



## TIANNENG POWER INTERNATIONAL LIMITED

### 天能動力國際有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 0819)

#### Interim results announcement for the six months ended 30 June 2007

##### **FINANCIAL HIGHLIGHTS**

- Revenue increased by 90% to RMB721.1 million
- Gross profit increased by 71% to RMB177 million
- Profit attributable to shareholders increased by 36% to RMB66 million
- Basic earnings per share increased by 12% to RMB8.6 cents

##### **INTERIM RESULTS**

The board of directors (the "Board" or the "Directors") of Tianneng Power International Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2007, together with the comparative figures for the same period in 2006. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's auditors and the Audit Committee of the Company.

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	NOTES	Six months ended 30 June	
		2007	2006
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Turnover	4	721,115	380,420
Cost of sales		(544,144)	(277,176)
Gross profit		176,971	103,244
Other income		9,386	2,040
Distribution costs		(45,553)	(19,820)
Administrative expenses		(48,692)	(23,087)
Change in fair value of redeemable convertible notes carried at fair value through profit or loss		–	(5,103)
Other operating expenses		(611)	(713)
Finance costs		(10,756)	(5,081)
Profit before taxation	5	80,745	51,480
Taxation	6	(14,713)	(2,799)
Profit for the period attributable to equity holders of the Company		66,032	48,681
Dividend	7	39,891	–
Earnings per share	8		
– Basic		RMB8.6 cents	RMB7.7 cents
– Diluted		N/A	RMB7.2 cents

# CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

	NOTES	30.6.2007 RMB'000 (unaudited)	31.12.2006 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	361,227	296,156
Prepaid lease payments		35,954	20,945
		<u>397,181</u>	<u>317,101</u>
Current assets			
Inventories		426,591	235,166
Trade and other receivables	10	216,184	168,244
Prepaid lease payments		763	448
Amounts due from related companies		3,041	3,741
Amounts due from shareholders		–	994
Restricted bank deposits		159,700	94,000
Bank balances and cash		554,462	144,718
		<u>1,360,741</u>	<u>647,311</u>
Current liabilities			
Trade and other payables	11	404,368	260,902
Amounts due to related companies		3,724	846
Dividend payable		2,528	–
Tax payable		4,446	4,713
Short term bank loans	12	367,200	226,200
		<u>782,266</u>	<u>492,661</u>
Net current assets		<u>578,475</u>	<u>154,650</u>

	NOTES	30.6.2007 RMB'000 (unaudited)	31.12.2006 RMB'000 (audited)
Total assets less current liabilities		975,656	471,751
Non-current liabilities			
Long term bank loans	13	50,000	25,000
		<u>925,656</u>	<u>446,751</u>
Capital and reserves			
Share capital	14	99,037	560
Reserves		826,619	446,191
Total equity attributable to equity holders of the Company		<u>925,656</u>	<u>446,751</u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Non- distributable reserve RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve fund RMB'000	Translation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2006	474	-	10,000	57,010	12,460	13,324	6,663	6,663	2,549	71,375	180,518
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	2,756	-	2,756
Profit for the year	-	-	-	-	-	-	-	-	-	147,661	147,661
Total recognised income for the year	-	-	-	-	-	-	-	-	2,756	147,661	150,417
Transfer	-	-	-	-	-	6,663	(6,663)	-	-	-	-
Issue of shares upon exercise of redeemable convertible notes	86	115,730	-	-	-	-	-	-	-	-	115,816
At 31 December 2006 and 1 January 2007	560	115,730	10,000	57,010	12,460	19,987	-	6,663	5,305	219,036	446,751
Profit for the period and total recognised income for the period	-	-	-	-	-	-	-	-	-	66,032	66,032
Dividend recognised as distribution (note 7)	-	-	-	-	-	-	-	-	-	(44,298)	(44,298)
Waiver of dividend (note 7)	-	-	-	-	-	-	-	-	-	4,407	4,407
Capitalisation issue	73,912	(73,912)	-	-	-	-	-	-	-	-	-
Issue of new shares upon new listing	24,565	447,092	-	-	-	-	-	-	-	-	471,657
Shares issuance expenses	-	(18,893)	-	-	-	-	-	-	-	-	(18,893)
At 30 June 2007	99,037	470,017	10,000	57,010	12,460	19,987	-	6,663	5,305	245,177	925,656
At 1 January 2006	474	-	10,000	57,010	12,460	13,324	6,663	6,663	2,549	71,375	180,518
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	1,383	-	1,383
Profit for the period	-	-	-	-	-	-	-	-	-	48,681	48,681
Total recognised income for the period	-	-	-	-	-	-	-	-	1,383	48,681	50,064
At 30 June 2006	474	-	10,000	57,010	12,460	13,324	6,663	6,663	3,932	120,056	230,582

