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)

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 28.43% to approximately RMB34,552.1 million.
- Profit attributable to shareholders increased by approximately 6.29% to approximately RMB1,252.4 million.
- Basic earnings per share increased by approximately 5.71% to approximately RMB1.11.
- A final dividend of HK38 cents per share is proposed.

2018 ANNUAL RESULTS

The board of directors (the "Board") of Tianneng Power International Limited (the "Company" or "Tianneng Power") hereby announces the results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018 together with the previous financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	**2018** ***RMB'000***	2017 *RMB'000*
Revenue	*4*	**34,552,090**	26,903,901
Cost of sales		**(30,466,367)**	(23,396,623)
Gross profit		**4,085,723**	3,507,278
Other income		**369,658**	309,325
Other gains and losses	*5*	**(43,481)**	(63,816)
Impairment losses, net of reversal		**(23,007)**	(82,743)
Selling and distribution costs		**(889,947)**	(675,164)
Administrative expenses		**(563,674)**	(448,617)
Research and development costs		**(1,114,293)**	(882,663)
Other expenses		**(41,459)**	(108,088)
Share of profit of an associate		**3,126**	5,081
Finance costs	*6*	**(177,735)**	(153,005)
Profit before taxation		**1,604,911**	1,407,588
Taxation	*7*	**(304,114)**	(227,356)
Profit for the year	*8*	**1,300,797**	1,180,232
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income ("FVTOCI")		**(137,116)**	–
Income tax relating to item that will not be reclassified		**2,775**	–
		(134,341)	–

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*
For the year ended 31 December 2018

	NOTE	2018 RMB'000	2017 RMB'000
Items that may be reclassified subsequently to profit or loss:			
Fair value gains on:			
– debt instruments measured at FVTOCI		**5,785**	–
– available-for-sale financial assets		**–**	16,817
Income tax relating to items that may be reclassified subsequently		**(1,446)**	(2,775)
		4,339	14,042
Other comprehensive (expense) income for the year, net of income tax		**(130,002)**	14,042
Total comprehensive income for the year		**1,170,795**	1,194,274
Profit for the year attributable to:			
Owners of the Company		**1,252,430**	1,178,369
Non-controlling interests		**48,367**	1,863
		1,300,797	1,180,232
Total comprehensive income attributable to:			
Owners of the Company		**1,122,413**	1,192,411
Non-controlling interests		**48,382**	1,863
		1,170,795	1,194,274
Earnings per share	*10*		
– Basic		**RMB1.11**	RMB1.05
– Diluted		**RMB1.09**	RMB1.02

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment		**4,113,612**	3,949,384
Goodwill		**499**	499
Prepaid lease payments		**324,615**	240,449
Interest in an associate		–	15,574
Equity instruments at FVTOCI		**297,357**	–
Available-for-sale investments		–	226,000
Deferred tax assets		**366,999**	336,434
Deposit for acquisition of property, plant and equipment		**167,404**	63,896
		5,270,486	4,832,236
Current assets			
Inventories		**3,130,048**	2,132,701
Bills, trade and other receivables	*11*	**1,250,010**	2,392,492
Amounts due from related parties		**8,901**	17,096
Prepaid lease payments		**9,497**	7,219
Debt instruments at FVTOCI		**969,300**	–
Financial assets at fair value through profit or loss ("FVTPL")		**1,100,849**	–
Pledged bank deposits		**1,068,449**	727,562
Bank balances and cash		**3,833,751**	3,872,392
		11,370,805	9,149,462
Current liabilities			
Bills, trade and other payables	*12*	**6,131,130**	5,970,617
Amounts due to related parties		**25,550**	62,142
Derivative financial instruments		–	7,561
Taxation payable		**232,495**	123,190
Borrowings – current portion		**1,856,650**	1,324,561
Long-term loan notes – due within one year		**378,588**	–
Obligations under finance leases – due within one year		–	4,275
Provisions		**549,230**	449,158
Contract liabilities		**1,124,451**	–
		10,298,094	7,941,504

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 31 December 2018

	2018	2017
	RMB'000	*RMB'000*
Net current assets	**1,072,711**	1,207,958
Total assets less current liabilities	**6,343,197**	6,040,194
Non-current liabilities		
Borrowings – non-current portion	**68,800**	129,800
Deferred tax liabilities	**102,609**	72,567
Long-term loan notes	**398,508**	774,341
	569,917	976,708
	5,773,280	5,063,486
Capital and reserves		
Share capital	**109,905**	109,889
Reserves	**5,429,922**	4,768,671
Attributable to the owners of the Company	**5,539,827**	4,878,560
Non-controlling interests	**233,453**	184,926
Total equity	**5,773,280**	5,063,486

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

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

The Company is an investment holding company. The principal activities of its subsidiaries are the manufacture and sales of batteries and battery related accessories and trade of new energy materials.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

2.1.1 *HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")*

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations. The application of HKFRS 15 does not have a material impact on the timing and amounts of revenue recognition of the Group.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	Adjustments	Amounts without application of HKFRS15
	RMB'000	*RMB'000*	*RMB'000*
Current liabilities			
Bills, trade and other payables	6,131,130	1,124,451	7,255,581
Contract liabilities	1,124,451	(1,124,451)	–

Impact on the consolidated statement of cash flows

	As reported	Adjustments	Amounts without application of HKFRS15
	RMB'000	*RMB'000*	*RMB'000*
Operating activities			
Increase in bills, trade and other payables	153,281	319,532	472,813
Increase in contract liabilities	319,532	(319,532)	–

2.1.2 HKFRS 9 Financial Instruments ("HKFRS 9")

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Available-for-sale investments *RMB'000*	Equity instruments at FVTOCI *RMB'000*	Debt instruments at FVTOCI *RMB'000*	Receivables at amortised cost previously classified as loans and receivables *RMB'000*	Deferred tax assets *RMB'000*	Investment revaluation reserve *RMB'000*	Other FVTOCI reserve *RMB'000*	Accumulated profits *RMB'000*	Non-controlling interests *RMB'000*
Closing balance at 31 December 2017 – HKAS 39		226,000	–	–	2,392,492	336,434	14,042	–	3,072,811	184,926
Effect arising from initial application of HKFRS 9:										
Reclassification										
– From available-for-sale investments	*(a)*	(226,000)	226,000	–	–	–	–	–	–	–
– From loans and receivables	*(b)*	–	–	1,186,894	(1,186,894)	–	–	–	–	–
Remeasurement										
– Impairment under ECL model	*(c)*	–	–	–	(8,979)	3,290	–	–	(3,521)	(2,168)
– Fair value adjustment on debt instruments at FVTOCI		–	–	(11,094)	–	2,773	–	(7,802)	–	(519)
Opening balance at 1 January 2018		–	226,000	1,175,800	1,196,619	342,497	14,042	(7,802)	3,069,290	182,239

(a) *Available-for-sale investments*

From available-for-sale investments to equity instruments at FVTOCI

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, RMB226,000,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI. The fair value gains of RMB14,042,000 relating to those investments previously carried at fair value continued to accumulate in investment revaluation reserve.

