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If you have sold or transferred all your shares in **Tianneng Power International Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

PROPOSED SPIN-OFF AND SEPARATE LISTING OF THE BATTERIES BUSINESS BY WAY OF PROPOSED A SHARES LISTING OF THE SPIN-OFF COMPANY ON THE SHANGHAI STOCK EXCHANGE AND DEEMED DISPOSAL AND MAJOR TRANSACTION

Financial Adviser to the Company



Independent Financial Adviser to the Independent Board Committee and the Shareholders



A letter from the Independent Board Committee is set out on page 28 of this circular. A letter from Somerley Capital containing its advice to the Independent Board Committee and the Shareholders is set out on pages 29 to 55 of this circular.

A notice convening the EGM of the Company to be held at Conference Room No. 9, 3/F, Tianneng Group Building, No. 18 Baoqiao Road, Huaxi Industrial Function Zone, Changxing County, Zhejiang, China on 12 July 2019 (Friday) at 2:00 p.m. is set out on pages 66 to 67 of this circular. A form of proxy for use at the EGM is also enclosed.

Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy enclosed with this circular in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM. Completion and delivery of a form of proxy will not preclude you from attending and voting in person at the EGM (or any adjournment thereof).

24 June 2019

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DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

“Articles”	the articles of association of the Company
“Board”	the board of Directors
“Business Day”	means a day on which the Stock Exchange is opened for the transaction of business
“Company”	Tianneng Power International Limited, a company incorporated under the laws of the Cayman Islands with limited liability and the issued shares of which are listed on the Stock Exchange
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“EGM” or “Meeting”	the extraordinary general meeting of the Company to be convened and held on at Conference Room No. 9, 3/F, Tianneng Group Building, No. 18 Baoqiao Road, Huaxi Industrial Function Zone, Changxing County, Zhejiang, China on 12 July 2019 (Friday) at 2:00 p.m. for the purpose of considering and, if thought fit, approving the Proposed Spin-off
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Board comprising all independent non-executive Directors, namely Mr. HUANG Dongliang, Mr. WU Feng and Mr. ZHANG Yong, established to advise the Shareholders in respect of the terms of the Proposed Spin-off
“Independent Financial Adviser” or “Somerley Capital”	Somerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off
“Latest Practicable Date”	24 June 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this circular

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PN15”	Practice Note 15 of the Listing Rules
“PRC” or “China”	the People’s Republic of China (excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Proposed A Share Listing”	the proposed listing of the securities of the Spin-off Company on the Shanghai Stock Exchange
“Proposed Spin-off”	the proposed spin-off of the shares of the Spin-off Company on the Shanghai Stock Exchange
“Remaining Group”	the Group, excluding the Spin-off Group
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of par value of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Spin-off Company”	天能電池集團股份有限公司 (Tianneng Battery Group Co., Ltd.*)
“Spin-off Group”	the Spin-off Company and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Tianneng Holding”	天能控股集團有限公司 (Tianneng Holding Group Co., Ltd.*)
“Tianneng Investment Management”	浙江天能投資管理有限公司 (Zhejiang Tianneng Investment Management Co., Ltd.*)
“%”	per cent

** For information only.*

LETTER FROM THE BOARD



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)

Executive Directors:

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

Registered office:

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

Independent Non-Executive Directors:

Mr. Huang Dongliang
Mr. Wu Feng
Mr. Zhang Yong

*Head office and principal place of
business:*

Suite 3202, 32 Floor
Central Plaza
18 Harbour Road Wanchai,
Hong Kong

24 June 2019

To the Shareholders

Dear Sir or Madam,

**PROPOSED SPIN-OFF AND SEPARATE LISTING OF
THE BATTERIES BUSINESS
BY WAY OF PROPOSED A SHARES LISTING OF THE SPIN-OFF COMPANY ON
THE SHANGHAI STOCK EXCHANGE
AND DEEMED DISPOSAL AND MAJOR TRANSACTION**

INTRODUCTION

Reference is made to the announcements of the Company dated 9 November 2018 and 23 April 2019 in respect of the Proposed Spin-off.

The Company has submitted a proposal on the Proposed Spin-off to the Stock Exchange pursuant to PN15 and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off. The Stock Exchange also granted a waiver from strict compliance with the applicable requirements in relation to the assured entitlement under the Proposed Spin-off as required by paragraph 3(f) of PN15. As at the Latest Practicable Date, no formal application for the Proposed A Share Listing has been filed with the relevant regulatory authorities in the PRC.

LETTER FROM THE BOARD

The Proposed Spin-off constitutes a deemed disposal of the interest in a subsidiary of the Company under Rule 14.29 of the Listing Rules. As the highest applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Proposed Spin-off is expected to be higher than 25% but less than 75%, the Proposed Spin-off, if proceed, may constitute a possible major transaction under Chapter 14 of the Listing Rules. The Company therefore convenes the EGM to obtain the approval of Shareholders regarding the Proposed Spin-off as required under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

The purpose of this circular is to provide you with, among other things, (i) information on the Proposed Spin-off; (ii) the recommendation of the Independent Board Committee and the advice of Somerley Capital regarding the Proposed Spin-off as required under paragraph 3(e) of PN15; and (iii) a notice of the EGM.

THE PROPOSED SPIN-OFF AND THE PROPOSED A SHARE LISTING

Subject to approvals by the Shareholders and the relevant PRC regulators, it is currently proposed that the Spin-off Company will issue A shares on the Shanghai Stock Exchange by way of initial public offering to public investors in the market, or other methods as requested or agreed by the CSRC.

It is proposed that the Spin-off Company will offer not more than 117,060,000 new shares but should be no less than 10% of the total share capital after completion of the Proposed A Share Listing of the Spin-off Company (the “**Offer Shares**”).

The number of the Offer Shares held by the public, in any event, will represent not more than 12% of the total issued share capital of the Spin-off Company after completion of the Proposed A Share Listing. The actual number of Offer Shares to be offered by the Company will depend on the market conditions and the relevant rules and regulations of the CSRC as amended from time to time. It is expected that immediately upon completion of the Proposed Spin-off and the Proposed A Share Listing, the Company will have an indirect interest of not less than 50% in the Spin-off Company and therefore the Spin-off Company will remain as an indirect non-wholly owned subsidiary of the Company.

As required by the Rules Governing the Listing of Stocks on Shanghai Stock Exchange relevant to the Proposed A Share Listing, among others,

1. each of Mr. ZHANG Tianren (the Chairman, executive director and the controlling shareholder of the Company), Tianneng Holding and Tianneng Investment Management will undertake to the Spin-off Company that within 36 months from the listing date of the A shares of the Spin-off Company on the Shanghai Stock Exchange by way of an initial public offering (“**A Share IPO**”), they will not transfer or entrust others to manage their shares of the Spin-off Company, and will not allow the Spin-off Company to repurchase any of said shares of the Spin-off Company, issued before the A Share IPO which are directly or indirectly owned by the Company (excluding the shares issued in the A Share IPO). If they reduce their

LETTER FROM THE BOARD

holdings in the Spin-off Company within 2 years after the lock-up period aforesaid, the price for such shareholding reduction shall be no less than the offering price in the A Share IPO. If the closing price of the shares of the Spin-off Company is lower than the offering price in twenty consecutive trading days within 6 months after the listing of the shares of the Spin-off company, or the closing price at the end of the 6 months after listing is lower than the offering price, the lock-up period for the shares of the Spin-off Company will be extended for another 6 months automatically. In case of any ex-right and ex-dividend event, the above-mentioned offering price will be adjusted correspondingly; and

2. each of Mr. ZHANG Tianren, the Company, Tianneng Holding and Tianneng Investment Management will execute commitment letter(s) (the “**Commitment Letters**”) in favour of the Spin-off Company to, among others, avoid business competition with the Spin-off Group, to regulate and reduce related party transaction with the Spin-off Group and to maintain independence of the Spin-off Group. The undertaking to be provided by Mr. ZHANG Tianren, Tianneng Holding and Tianneng Investment Management should include the controlled entities (present or future) of each of Mr. ZHANG Tianren, the Company, Tianneng Holding and Tianneng Investment Management

Save for the Partnership Enterprises Subscription (as defined below) and the Strategic Investment Subscription (as defined below), the Company has no present intention to dispose of the shares in the Spin-off Company upon and immediately after the A Share IPO. The Directors believe that, notwithstanding the lock-up requirement as mentioned above, the Proposed Spin-off will be beneficial to the Company and Shareholders in the long run as the A Share IPO will render the Group’s investment in the Spin-off Group a publicly tradable asset, as a result of which the Group will be able to trade the shares of the Spin-off Company through an open trading platform as it sees fit in the future.

In addition, given that:

- (a) the Spin-off Group and the Remaining Group, whether before or after the A Share IPO, have separate and independent management teams to conduct their respective business;
- (b) the Spin-off Group has already established its own financial and management information system, which is independent from that of the Remaining Group; and
- (c) there is sufficient delineation in terms of business, director and management, purchase and sales function, finance and operation, between the Spin-off Group and the Remaining Group,

the Directors believe that the Commitment Letters are not expected to have any material adverse impact on the operations and business of the Remaining Group following completion of the Proposed A Share Listing.

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As at the Latest Practicable Date, the Spin-off Company had an aggregate of 841,200,000 issued shares. However, where there is any unforeseen changes in the offering proposal or other circumstances and the Spin-off Company will cease to be a subsidiary of the Company and the financial information of the Spin-off Company will cease to be consolidated in the Group's financial statements upon the completion of the Proposed Spin-off and the Proposed A Share Listing, the Company will re-comply with the requirements for notifiable transaction in accordance with Chapter 14 of the Listing Rules.

To incentivize the core employees of the Spin-off Group, certain management partnerships (collectively, the "**Partnership Enterprises**") has been established for holding the shares in the Spin-off Company for and on behalf of certain designated employees of the Spin-off Group. The Partnership Enterprises are indirectly owned by the Company as the general partner and by the designated employees of the Spin-off Group as limited partners. The Partnership Enterprises has subscribed to the share capital of the Spin-off Company and the Spin-off Company has issued new shares to the Partnership Enterprises (the "**Partnership Enterprises Subscription**").

The Partnership Enterprises Subscription involves an issue of 41,200,000 new shares representing 4.9% of the enlarged share capital of the Spin-off Company to 146 designated employees of the Spin-off Group, among whom, the Company is aware that (i) approximately 10 staff are existing shareholders of the Company; (ii) the single largest shareholder currently holds 120,000 shares in the Company, representing 0.01% of the total issued share capital of the Company; (iii) in aggregate, the total number of the Company's shares held by these staff does not exceed 0.05% of the total issued share capital of the Company; (iv) 8 staff are connected persons to the Company for their positions as the directors, chief executives, supervisors, etc. of the major subsidiaries of the Company; (v) Dr. ZHANG Tianren, being the Chairman and the largest shareholder of the Company, and his associates (as defined under the Listing Rules), as well as other directors of the Company and the immediate family members thereof shall not be entitled for the Partnership Enterprises Subscription; (vi) the shares of the Spin-off Company to be issued to the designated employees who are connected persons of the Company amount to 0.19% of the shares of the Spin-off Company. Incentivized employees holding shares of the Company shall abstain from voting for the Spin-off.

LETTER FROM THE BOARD

The major terms of the Partnership Enterprises Subscriptions are as follows:

Terms	Contents
The aggregate number of Spin-off Company's shares issued to the six partnership enterprises	41,200,000 shares
Subscription price	RMB7.69 per share
Percentage of issued shares over the issued share capital of the Spin-off Company immediately after the completion of the Partnership Enterprises Subscription	4.90%
Of which: (i) Percentage of the indirect shareholdings of the Remaining Group	3.24%
(ii) Percentage of the indirect shareholdings of designated employees	1.66%
Number of incentivized employees	146

The Spin-off Company has issued a total of 41,200,000 Spin-off Company's shares, of which, 13,963,920 Spin-off Company's shares have been issued to 146 designated employees through 6 Partnership Enterprises, involving an amount of RMB316,828,000 and representing 1.66% of the total issued share capital of the Spin-off Company immediately after the completion of the Partnership Enterprises Subscription. The Partnership Enterprises Subscription constitutes a deemed disposal of the interest in a subsidiary of the Company but does not constitute a disclosable transaction of the Company under Chapter 14 of the Listing Rules as the highest applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules is lower than 5%.