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash (used in) from operating activities	(19,229)	41,266
Net cash used in investing activities		
Purchase of property, plant and equipment	(76,657)	(67,192)
Prepaid lease payments	(15,629)	(696)
Proceeds from disposal of property, plant and equipment	–	29
(Increase) decrease in restricted bank deposits	(65,700)	5,100
Deposit refunded for acquisition of land use right	–	60,000
Other investing cash flows	5,558	1,030
	(152,428)	(1,729)
Net cash from (used in) financing activities		
Proceeds from issue of shares upon new listing	471,657	–
Shares issuance expenses	(18,893)	–
Dividend paid	(37,363)	–
Bank loans raised	267,000	262,011
Repayments of bank loans	(101,000)	(250,000)
Repayment of other loans	–	(10,200)
Other financing cash flows	–	(2,790)
	581,401	(979)
Net increase in cash and cash equivalents	409,744	38,558
Cash and cash equivalents at the beginning of the period	144,718	112,263
Cash and cash equivalents at the end of the period, represented by bank balances and cash	554,462	150,821

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2007*

## 1. Basis of Preparation

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 16 November 2004. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") with effect from 11 June 2007.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the SEHK.

The Group's interim financial information is presented in Renminbi ("RMB"), the currency in which the majority of the Group's transactions is denominated.

## 2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Accountants' Report as set out in Appendix 1 to the Prospectus.

In the current interim period, the Group has applied, for the first time, a number of new standard, amendment and interpretations ("new HKFRSs") issued by HKICPA, which are effective for the Group's financial year beginning 1 January 2007.

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing costs <sup>1</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions <sup>2</sup>
HK(IFRIC) – INT 12	Service concession arrangements <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

### 3. Segment Information

#### Business segment

The Group's operation is regarded as a single segment, being the manufacture and sales of storage batteries and battery related accessories.

#### Geographical segment

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as they are substantially generated from or situated in the People's Republic of China (the "PRC").

### 4. Turnover

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<hr/>		
An analysis of turnover is as follows:		
Sales of goods		
Lead-acid motive battery products	658,568	329,823
Chargers, controllers and motors	17,114	20,487
Others	45,433	30,110
	<hr/>	<hr/>
	721,115	380,420
	<hr/>	<hr/>

### 5. Profit Before Taxation

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<hr/>		
Profit before taxation has been arrived at after charging:		
Allowance for bad and doubtful debts	2,077	1,065
Amortisation of prepaid lease payments	305	225
Depreciation of property, plant and equipment	11,191	6,082
Loss on disposal of property, plant and equipment	395	441
Research and development cost	2,772	2,511
	<hr/>	<hr/>



## 6. Taxation

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<hr/>		
The charge comprises:		
PRC Enterprise Income Tax	14,713	2,799
	<hr/>	<hr/>

The provision for the PRC Enterprise Income Tax is based on the estimated taxable income for the PRC taxation purposes at the rates of taxation applicable to each of the interim periods.

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

Taxation charge mainly consists of income tax in the PRC attributable to the assessable profits and is calculated at the applicable rates prevailing in the PRC. Pursuant to the relevant laws and regulations in the PRC, certain subsidiary of the Company is entitled to exemption from PRC Enterprise Income Tax for the two years commencing from 2005 and 50% reduction for the following three years.

Pursuant to notices issued by the Zhejiang Provincial Tax Bureau Changxing County branch, Zhejiang Changxing Tianneng Power Supply Co., Ltd., as a welfare enterprise, was entitled to a tax waiver of 75% of the PRC Enterprise Income Tax until 30 September 2006. According to the notice (國家稅務總局關於進一步做好調整現行福利企業稅收優惠政策試點工作的通知) dated 25 September 2006 issued by the Department of the Treasury (財政部) and State Tax Bureau (國家稅務總局), effective from 1 October 2006, the tax waiver of the PRC Enterprise Income Tax entitled by welfare enterprises was cancelled and replaced by a tax benefit where a portion of its taxable profits, representing 200% of the salaries paid to staff with physical disability, would be exempted from the PRC Enterprise Income Tax.