(b) *Loans and receivables*

From loans and receivables to debt instruments at FVTOCI

As part of the Group's cash flow management, the Group has the practice of discounting some of the bills receivables to financial institutions or transferring some of the bills receivables received from customers to its suppliers to settle its payables through endorsing the bank issued bills to its suppliers before the bills are due for payment and derecognises bills discounted and endorsed on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Accordingly, the Group's bills receivables of RMB1,186,894,000 were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to debt instruments at FVTOCI. The related fair value losses of RMB11,094,000, net of deferred tax assets of RMB2,773,000 has been recognised against other FVTOCI reserve and non-controlling interests of RMB7,802,000 and RMB519,000, respectively as at 1 January 2018.

From loans and receivables to financial assets at amortised cost

Except for bills receivables, all remaining loans and receivables were reclassified as financial assets at amortised cost since the Group's business model is to hold these financial assets for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount outstanding.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and amounts due from related parties with trade in nature arising from transactions within the scope of HKFRS 15. To measure the ECL, receivables have been grouped based on shared credit risk characteristics.

ECL for other financial assets at amortised cost, including debt instruments at FVTOCI, other receivables, pledged bank deposits and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risks since initial recognition.

As at 1 January 2018, additional credit loss allowance of RMB8,979,000, net of deferred assets of RMB3,290,000 has been recognised against accumulated profits and non-controlling interests of RMB3,521,000 and RMB2,168,000 respectively. The additional loss allowance is charged against trade receivables through a loss allowance account.

All loss allowance for trade receivables as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Amount
	RMB'000
At 31 December 2017 – HKAS 39	181,947
Amounts remeasured through opening accumulated profits	8,979
At 1 January 2018	190,926

2.1.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretations

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
Non-current assets				
Available-for-sale investments	226,000	–	(226,000)	–
Equity instruments at FVTOCI	–	–	226,000	226,000
Deferred tax assets	336,434	–	6,063	342,497
Others with no adjustments	4,269,802	–	–	4,269,802
	4,832,236	–	6,063	4,838,299
Current assets				
Bills, trade and other receivables	2,392,492	–	(1,195,873)	1,196,619
Debt instruments at FVTOCI	–	–	1,175,800	1,175,800
Others with no adjustments	6,756,970	–	–	6,756,970
	9,149,462	–	(20,073)	9,129,389
Current liabilities				
Bills, trade and other payables	5,970,617	(804,919)	–	5,165,698
Contract liabilities	–	804,919	–	804,919
Others with no adjustments	1,970,887	–	–	1,970,887
	7,941,504	–	–	7,941,504
Net current assets	1,207,958	–	(20,073)	1,187,885
Total assets less current liabilities	6,040,194	–	(14,010)	6,026,184
Non-current liabilities				
Others with no adjustments	976,708	–	–	976,708
Net assets	5,063,486	–	(14,010)	5,049,476
Capital and reserves				
Share capital	109,889	–	–	109,889
Share premium and reserves	4,768,671	–	(11,323)	4,757,348
Equity attributable to the owners of the Company	4,878,560	–	(11,323)	4,867,237
Non-controlling interests	184,926	–	(2,687)	182,239
Total equity	5,063,486	–	(14,010)	5,049,476

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018.

2.2 New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to HKFRS 3	*Definition of a Business*[4]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[5]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

3. SEGMENT INFORMATION

The Group's operating and reportable segments are based on information prepared and reported to the chief operating decision makers ("CODM"), being the board of directors of the Company, for the purposes of resource allocation and performance assessment. During the year ended 31 December 2018, the Group commenced the business of trading of new energy materials along with the acquisition of 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"), which was a then associate of the Group, and it is considered as a new operating and reportable segment by the CODM. For the sales of batteries and battery related accessories operation, there were no further discrete financial information since the financial information provided to the CODM does not contain profit or loss information of each product line or each market segment and the CODM review the operating results of the sales of batteries and battery related accessories operation on a consolidated basis. Therefore, the operation of the Group constitutes two single operating and reportable segments, (1) sales of batteries and battery related accessories, (2) trading of new energy materials. The operation of the Group constitutes one single reportable segment, being the sales of batteries and battery related accessories for the year ended 31 December 2017.

These segments are the basis on which the Group reports its segment information.

The CODM makes decisions according to operating result of each segment. No analysis of segment assets and segment liabilities is presented as the CODM does not regularly review such information for the purpose of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented. The accounting policies of the operating and reportable segment are the same as the Group's accounting policies. Segment results represent the profits earned by each segment and exclude certain other gains and losses, corporate administrative expenses and finance costs. Inter-segment sales are charged at cost plus profit approach.

Segment revenues and results

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

	2018	2017
	RMB'000	*RMB'000*
Segment revenue		
Sales of batteries and battery related accessories		
– external sales	**31,834,824**	26,903,901
Trading of new energy materials		
– external sales	**2,717,266**	–
– inter-segment sales	**202,392**	–
Segment revenue	**34,754,482**	26,903,901
Eliminations	**(202,392)**	–
Group revenue	**34,552,090**	26,903,901
Segment result		
Sales of batteries and battery related accessories	**1,332,217**	1,201,947
Trading of new energy materials	**8,836**	–
	1,341,053	1,201,947
Unallocated		
Other gains and losses	**(20,909)**	(4,862)
Corporate administrative expenses	**(14,253)**	(16,148)
Financial costs	**(5,094)**	(705)
Profit for the year	**1,300,797**	1,180,232

Other segment information

	Sales of batteries and battery related accessories *RMB'000*	Trading of new energy materials *RMB'000*	Total *RMB'000*
For the year ended 31 December 2018			
Depreciation of property, plant and equipment	**387,485**	**117**	**387,602**
Amortisation of prepaid lease payment	**6,390**	**–**	**6,390**
Recognition of allowance for inventories	**8,138**	**–**	**8,138**
Write off/loss on disposal of property, plant and equipment	**75,801**	**–**	**75,801**
For the year ended 31 December 2017			
Depreciation of property, plant and equipment	342,706	–	342,706
Amortisation of prepaid lease payment	6,098	–	6,098
Reversal of allowance for inventories	(6,406)	–	(6,406)
Write-off/loss on disposal of property, plant and equipment	28,651	-	28,651

Entity-wide disclosures

All non-current assets and almost all sales are located and generated in the People's Republic of China (the "PRC"). No individual customer accounted for over 10% of the Group's total revenue for both years.