LETTER FROM THE BOARD

The designated employees under the Partnership Enterprises Subscriptions are all core members that serve important functions for the Company, e.g. management, production, sales, research, etc. On average, they have worked for the Company for approximately 6.9 years as shown in the following:

Function	Headcount	Percentage of the Spin-off Company's shares issued	Average years of service in the Company	Average years of industry experience
Key management staff	15	0.49%	6.1	24.5
Sales	24	0.16%	5.2	16.6
Research	16	0.11%	7.1	17.5
Production	44	0.38%	7.7	21.3
Management of major subsidiaries	18	0.19%	5.7	19.6
Management of HR, Finance, IT and other departments	29	0.34%	8.2	18.9
Total	146	1.66%	6.9	19.8

The percentage of the Spin-off Company's shares that the designated employees have subscribed to is approximately 1.66% and is determined with reference to their job responsibilities and their level of contribution to the Company's development. The average percentage each designated employee has subscribed to is approximately 0.01%.

The four employees with the highest subscription percentages under the Partnership Enterprises Subscription (two of whom hold 0.06% and two of whom hold 0.05%) are as follows:

Employees	Years of industry experience	Percentage of the Spin-off Company's shares issued	Details of job responsibilities
A	29	0.062%	Employee A joined the Company in 2013 and currently serves as the director and deputy general manager of the Spin-off Company
B	32	0.062%	Employee B joined the Company in 2017 and is currently the assistant to the chairman of the Spin-off Company

LETTER FROM THE BOARD

Employees	Years of industry experience	Percentage of the Spin-off Company's shares issued	Details of job responsibilities
C	35	0.047%	Employee C joined the Company in 2004 and is currently the vice president of the Company, in charge of the Company's research, technical quality, information technology, etc.
D	32	0.047%	Employee D joined the Company in 2014 and is currently the assistant to the chairman of the Spin-off Company, majorly responsible for strategic development

Within the Partnership Enterprises Subscriptions, the Spin-off Company has issued 1,638,600 Spin-off Company's shares to 8 connected persons, involving an amount of RMB12,600,834 and representing 0.19% of the total issued share capital of the Spin-off Company immediately after the completion of the Partnership Enterprises Subscription. The part of the Partnership Enterprises Subscription that involves the issue of new shares of the Spin-off Company to connected persons constitutes a deemed disposal of the interest in a subsidiary of the Company to connected persons. As the highest applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules is lower than 1% and the transaction is a connected transaction only because it involves connected persons at the subsidiary level, the deemed disposal is fully exempt from the connected transaction requirements pursuant to Rule 14A.76 and 14A.92 of the Listing Rules.

LETTER FROM THE BOARD

Details of shares issued by the Company to connected persons are as follows:

No.	Name of employee	Number of shares (in ten thousand shares)	Percentage over the issued share capital of the Spin-off Company immediately after the completion of the Partnership Enterprises Subscription	Details of connected relationship
1	Li Mingjun	52.02	0.062%	Director and deputy general manager of Tianneng Battery Group Co., Ltd.
2	Hu Minxiang	19.51	0.023%	Person-in-charge of financial department and secretary to the board of Tianneng Battery Group Co., Ltd.; Executive Director of Henan Jingneng Power Co., Ltd., a major subsidiary
3	Gao Yin	19.51	0.023%	Supervisor of Tianneng Battery Group Co., Ltd.
4	Yang Xinming	19.51	0.023%	Executive director and general manager of Tianneng Battery Group(Anhui) Co., Ltd., a major subsidiary
5	Yang Yong	7.80	0.009%	Executive director and general manager of Changxing Tianneng Vehicle Transport Co., Ltd., a major subsidiary

LETTER FROM THE BOARD

No.	Name of employee	Number of shares (in ten thousand shares)	Percentage over the issued share capital of the Spin-off Company immediately after the completion of the Partnership Enterprises Subscription	Details of connected relationship
6	Meng Lie	26.01	0.031%	Director of Jiyuan Wanyang Green Energy Co., Ltd., a major subsidiary; supervisor of Henan Jingneng Energy Co., Ltd., a major subsidiary
7	Wang Lianxin	13.00	0.015%	Supervisor of Tianneng Yinyue (Shanghai) New Energy Material Co., Ltd., a major subsidiary
8	Yang Songping	6.50	0.008%	Director of Anhui Tianchang Metal Material Supply Co., Ltd., a major subsidiary
	Total	163.86	0.190%	—

In determining employees' eligibility for the Partnership Enterprises Subscription, we have taken the following factors into consideration: (1) whether the employees are directors (other than independent non-executive directors), supervisors or senior management of the Spin-off Group; (2) whether the employees are core technical personnel of the Spin-off Group; (3) whether the employees are core and key employees of the Spin-off Group and have made significant contributions to the operation and development of the Spin-off Group.

The subscription price under the Partnership Enterprises Subscription is RMB7.69 per share and is determined with reference to (i) the Company's average price-to-earnings ratio from 1 January 2019 to 30 April 2019 (5.99 times); (ii) the net profit (after extraordinary items) of the Spin-off Group for the year 2018; (iii) the arm's length negotiations with the designated employees; (iv) the long-term services provided by the designated employees to the Spin-off Group in the past; and (v) the relatively low liquidity of the shares of the Spin-off Group before the Proposed A Share Listing

LETTER FROM THE BOARD

given that the Proposed A Share Listing will be subject to, among other things, obtaining approvals from the relevant PRC regulators in accordance with all applicable regulations and suitable market conditions, thus may or may not materialize. Considering the purpose of the Partnership Enterprise Subscription is to incentivise core talents of the Spin-off Group, the designated employees under the Partnership Enterprises Subscription have the option to sell and the Company has the obligation to buy back the shares of the Spin-off Company if the Proposed A Share Listing does not materialize by 2022.

Designated employees are subject to a lock up period of 4 year and cannot dispose their Spin-off Company's shares subscribed under the Partnership Enterprises Subscriptions immediately after the Proposed A Share Listing. Hence, RMB30.65 does not represent the exit share price for the designated employees under the Partnership Enterprises Subscriptions. If the Proposed A Share Listing materialises, the Company has no obligation to repurchase the Spin-off Company's shares held by the designated employees whatever their exit share prices shall be after the lock up period.

Based on the above considerations, the Company is in the opinion that the terms of the Partnership Enterprises Subscriptions are fair and reasonable to the Company and its shareholders as a whole.

It is also proposed that, by 30 June 2019, the Spin-off Company will introduce certain strategic investor(s) by way of subscribing to the share capital of the Spin-off Company (the "**Strategic Investment Subscription**"). Under the Strategic Investment Subscription, the Spin-off Company will issue new shares, that represent not more than 2.0% of the enlarged share capital of the Spinoff Company, to certain strategic investor(s) whose ultimate beneficial owners shall be Independent Third Parties. It is intended that the strategic investors under Strategic Investment Subscription shall not be existing shareholders of the Company nor connected persons to the Company.

As of the Latest Practicable Date, the Company has not confirmed the identity of the strategic investors, but has potentially considered the following four strategic investors that have revealed their intention to subscribe the shares of the Spin-off Company.

	Name of Investor	Controller of the Investor
1	三峽睿源創新創業股權投資基金(天津)合夥企業(有限合夥)	State-owned Assets Supervision and Administration Commission of the State Council (SASAC)
2	上海祥禾湧原股權投資合夥企業(有限合夥)	Yongjin Group
3	西藏暄昱企業管理有限公司	Heaven-Sent Capital Management Group Co., Ltd (Security Code: 833044.OC)
4	長興興能股權投資合夥企業(有限合夥)	The Bureau of Finance of Changxing

LETTER FROM THE BOARD

Upon preliminary negotiations between the Company and the strategic investors, the subscription price under the Strategic Investment Subscription is estimated to be approximately RMB12.80 per share. The subscription price under the Strategic Investment Subscription is estimated to be RM12.80 per share and is determined with reference to (i) the market practice for introducing strategic investors in the battery industry; (ii) the net profit (after extraordinary items) of the Spin-off Group for the year 2018; (iii) the arm's length negotiations with the strategic investors; (iv) the corporate governance improvement and the synergy to be brought to the Spin-off Group by the strategic investors; and (v) the relatively low liquidity of the shares of the Spin-off Group before the Proposed A Share Listing given that the Proposed A Share Listing will be subject to, among other things, obtaining approvals from the relevant PRC regulators in accordance with all applicable regulations and suitable market conditions, thus may or may not materialize.

The aggregate number of shares to be issued under the Strategic Investment Subscription is expected to be not more than 16,800,000 shares, representing not more than 2% over the issued share capital of the Spin-off Company immediately after the completion of the Strategic Investment Subscription. The subscription amount of the investors in aggregate will not exceed RMB215,040,000. As of the Latest Practicable Date, the Company and the strategic investors are still under negotiation in respect of the specific terms of the Strategic Investment Subscription for which no formal agreement has been signed.

The Strategic Investment Subscription will constitute a deemed disposal of the Company's equity interest in the Spin-off Company but will not constitute a notifiable transaction or a connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules given the size of the Strategic Investment Subscription. If the subscription under the Strategic Investment Subscription materialises, the Company shall publish a voluntary announcement as soon as practicable to further disclose the price determination basis and the value for introducing those strategic investors. However, where there is any unforeseen change or other circumstances, the Company will re-comply with the requirements for notifiable transaction and connected transaction in accordance with Chapter 14 and Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

The subscription price under the Partnership Enterprises Subscription is RMB7.69 per share, while the subscription price under the Strategic Investment Subscription and the Offer Price under Proposed A Share Listing are estimated to be approximately RMB12.80 per share and RMB30.65 per share respectively. The subscription prices under the Partnership Enterprises Subscription and under the Strategic Investment Subscription are different from the Offer Price under Proposed A Share Listing mainly due to the following reasons:

Subscription Types

Partnership Enterprises Subscription

Reasons for the price difference

The price difference is due to, among other things, (i) the Offer Price of RMB30.65 per share is an estimation that involves significant uncertainties, conditional on the factors as set out in the “Proceeds to be raised from the Proposed A Share Listing” contained in the Circular, in particular, conditional on the assumptions that the Proposed A Share Listing will be approved by the CSRC in 2020 and that the profit of the Spin-off Company will continue to grow at the current rate; (ii) the subscription price under the Partnership Enterprises Subscription has been determined with reference to existing situations and materialised factors abovementioned, in particular, the relatively low liquidity of the shares of the Spin-off Group before the Proposed A Share Listing; (iii) the Partnership Enterprises Subscription targets to provide designated employees with incentives and to align their interests with the Spin-off Company by way of share issuance. The Partnership Enterprises Subscription will incentivize and retain the core talents of the Spin-off Group, and thus may help the development and help create more value for the Spin-off Company and the Company as a whole.

LETTER FROM THE BOARD

Strategic Investment Subscription

The price difference is due to, among other things, (i) the Offer Price of RMB30.65 per share is an estimation that involves significant uncertainties, conditional on the factors as set out in the “Proceeds to be raised from the Proposed A Share Listing” contained in the Circular, in particular, conditional on the assumptions that the Proposed A Share Listing will be approved by the CSRC in 2020 and that the profit of the Spin-off Company will continue to grow at the current rate; (ii) the subscription price under the Strategic Investment Subscription has been estimated and determined with reference to existing situations, in particular, the relatively low liquidity of the shares of the Spin-off Group before the Proposed A Share Listing; (iii) the Strategic Investment Subscription targets to introduce external investors that can bring corporate governance improvement and synergy to the Spin-off Group, and thus may help the development and help create more value for the Spin-off Company and the Company as a whole. However, the Company considers that the potential value creation by introducing strategic investors is less certain than by incentivizing and retaining the existing core talents of the Spin-off Group, and therefore has estimated and determined the subscription price under the Strategic Investment Subscription with reference to the market practice for introducing strategic investors in the battery industry instead of to the Company’s average price-to-earnings ratio from 1 January 2019 to 30 April 2019.

The Partnership Enterprises Subscription and the Strategic Investment Subscription are not conditional on the Proposed Spin-off nor the Proposed A Share Listing.

No formal application for the Proposed A Share Listing has been filed yet. Despite the large amount of paper work and financial audit work relating to the Proposed Spin-off and the large number of applications for A share listing, the management of the Spin-off Company is striving for an earliest time for listing of the shares of the Spin-off Company on the Shanghai Stock Exchange in or around 2020.

LETTER FROM THE BOARD

The expected schedule for the Proposed A Share Listing is as follows:

Time	Events
July 2019	Seeking tutoring from the Zhejiang Bureau of the China Securities Regulatory Commission
Before December 2019	Submission of the A Share IPO application to the CSRC
Before December 2020	Completion of the issue and listing of A shares

If there is any material change in relation to the Proposed Spin-off, the Company shall notify its shareholders by way of disclosure and seek shareholders' approval in a general meeting in accordance with the requirements under Chapter 14 of the Listing Rules.

