morgan Stanley & Co. LLC	2,450,883 (L) 19,759,000 (S)
Morgan Stanley Capital Services LLC	900,000 (L) 3,311,500 (S)

4. Shareholding percentage is based on 1,126,726,500 issued shares of the Company as at 30 June 2019.

OTHER INFORMATION

SHARE OPTIONS

The Company's share option scheme (the "**Scheme**") was adopted pursuant to a resolution passed by the shareholders on 26 February 2007 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. Details of the Scheme are set out in the Note 20 to the financial statements. An ordinary resolution was passed at the annual general meeting of the Company held on 16 May 2014 (the "**Annual General Meeting**") relating to the refreshment of scheme mandate limit of the Scheme as set out in the supplemental notice of the 2014 Annual General Meeting. The Scheme expired on 10 June 2017.

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. After the refreshment of the Scheme, on 16 June 2014, a total of 58,660,000 options were offered and granted to Directors and eligible participants. The details movement of Company's share options during the Reporting Period 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 2019	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 Scheme during the period	Number of options outstanding as at 30 June 2019	Approximate shareholding percentage of the underlying shares for the options in the share capital of the Company
Huang Dongliang (Independent non-executive Director)	16/6/2014	16/6/2015 to 15/6/2024	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%
	16/6/2014	16/6/2015 to 15/6/2024	2.90	2.89	-	38,884,500	-	-	-	(1,080,000)	37,804,500	3.35%
						39,654,000	-	-	-	(1,080,000)	38,574,000	3.42%

On 18 May 2018, the Company by ordinary resolution approved the adoption of a new shares option scheme with terms in line with the provisions of Chapter 17 of the Listing Rules. No options have yet been granted under such new share option scheme.

OTHER INFORMATION

SHARE AWARD SCHEME

Pursuant to the shareholders' resolution approved on 23 May 2019, Tianneng Battery, a wholly-owned subsidiary of the Company, adopted a share award scheme for eligible senior management and eligible employees of Tianneng Battery and its subsidiaries (the "**Selected Employee**"). The shares of Tianneng Battery to be issued to the Selected Employees who are connected persons of the Company amount to 0.19% of the shares of the Tianneng Battery. Details are set out in Note 22 and the circular of the extraordinary meeting dated 24 June 2019.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period under review.

By order of the Board

Zhang Tianren

Chairman

Hong Kong, 30 August 2019