On 16 March 2007, the Tenth National People's Congress enacted the new Enterprise Income Tax Law (the "new EIT law") that unifies the income tax treatment of domestic and foreign enterprise which becomes effective on 1 January 2008. Accordingly, the tax rate applicable to the Group will be unified to 25%. The Group has already commenced an assessment of the impact of the new EIT law and considers no material impact on the Group's results of operations in the future.

## 7. Dividend

The directors of the Company do not recommend for an interim dividend for the six months period ended 30 June 2007.

The directors of the Company declared a final dividend of RMB44,298,000 on 18 April 2007 for 2006, equivalent to approximately RMB8.36 per share based on 5,296,439 shares in issue at 31 December 2006.

On 25 June 2007, two strategic shareholders of the Company, Power Active Limited and Prax Capital Fund I, LP, agreed to waive part of their entitled 2006 final dividend amounting to RMB4,407,000 and resulting for a net 2006 final dividend payable of RMB39,891,000 to the entitled shareholders of the Company. During the period, the Company paid RMB37,363,000 in respect of the 2006 final dividend to the entitled shareholders.

## 8. Earnings Per Share

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<b>Earnings:</b>		
Earnings for the purpose of calculating basic earnings per share	66,032	48,681
Effect of dilutive potential ordinary shares:		
Adjustment to the change in fair value of redeemable convertible notes	–	5,103
Earnings for the purpose of calculating diluted earnings per share	<u>66,032</u>	<u>53,784</u>
<b>Number of shares:</b>		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	763,698,630	630,423,574
Effect of dilutive potential ordinary shares relating to redeemable convertible notes	–	119,576,426
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>763,698,630</u>	<u>750,000,000</u>

The weighted average number of ordinary shares for the purpose of calculating the basic and diluted earnings per share for both periods has been retrospectively adjusted, assuming the capitalisation issue occurred on the first day of the periods, for the effect of the capitalisation issue of 744,703,561 shares completed on 8 February 2007.

## 9. Additions of Property, Plant and Equipment

The Group spent approximately RMB76,657,000 (1.1.2006–30.6.2006: RMB67,192,000) on additions of machinery and manufacturing plant in the PRC, in order to upgrade its manufacturing capabilities.

## 10. Trade and Other Receivables

Payment terms with customers are mainly on credit. The Group allows an average credit period of 45 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	30.6.2007 RMB'000 (unaudited)	31.12.2006 RMB'000 (audited)
0-45 days	91,335	43,659
46-90 days	14,596	17,328
91-180 days	10,711	13,053
181-365 days	13,682	10,095
1-2 years	3,874	2,255
Over 2 years	31	1,283
	<u>134,229</u>	<u>87,673</u>

The directors consider that the carrying amount of trade and other receivables approximates its fair value.

## 11. Trade and Other Payables

The following is an aged analysis of trade payables at the balance sheet date:

	30.6.2007 RMB'000 (unaudited)	31.12.2006 RMB'000 (audited)
0-90 days	213,723	105,571
91-180 days	83,050	75,459
181-365 days	2,051	1,464
1-2 years	1,929	1,673
Over 2 years	632	548
	<u>301,385</u>	<u>184,715</u>

The directors consider that the carrying amount of trade and other payables approximates its fair value.

## 12. Short Term Bank Loans

	30.6.2007 RMB'000 (unaudited)	31.12.2006 RMB'000 (audited)
Secured	95,900	153,700
Unsecured	271,300	72,500
	<u>367,200</u>	<u>226,200</u>

The short term bank loans are denominated in RMB and carry fixed interest rates ranging from 5.81% to 6.90% per annum (31.12.2006: 5.58% to 7.03% per annum). The directors consider the carrying amount of short term bank loans approximates its fair value.

## 13. Long Term Bank Loans

The Group's long term bank loans are unsecured and denominated in RMB. The bank loans carry fixed interest rates ranging from 6.93% to 7.56% (31.12.2006: 6.93% to 7.56%) per annum and to be repaid in full in 2009. The directors consider the carrying amount of long term bank loans approximates its fair value.