4. REVENUE

	2018	2017
	RMB'000	*RMB'000*
An analysis of revenue is as follows:		
Sales of batteries and battery related accessories		
Lead-acid battery products		
Electrical bicycle (tricycle) battery *(note i)*	**26,290,151**	21,706,836
Micro electric vehicle battery	**2,005,409**	1,476,610
Special-purpose battery *(note ii)*	**447,660**	577,130
Renewable resources product	**2,046,179**	1,540,717
Lithium battery products	**552,504**	1,222,933
Others	**492,921**	379,675
Trading of new energy materials	**2,717,266**	–
	34,552,090	26,903,901

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.

5. OTHER GAINS AND LOSSES

	2018	2017
	RMB'000	*RMB'000*
Net gains (losses) on financial assets at FVTPL		
– structured bank deposits	**82,327**	–
– held-for-trading investments *(note i)*	**(25,825)**	9,679
– foreign currency forward contracts *(note ii)*	**(2,281)**	(15,722)
– commodity derivative contracts *(note iii)*	**13,366**	(28,525)
Written off/loss on disposal of property, plant and equipment	**(75,801)**	(28,651)
Net foreign exchange losses	**(35,267)**	(597)
	(43,481)	(63,816)

Notes:

i. Net losses on held-for-trading investments included losses arising on changes in fair value of RMB25,825,000 (2017: gains of RMB9,679,000), which were earned on these investments in listed equity securities during the year ended 31 December 2018. Such losses (2017: gains) included realised losses of RMB16,290,000 (2017: realised gains of RMB8,493,000) and unrealised losses of RMB9,535,000 (2017: nil). No dividend income were received current year (2017: RMB1,186,000).

ii. Net losses on foreign currency forward contracts represented realised losses of RMB2,281,000 (2017: RMB8,445,000) and nil unrealised losses (2017: unrealised losses of RMB7,277,000) on changes in fair value of foreign currency forward contracts.

iii. Net gains on commodity derivative contracts represented realised gains of RMB13,215,000 (2017: realised losses of RMB28,241,000) and unrealised gains of RMB151,000 (2017: unrealised losses of RMB284,000) arising on changes in fair value of commodity derivative contracts.

6. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest on:		
– Borrowings	**91,239**	90,237
– Effective interest on long-term loan note	**63,482**	62,408
– Factorised bills	**31,544**	21,636
– Finance lease	**–**	550
Total borrowing costs	**186,265**	174,831
Less: amounts capitalised in the cost of qualified assets	**(8,530)**	(21,826)
	177,735	153,005

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.87% (2017: 5.32%) per annum to expenditures on qualifying assets.

7. TAXATION

The charge comprises:

	2018	2017
	RMB'000	*RMB'000*
Hong Kong		
– Current tax	**–**	2,723
PRC Enterprise Income Tax ("EIT"):		
– Current tax	**290,584**	239,908
– Under (over) provision in prior years	**8,322**	(28,360)
	298,906	211,548
Deferred tax charge (credit):		
Current year	**5,208**	(18,770)
Attributable to a change in tax rate	**–**	31,855
	304,114	227,356

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

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements, since there is no tax assessable profit for the year ended 31 December 2018.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the applicable tax rate of PRC subsidiaries is 25% during the year ended 31 December 2018 except that, Tianneng Battery Group Co., Ltd. (previously known as Zhejiang Tianneng Battery Co., Ltd.) ("Tianneng Battery"), Tianneng Battery Group (Anhui) Co., Ltd. ("Tianneng Battery Anhui"), Zhejiang Tianneng Energy Technology Co., Ltd. ("Zhejiang Tianneng Energy"), Zhejiang Tianneng Power Energy Co., Ltd. ("Zhejiang Tianneng Power"), Tianneng Battery (Wuhu) Co., Ltd. ("Tianneng Battery Wuhu"), Anhui Zhongneng Power Supply Co., Ltd. ("Anhui Zhongneng"), Tianneng Group (Henan) Energy Technology Co., Ltd. ("Tianneng Henan"), Jiyuan Wanyang Green Energy Co., Ltd. ("Jiyuan Wanyang"), Tianneng Battery Group Jiangsu Technology Co., Ltd. ("Tianneng Jiangsu Technology") and Anhui Hongda Power Supply Co., Ltd. ("Anhui Hongda") which were recognised as High-Tech companies and enjoyed a tax rate of 15% for the year ended 31 December 2018 (1.1.2017 to 31.12.2017:15% applicable for Tianneng Battery, Tianneng Battery Anhui, Zhejiang Tianneng Energy, Zhejiang Tianneng Power, Tianneng Battery Wuhu, Anhui Zhongneng, Tianneng Henan, Jiyuan Wanyang and Tianneng Jiangsu Technology).

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

	2018		2017	
	RMB'000	*%*	*RMB'000*	*%*
Profit before taxation	**1,604,911**		1,407,588	
Tax at the applicable income tax rate of 25% (2017: 25%)	**401,228**	**25.0**	351,897	25.0
Tax effect of expenses not deductible for tax purposes	**13,565**	**0.8**	6,870	0.5
Tax effect of tax losses not recognised	**9,018**	**0.6**	16,364	1.2
Tax effect of deductible temporary differences not recognised	**8,794**	**0.5**	9,752	0.7
Utilisation of tax losses previously not recognised	**(9,373)**	**(0.6)**	(3,824)	(0.3)
Income tax at concessionary rates	**(57,350)**	**(3.6)**	(102,605)	(7.3)
Effect of change in tax rate	**–**	**–**	31,855	2.3
Under (over) provision in prior years	**8,322**	**0.5**	(28,360)	(2.0)
Tax effect of additional deduction related to research and development costs and certain staff costs	**(114,650)**	**(7.1)**	(70,665)	(5.0)
Effect of different tax rates of subsidiary operating in other jurisdiction	**–**	**–**	(1,403)	(0.1)
Tax effect in respect of Group restructuring *(Note)*	**10,560**	**0.7**	–	–
Withholding tax on undistributed profits of PRC subsidiaries	**34,000**	**2.1**	17,475	1.2
Taxation charge and effective tax rate for the year	**304,114**	**18.9**	227,356	16.2

Note: It arose from the restructuring among certain subsidiaries in PRC within the Group during the year ended 31 December 2018.

8. PROFIT FOR THE YEAR

	2018	2017
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**387,602**	342,706
Amortisation of prepaid lease payments	**6,390**	6,098
Total depreciation and amortisation	**393,992**	348,804
Capitalised in inventories	**(301,962)**	(264,923)
	92,030	83,881
Auditor's remuneration	**2,690**	2,340
Recognition (reversal) of allowance for inventories (included in cost of sales)	**8,138**	(6,406)
Directors' emoluments	**4,408**	4,603
Other staff retirement benefit scheme contributions	**46,947**	33,409
Other staff costs	**1,576,796**	1,344,472
Share-based payment expense for other staff	**2,724**	8,967
Total staff costs	**1,630,875**	1,391,451
Cost of inventories recognised as expense	**30,458,229**	23,403,029

Share-based payment expense of approximately RMB2,730,000 (2017: RMB8,987,000) were recognised in profit or loss during the year ended 31 December 2018 in respect of share options of the Company.