Proceeds to be raised from the Proposed A Share Listing

The Company estimates the gross proceeds to be raised from the Proposed A Share Listing will be no more than RMB3.588 billion, which is determined with reference to the following factors:

- (a) The capital needs of the projects of the Spin-off Company will be financed by the proceeds from initial public offering. It is expected that the proceeds to be raised from the Proposed A Share Listing will be used in the following areas: (1) green intelligent manufacturing and technology reform project; (2) high-energy power lithium battery and PACK project; (3) start-stop batteries projects; (4) new energy comprehensive research and development test center; (5) comprehensive digital support platform; (6) supplement working capital of the Spin-off Company. Taking into account the proposed scale of the production lines of the above projects and the expected corresponding construction, installation and engineering fees, fees for the purchase of production equipment and machinery and other ancillary fees, it is estimated that the capital needs of the above proposed usages will not exceed RMB3.600 billion. According to the regulations of the CSRC, the amount of proceeds to be raised from initial public offering shall not exceed the capital needs of the projects to be financed by the proceeds of initial public offering of the applicant. Therefore, it is expected that the proceeds to be raised from the Proposed A Share Listing shall be not more than RMB3.600 billion, which is the estimated aggregate amount of capital needs of the projects of the Spin-off Company to be financed by the proceeds of the Proposed A Share Listing; and

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- (b) The number of A shares to be issued by the Spin-off Company and the offer price per A share under the Proposed A Share Listing. It is expected that the indicative offer price per A share of the Spin-off Company (the “**Offer Price**”) will be approximately RMB30.65. The Offer Price will depend on the conditions of the PRC domestic market at the time of the Proposed A Share Listing, and will be determined with reference to the then responses to the price consultation and other method(s) to be agreed between the Spin-off Company and the lead underwriter(s). In determination of the Offer Price, the Spin-off Group shall take in account of (i) the operating results and performance of the Spin-off Group, including the net profit of the Spin-off Group in the financial year preceding the launch of the Proposed A share Listing; (ii) the net asset value per share of the Spin-off Group at the time of the launch; (iii) the expansion plan and the capital need of the Spin-off Group; (iv) the then responses to price consultation to the Proposed A share Listing in the book-building process; and (v) an appropriate price to earnings ratio to be determined by the Spin-off Group and the lead underwriter having considered the CSRC guidelines governing A share issuance in the PRC, as well as other comparable companies listed in the PRC in the same industry as the Spin-off Group. According to the Offer Price and the maximum of 117,060,000 A shares to be offered by the Spin-off Company, it is estimated that the maximum proceeds to be raised from the Proposed A Share Listing will be no more than RMB3.588 billion. Investors should be aware that the above-mentioned Offer Price is for illustration purpose only, and is determined based on several assumptions (which include, among others, the estimated maximum proceeds of RMB3.588 billion to be raised from the Proposed A Share Listing and the maximum of 117,060,000 A shares to be offered by the Spin-off Company). The above assumptions may be different at the time of the Proposed A Share Listing, therefore, the actual offer price may be different from the Offer Price.

The actual amount of proceeds to be raised from the Proposed A Share Listing is subject to the listing application documents to be submitted by the Spin-off Company to the CSRC.

Intended use of proceeds

The proceeds from the Proposed A Share Listing is intended to be used primarily to expand the lithium battery business and the intelligent transformation of lead-acid battery production bases, to develop start-stop batteries projects, to construct information systems and a comprehensive research and development test center, and to supplement the working capital.

The Spin-off Company intends to apply the proceeds from the Proposed A Share Listing (after deducting the issue and related expenses) on the following projects:

- 1 Green intelligent manufacturing and technology reform project
- 2 High-energy power lithium battery and PACK project
- 3 Start-stop batteries projects
- 4 New energy comprehensive research and development test center
- 5 Comprehensive digital support platform
- 6 Supplement working capital

LETTER FROM THE BOARD

Details of the above projects, their current status, expected time of use, estimated total investment needed for the usage of proceeds are set out below:

Unit: RMB100 million

No.	Name of projects	Project Description	Current status of project	Expected time of use	Estimated total investment	Percentage of Proceeds
1	Green intelligent manufacturing and technology reform project	Reform and upgrade of the existing lead-acid battery production line, shift of processing technology from gravity feeding technology to continuous plate production technology, automated transformation of casting and sheathing, as well as upgrade of the intelligent manufacturing system platform.	Project's feasibility analysis stage	In 4 years	11.00	30.56%
2	High-energy power lithium battery and PACK project	Newly construct the lithium ion battery and PACK production lines	Project's feasibility analysis stage	In 4 years	8.00	22.22%
3	Start-stop batteries projects	Newly construct the vehicle start-stop batteries production line	Project's feasibility analysis stage	In 4 years	3.00	8.33%

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Unit: RMB100 million

No.	Name of projects	Project Description	Current status of project	Expected time of use	Estimated total investment	Percentage of Proceeds
4	New energy comprehensive research and development test center	Newly construct a new energy comprehensive research and development test center, which integrates the research and development of advanced materials and high-performance materials, research and development of high-performance components and leading products, materials test and product performance test, research and development of system integration technology and Pack as well as system performance test.	Project's feasibility analysis stage	In 3 years	1.00	2.78%
5	Comprehensive digital support platform	Upgrade and reform of management information platform, construction of data management and big data platform, construction of industrial internet platform and construction of public technology platform	Project's feasibility analysis stage	In 4 years	3.00	8.33%
6	Supplement working capital	Funds used for supplementing working capital of company	N/A	In 1 year	10.00	27.78%
Total					36.00	100.00%

LETTER FROM THE BOARD

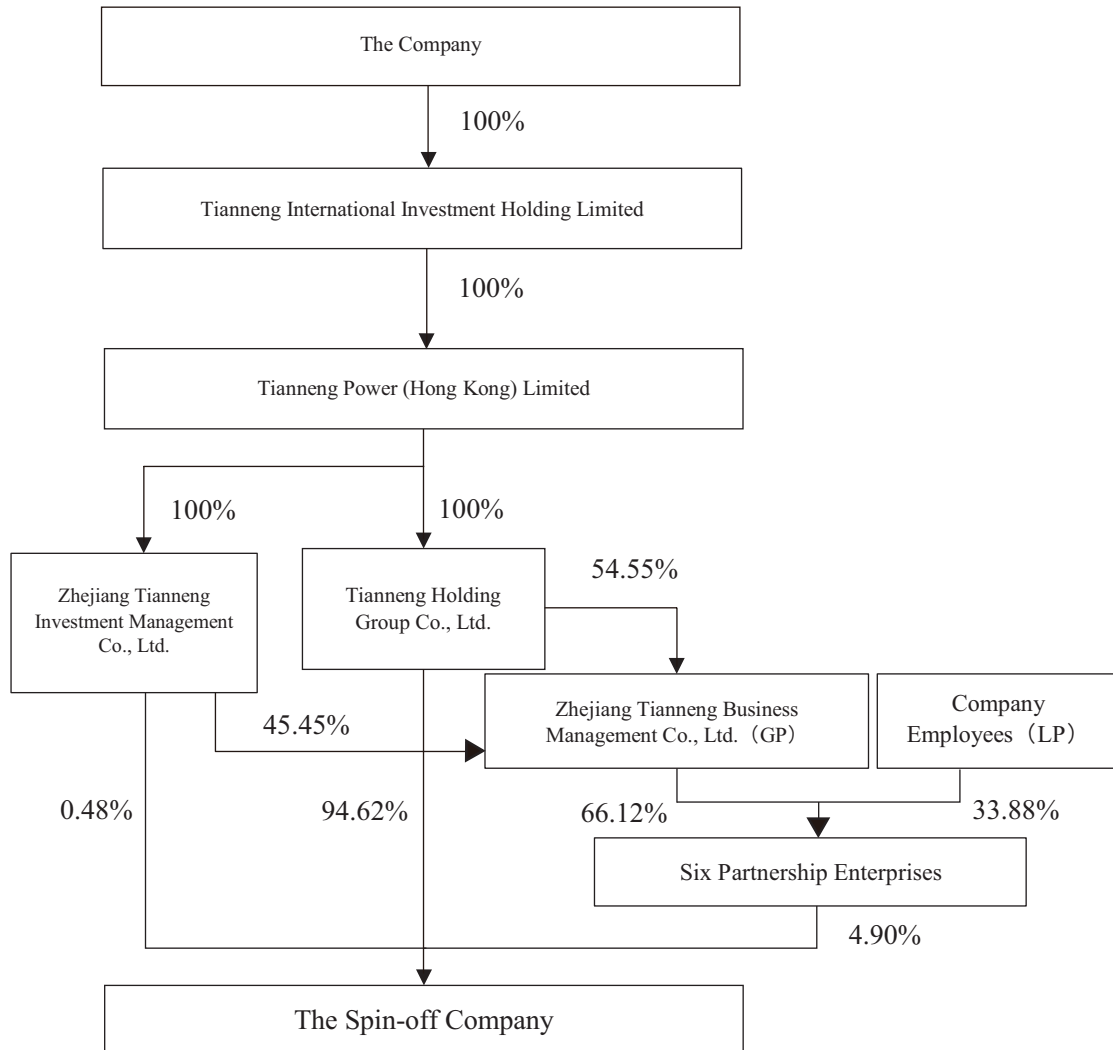
The Company anticipates that the proceeds to be raised under the Proposed A Share Listing will provide strong financial support for the Spin-off Company and accelerate its development; will enhance the Spin-off Company's influence and market reputation and promote its market development; will enable the Spin-off Company to optimise its corporate governance structure and improve its decision-making and management; and will enable the Spin-off Company to attract more skilled talents to support its healthy and rapid development.

The management of the Spin-off Company is striving for an earliest time for the completion of the Proposed Spin-off and the Proposed A Share Listing in or around 2020. If the Proposed Spin-off is postponed, terminated or lapsed, the Spin-off Company will use its best endeavours to finance the aforesaid projects with its own funds or funds to be raised by other financing method(s), which will include, among others, bank borrowings. In view of the large capital needs of the above projects, raising funds by financing methods other than issuance of equities will significantly increase the debt-to-assets ratio of the Spin-off Company. As at the Latest Practicable Date, the Company does not have any concrete plan for fund raising which will involve issuance of Shares of the Company for the purpose of raising the required amount of fund if the Proposed Spin-off is postponed, terminated or lapsed. However, depending on the actual circumstances, if there is a need for other forms of fund raising which will involve issuance of Shares of the Company in the future (with may or may not be related to the capital needs of the Spin-off Company), the Company will obtain all the necessary approval and authorization and comply with the requirements under the applicable laws and regulations (including but not limited to the Listing Rules) in respect of such proposed share issuance.