## 14. 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 2006, 31 December 2006, 1 January 2007 and 30 June 2007	2,000,000,000	212,780
Issued and fully paid:		
At 1 January 2006	4,452,000	474
Conversion of redeemable convertible notes in September 2006 (note i)	844,439	86
At 31 December 2006 and 1 January 2007	5,296,439	560
Issue by capitalisation of the share premium account (note ii)	744,703,561	73,912
Issue of shares on international placing and public offer (note iii)	250,000,000	24,565
At 30 June 2007	1,000,000,000	99,037

The following changes in the share capital of the Company took place during the period/year:

- (i) In September 2006, US\$9,500,000 of the redeemable convertible notes were converted into 844,439 shares of HK\$0.10 each of the Company at the conversion price of HK\$87.53 per share.
- (ii) Pursuant to a resolution passed by the shareholders of the Company on 26 February 2007, the directors of the Company were authorised to capitalise HK\$74,470,356 (equivalent to RMB73,911,828) standing to the credit of the share premium account of the Company by applying such sum in crediting as fully paid at par the 744,703,561 nil paid shares of HK\$0.10 each for issue of shares to all the shareholders on a pro rata basis.
- (iii) On 11 June 2007, the Company issued 250,000,000 shares with a par value of HK\$0.10 each, at a price of HK\$1.92 by way of international placing and Hong Kong public offer to overseas and Hong Kong investors.

## 15. Pledge of Assets

At the balance sheet date, the Group has pledged the following assets to secure the general banking facilities and bank borrowings granted to the Group.

	30.6.2007 RMB'000 (unaudited)	31.12.2006 RMB'000 (audited)
Bank deposits	159,700	94,000
Property, plant and equipment	63,663	65,328
Land use rights	18,984	19,182
	<u>242,347</u>	<u>178,510</u>

## 16. Capital Commitments

	30.6.2007 RMB'000 (unaudited)	31.12.2006 RMB'000 (audited)
Capital expenditure in respect of the acquisition of property, plant and equipment:		
Contracted for but not provided in the financial statements	<u>30,855</u>	<u>27,594</u>

## 17. Related Party Transactions

- (a) During the period, the Group had the following significant transactions with its related companies:

Name of related company	Nature of transaction	Six months ended 30 June	
		2007 RMB'000 (unaudited)	2006 RMB'000 (unaudited)
Zhejiang Changtong Electric Bicycle Co., Ltd.	Sales of storage battery and other products	11,355	11,551
	Sales of materials	13	21
Zhejiang Changxing Tianli Battery Co., Ltd.	Purchase of consumables	–	112
長興縣金陵大酒店有限公司	Other expenses	916	520
Changxing Changshun Plastic Co., Ltd.	Purchase of consumable materials	7,862	1,396
Zhejiang Changxing Xin Xin Packaging Co., Ltd.	Purchase of consumables	387	200
Changxing Meishan Xing Da Plastic Co., Ltd.	Purchase of materials	–	275

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

- (b) Compensation of key management personnel

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

	Six months ended 30 June	
	2007 RMB'000 (unaudited)	2006 RMB'000 (unaudited)
Short term employee benefits	837	237

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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of Operations

The listing of Tianneng Power International Limited on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 June 2007 has marked a new milestone for the Company. The Company will further increase its product portfolio as well as its presence both in the local and international market, in order to achieve the objective of becoming the world's leading motive battery manufacturer.

The Company has developed strong brand recognition over the years of operations and is in a leading position in the lead-acid motive battery industry in China. With the technological know-how as a key asset, the Company has been producing quality motive batteries at competitive prices. In order to satisfy both the primary and the secondary markets, the Company has also developed a strong distribution and servicing network throughout the region, targeting to provide the highest quality service to their customers in China. To maintain the Company's leading position in the industry, it implemented a number of initiatives during the period under review, mainly focusing on the expansion and technical improvement of the production plants with a view to further optimizing its products. These include construction of new production plants, procurement of its production facilities and equipment in Jiangsu Province (which is expected to increase productivity up to 15 million batteries each year by 2009) and Anhui Province (which is expected to operate its production in battery products in mid 2008, and is expected to increase productivity up to 10 million batteries each year by 2009). Furthermore, technical improvements of facilities were implemented for production plants in Changxing County, Zhejiang Province.

During the period under review, the Company invested resources in research, design and development to reinforce its research and development ("R&D") team. Such continued investments in R&D has led the Company to improve product quality, enhance the technical capability of its R&D team, introduce diversified product portfolio, improve its product mix and broaden its product range. The Company's product design and R&D capability has boosted the brand recognition throughout China. To further develop the Company's production capacity, it has invested in R&D of new environmentally friendly metal alloy as well as a series of products including, motive battery products for electric motorcycles and electric cars, Ni-MH battery products and Li-ion battery products.