9. DIVIDENDS

	2018	2017
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year: 2018: 2017 final dividend of HK37.00 cents (equivalent to RMB30.93 cents) per ordinary share (2017: 2016 final dividend of HK25.60 cents (equivalent to RMB22.90 cents))	**340,769**	254,005

Subsequent to the end of the reporting period, a final dividend of HK38 cents (equivalent to RMB33.30 cents) (2017: HK37.00 cents (equivalent to RMB30.93 cents)) in respect of the year ended 31 December 2018 per ordinary share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. EARNINGS PER SHARE

	2018	2017
	RMB'000	*RMB'000*
Earnings for the purposes of calculating basic and diluted earnings per share – attributable to the owners of the Company	**1,252,430**	1,178,369
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,126,604,692**	1,126,546,500
Effect of dilutive potential ordinary shares – share options	**26,550,911**	23,224,559
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,153,155,603**	1,149,771,059

11. BILLS, TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Bills receivables	**–**	1,186,894
Trade receivables	**974,577**	906,569
Less: Allowance for credit losses	**(205,500)**	(181,947)
	769,077	724,622
Other receivables	**219,454**	242,257
Less: Allowance for credit losses	**(19,210)**	(18,597)
	200,244	223,660
Prepayments	**197,813**	126,254
PRC value added tax receivables	**82,876**	131,062
	1,250,010	2,392,492

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB769,077,000 and RMB715,643,000 respectively.

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

	2018	2017
	RMB'000	*RMB'000*
0 to 45 days	**432,993**	508,715
46 to 90 days	**175,356**	163,153
91 to 180 days	**56,431**	24,564
181 to 365 days	**45,231**	28,190
1 year to 2 years	**59,066**	–
	769,077	724,622

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB336,084,000 which are past due as at the reporting date. Out of the past due balances, RMB135,326,000 has been past due 90 days or more and is not considered as in default since these trade receivables are contributed by reputable electrical bicycle manufacturers and new energy vehicle producers which have no default history and are of good credit quality. There has not been a significant change in credit quality and amounts are considered recoverable at the year end.

As at 31 December 2017, the trade receivable balances of RMB508,715,000 are neither past due nor impaired at the end of the reporting period for which the Group has not provided for impairment loss since they have no default history and of good credit quality.

As at 31 December 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB215,907,000 which are past due at the end of the reporting period for which the Group has not provided for impairment loss.

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

	2017
	RMB'000
46 to 90 days	163,153
91 to 180 days	24,564
181 to 365 days	28,190
	215,907

Movement in the allowance for doubtful debts – trade receivables

	2017
	RMB'000
1 January	103,245
Allowance for bad and doubtful debts	82,906
Reversal of bad and doubtful debts	(32)
Amounts written off as uncollectible	(4,172)
31 December	181,947

Other receivables are unsecured and interest-free.

Movement in the allowance for doubtful debts – other receivables

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

12. BILLS, TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**2,100,189**	2,386,628
Bills payables	**2,062,703**	1,079,484
Other payables and accrued charges	**1,968,238**	2,504,505
	6,131,130	5,970,617

The Group normally receives credit terms of 5 days to 90 days (2017: 5 days to 90 days) from its suppliers. The following is an aged analysis of trade payables at the end of the reporting period, presented based on the invoice date:

	2018	2017
	RMB'000	*RMB'000*
0 to 90 days	**1,869,304**	1,888,639
91 to 180 days	**117,791**	208,838
181 to 365 days	**64,973**	201,448
1 to 2 years	**22,387**	67,095
Over 2 years	**25,734**	20,608
	2,100,189	2,386,628

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

	2018	2017
	RMB'000	*RMB'000*
0 to 180 days	**2,062,703**	1,079,484

BUSINESS REVIEW

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; 2) new energy batteries; 3) green renewable new materials.

Review of Operations

In 2018, facing the difficult situation of the complex and volatile global economy and the increased operational pressure on the real economy, the Group continued to concentrate on the general tone of "stable and progressive" in our work, steering the direction towards green wisdom (綠色智造) with the focus on quality and efficiency and the main principle of reform and innovation. All major businesses have recorded steady growth, achieving the Group's high-quality and sustainable development.

In 2018, with strong comprehensive strength and development momentum, the Group continued to secure its position as the industrial leader ranking among the Fortune China Top 500, China Top 500 Enterprises and China Top 500 Private Enterprises. The Group was ranked 15th among the 2018 Global Top 500 New Energy Enterprises, rising 11 places from last year and representing one of the top three in China, positioning itself as a leading enterprise in the motive battery industry.

1. *The cornerstone segment is developing steadily, and the capital advantage is increasing year by year*

High-end eco-friendly batteries are the Group's traditional major business, providing the Group with a solid cash flow. During the reporting period, the sales revenue of electric bicycle and electric tricycle batteries was approximately RMB26,290 million, increased by 21.11% year-on-year. The sales revenue of micro electric vehicles was approximately RMB2,005 million, representing a year-on-year increase of 35.81%.

(1) Electric bicycle and electric tricycle battery

China is the world's largest producer and distributer of electric bicycles. After years of development, electric bicycles have gradually become an important means of daily transportation for consumers to travel in short distances. According to data from the China Bicycle Association and the Ministry of Industry and Information Technology, the annual production volume of electric vehicles in China is around 30 million, and the total social ownership is about 250 million.

With the continuous growth of China's economy, the continuous improvement in the consumption level, the continuing increase of people's awareness on environmental protection, and the promotion of energy conservation and emission-reduction policies, the market demand for electric vehicles will continue to grow steadily. In recent years, according to Ipsos industry research report, by 2025, the demand for electric bicycle batteries and electric tricycle batteries in China will exceed USD10 billion.

On 15 May 2018, four government departments including State Administration for Market Regulation, Standardization Administration of China, and Ministry of Industry and Information Technology promulgated the national standards of "Safety Technical Specification for Electric Bicycle" (hereinafter referred to as the "New National Standard"), which will be effective from 15 April 2019. The introduction of the New National Standard is of great significance for the development of electric vehicles and their supporting industries in all aspects: regulating market order, improving product safety performance, and fostering market competition for the best to remain.

The electric vehicle battery is the power source on the electric vehicles. The high-end eco-friendly battery is applicable with various benefits and qualities such as wide temperature range, safe and stable, high price-performance ratio and a relatively mature recycling system, thus dominating the electric vehicle motive battery market.

The Group fully leveraged on the favorable opportunities introduced by the promulgation of the New National Standard to further enhance quality and efficiency, consolidate its leading position in the industry, and increase its market share steadily, mainly shown in the following aspects:

(1) Deepening the strategic cooperation with leading vehicle enterprises, accelerating product standardization and modular production, and rapidly realizing technological cost reduction. Jointly developing new products that comply with the New National Standard and meet the needs of customers, and seizing share in the new market under the New National Standard.