Simplified corporate structure of the Group as at the Latest Practicable Date and immediately after the completion of the Proposed Spin-off and the Proposed A Share Listing

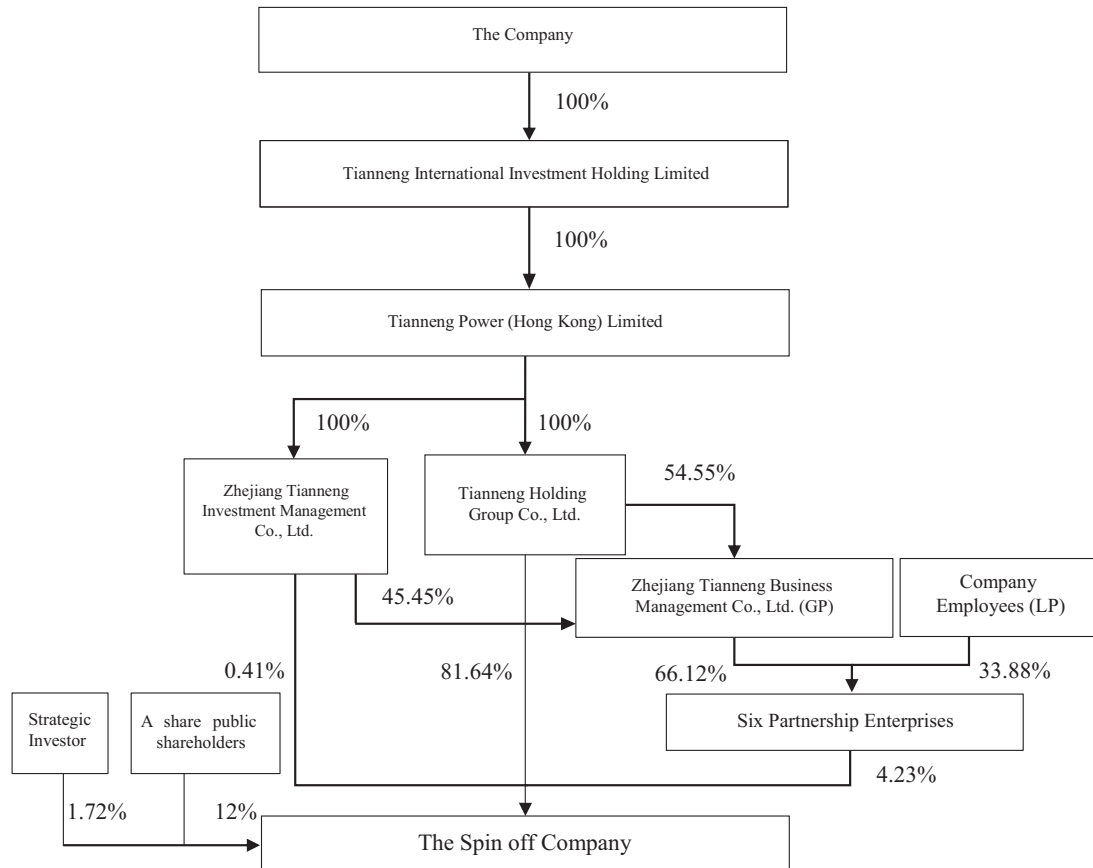
LETTER FROM THE BOARD

Simplified corporate structure of the Group as at the Latest Practicable Date



LETTER FROM THE BOARD

Simplified corporate structure of the Group immediately after completion of the Proposed Spin-off and the Proposed A Share Listing



Note: Assuming the Strategic Investment Subscription takes place prior to the completion of the Proposed A Share Listing.

CONDITIONS

Based on the information available to the Directors, the Proposed Spin-off and the Proposed A Share Listing will be conditional upon, among other things, the following:

- the approval of the CSRC, the Shanghai Stock Exchange and other authorized approving authorities in relation to the Proposed A Share Listing;
- approval by the Shareholders of the Proposed Spin-off at the EGM; and
- any other PRC regulatory approvals for the listing of and permission to deal in the A shares to be issued by the Spin-off Company.

If any of the above conditions is not fulfilled, the Proposed Spin-off and the Proposed A Share Listing will not proceed and an announcement will be published by the Company as soon as practicable.

LETTER FROM THE BOARD

Further, as required under paragraph 3(c) of PN15, the Company will only proceed with the Proposed Spin-off and the Proposed A Share Listing if the Remaining Group meets the requirements under paragraph 3(c) of PN15 for the three financial years preceding the completion of the Proposed Spin-off and the Proposed A Share Listing.

INFORMATION OF THE GROUP

The Company is incorporated in the Cayman Islands with limited liability and whose Shares are listed on the Main Board of the Stock Exchange. It is an investment holding Company. The Group is principally engaged in the production of motive batteries in China.

INFORMATION OF THE SPIN-OFF COMPANY

The Spin-off Company was incorporated in the PRC as a limited liability company on 13 March 2003 and is currently an indirect wholly-owned subsidiary of the Company.

INFORMATION OF THE SPIN-OFF GROUP

The Spin-off Group is principally engaged in the research and development, manufacture, sales and ancillary services of batteries (including lead-acid batteries, lithium batteries and other new energy batteries) business (collectively, the “**Batteries Business**” or “**Spin-off Business**”).

Key financial information of the Spin-off Group

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2017 RMB'000	For the year ended 31 December 2018 RMB'000
Revenue	21,744,435	26,358,572	33,289,679
Net profit (before tax and extraordinary items)	1,002,641	1,213,800	1,990,512
Net profit (after tax and extraordinary items)	638,673	822,425	1,063,191
	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2017 RMB'000	For the year ended 31 December 2018 RMB'000
Total assets	11,950,158	13,687,674	15,253,225
Net assets	3,577,737	4,318,875	4,354,028

LETTER FROM THE BOARD

INFORMATION OF THE REMAINING GROUP

The Remaining Group is principally engaged in the research and development, manufacture and sales of resource recycling (including recycled lead, alloys and recycled plastics etc.) business and investment management business in the PRC.

Key financial information of the Remaining Group

	For the year ended 31 December 2016 <i>RMB '000</i>	For the year ended 31 December 2017 <i>RMB '000</i>	For the year ended 31 December 2018 <i>RMB '000</i>
Revenue	2,339,520	2,725,148	3,471,545
Net profit (before tax and extraordinary items)	538,023	480,228	1,579,039
Net profit (after tax and extraordinary items)	135,478	151,898	92,713
	For the year ended 31 December 2016 <i>RMB '000</i>	For the year ended 31 December 2017 <i>RMB '000</i>	For the year ended 31 December 2018 <i>RMB '000</i>
Total assets	1,966,000	2,228,134	3,031,425
Net assets	1,418,486	1,635,474	2,095,228

REASONS AND BENEFITS OF THE PROPOSED SPIN-OFF AND THE PROPOSED A SHARE LISTING

The Directors consider that the Proposed Spin-off and the Proposed A Share Listing will be beneficial to both the Group and the Spin-off Group for the following reasons:

- (a) the proceeds from the Proposed A Share Listing is intended to be used primarily to expand the lithium battery business and the intelligent transformation of lead-acid battery production bases, to construct the Company's information systems and a comprehensive research and development test center, and to supplement working capital;
- (b) as the Remaining Group and the Spin-off Group operate in different business segments, they likely have different growth paths and different business strategies. The clear delineation between the businesses and products of the Remaining Group and the Spin-off Group provide greater transparency and business coherence and clearer corporate structure facilitating operation efficiency;

LETTER FROM THE BOARD

- (c) the Proposed Spin-off and Proposed A Share Listing will provide separate fundraising platforms for the Remaining Group and the Spin-off Group with respect to their respective operations and future expansion. In particular, after the completion of the Proposed Spin-off and Proposed A Share Listing, the Spin-off Group will have a separate and independent listing platform in the PRC which will enable it to have a direct access to the PRC capital market and to enhance its possibility to explore new financing and fund raising channels for the development of its business;
- (d) the Proposed Spin-off and Proposed A Share Listing will enhance the liquidity and value of the shares of the Spin-off Company by allowing the value of the Spin-off Group to be assessed on its own merits;
- (e) the Proposed Spin-off and Proposed A Share Listing will bring market-oriented valuation to the Spin-off Company. It is expected that the Proposed A Share Listing will obtain a higher asset premium, thus the Proposed Spin-off and Proposed A Share Listing will also create and unlock value of the shares of the Spin-off Company held by the Company; and
- (f) after completion of the Proposed Spin-off and Proposed A Share Listing, the Company remains to be the ultimate controlling shareholder of the Spin-off Company and will continue to consolidate the financial statements of the Spin-off Group. It would continue to enjoy the benefits arising from the future business development and growth of the Spin-off Group.

By building up a new financing platform in the PRC as a result of the Proposed Spin-off and the Proposed A Share Listing, it is expected that, among others, the corporate governance structure of the Group will be further enhanced and strengthened.

Having considered the above, the Board is of the view that the Proposed Spin-off, the Proposed A Share listing and the Waiver are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

ASSURED ENTITLEMENT

As mentioned in the announcement published by the Company on 23 April 2019 (the “**Announcement**”), the Stock Exchange, on 18 April 2019 granted a waiver from strict compliance with the applicable requirements in relation to the assured entitlement under paragraph 3(f) of Practice Note 15 of the Listing Rules (the “**Waiver**”) on the condition that the Company would include in an announcement: (i) the reasons for not providing its shareholders with assured entitlements to the shares in the Spin-off Company under paragraph 3(f) of Practice Note 15 in relation to the Proposed Spin-off and A Share Listing; (ii) the legal restriction under the PRC laws and regulations on the provision of assured entitlement; and (iii) the view of the Board on the implications of not providing its shareholders with the assured entitlements, and whether the Proposed Spin-off and A Share Listing and the Waiver are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

It has been mentioned in the Announcement that as part of the Proposed Spin-off and A Share Listing, there will be issue of new shares of the Spin-off Company and such shares will only be issued in the PRC. As advised by the PRC legal advisers of the Spin-off Company, under the relevant securities laws and other relevant regulations currently in force, other than (a) residents of Hong Kong and Macao Special Administrative Region and Taiwan working and living in the Mainland China; (b) foreigners working in the Mainland China and whose home country's securities regulatory authorities have established regulatory cooperation mechanisms with the CSRC; (c) foreigners who have obtained permanent residency in China; (d) eligible foreign investors who have made strategic investments in listed companies in the PRC; (e) qualified foreign investors (QFI); (f) RMB Qualified Foreign Institutional Investors (FQFII); (g) foreign natural investors who meet the requirements relevant to the incentive criteria under the Administrative Measures for the Incentive Measures of Listed Companies (only applicable to listed companies to implement the equity incentive for employees of foreign natural employees); and (h) foreign investors holding shares of the company to be listed before the initial public offering ((a) to (h) are collectively referred to as the “**Qualified Foreign Investors**”), non-PRC citizens would not be permitted under the PRC laws and regulations to acquire the shares issued by the Spin-off Company in connection with the Proposed Spin-off and the Proposed A Share Listing.

Based on the information available from the Company's branch share registrar in Hong Kong, a majority of the Shareholders of the Company are not considered Qualified Foreign Investors. Accordingly, it would be practically difficult, unduly burdensome and not commercially feasible for the Company to comply with the assured entitlement in the shares of the Spin-off Company under paragraph 3(f) of Practice Note 15 in relation to the Proposed Spin-off and the Proposed A Share Listing.

Having considered the above and the reasons for and benefits of the Proposed Spin-off and the Proposed A Share Listing under the section headed “REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF AND THE PROPOSED A SHARE LISTING”, the Board is of the view that the Proposed Spin-off, the Proposed A Share Listing and the Waiver are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising Mr. HUANG Dongliang, Mr. WU Feng and Mr. ZHANG Yong, being all independent non-executive Directors, has been established to advise the Shareholders in respect of the terms of the Proposed Spin-off. The letter from the Independent Board Committee is set out on page 28 of this circular.

The Company has also appointed Somerley Capital as the independent financial adviser to advise the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off. The letter from Somerley Capital is set out on pages 29 to 55 of this circular.

LETTER FROM THE BOARD

EGM

The EGM will be convened by the Company at Conference Room No. 9, 3/F, Tianneng Group Building, No. 18 Baoqiao Road, Huaxi Industrial Function Zone, Changxing County, Zhejiang, China on 12 July 2019 (Friday) at 2:00 p.m., at which a resolution will be proposed to consider and, if thought fit, approve the Proposed Spin-off. A notice convening the EGM is set out on pages 66 to 67 of this circular.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, apart from the designated employees who are existing shareholders of the Company and who are involved in the Partnership Enterprises Subscription, no Shareholder is required to abstain from voting at the EGM.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement of Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from 9 July 2019 to 12 July 2019, both days inclusive, during which no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 8 July 2019. Shareholders whose names are recorded in the register of members of the Company on 12 July 2019 are entitled to attend and vote at the EGM.

RECOMMENDATION

The Directors, including the independent non-executive Directors after taking into account the advice of Somerley Capital, consider that the terms of the Proposed Spin-off are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors, including the independent non-executive Directors, recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Proposed Spin-off.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Shareholders and prospective investors of the Company should note that the Proposed Spin-off and the Proposed A Share Listing will be subject to, among other things, obtaining approvals from the relevant PRC regulators in accordance with all applicable regulations and suitable market conditions, thus may or may not materialize. Accordingly, Shareholders and prospective investors are advised to exercise caution when dealing in the shares of the Company. The Company will make further announcement(s) in relation to the Proposed Spin-off and the Proposed A Share Listing in accordance with the requirements of the Listing Rules as and when appropriate.

By Order of the Board
Tianneng Power International Limited
Zhang Tianren
Chairman

** For identification purposes only*

LETTER FROM INDEPENDENT BOARD COMMITTEE



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)

24 June 2019

To the Shareholders

Dear Sir or Madam,

**PROPOSED SPIN-OFF AND SEPARATE LISTING OF
THE BATTERIES BUSINESS
BY WAY OF PROPOSED A SHARES LISTING OF THE SPIN-OFF COMPANY ON
THE SHANGHAI STOCK EXCHANGE
AND DEEMED DISPOSAL AND MAJOR TRANSACTION**

We refer to the circular of the Company dated 24 June 2019 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used herein have the same meanings as defined in the Circular unless otherwise specified.