Enhancement of sales and distribution network is also a key tribute to the Company's development during the period under review; furthermore, the Company has launched various forms of advertisements in order to further enhance its strong brand recognition, and its market-leading position in the lead-acid motive battery industry in China.

The Company has participated in a Post-doctoral Scientific Research Workstation with Zhejiang provincial government since September 2005. The objective of the project is to research and develop new Ni-MH and Li-ion battery products. The Company also entered into a co-operation agreement with Harbin Industrial University and South-East University for the development of new battery products, resulting in significant improvements in the R&D of the Company's battery products. During the period under review, the production capacity and sales of battery products continued to increase, through which the Company continued to consolidate its leading position in the industry and expand its market share.

## **Future Prospects**

The development of the personal transportation device industry has been driven by the growth of personal income in China. In light of the increasing environmental awareness and demand in reducing reliance on oil and gas and minimizing emission, alternative transportation devices have been experiencing rapid development in China and attracting more attentions throughout the world in the recent years, and also have a promising prospect in the market. Positioned under the industry with vast opportunities, the Directors are very optimistic about the Company's future development.

Looking forward, the Company will focus on the R&D activities in relation to the motive battery product market and personal transportation device market in China. To improve its R&D capability, the Company will continue to invest in research, design and development to enhance its technical capability in product design and development. The Company expects to import additional production facilities in the second half of the year to fully improve its production capacity and product quality and to excel in the construction of the two new production plants in Jiangsu Province and Anhui Province. With the continuous expansion, the Company is expected to increase its productivity to 41 million batteries each year by 2009.

The Company will also strive to improve the technical level of its existing production lines to achieve higher operational efficiency, thus enabling it to offer a wider range of products that may be applied in various markets, consolidate its position and increase its market share in the global market. With the Company's leading position in the motive battery product market in China and continuous efforts placed in product R&D, Tianneng is well positioned to capture additional business opportunities in China's personal transportation device market, especially in electric-powered motorcycles and electric cars.

## **Financial Review**

### **Turnover**

The Company's turnover for the six months ended 30 June 2007 (the "period under review") was approximately RMB721.1 million, an increase of approximately 89.6% as compared with the same period last year. Such increase was mainly due to the continued growth in the sales of lead-acid battery which constituted 91.3% of turnover during the period under review.

### **Gross Profits**

The Company's gross profit during the period under review was RMB177.0 million, an increase of approximately 71.4% as compared with the same period last year. The increase in gross profit was mainly due to strong sales in lead acid battery. Gross profit margin fell by 2.6% from 27.1% to 24.5% due to the increase in lead price.



### **Other income**

The other income of the Company during the six months period ended 30 June 2007 was about RMB9.4 million (six months ended 30 June 2006: RMB2.0 million).

The increase in other income is mainly due to the increase in government grant and subsidies received and bank interest income.

### **Distribution costs**

Distribution costs increased from approximately RMB19.8 million in the same period last year to approximately RMB45.6 million, mainly due to increase in sales commission, advertising and transportation expenses.

### **Administrative expenses**

Administrative expenses increased from approximately RMB23.1 million in the same period last year to approximately RMB48.7 million, mainly due to listing expenses and increase in payroll expenses.

### **Finance costs**

Finance costs increased from approximately RMB5.1 million in the same period last year to approximately RMB10.8 million, mainly due to increase in bank borrowings.

## **Financial Resources and Liquidity**

As at 30 June 2007, the shareholders' equity of the Company amounted to RMB925.7 million (31 December 2006: RMB446.8 million). The Group has total assets of RMB1,757.9 million (31 December 2006: RMB964.4 million), representing an increase of RMB793.5 million, or 1.8 times. As of the same date, total current assets of the Group were RMB1,360.7 million (31 December 2006: RMB647.3 million), representing an increase of 2.1 times as compared with the financial year ended 31 December 2006 and accounting for 77.4% of total assets. Total non-current assets were RMB397.2 million (31 December 2006: RMB317.1 million), representing an increase of RMB80.1 million and accounting for 22.6% of the total assets.

As at 30 June 2007, total liabilities of the Group were RMB832.3 million (31 December 2006: RMB517.7 million), which represented an increase of 60.8% compared with the financial year ended 31 December 2006. Total current liabilities were RMB782.3 million (31 December 2006: RMB492.7 million), whereas total non-current liabilities were RMB50 million (31 December 2006: RMB25.0 million).