(2) Actively promoting intelligent manufacturing and technological upgrades. Through improvements in crafts and techniques such as casting and rolling, high-calcium low-tin alloy formula and negative graphene, the conductivity of batteries has improved, and the energy ratio has increased.

(3) Giving full play to brand advantages and channel advantages to accelerate the coordinated development of lead and lithium and provide high-quality solutions for customers. During the reporting period, the Group has over 3,000 exclusive distributors and 300,000 end-user stores. The sales network spreads across the country with obvious competitive edges of the Group's channels.

(2) Micro electric vehicle battery

Micro electric vehicles are four-wheel low-speed vehicles entirely driven by electricity, with a maximum speed of 40-70 kilometres per hour in general and designed with a maximum of four seats. Such kind of vehicles is of small volume, affordable, and is commonly used for short-distance travelling.

Driven by factors such as diversified traffic conditions and moderate consumption upgrade, micro electric vehicles, as a convenient, low-carbon and eco-friendly transportation tool for the people, have gradually become an important part as usual traffic tools in rural areas and as "1+1" travel tools (i.e. one fuel vehicle + one micro electric vehicle) in urban areas. According to the statistics of China Industrial Association of Power Sources, there are currently 6 million micro electric vehicles in the domestic market and 1 million of such vehicles would be increased per annum.

Following the promulgation of relevant national policies in the end of 2018, the micro electric vehicle industry has become more standardized and regulated, hence the micro electric vehicle market has undergone significant developments. Being the "heart" of electric vehicles, motive battery is the core component parts that ensures rapid development of the electric vehicle industry, it has crucial influences on the quality, lifespan and cruising mileage of electric vehicles, as well as being the key element in determining whether an electric vehicle manufacturing enterprise has its core competitiveness. Currently, high-end eco-friendly batteries is the best option for micro electric vehicles, with its major markets concentrating in regions such as Shandong, Henan, Hebei in China.

At the “12th International New Energy Vehicles and Electric Vehicles Expo” (第十二屆國際新能源汽車電動車展覽會) held in Shandong and the “18th North China International Bicycle and Electric Vehicle Expo” (第十八屆中國北方國際自行車電動車展覽會) held in Tianjin in which the Group participated during the reporting period, the Group launched new batteries with long lifespan, strong power, low temperature resistance, high capacity, and fine technique. The Group successfully held the “Hundred-kilometer Rally for Micro Vehicles” (微型車百公里拉力賽) and the “Power of Models - National Excellent Supplier Conference” (榜樣的力量-全國優秀共贏商大會), which demonstrated its brand strength. Tianneng continued to maintain its market leading position in the batteries for micro vehicles.

(3) Other high-end eco-friendly battery

In addition to the tradition electric bicycle and electric tricycle market, and micro electric vehicle market, high-end eco-friendly batteries are widely used in other markets which mainly include electric forklifts, start-stop system for fuel vehicles and smart energy. During the reporting period, the sales revenue of starting batteries has an increase of approximately 200% as compared with the same period last year.

Electric forklift

With development of internet economy and logistic sector, electric forklift market had grown rapidly. According to China Industry Information Network, the sales of forklifts were more than 600,000 nationwide in 2018, of which the shares of electric forklifts had risen rapidly from 11% in 2011 to 47% in 2018. Therefore, the total demands for batteries amounted to more than RMB3.0 billion yuan nationwide. Currently, Tianneng forklift battery is designed in accordance with European standards, with attributes such as service life and safety performance indicators that are superior to national standards, and it has established the strategic partnership with Anhui Heli, Hangcha Group, Linde Forklift (林德叉車), and Noblift (諾力叉車), becoming the second largest domestic brand nationwide. In the coming three to five years, the Group will further increase its market share by expanding the after-sales market replacement of existing products, as well as developing new products such as lithium batteries, and striving for innovation in its business models.

Start-stop system for fuel vehicles

The start-stop system for fuel vehicles is closely related to the downstream automobile industry. According to data from the Ministry of Public Security, as of the end of 2018, the ownership of motor vehicles in China reached 327 million, including 240 million vehicles. Compared with 2017, the number of vehicles increased by 22.85 million per annum, representing an increase of 10.51%. Under the backdrop of increasing vehicle ownership, the vehicle start-stop market has continued to grow. The continuous growth of the vehicle ownership provides a favorable market condition for the Group's development of the vehicle start-stop system battery. 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 sharply. 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 lead-acid start-stop batteries is huge.

Leveraging on its strong brand, marketing, service, and industrial leading advantages, the Group had collaborated with starting battery manufacturers to achieve a win-win situation in backend auto market. During the reporting period, establishing the strategic cooperation with the top ten starting battery manufacturers in the sector, the Group had integrated resources by collaborating with strong manufacturers with the number of distributors exceeding 800 rapidly. The Group successfully opened up the starting battery market and set up Tianneng brand.

Smart energy

The Group actively expanded its smart energy market. During the reporting period, the Group had become strategic partners with China Resources Power, hence both parties concurred to conduct purchase and sales in five aspects including electric business and services, energy storage and comprehensive energies, smart energy project development, preventive examination and maintenance of electric equipment, and electric energy saving upgrading and services, so as to achieve mutual benefits and development by leveraging on their respective advantages sufficiently. At the "SNEC 12th International Photovoltaic Power Generation and Smart Energy Exhibition & Conference" (SNEC第十二屆國際太陽能光伏與智慧能源展覽會) held in Shanghai in May, Tianneng exhibited its smart energy solutions and drew wide attention in the market. During the reporting period, the Group was awarded "2018 China Most Influential Enterprise in Energy Storage Industry" (2018年度中國儲能產業最具影響力企業) and "2018 Top Ten Energy Storage Battery Supplier Award in Energy Storage Industry" (2018年度儲能產業十佳儲能電池供貨商獎).

2. The green bamboo industry is gaining momentum and the cornerstone industry is developing synergistically

The spirit of green bamboo implies perseverance and being well prepared, which demonstrates the confidence and determination of the Group in progressing the development of green bamboo industry. The green bamboo industry consists of new energy battery and green renewable new material businesses.

(1) New energy battery

The new energy battery is an important strategic industrial segment of the Group. During the reporting period, revenue from new energy batteries was approximately RMB553 million.

According to the data from the Ministry of Public Security, the number of new energy vehicles in China increased by 1.07 million in 2018, representing an increase of 70%. According to China Association of Automobile（中國汽車協會）, the domestic average production volume of lithium-powered bicycles was more than 2,700,000 per annum from 2015 to 2017. According to China Industrial Association of Power Sources, the domestic demands for motive lithium batteries had risen rapidly from 7% in 2012 to 52% in 2016, with strong market demands in the future.