We have been appointed as members of the Independent Board Committee to advise the Shareholders in respect of the terms of the Proposed Spin-off, details of which are set out in the letter from the Board in the Circular.

Having taken into account of the advice of Somerley Capital, we consider that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and the terms of the Proposed Spin-off is fair and reasonable so far as the Company and the Shareholders are concerned. Accordingly, we recommend the Shareholders to vote in favour of the resolution at the EGM to approve the Proposed Spin-off at the EGM.

Yours faithfully,
**Independent Board Committee of
Tianneng Power International Limited**
HUANG Dongliang, WU Feng
and ZHANG Yong,
Independent Non-Executive Directors

** for identification purposes only*

LETTER FROM SOMERLEY CAPITAL

The following is the letter of advice from Somerley Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

24 June 2019

To: the Independent Board Committee and the Shareholders

Dear Sirs,

**PROPOSED SPIN-OFF AND SEPARATE LISTING OF
THE BATTERIES BUSINESS BY WAY OF
PROPOSED A SHARES LISTING OF THE SPIN-OFF COMPANY
ON THE SHANGHAI STOCK EXCHANGE
AND DEEMED DISPOSAL AND MAJOR TRANSACTION**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Shareholders in relation to the Proposed Spin-off. Details of the Proposed Spin-off are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 24 June 2019 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

Subject to, among other things, approvals by the Shareholders and the relevant PRC regulators including the CSRC, it is currently proposed that the Spin-off Company will issue A shares on the Shanghai Stock Exchange by way of initial public offering to public investors in the market, or other methods as requested or agreed by the CSRC. As at the Latest Practicable Date, the Spin-off Company is an indirect non-wholly owned subsidiary of the Company. It is expected that immediately upon completion of the Proposed Spin-off and the Proposed A Share Listing, the Company will still have an indirect interest of not less than 50% in the Spin-off Company and therefore the Spin-off Company will remain as an indirect non-wholly owned subsidiary of the Company.

LETTER FROM SOMERLEY CAPITAL

As set out in the “Letter from the Board” contained in the Circular, certain management partnerships (collectively, the “**Partnership Enterprises**”), which are indirectly owned by the Company as the general partner and by certain designated employees of the Spin-off Group as limited partners, have subscribed to the share capital of the Spin-off Company and the Spin-off Company has issued new shares that represent approximately 4.9% of the enlarged share capital of the Spin-off Company to the Partnership Enterprises (the “**Partnership Enterprises Subscription**”). Some of the designated employees as mentioned above are connected persons of the Company, the shares of the Spin-off Company issued to the designated employees who are connected persons of the Company amount to approximately 0.19% of the shares of the Spin-off Company immediately after the completion of the Partnership Enterprises Subscription. The Partnership Enterprises Subscription constitutes a deemed disposal of interest in a subsidiary of the Company but does not constitute a disclosable transaction of the Company under Chapter 14 of the Listing Rules. Part of the Partnership Enterprises Subscription also involves the issue of new shares of the Spin-off Company to connected persons which constitutes a deemed disposal of interest in a subsidiary of the Company to connected persons. The deemed disposal is fully exempt from the connected transaction requirements pursuant to Rule 14A.76 and 14A.92 of the Listing Rules.

In addition, it is proposed that, by 30 June 2019, the Spin-off Company will introduce strategic investor(s) as subscribers to the share capital of the Spin-off Company (the “**Strategic Investment Subscription**”). Under the Strategic Investment Subscription, the Spin-off Company will issue new shares that represent not more than 2.0% of the enlarged issued share capital of the Spin-off Company, to certain strategic investor(s) whose ultimate beneficial owners shall be Independent Third Parties. It is intended that the strategic investors under Strategic Investment Subscription shall not be existing shareholders nor connected persons of the Company. The Company is yet to finalise the terms of the Strategic Investment Subscription which, if materialised, will constitute a deemed disposal of the Company’s equity interest in the Spin-off Company. It is currently not expected to constitute a notifiable transaction or a connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules. The Partnership Enterprises Subscription and the Strategic Investment Subscription are not conditional on the Proposed Spin-off nor the Proposed A Share Listing.

The Company has submitted a spin-off proposal to the Stock Exchange pursuant to PN15 and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off. The Stock Exchange has also granted the Company a waiver from strict compliance with the applicable requirements in relation to the assured entitlements under the Proposed Spin-off as required by paragraph 3(f) of PN15. Further details regarding the background to the waiver are set out in the section headed “Assured Entitlement” in the “Letter from the Board” contained in the Circular. As at the Latest Practicable Date, no formal application for the Proposed A Share Listing has been filed with the relevant regulatory authorities in the PRC yet and the management of the Spin-off Company is striving for the earliest time for listing of the shares of the Spin-off Company on the Shanghai Stock Exchange in or around 2020.

LETTER FROM SOMERLEY CAPITAL

The Proposed Spin-off constitutes a deemed disposal of interest in a subsidiary of the Company under Rule 14.29 of the Listing Rules. As the highest applicable percentage ratio in respect of the Proposed Spin-off (excluding the Partnership Enterprises Subscription and the Strategic Investment Subscription) is expected to be higher than 25% but less than 75%, the Proposed Spin-off, if proceeded, may constitute a major transaction for the Company and therefore will be subject to, among other things, the approval of the Shareholders under PN15 and Chapter 14 of the Listing Rules. As set out in the “Letter from the Board” contained in the Circular, other than those designated employees holding shares of the Company under the Partnership Enterprises Subscription, no other Shareholder is required to abstain from voting at the EGM to approve the Proposed Spin-off.

Pursuant to PN15, as the Proposed Spin-off (excluding the Partnership Enterprises Subscription and the Strategic Investment Subscription) is subject to the Shareholders’ approval, the Company is required to establish an independent board committee and appoint an independent financial adviser to advise the Shareholders as to (i) whether the terms of the Proposed Spin-off are fair and reasonable; (ii) whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole; and (iii) on how to vote. The Independent Board Committee, comprising all three independent non-executive Directors, namely Mr. HUANG Dongliang, Mr. WU Feng and Mr. ZHANG Yong, has been formed to make a recommendation to the Shareholders in connection with the Proposed Spin-off (excluding the Partnership Enterprises Subscription and the Strategic Investment Subscription). We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Shareholders in this regard.

There have been no engagements between the Company and Somerley Capital Limited during the past two years, and no relationships or interests between Somerley Capital Limited and the Group as at the Latest Practicable Date that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off (excluding the Partnership Enterprises Subscription and the Strategic Investment Subscription) as detailed in the Circular.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and we have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us in this context. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group (including the Spin-off Group), nor have we carried out any independent verification of the information supplied.

LETTER FROM SOMERLEY CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with respect to the Proposed Spin-off, we have taken into account the principal factors and reasons set out below.

1. Background and financial information of the Group

The Company has been listed on the Stock Exchange since 11 June 2007. As set out in the Company's 2018 annual report, the Company, together with its subsidiaries (including the Spin-off Group), are principally engaged in three major businesses in the PRC, involving the research and development, production and sales of different products, namely (i) high-end eco-friendly batteries; (ii) new energy batteries; and (iii) green renewable new materials. As set out in the Company's 2018 annual report, high-end eco-friendly batteries are the Group's traditional major business, which mainly represent lead-acid battery products, and the Group's products are widely used in electric bicycle, electric tricycle, micro electric vehicle, electric forklift and start-stop system for fuel vehicles. New energy battery business represents provision of lithium battery products which allows the Group to enter the energy storage sector and take advantage of the increased number of new energy vehicles. The Group is also actively developing its green renewable new material businesses, which involve recycling and cyclic utilisation of waste batteries. As advised by the management of the Company, in 2018, the high-end eco-friendly batteries business recorded revenue of approximately RMB28.743 billion, and revenue from new energy batteries and green renewable new materials businesses were approximately RMB0.553 billion and RMB2.046 billion respectively. Starting from 2018, the Group also engaged in trading of new energy materials, generating revenue of approximately RMB2.717 billion for the year.

Immediately after the Proposed Spin-off, the Remaining Group will continue to operate businesses not carried out by the Spin-off Group, including the research and development on recycling of resources and manufacture and sales of recycled resources (including recycled lead, alloys and recycled plastics etc.) business and investment management business. Business of the Remaining Group mainly represents the green renewable new materials business as mentioned above. On the other hand, the Spin-off Group will be principally engaged in the batteries business, including the high-end eco-friendly batteries and new energy batteries businesses, and the trading of new energy materials as mentioned above. As advised by the management of the Company, the business models, operational flow, core products and raw materials, target customers and suppliers of the Remaining Group and the Spin-off Group are significantly different, details of the business to be carried out by the Remaining Group are set out in the Appendix I to the Circular.

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Set out below is a summary of financial information of the Group for the three years ended 31 December 2016, 2017 and 2018 (extracted from the 2017 and 2018 annual reports of the Company):

	For the year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Revenue (note)	21,480,891	26,903,901	34,552,090
Profit before tax	1,145,083	1,407,588	1,604,911
Profit for the year	905,522	1,180,232	1,300,797

Note: only external sales are included

As set out in the Company's 2018 annual report, the Group's revenue experienced an annual increase of over 20% for each of the years from 2014 to 2018, from approximately RMB14.0 billion in 2014 to approximately RMB34.6 billion in 2018. In 2017, revenue increased by approximately 25.2% as compared to that in 2016, mainly due to the steadily rising market share of the Group in the industry of electric bicycle and tricycle motive batteries. Revenue in 2018 showed an increase of approximately 28.4% as compared to that in 2017, mainly attributable to (i) the increase in sales of electric bicycle and tricycle batteries and micro electric vehicles batteries with growing market demand as a result of the increasing awareness on environmental protection, promotion of energy conservation and emission-reduction policies; (ii) the growth in green renewable new materials business with active participation in relevant projects during the year; and (iii) the Group's engagement in trading of new energy materials during the year.

Profit for the year increased by approximately 30.3% from 2016 to 2017, primarily attributable to the increase in gross profit and other income. Profit for the year in 2018 was approximately RMB1,301 million, representing an increase of approximately 10.2% from 2017, mainly resulting from the increase in gross profit and partially offset by the increase in research and development costs incurred in 2018.

As at 31 December 2018, total assets of the Group amounted to approximately RMB16,641.3 million. The net asset value of the Group attributable to owners of the Company was approximately RMB5,539.8 million.

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After the Proposed Spin-off, the Spin-off Group will continue to develop the batteries business and be consolidated into the consolidated accounts of the Group. On the other hand, the Remaining Group (i.e. excluding the Spin-off Group) will be principally engaging in green renewable new materials business (i.e. the resources recycling) upon completion of the Proposed Spin-off. As stated in the section headed “Financial and operational prospects of the Group” contained in Appendix I to the Circular, currently, the consumption proportions of recycled lead in the western developed countries exceed 80%, while the current proportion of recycled lead production volume in China merely represents approximately 50% of the total lead production volume, thus showing great room for development and potential business opportunities for the Remaining Group. The executive Directors believe that the Remaining Group will continue to leverage on the existing used battery recovery bases all the way and deepen all-round green circular economy. It will gradually carry out the initial smelting and recycling of precious metals (such as tin, copper and antimony) in used batteries with its own technologies and will formulate plans for the recycling and reuse of other used materials (such as other scrap metal, waste electronic products, waste plastic products and scrap cars) in the future in order to further diversify its recycling business. The lithium battery recycling project has been developed simultaneously to improve the design of the multi-product circular industry chain. The green renewable new materials will provide the Remaining Group with steady profit contribution and generate favourable economic and social benefits.

2. Background and financial information of the Spin-off Group

The Spin-off Company was incorporated in the PRC as a limited liability company on 13 March 2003. The Spin-off Group will be principally engaged in the research and development, manufacture, sales and ancillary services of batteries (including lead-acid batteries, lithium batteries and other new energy batteries) business. As advised by the management of the Company, the target customers of the Spin-off Group include vehicle manufacturers (including electric bicycles, electric tricycles, electric vehicles, forklifts and other vehicle manufacturers), dealers and energy storage customers such as power plants and communication companies. As of the Latest Practicable Date, the Spin-off Company is an indirectly non-wholly owned subsidiary of the Company held as to approximately 98% by the Remaining Group.