As at 30 June 2007, the cash and bank balances of the Group was RMB554.5 million (31 December 2006: RMB144.7 million). As at 30 June 2007, the Group has short-term bank loans of about RMB367.2 million (31 December 2006: RMB226.2 million). The short-term bank loans are repayable within one year.

### *Pledge of Assets*

As at 30 June 2007, the bank facilities of the Group are secured by bank deposits, property, plant and equipment and land use right. The aggregate net book value of the assets pledged amounted to approximately RMB242.3 million (31 December 2006: RMB178.5 million).

### *Gearing ratio*

The Group's gearing ratio, defined as total debts as percentage of total assets, was 23.7% (31 December 2006: 26%).

### *Exposure in exchange rate fluctuations*

As the Group's operations were mainly conducted in China and the majority of the sales and purchases were transacted in Renminbi, the Directors of the Company is of the view that the Group's operating cash flow and liquidity is not subject to significant foreign exchange rate risks.

The proceeds from the Global Offering were received in Hong Kong dollars, the Group may expose to foreign exchange risks. However, the Group will review and monitor the foreign exchange exposure between Renminbi and Hong Kong Dollars and may enter into foreign exchange hedging arrangements when appropriate.

### *Contingent liabilities*

The Group did not have any significant contingent liabilities as at 30 June 2007 (31 December 2006: Nil).

### *Capital commitments*

For details, please refer to Note 16 to the Condensed Consolidated Financial Statements.

## **Employees**

As at 30 June 2007, the Group employed a total of 5,535 employees. Staff cost of the Group for the first half of 2007 approximated to RMB44.7 million (six months ended 30 June 2006: RMB29.8 million). The cost included basic salaries and benefits as well as staff benefits such as discretionary bonus, medical and insurance plans, pension scheme, unemployment insurance plan etc. Competitive remuneration packages were offered to employees. The Company has adopted incentive programs to encourage employee performance and a range of training programs for the development of its staff.

## **Interim Dividend**

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2007.

## **Significant Investments Held**

There were no significant investments held by the Company as at 30 June 2007.

## **Material Acquisition and Disposal**

During the period under review, the Company had no material acquisition or disposal of subsidiaries and affiliated companies.

## **Directors' Rights to Acquire Shares or Debentures**

At no time during the six months ended 30 June 2007 was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

## **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 investor confidence.

Throughout the six months ended 30 June 2007, the Company has adopted the provisions of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rule"), except for the code provision A.2.1 stipulated in the following paragraphs.

The code provision A.2.1 stipulates that the roles of the Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

Mr. Zhang Tianren is both the Chairman and CEO of the Company who is responsible for managing the Group's business. Mr. Zhang has been the Chairman and CEO since the establishment of the Company. 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 maximises 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 Company has established an Audit Committee in compliance with the Rule 3.21 of the Listing Rules. The Company's Audit Committee comprises three independent non-executive directors. The primary duties of the Audit Committee (inter alia) are to review the financial reporting process and internal control system of the Group, and to make proposals to the Board as to appointment, renewal and resignation of the Company's external auditors and the related remuneration and

appointment terms. The Audit Committee has reviewed the Interim Report with the management and the Company's external auditors and recommended its adoption by the Board.

The Interim Account, which are prepared in accordance with HKAS 34 "Interim Financial Reporting", have been reviewed by the Company's independent 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 Companies (the "Model Code") contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all Directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2007.

The Company has also complied with Rule 3.10 (1) and 3.10 (2) of the Listing Rules and appointed four independent non-executive Directors including one with financial management expertise, details of their biographies were set out in the prospectus of the Company dated 29 May 2007.

## **SHARE OPTIONS**

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed by the then shareholder on 26 February 2007 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group.

As at 30 June 2007, no share option has been granted under the Scheme.

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

Neither the company nor any of its subsidiaries purchased, sold or redeemed any of the company's listed securities during the period.

## **GENERAL INFORMATION**

As at the date of this announcement, the executive Directors are ZHANG Tianren, CHEN Minru, SHI Borong, YANG Lianming, ZHANG Aogen and ZHANG Kaihong; the independent non-executive Directors are HO Tso Hsiu, CHENG Cheng Wen, HUANG Dongliang and WANG Jingzhong.

This announcement will be published on the website of The Stock Exchange of Hong Kong Limited at <http://www.hkex.com.hk> and on the website at <http://www.tianneng.com.hk/invrel/announcements.html>

By Order of the Board  
**Zhang Tianren**  
*Chairman*

Hong Kong, 22 September 2007