According to the non-comprehensive statistics of the project archive of China Energy Storage Alliance (CNESA), at the end of December 2018, the cumulative installed capacity of operating energy storage projects was 180.9 GW globally, representing a year-on-year increase of 3%. Among which, the cumulative installed capacity of electrochemical energy storage was 6.5 GW, representing a year-on-year increase of 121%. In 2018, the installed capacity of the newly-added operating energy storage projects was 5.5 GW globally, among which, the additional operating capacity of electrochemical energy storage was the highest at 3.5 GW, representing a year-on-year increase of 288%.

At the end of December 2018, the cumulative installed capacity of operating energy storage projects in China was 31.2 GW, representing a year-on-year increase of 8%, among which, the cumulative installed capacity of electrochemical energy storage was 1.01 GW, representing a year-on-year increase of 159%. In 2018, the installed capacity of the newly-added operating energy storage projects in China was 2.3 GW, among which, the additional operating capacity of electrochemical energy storage was the highest at 0.6 GW, representing a year-on-year increase of 414%.

Developing its new energy battery business, the Group fully entered the energy storage sector in 2018 by introducing innovative smart energy solutions and actively exploring new room for business development. As a result, the Group built the first commercial user Shanghai Edgelight (上海邊光) energy storage power station and the lead-carbon battery energy storage power station in Shuyang, Jiangsu. The Group also established the distributed photovoltaic power generation energy technology project to achieve grid-connected power generation, completed the delivery of distributed photovoltaic energy generation projects for Rongfeng Textile (蓉峰紡織) and Fenghe Textile (峰赫紡織) and was awarded "2018 China Most Influential Enterprise in Energy Storage Industry" (2018年度中國儲能產業最具影響力企業).

(2) Green renewable new materials

By deeply practicing the concept of "Lucid waters and lush mountains are invaluable assets" and resolutely implementing the producer responsibility extension system, the Group targets to create green circular economy and speed up the construction of "urban mines". During the reporting period, external revenue from green renewable new materials was approximately RMB2,046 million, representing an increase of approximately 32.81% as compared with the same period last year. As a result, it provided the Group with steady profit contribution, generating excellent economic and social benefits.

The Group strived to build a cycle industry chain integrating "recycling-smelting-reproduction" all the way, turning the enterprise into a pioneering demonstration base for green, low-carbon and recycling development. Leveraging on the existing used battery recovery bases, the Group deepened all-round green circular economy. With an annual processing capacity of 700,000 tonnes of used batteries and the battery recovery rate as high as approximately 99%, the Group had become a benchmark enterprise for the harmless treatment of used batteries.

During the reporting period, 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 Battery* (廢蓄電池回收規範行業標準)*, and acted as the representative of manufacturers, actively striving for support in policies for state tax. The "Solid Waste Resource" full life cycle identification traceability system and the performance evaluation technology project in cooperation with the Center for Solid Waste Management of Ministry of Ecology and Environment (生態環境部固管中心) have been established. The Group had been named as a "Resource Comprehensive Utilization Enterprise" (資源綜合利用企業) and "National Circular Economy Standardization Pilot Enterprise" (國家循環經

濟標準化試點企業) by National Development and Reform Commission. Moreover, the Group had been listed as a "Key Promoting Project of Integration of Informatization and Industrialization for Promoting Energy-Saving and Emission Reduction in China" (國家兩化融合促進節能減排重點推進項目) by the MIIT, and selected as "First Batch Demonstration Plants for Green Manufacturing System" (第一批綠色製造體系示範工廠) and "Demonstration Enterprise for Green Supply Chain" (綠色供應鏈示範企業). During the reporting period, the Group was appraised as a "National Technology Center for Circular Economy" (全國循環經濟技術中心) and "A Copper Removal Composition for Recycled Lead Refining and Its Application", independently researched and developed by the Group, won the national invention patent award.

3. Executing global strategy to expand the market

In response to the national policy, the Group had made presence along the "Belt and Road" and to the world, and mainly exported its products to such regions as Southeast Asia, Australia, Middle East, Europe, and Africa, demonstrating a fast pace in its market development.

(1) Conduct international trade and global sales

In terms of the cornerstone segment, the focus is on underdeveloped regions and developing countries, with an aim to help them with their infrastructure construction. In terms of new energy batteries, many products have obtained international recognition and have accordingly been introduced to the high-end consumer markets in developed countries such as Europe and Australia. Leveraging on its leading technology and excellent products in the sector, the Group had been mainly expanding international markets including Southeast Asia, Australia, and Europe. In particular, electric transportation tools had become a trend in Southeast Asian countries where the industry of electric bicycles has entered a starting stage and will experience golden development in the future 5 to 10 years.

(2) Conduct research and development globally and so does manufacturing

The Group actively collaborated with overseas scientific research platform and integrated technological experts from many countries such as China, the USA, Korea, and Japan to create the core technological advantages in the whole industrial chain. Meanwhile, the Group actively explored opportunities of merge and acquisition in the up and down stream and planned to build an overseas R&D and production base in due course.

PROSPECTS

In order to converge the core competitive advantages, the Board is considering the feasibility of a proposed spin-off and listing of 天能電池集團有限公司 Tianneng Battery Group Co., Ltd.* by way of separate A shares listing of the Spin-off Company on a Stock Exchange in the PRC. For purpose of the Proposed Spin-off, on 9 November 2018, after the approval of the Board, the Company submitted a proposal on the Proposed Spin-off to the Hong Kong Stock Exchange pursuant to Practice Note 15 of the Listing Rules. For details, please refer to the announcement published by the Company 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 Company on a Stock Exchange in the PRC".

Under the dual opportunities of industrial consumption upgrade and stricter environmental protection governance, the Group will continue to consolidate and enhance the development edges of the traditional major business, 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 of the Group. It will promote the industry towards the mid-to-high end and gradually channel the production capacity to the overseas market, creating more favorable conditions for the Group to compete internationally. Meanwhile, we must initiate breakthroughs in special-purpose batteries, start-stop batteries, and tubular batteries, continue to enrich the industrial landscape, actively explore new areas to apply in products, and identity new room for production capacity. We should also keep contributing to green energy by adopting a dual-engine strategy of technological innovation and business model innovation, in 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.

MANAGEMENT ANALYSIS

Gross profit

The Group's gross profit and gross profit margin increased to approximately RMB4,086 million and approximately 11.82% respectively in 2018 from approximately RMB3,507 million and approximately 13.04% respectively in 2017, representing an increase of approximately 16.49% and a decrease of 1.22 percentage points respectively as compared to the previous year. The increase of gross profit was mainly attributable to the increase in income and the improvement of management. The decrease of gross profit margin was mainly attribute to the revenue from trading segment with low profit margin.

Other income

Other income of the Group increased by approximately 19.50% from approximately RMB309 million in 2017 to approximately RMB370 million in 2018. The increase was mainly attributable to the increase in government grants income.

Selling and distribution costs

Selling and distribution costs of the Group increased by approximately 31.81% from approximately RMB675 million in 2017 to approximately RMB890 million in 2018. The slight increase in selling and distribution costs was mainly due to the increase in transportation expenses.