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According to the section headed “Information of the Spin-off Group” in the “Letter from the Board” contained in the Circular, set out below is summary financial information of the Spin-off Group for the years ended 31 December 2016, 2017 and 2018:

	For the year ended 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue (Note)	21,744,435	26,358,572	33,289,679
Net profit (before tax and extraordinary items)	1,002,641	1,213,800	1,990,512
Net profit (after tax and extraordinary items)	638,673	822,425	1,063,191

Note: including sales to other subsidiaries within the Group

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	11,950,158	13,687,674	15,253,225
Net assets	3,577,737	4,318,875	4,354,028

As advised by the management of the Company, revenue of the Spin-off Group mainly represents income from sales of batteries. The Spin-off Group’s revenue amounted to approximately RMB21,744.4 million in 2016. Business continued to grow in 2017 and 2018 with revenue of approximately RMB26,358.6 million and approximately RMB33,289.7 million respectively, representing a year-on-year growth of approximately 21.2% and 26.3% respectively, primarily due to (i) the increase in number of electric tricycles and micro electric vehicles over the years, leading to higher demand for the related batteries in the market; and (ii) additional income source from trading of new energy materials in 2018. As stated in the section headed “Financial and operational prospects of the Group” in Appendix I to the Circular, in the future, the Spin-off Group will consolidate its leading position in the industry by deepening strategic cooperation with leading enterprises and manufacturers in relevant industries and actively promoting intelligent manufacturing and technological upgrades to improve its product quality.

The net profit after tax and extraordinary items of the Spin-off Group increased with its growth in revenue. Net profit after tax and extraordinary items amounted to approximately RMB638.7 million in 2016, it increased to approximately RMB822.4 million in 2017 and further to approximately RMB1,063.2 million in 2018, representing a year-on-year growth of approximately 28.8% from 2016 to 2017 and approximately 29.3% from 2017 to 2018, mainly attributable to the improvement in revenue level and increased scale of operations. As at 31 December 2018, total assets of the Spin-off Group amounted to approximately RMB15,253.2 million, mainly comprised cash and bank, fixed asset such as land and buildings and plant and equipment, and inventory. The net asset value of the Spin-off Group was approximately RMB4,354.0 million as at 31 December 2018.

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3. Reasons for and benefits of the Proposed Spin-off and the Proposed A Share Listing

Upon completion of the Proposed Spin-off and the Proposed A Share Listing, the Remaining Group and the Spin-off Group will have separate fundraising platforms, which will increase financing flexibility and adaptability of both entities to support and accelerate their respective operations and future expansion. In particular, the Spin-off Group will have the separate and independent listing platform in the PRC which enables it to have a direct access to the PRC capital market and to enhance its possibility to explore new financing and fund raising channels for the development of its business. As a result, it will also benefit the Shareholders with the Spin-off Group remaining as a subsidiary of the Company.

As the Remaining Group and the Spin-off Group operate in different business segments, they are likely to have different growth paths and business strategies. The clear delineation between the businesses and products of the Remaining Group and the Spin-off Group provides greater transparency, business coherence and clearer corporate structure, facilitating operation efficiency.

The Proposed Spin-off and Proposed A Share Listing will enhance the liquidity and value of the shares of the Spin-off Company by allowing the value of the Spin-off Group to be assessed on its own merits. In addition, the Proposed Spin-off and Proposed A Share Listing will bring market-oriented valuation to the Spin-off Company. It is expected that the Proposed A Share Listing will obtain a higher asset premium, thus the Proposed Spin-off and Proposed A Share Listing will also create and unlock value of the shares of the Spin-off Company held by the Company.

As stated in the section headed “Intended use of proceeds” in the “Letter from the Board” contained in the Circular, the proceeds from the Proposed A Share Listing are intended to be used primarily to expand the lithium battery business and the intelligent transformation of lead-acid battery production bases, to construct the Company’s information systems and a research and development test center, and to supplement working capital. After completion of the Proposed Spin-off and Proposed A Share Listing, the Company will remain as the ultimate controlling shareholder of the Spin-off Company and will continue to consolidate the financial statements of the Spin-off Group. It would continue to enjoy the benefits arising from the future business development and growth of the Spin-off Group.

As a result of the above, the Company’s management is of the view that the Proposed Spin-off will allow both the Remaining Group and the Spin-off Group to release business value and ultimately benefit the Shareholders.

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4. Conditions of the Proposed Spin-off

As set out in the section headed “Conditions” in the “Letter from the Board” contained in the Circular, the Proposed Spin-off and the Proposed A Share Listing will be conditional upon, among other things, (i) the approval of the CSRC, the Shanghai Stock Exchange and other authorised approving authorities in relation to the Proposed A Share Listing; (ii) approval by the Shareholders of the Proposed Spin-off at the EGM; and (iii) any other PRC regulatory approvals for the listing of and permission to deal in the A shares to be issued by the Spin-off Company.

Shareholders and potential investors should be aware that there is no assurance that the Proposed Spin-off will take place, and, if so, when it will take place. Shareholders and potential investors should exercise caution when dealing in or investing in the securities of the Company.

5. Principal structure of the Proposed Spin-off and the Proposed A Share Listing

(a) *Structure of the Proposed Spin-off*

As set out in the “Letter from the Board” contained in the Circular, the Proposed Spin-off will be effected by way of a proposed A shares listing on the Shanghai Stock Exchange. It is proposed that the Spin-off Company will offer not more than 117,060,000 new shares but should be no less than 10% of the total share capital after completion of the Proposed A Share Listing of the Spin-off Company (the “**Offer Shares**”). The number of the Offer Shares held by the public, in any event, will represent not more than 12% of the total issued share capital of the Spin-off Company as enlarged by the Proposed A Share Listing (assuming completion of the Strategic Investment Subscription prior to completion of the Proposed A Share Listing). The actual number of Offer Shares to be offered by the Company will depend on the market conditions and the relevant rules and regulations of the CSRC as amended from time to time. It is expected that immediately upon completion of the Proposed Spin-off and the Proposed A Share Listing, the Company will have an indirect interest of not less than 50% in the Spin-off Company and therefore the Spin-off Company will remain as an indirect non-wholly owned subsidiary of the Company and the operating results of the Spin-off Group will continue to be consolidated into the consolidated accounts of the Group.

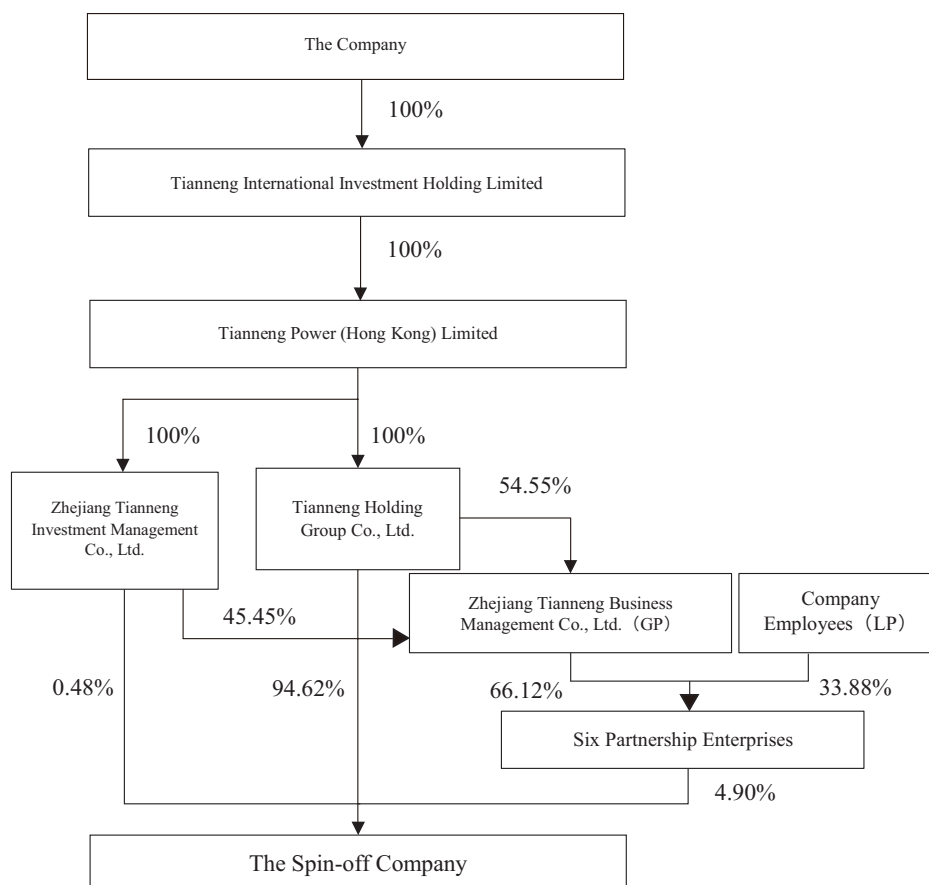
As at the Latest Practicable Date, the Company has carried out the Partnership Enterprises Subscription, pursuant to which, the Partnership Enterprises have subscribed to the share capital of the Spin-off Company and the Spin-off Company has issued new shares that represent approximately 4.9% of the enlarged share capital of the Spin-off Company to the Partnership Enterprises, which constitutes a deemed disposal of interest in a subsidiary of the Company. The Company is also considering to carry out the Strategic Investment Subscription prior to the completion of the Proposed A Share Listing, pursuant to which, the Spin-off Company will introduce strategic investor(s) as

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subscribers to the share capital of the Spin-off Company, where the Spin-off Company will issue new shares that represent not more than 2.0% of the enlarged issued share capital of the Spin-off Company, to certain strategic investor(s). The terms of the Strategic Investment Subscription are still under negotiation and, if materialised, will constitute a deemed disposal of the Company’s equity interest in the Spin-off Company.

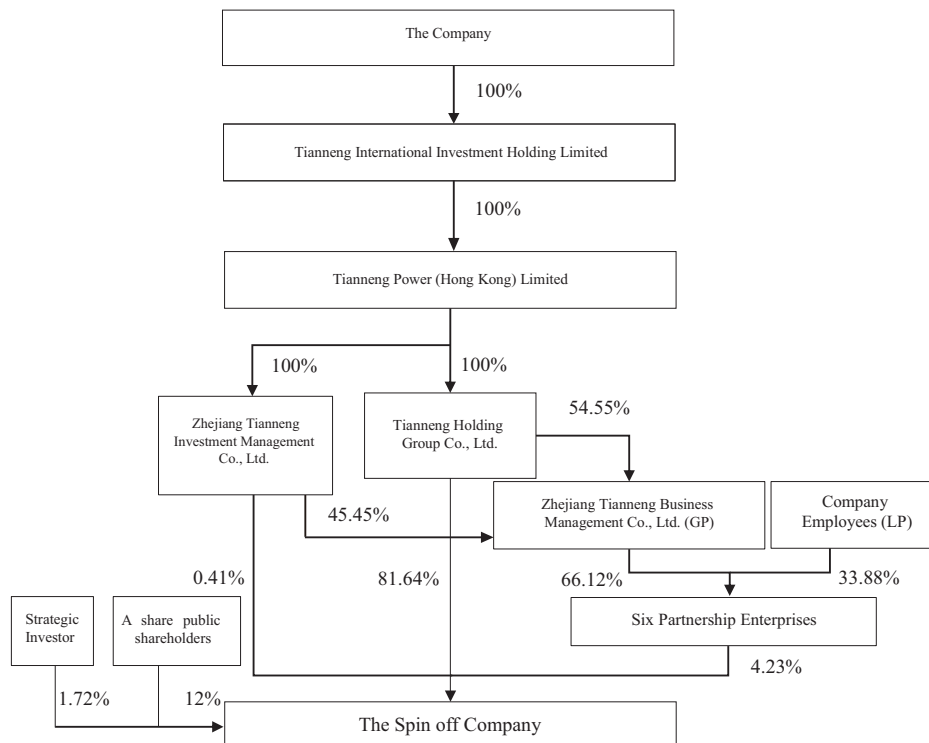
According to the section headed “Intended use of proceeds” in the “Letter from the Board” contained in the Circular, set out below is the shareholding structure of the Group and the Spin-off Group (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Proposed Spin-off and the Proposed A Share Listing:

(i) as at the Latest Practicable Date



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- (ii) immediately after completion of the Proposed Spin-off and the Proposed A Share Listing (assuming the Strategic Investment Subscription takes place prior to the completion of the Proposed A Share Listing)



It is expected that upon completion of the Proposed Spin-off and the Proposed A Share Listing, the shareholding percentage of the Company in the Spin-off Group will be diluted from approximately 98% as at the Latest Practicable Date to not less than 80%. Further details are discussed in the paragraph headed “(d) Dilution of interest in the Spin-off Group” under the section headed “6. Effects of the Proposed Spin-off on the Group” of this letter below.

(b) *Percentage of A shares to be issued*

It is currently proposed that the Spin-off Company will issue not more than 117,060,000 Offer Shares, representing not more than 12% of the total issued share capital of the Spin-off Company as enlarged by the Proposed A Share Listing (assuming completion of the Strategic Investment Subscription prior to completion of the Proposed A Share Listing). The actual number of the offered shares will be subject to the market conditions and the relevant rules and regulations of the CSRC as amended from time to time. It is expected that immediately after completion of the Proposed Spin-off and the Proposed A Share Listing, the Company will have an indirect interest of not less than 80%.

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(c) *Illustrative offer price*

It is estimated that, for illustrative purposes only, the indicative offer price per Offer Share to be listed on the Shanghai Stock Exchange will be approximately RMB30.65. The offer price per A share of the Spin-off Company will depend on the conditions of the PRC domestic market at the time of the Proposed A Share Listing, and will be determined with reference to the then responses to the price consultation and other method(s) to be agreed between the Spin-off Company and the lead underwriter(s). In determination of the Offer Price, the Spin-off Group shall take into account (i) the operating results and performance of the Spin-off Group, including the net profit of the Spin-off Group in the financial year preceding the launch of the Proposed A Share Listing; (ii) the net asset value per share of the Spin-off Group at the time of the launch; (iii) the expansion plan and the capital needs of the Spin-off Group; (iv) the then responses to price consultation of the Proposed A Share Listing in the book-building process; and (v) an appropriate price to earnings ratio to be determined by the Spin-off Group and the lead underwriter having considered the CSRC guidelines governing A share issuance in the PRC, as well as other comparable companies listed in the PRC in the same industry as the Spin-off Group. Investors should be aware that the above-mentioned indicative offer price per A share is for illustration purpose only, it is determined based on several assumptions (which include, among others, the estimated maximum proceeds of RMB3.588 billion to be raised from the Proposed A Share Listing and the maximum of 117,060,000 A shares to be offered by the Spin-off Company). The above assumptions may be different at the time of the Proposed A Share Listing, therefore, the actual offer price may be different from the indicative offer price.

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(d) *Intended use of proceeds*

As stated in the “Letter from the Board” contained in the Circular, the Spin-off Company intends to apply the proceeds (after deducting the issue and related expenses) from the Proposed A Share Listing (taking into account the A shares to be issued on the Shanghai Stock Exchange by way of initial public offering to public investors in the market only and excluding proceeds from the Partnership Enterprises Subscription and the Strategic Investment Subscription) in the following manner:

Name of projects or proposed usage	Approximate percentage of the total proceeds	Approximate amount of investment based on the expected proceeds of approximately RMB3.6 billion (RMB million)
Green intelligent manufacturing and technology reform project	30.6%	1,100
High-energy power lithium battery and PACK project	22.2%	800
Start-stop batteries projects	8.3%	300
New energy comprehensive research and development test center	2.8%	100
Comprehensive digital support platform	8.3%	300
Supplement working capital	27.8%	1,000
Total	100%	3,600

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The additional funds available to the Spin-off Group through the Proposed A Share Listing will enhance the financial position of the Spin-off Company and accelerate its business development including production as well as research and development of its products. It will also enhance the Spin-off Company's influence and market reputation and promote its market development and enable it to attract more skilled talents to support its healthy and rapid development. There may be changes to the proposed use of proceeds after taking into account the business development of the Spin-off Company and the prevailing market conditions, and it is subject to the listing application documents to be submitted by the Spin-off Company.

Shareholders are reminded that there is no assurance that the Proposed Spin-off and the Proposed A Share Listing will proceed in a timely manner or proceed at all. If the Proposed Spin-off is postponed, terminated or lapsed, the Spin-off Company will use its best endeavours to finance the aforesaid projects with its own funds or funds to be raised by other financing method(s), which will include, among others, bank borrowings.

(e) *Comparable companies*

As mentioned in the section headed "2. Background and financial information of the Spin-off Group" above of this letter, the Spin-off Group will be principally engaged in the research and development, manufacture, sales and ancillary services of batteries (including lead-acid batteries, lithium batteries and other new energy batteries) business.

Based on (i) the estimated minimum market capitalisation with reference to the expected gross proceeds of approximately RMB3,588 million from issuance of A shares on the Shanghai Stock Exchange by way of initial public offering to public investors in the market (assuming a maximum of 12% of the enlarged issued share capital of the Spin-off Company will be offered under the Proposed A Share Listing); and (ii) the net profit (after tax and extraordinary items) of the Spin-off Company for the year ended 31 December 2018 of approximately RMB1,063.2 million, the implied price-to-earnings ("P/E") of the Spin-off Group is approximately 28.1 times.

In order to provide the Shareholders with a general reference regarding the valuation of companies engaging in a business similar to that of the Spin-off Group, we have conducted a search on Bloomberg on a best effort basis for companies (the "**Comparable Companies**") (i) listed in the PRC under the industry of "Renewable Energy Equipment Manufacturing - Fuel Cells & Industrial Batteries" as classified by the Bloomberg Industry Classification System; and (ii) with revenue mainly generated from fuel cells and industrial batteries segment for the latest financial year based on information available on Bloomberg.

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The following table sets out the P/E ratios of the Comparable Companies for reference purpose:

Company name	Principal activities <i>(Note 1)</i>	P/E <i>(Note 2)</i>
Contemporary Amperex Technology Company Limited (300750.CH)	Manufacture of battery products	42.0
Eve Energy Company Limited (300014.CH)	Research and manufacture of lithium batteries	32.1
Guangdong Dongfang Precision Science & Technology Company Limited (002611.CH)	Design and manufacture of power batteries	N/A <i>(Note 3)</i>
Guangzhou Great Power Energy & Technology Company Limited (300438.CH)	Development and manufacturing of green and high-performance portable batteries	20.2
Shandong Sacred Sun Power Sources Company Limited (002580.CH)	Development, manufacture and sale of AGM, GEL and other new valve-regulated lead-acid batteries	N/A <i>(Note 3)</i>
Shenzhen Center Power Tech Company Limited (002733.CH)	Manufacture and sale of storage batteries	53.2
Shenzhen Kedali Industry Company Limited (002850.CH)	Design, manufacture and sale of structural components of energy, automobile, and solar and electrical powered automobile batteries	53.4
Wuxi Lead Intelligent Equipment Company Limited (300450.CH)	Design and manufacture of electronic capacitors, solar energy equipments and lithium batteries equipments	34.9

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Company name	Principal activities <i>(Note 1)</i>	P/E <i>(Note 2)</i>
Zhejiang Narada Power Source Company Limited (300068.CH)	Manufacture and sale of fully sealed batteries, fuel cell, lithium-ion batteries, nickel-metal hydride batteries, solar cells and other products	33.7
Fujian Nebula Electronics Company Limited (300648.CH)	Production of battery testing equipment, energy storage inverters, lithium battery automatic sorting machines, battery management systems, and other products.	90.2
	Average	44.9
	Average (excluding outliers) <i>(Note 4)</i>	38.5
	The Company <i>(Note 5)</i>	4.9
	The Spin-off Company	28.1

Source: Bloomberg

Note:

1. Principal activities of the Comparable Companies are sourced from Bloomberg.
2. P/E ratios of the Comparable Companies are extracted from Bloomberg as at the Latest Practicable Date.
3. Guangdong Dongfang Precision Science & Technology Company Limited recorded loss attributable to its equity holders and Shandong Sacred Sun Power Sources Company Limited recorded minimal earnings, no P/E ratio is available from Bloomberg and are excluded in the calculations of the average of multiples of the Comparable Companies.
4. Fujian Nebula Electronics Company Limited has a P/E ratio of over 90. In light of the relatively large P/E ratio as compared to other Comparable Companies, it is considered not comparable and is excluded in our assessment.
5. The P/E ratio of the Company is calculated based on (i) the market capitalisation of the Company for approximately HK\$7,031 million as at the Latest Practicable Date; and (ii) the profit attributable to the owners of the Company of approximately RMB1,252.4 million (equivalent to approximately HK\$1,423.2 million at the exchange rate of RMB0.88 = HK\$1) for the year ended 31 December 2018.

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As set out in the table above, the estimated implied P/E of the Spin-off Company upon the Proposed A Share Listing is within the range of those of the Comparable Companies, while the P/E of the Company is lower than those of the Comparable Companies and the Spin-off Company. Accordingly, it is considered that the Proposed Spin-off and the Proposed A Share Listing are likely to unlock the value of the Spin-off Company and create a higher market value in the PRC stock market.

Shareholders should note that the calculation of the implied P/E ratio of the Spin-off Company and the comparison above is for illustrative purposes only. The actual amount of gross proceeds to be raised from the Proposed A Share Listing and the actual P/E ratio of the Spin-off Company will be subject to the market conditions in the PRC at the time of the Proposed A Share Listing, and the financial performance of the Spin-off Company before its listing.

6. Effects of the Proposed Spin-off on the Group

Set out below are the possible effects of the Proposed Spin-off on the Group and the analysis of the financial effects of the Proposed Spin-off as illustrated below is based on the current structure of the Proposed Spin-off, assuming that the Spin-off Group will offer 117,060,000 A shares of the Spin-off Group by way of initial public offering to public investors in the market for the Proposed A Share Listing.

(a) Effect on net asset value

The Spin-off Group will continue to be accounted for as a subsidiary of the Company upon completion of the Proposed Spin-off and the financial results of the Spin-off Group will continue to be consolidated into the accounts of the Group. The net proceeds from the Proposed A Share Listing will increase the cash recorded in the consolidated balance sheet of the Group and total assets will increase accordingly. The Proposed Spin-off and the Proposed A Share Listing will not affect the liabilities of the Group, and therefore enhancing the net asset value of the Group.

The estimated change in the Group's net assets as mentioned above is based on, among others, the current terms of the Proposed Spin-off and the Proposed A Share Listing. Accordingly, the actual change in the Group's net assets, which will be calculated based on the final structure of the Proposed Spin-off and the Proposed A Share Listing, and the financial position of the Spin-off Group immediately upon the completion of the Proposed Spin-off, may be different from the above estimation.

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(b) *Effect on earnings*

The effect of the Proposed Spin-off on the future earnings of the Group will depend on, among others, the return generated from the proceeds raised from the Proposed A Share Listing as well as the future business operations of the Spin-off Group. For details of the benefits to be brought about by the Proposed Spin-off, please refer to the section headed “3. Reasons for and benefits of the Proposed Spin-off and the Proposed A Share Listing” of this letter above. The Proposed Spin-off will be regarded as a transaction with non-controlling interest, the carrying amount of the non-controlling interest will be adjusted to reflect the proportionate change in the non-controlling interest in the Spin-off Company. It is expected that there would be no gain or loss on the deemed disposal credited to the Company’s consolidated income statement as gain or loss upon the completion of the Proposed Spin-off and the Proposed A Share Listing in accordance with Hong Kong Financial Reporting Standards 10. The difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration received will be recorded in equity attributable to the owners of the Company.

Following completion of the Proposed Spin-off and the Proposed A Share Listing, the proportion of the Group’s profit attributable to owners of the Company contributed by the Spin-off Company is expected to be reduced as the Company’s interest in the Spin-off Group will be reduced. Consequently, profit attributable to the non-controlling interests of the Company is expected to increase.

(c) *Effect on working capital and gearing of the Group*

In view of the significant cash proceeds from the Proposed A Share Listing to be received by the Spin-off Group, which will remain as a subsidiary of the Company, we are of the view that the working capital position of the Group would improve as a result of the Proposed Spin-off.

As stated in the Company’s 2018 annual report, gearing ratio (calculated as total interest bearing loans divided by total assets) of the Group was approximately 16.2% as at 31 December 2018. On the above basis and taking into account the expected net proceeds from the Proposed A Share Listing, the Group’s gearing ratio is expected to decrease upon the completion of the Proposed Spin-off and the Proposed A Share Listing.

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(d) *Dilution of interest in the Spin-off Group*

Under the Proposed Spin-off and the Proposed A Share Listing, the issue of not more than 117,060,000 Offer Shares by the Spin-off Company will dilute the Company's interest in the Spin-off Company from approximately 98% as at the Latest Practicable Date to not less than 80%. In our opinion, such dilution, albeit not immaterial, is acceptable to the Shareholders taking into consideration the benefits to be derived from the Proposed Spin-off as discussed in the sub-sections above and the section headed "3. Reasons for and benefits of the Proposed Spin-off and the Proposed A Share Listing" of this letter.