Administrative expenses

Administrative expenses increased by approximately 25.65% from approximately RMB449 million in 2017 to approximately RMB564 million in 2018. Such increase was mainly due to the increase in staff cost and consultancy expenses.

Finance costs

Finance costs increased by approximately 16.16% from approximately RMB153 million in 2017 to approximately RMB178 million in 2018, which was mainly due to the increase in total borrowings during the year.

Taxation

Tax charges of the Group increased by approximately 33.76% from approximately RMB227 million in 2017 to approximately RMB304 million in 2018, which was mainly due to the increase in profit during the year.

LIQUIDITY AND FINANCIAL RESOURCES

The net cash from operating activities for the year of 2018 was approximately RMB2,077 million (2017: RMB2,202 million). In this year, the Group had better profit and strengthened management of account receivables and account payables enabling the overall cash flow of operating activities to maintain at a good level.

As at 31 December 2018, the bank balances and cash (including pledged bank deposits) of the Group was approximately RMB4,902 million (31 December 2017: approximately RMB4,600 million). As at 31 December 2018, the Group obtained undrawn banks facilities of approximately RMB3,333 million (31 December 2017: approximately RMB2,843 million). The bank balances and cash (including pledged bank deposits) approximately of RMB4,859 million, RMB23 million, RMB13 million and RMB7 million were denominated in Renminbi, Hong Kong Dollars, US Dollars and Euros respectively. As the bank balances in Hong Kong Dollars, US Dollars and Euros collectively accounted for approximately 0.87% of the total balances, the Group's relevant exchange risk is low.

As at 31 December 2018, the net current assets of the Group were approximately RMB1,073 million (31 December 2017: net current assets of approximately RMB1,208 million). The decrease was primarily attributable to improvement of the operating capacity of the Company and increase in bills payables and contract liabilities. The Company believes that it will be able to meet its liabilities as and when they fall due and meet the capital requirement for operations. The Company is able to control the level of its liabilities and financial risks.

As at 31 December 2018, the interest bearing borrowings, finance leases and loan notes (together as "interest bearing loans") of the Group with maturity of within one year totally amounted to approximately RMB2,235 million (31 December 2017: approximately RMB1,329 million). The interest bearing loans of the Group with maturity of more than one year amounted to approximately RMB467 million (31 December 2017: RMB904 million). The interest bearing loans of RMB2,066 million carried fixed and variable interest rates ranging from 3.99% to 8.00% (2017: 3.85% to 8.00%) per annum. The interest bearing loans amounting to HK$500 million carried a variable interest rate ranging from 2.26% to 3.26% per annum (2017: fixed interest rate ranging from 2.44% to 3.19% per annum). The Company will closely monitor the changes in interest rate and assess the interest rate risk.

The objective of the Company's financial policy is to maintain healthy capital structure to minimize the capital cost through prudent financial management. During the year under review, the Group continued to further make use of long-term loans in order to optimize its loan structure.

FINANCIAL POSITION

Assets

As at 31 December 2018, the total assets of the Group were approximately RMB16,641 million, representing an increase of 19.02% as compared to approximately RMB13,982 million as at 31 December 2017. Among them, non-current assets increased by approximately 9.07% to approximately RMB5,270 million and current assets increased by approximately 24.28% to approximately RMB11,371 million. The major reason for the increase of non-current assets was due to the capital expenditure on production plants and equipment upgrading. The increase in current assets was mainly attributable to the increase in inventories and bank deposits.

Liabilities

As at 31 December 2018, the total liabilities of the Group were approximately RMB10,868 million, representing an increase of approximately 21.86% as compared to approximately RMB8,918 million as at 31 December 2017. Among them, current liabilities increased by approximately 29.67% to approximately RMB10,298 million, mainly due to the increase in borrowings and contract liabilities. Non-current liabilities decreased by approximately 41.65% to approximately RMB570 million, mainly due to the decrease in long-term interest bearing borrowings and long-term loan notes.

ANALYSIS BY KEY FINANCIAL KPIS

Profitability:

	2018	2017
Return on equity	**22.53%**	23.31%
Gross profit margin	**11.82%**	13.04%
— Trading of new energy materials	**0.12%**	N/A
— Sales of batteries and battery related accessories	**12.82%**	13.04%
Net profit margin	**3.76%**	4.39%

The gross profit margin in 2018 decreased due to the revenue from trading segment with low profit margin. Not considering the trading business, the gross profit margin decreased by 0.22 percentage point to 12.82% in 2018 compared to 2017.

Liquidity:

	2018	2017
Current ratio	**1.10**	1.15
Quick ratio	**0.80**	0.88

Both the ratios above in 2018 slightly decreased when compared with those in 2017, mainly due to a lower increase of current assets as compared to that of the current liabilities.

Operating Cycle:

	2018	2017
Inventory turnover days	**32**	31
Account receivables turnover days	**10**	12
Account payables turnover days	**27**	32
Bills and account receivables turnover days	**21**	30
Bills and account payables turnover days	**46**	52

The inventory turnover days increased by 1 day to 32 days in 2018 due to the enhancement of capacity in 2018. Account receivables turnover days decreased by 2 days from 2017 to 10 days in 2018 due to improved management of account receivables in 2018. Account payables turnover days for 2018 decreased by 5 days to 27 days mainly due to the decrease in account payables. Bills and account receivables turnover days and bills and account payables turnover days decreased by 9 days and 6 days respectively due to 18.33% decrease and 12.00% decrease in bills receivables and account payables respectively at the end of 2018 compared to the end of 2017.

Capital:

	2018	2017
Net debt ratio	**-19.59%**	-32.38%
Interest coverage ratio *(Note)*	**11.69%**	10.92%

Note: EBITDA divided by total interest expenses

As the interest bearing debt ("Debt") and the cash and bank balances as at 31 December 2018 were RMB2,703 million and RMB3,834 million respectively, the net debt was RMB-1,131 million. The net debt ratio substantialy increased from -32.38% to -19.59%. Total loans increased and there was adequate capital during the year.

The interest coverage ratio increased slightly, mainly due to an increase in net profit in 2018.

Return of Shareholders:

	2018	2017
Earning per share (Basic)	**1.11**	1.05
Dividend payout ratio ("DPR")	**30% (Note)**	30%

Note: the index is derived from the dividend to be proposed by the Company's board of directors for 2018, which is subject to approval at the annual general meeting.

CAPITAL EXPENDITURE

The capital expenditure in 2018 was approximately RMB654 million (2017: approximately RMB555 million). A majority of expenditure was incurred on the construction of Wushang base in Changxing, Puyang base in Henan and Jieshou base in Anhui.

CAPITAL COMMITMENTS

The amount contracted for but not stated in the consolidated financial statements in respect of the acquisition of property, plant and equipment as at 31 December 2018 was approximately RMB338 million (31 December 2017: approximately RMB302 million).

GEARING RATIO

The Group's gearing ratio (which is based on the amount of total interest bearing loans divided by total assets multiplied by 100%) as at 31 December 2018 was approximately 16.24% (31 December 2017: approximately 15.97%).

EXPOSURE TO EXCHANGE RATE FLUCTUATION

As the Group's operations were mainly conducted in China and the majority of businesses were transacted in Renminbi, the Group has set up policy to strike a balance between uncertainty and the risk of opportunity loss due to the growing significance of its exposures to fluctuations in foreign currencies. Foreign currency forward contracts can be used to eliminate the currency exposures. During the year, the Group has entered into certain foreign currency forward contracts and closely monitored the movement of foreign currency rate. The Board is of the view that the Company's operating cash flow and liquidity are not subject to significant foreign exchange rate risk.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2018 (31 December 2017: Nil).

PLEDGE OF ASSETS

As at 31 December 2018, the bank facilities of the Group were secured by bank deposits, bills receivables, property, plant and equipment and prepaid lease payments. The aggregate net book value of the assets pledged amounted to approximately RMB2,898 million (31 December 2017: RMB1,546 million).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2018, the Group employed a total of 20,508 employees (31 December 2017: 19,027 employees). Staff costs excluding directors' emoluments of the Group for the year of 2018 amounted to approximately RMB1,626 million (2017: RMB1,387 million). The costs included basic salaries and benefits as well as staff benefits such as discretionary bonus, medical and insurance plans, pension scheme (including the schemes under the statutory requirement of the government such as pension insurance in China and mandatory provident fund in Hong Kong), unemployment insurance plans and share option scheme etc. Competitive remuneration packages were offered to employees. The Company has adopted incentive programs (including share option scheme) to encourage employee performance and provided a range of training programs for the development of its staff.

SIGNIFICANT INVESTMENTS HELD

Apart from the investment in equity securities listed on the Hong Kong Stock Exchange and the placement of structured deposits in the bank, there were no other significant investments held by the Group as at 31 December 2018. Such investments refer to its increased holdings of those excellent companies in the industry, reflecting its confidence in the prospect of the industry and the increase in corporate interest.

MATERIAL ACQUISITION AND DISPOSAL

As at 31 December 2018, apart from the acquisition of relevant equity interests in the industry, the Group has no other material acquisition and disposal. Such acquisitions facilitate the expansion and distribution of capacity and expand business, to reap greater economic benefits.

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

As at 31 December 2018, two tranches of corporate bonds in an aggregate amount of RMB780 million (2017: RMB780 million) issued by Tianneng Battery Group Co., Ltd., a wholly-owned subsidiary of the Company, to PRC domestic institutional investors for a term of 5 years and 6 years respectively remained outstanding. An principle amount of RMB380 million has been repaid in March 2019. Further details of the issues can be referred to the announcements of the Company dated 7 March 2014, 10 March 2014, 18 September 2014 and 26 September 2014.

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 10 May 2019 to Thursday, 16 May 2019, both days inclusive, during which period no transfer of the shares of the Company will be registered. In order to qualify for attending the annual general meeting of the Company of this year, all share certificates, together with duly completed transfer forms, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 9 May 2019.

Further, the register of members of the Company will be closed from Tuesday, 28 May 2019 to Thursday, 30 May 2019 (both days inclusive), during which period no transfer of the shares of the Company will be registered. In order to establish entitlements to the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 27 May 2019. Subject to the approval of the shareholders at the AGM of the Company to be held on 16 May 2019, the proposed final dividend is expected to be paid on or before Friday, 28 June 2019.

AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. As at 31 December 2018, the Audit Committee comprised three independent non-executive directors, namely, Mr. Huang Dongliang, Mr. Wu Feng and Mr. Zhang Yong.

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

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2018.

CORPORATE GOVERNANCE CODE

The Company has adopted the provisions of the Corporate Governance Code (the "Code") during the period from 1 January 2018 to 31 December 2018 as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). For the year ended 31 December 2018, except for the code provision A.2.1, the Company has complied with the provisions set out in the Code. Dr. Zhang Tianren is both the Chairman and CEO of the Company who is responsible for managing the Group's business. The Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Company's business strategies and maximizes the effectiveness of its operation. With the present board structure and scope of business, the Board considers that there is no imminent need to separate the roles into two individuals. However, the Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether the separation of the position of the Chairman and CEO is necessary.

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. Mr. Guo Konghui, an independent non-executive director ("INED") and a member of Audit Committee of the Company, retired as INED and ceased to be a member of the Audit Committee with effect from the conclusion of the Company's annual general meeting on 18 May 2018 (the "AGM"). On 8 August 2018, the Company appointed Mr. Zhang Yong as an INED and a member of Audit Committee.

Pursuant to Rule 3.10(1) of the Listing Rules, a board of a listed issuer must include at least three INEDs; pursuant to Rule 3.10A of the Listing Rules, an issuer must appoint INEDs representing at least one-third of the board; and pursuant to Rule 3.21 of the Listing Rules, the audit committee must comprise a minimum of three members. So during the period from conclusion of the AGM to 7 August 2018, the number of INED and the composition of the audit committee have failed to meet the relevant requirements under the Listing Rules.

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.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

COMPLIANCE WITH THE MODEL CODE OF LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the year 2018.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held at Conference Room, 3/F, Tianneng Group Building, Huaxi Industrial Function Zone, Changxing County, Zhejiang Province, the PRC on Thursday, 16 May 2019 at 2:00 p.m.. Notice of annual general meeting will be published on the Company's website at www.tianneng.com.hk and the website of the Stock Exchange at www.hkex.com.hk and despatched to the shareholders of the Company as soon as practicable.

PUBLICATION

The annual report containing all the information as required by Appendix 16 of the Listing Rules will be published on the Company's website at www.tianneng.com.hk and the website of the Stock Exchange at www.hkex.com.hk as soon as practicable.

GENERAL INFORMATION

As at the date of this announcement, the executive directors of the Company are Dr. ZHANG Tianren, Mr. ZHANG Aogen, Mr. ZHANG Kaihong, Mr. SHI Borong and Mr. ZHOU Jianzhong; the independent non-executive directors of the Company are Mr. WU Feng, Mr. HUANG Dongliang and Mr. ZHANG Yong.

This announcement will be published on the website of the Company at www.tianneng.com.hk and the website of the Stock Exchange at www.hkex.com.hk.

By Order of the Board
TIANNENG POWER INTERNATIONAL LIMITED
ZHANG Tianren
Chairman

Hong Kong, 22 March 2019

As at the date of this announcement, the executive directors of the Company are Dr. ZHANG Tianren, Mr. ZHANG Aogen, Mr. ZHANG Kaihong, Mr. SHI Borong and Mr. ZHOU Jianzhong; the independent non-executive directors of the Company are Mr. WU Feng, Mr. HUANG Dongliang and Mr. ZHANG Yong.