(e) *Share price of the Company subsequent to announcement of a spin-off proposal*

As mentioned above, the Spin-off Group will be principally engaged in the manufacture of batteries. This business generated revenue of approximately RMB33,289.7 million in 2018. The Remaining Group is engaged in a substantially different business, which is research and development on recycling of resources and manufacture and sales of recycled resources (including recycled lead, alloys and recycled plastics). This business generated revenue of approximately RMB3,471.5 million in 2018 which is a considerably smaller figure than the Spin-off Group. However, as discussed in the sub-section headed "(b) Effect on earnings" above, the financial results of the Spin-off Group will continue to be consolidated into the accounts of the Group.

The change in the shareholding structure upon completion of a spin-off may result in a different valuation of the relevant shares in the market. This effect may be greater when the spin-off group is larger than the remaining group, as in the case of the Proposed Spin-off. Some financial theories suggest that a discount may apply when companies engaged in significantly different businesses (such as the manufacture of batteries and recycling, as in this case) are grouped as subsidiaries under a single holding company. If the holding company is listed, this discount may be observable by comparing the market capitalisation of the holding company with aggregate valuations of its individual subsidiaries (sometimes called a "sum-of-the-parts" valuation). This discount, if it exists, will apply whether the subsidiaries in question are listed or not. In our view, a spin-off of a subsidiary may tend to lessen such holding company discount after taking into account the benefits explained in the section headed "3. Reasons and benefits of

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the Proposed Spin-off and the Proposed A Share Listing” in this letter above such as increasing financing flexibility and transparency. If the spin-off is successful, it will make the holding company discount more visible because of the observable market price of the spin-off company, but the spin-off itself will not create such discount. Indeed, if it is necessary for the Group to raise funds and the estimated implied P/E of the spin-off company is significantly higher than that of the holding company, which is the case in the present example, it is likely to be advantageous for shareholders of the holding company that new funds are raised through the more highly rated spin-off subsidiary. The approximately RMB3.6 billion of funds to be raised from the Proposed A Share Listing will allow the Spin-off Company to accelerate its business development, details of which are set out in the sub-section headed “(d) Intended use of proceeds” under the section headed “5. Principle structure of the Proposed Spin-off and the Proposed A Share Listing” of this letter above.

To test the impact on valuation as a result of a spin-off exercise, we have performed a search on the website of the Stock Exchange on a best effort basis to identify listed companies (the “**ListCos**”) conducting spin-off exercises for separate listing of its subsidiary in the “A” share stock market (the “**Precedent Spin-off Exercises**”) which were not merely distribution in specie and constituted major transactions for the ListCos with circulars published since 1 January 2013 up to the day prior to the Latest Practicable Date. Since the Spin-off Group accounts for a significant part of the Group, we have looked into only those Precedent Spin-off Exercises constituting a major transaction for the ListCos as spin-off exercises with a small scale may not be comparable to the Proposed Spin-off. We have also excluded cases where the Precedent Spin-off Exercises were not approved by the shareholders of the ListCos.

We have compared the share price of the ListCos on the first trading day after the date of the initial announcement of the respective spin-off exercise with the price on the trading day immediately beforehand. We consider the comparison of the share prices immediately before and immediately after the initial announcement of the respective spin-off exercises to be the most appropriate basis as these prices reflect the market reaction to the spin-off exercise when the price sensitive information first becomes known to the market, after which the expectation of a spin-off exercise is “in the price”. In addition, an immediate comparison of prices means changes are unlikely to be due to any other factors other than the announcement of the spin-off; if a longer period was adopted, the results would be affected by extraneous factors such as the change in the overall market. The table below illustrates the results:

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Circular date	ListCos	Spin-off company	Relative size of the spin-off companies to that of the original group in terms of		Percentage change of share price of ListCos after date of initial announcement
			Revenue <i>(Note 1)</i> %	Net profits <i>(Note 1)</i> %	
15 Oct 2018	Dongyue Group Limited (189.HK)	Shandong Dongyue Organosilicone Materials Company Limited	24.1	0.2	(0.4)
8 Aug 2017	PW Medtech Group Limited (“PW Medtech”) (1358.HK)	Tianxinfu (Beijing) Medical Appliance Company Limited	43.6	78.3	6.1
8 Nov 2017	Truly International Holdings Limited (“Truly International”) (732.HK)	Truly Opto-Electronics Limited	58.1	68.2	2.0
23 Mar 2017	HuaBao International Holdings Limited (“HuaBao”) (336.HK)	Huabao Flavours & Fragrances Company Limited (300741.SZ)	46.9	100.0	5.2
21 Jun 2016	AVIC International Holdings Limited (“AVIC”) (161.HK)	Shennan Circuits Company Limited (002916.SZ)	9.9	11.9	6.7
27 Feb 2013	Beijing Beida Jade Bird Universal Sci-tech Company Limited (“Beijing Beida”) (8095.HK)	Beida Jade Bird Universal Fire Alarm Device Company Limited	78.3	67.4	1.8

Notes:

1. *Calculated based on financial information contained in the relevant circulars of the Precedent Spin-off Exercises and the relevant annual reports of the ListCos, where figures in Renminbi are converted at an exchange rate of RMB0.88 = HK\$1. These figures may include intercompany income.*

In evaluating the basis of comparison, we note that the spin-off business in the cases of PW Medtech, Truly International, HuaBao and Beijing Beida accounts for substantial portion of the original group’s revenue and over 60% of the net profits. In our view, these four cases are closely comparable to the Proposed Spin-off.

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As shown in the table above, the share price of 5 out of 6 of the Precedent Spin-off Exercises showed an increase on the trading day immediately after the date of the initial announcement of the respective spin-off exercise, ranging from approximately 1.8% to 6.7%. In addition, all the cases we identified as closely comparable showed increases ranging from approximately 1.8% to 6.1%. In one case, there was a decrease, but this was small at approximately 0.4% and was not one of the closely comparable cases.

In addition, we note that the spin off companies in the cases of HuaBao and AVIC have been listed successfully on the Shenzhen Stock Exchange. We have therefore also compared the share price of HuaBao and AVIC respectively on the first trading day after the date of announcing the approval from CSRC of the listing of the spin-off companies, which we consider to be one of the major conditions to spin off exercises conducted in the PRC, with the share price on the trading day immediately beforehand. We note that the share price of both HuaBao and AVIC showed an increase on the trading day immediately after the date of the announcement of approval in relation to the spin-off obtained from CSRC, which is approximately 3.1% for HuaBao and approximately 1.1% for AVIC.

On balance, therefore this analysis suggests that the announcement of a “A” share spin-off which is a major transaction has been accretive in value for shareholders.

As explained above, a holding company discount may exist when companies engaged in significantly different businesses are grouped as subsidiaries under a single holding company. Such a discount becomes more visible when a subsidiary is spun off and therefore has a market price for the shares but in our view this discount is not caused by the spin-off itself but is, on balance, likely to be reduced by it. Based on our analysis on the Precedent Spin-off Exercises above, the impact of the spin-off exercise of an “A” share company is on balance positive to the share price of the potential holding companies. Possible explanations may include benefits the market perceives to arise as a result of the spin-off, including the unlocking of value through a clear delineation of business and expectation of improved disclosure on the operating businesses as a result of the separate listing.

As an alternative evaluation, in addition to analysing the effect of spin-off exercises on the share prices, we have also performed an analysis on the completed spin-off exercises to understand whether a holding company discount may exist and how such discount (if any) may influence the valuation of the holding company. In this regard, we have compared the market capitalisation of HuaBao and AVIC (the two completed Precedent Spin-off Exercises) against the proportionate market values of their listed spin-off companies. The proportionate market values are calculated by multiplying the market capitalisation of the listed spin-off companies by the shareholding percentage held by HuaBao and AVIC respectively. The results are illustrated below:

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	HuaBao	AVIC
Market capitalisation of spin off company (HK\$ billion) (<i>note 1</i>)	22.5	34.1
Shareholding percentage held by holding company (<i>note 2</i>)	81.1%	69.7%
Proportionate market value (HK\$ billion)	18.2	23.8
Market capitalisation of holding company (HK\$ billion) (<i>note 1</i>)	10.3	4.5

Notes:

1. Market capitalisation extracted from Bloomberg as of the Latest Practicable Date where figures in Renminbi are converted at an exchange rate of RMB0.88 = HK\$1.
2. Shareholding percentage based on the latest annual reports of Huabao and AVIC.

As shown in the above table, the proportionate market value of the spin off company is greater than the market capitalisation of the holding company for both cases. The fact that the spin-off companies and the holding companies are traded on different markets subject to different ratings by investors is likely to contribute to the differences in valuations. It is also noted from the 2018 annual report of each of HuaBao and AVIC that liabilities of approximately RMB4.1 billion (including borrowings of approximately RMB3.4 billion) and approximately RMB2.7 billion (including borrowings of approximately RMB2.5 billion) were recorded on the financial statements on holding company level for the year ended 31 December 2018 of HuaBao and AVIC respectively. These significant liabilities are likely to have an impact on the valuation of the holding company as well. Without a full reconciliation of the consolidation adjustments and the other assets and liabilities of the holding company, which is not publicly available information, it is not possible to draw any reliable conclusion from this analysis.

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Shareholders should note that although a holding company discount may exist after the completion of the Proposed Spin-off and the Proposed A Share Listing, there is no certainty whether and to what extent it may apply. In addition, as explained above, in our view a spin-off exercise does not create such holding company discount but only makes it more visible, and such discount in our opinion is likely to be lessened by a spin-off exercise. As discussed in the section headed “3. Reasons for and benefits of the Proposed Spin-off and the Proposed A Share Listing” of this letter above, the Proposed Spin-off and Proposed A Share Listing will allow the value of the Spin-off Group to be assessed on its own merits. In the case of a spin-off of an “A” share company, the positive effect observed may be helped by a market perception that valuations of an “A” share company may be attractive. We note from our analysis in the paragraph headed “e. Comparable companies” under the section headed “5. Principal structure of the Proposed Spin-off and the Proposed A Share Listing” of this letter above that the estimated implied P/E of the Spin-off Company upon the Proposed A Share Listing of approximately 28.1 times is several times higher than the P/E of the Company of approximately 4.9 times as at the Latest Practicable Date, which may help to unlock the value of the Spin-off Company.

Having considered the above, Shareholders should note that there is no concrete evidence that the changes in the share price of the ListCos are directly or solely attributable to the Precedent Spin-off Exercises. The ListCos involved in the Precedent Spin-off Exercises have different nature of business operations, market capitalisations, financial performance and financial position as compared with those of the Company, and the Precedent Spin-off Exercises were conducted at different periods and under different market conditions. The circumstances leading to the ListCos to proceed with the Precedent Spin-off Exercises may also be different from those relating to the Company. The Share price movement of the Company upon completion of the Proposed Spin-off cannot be ascertained at this point in time, and the Share price may or may not change as a result of the Proposed Spin-off. Shareholders should also note the possible existence of a holding company discount. Although the above results indicate that the Proposed Spin-off may have a positive impact on the share price, we consider that Shareholders should principally take into account factors affecting the Group as a result of the Proposed Spin-off as set out in this letter, in particular the raising of new equity capital and the clearer delineation of the businesses.

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7. Waiver in respect of Assured Entitlement

Pursuant to paragraph 3(f) of PN15, the Board is required to give due regard to the interests of the existing shareholders of the Company by providing the Shareholders with an assured entitlement to the A shares of the Spin-off Company.

As part of the Proposed Spin-off and the Proposed A Share Listing, there will be issue of new shares of the Spin-off Company on the Shanghai Stock Exchange and such shares will only be issued in the PRC. As stated in the “Letter from the Board” contained in the Circular, as advised by the PRC legal advisers of the Spin-off Company, under the relevant securities laws and other relevant regulations currently in force, other than (a) residents of Hong Kong and Macao Special Administrative Region and Taiwan working and living in China; (b) foreigners working in China and whose home country’s securities regulatory authorities have established regulatory cooperation mechanisms with the CSRC; (c) foreigners who have obtained permanent residency in China; (d) eligible foreign investors who have made strategic investments in listed companies in the PRC; (e) qualified foreign investors (QFI); (f) RMB Qualified Foreign Institutional Investors (FQFII); (g) foreign natural investors who meet the requirements relevant to the incentive criteria under the Administrative Measures for the Incentive Measures of Listed Companies (only applicable to listed companies to implement the equity incentive for employees of foreign natural employees); and (h) foreign investors holding shares of the company to be listed before the initial public offering ((a) to (h) are collectively referred to as “**Qualified Foreign Investors**”), non-PRC citizens would not be permitted under the PRC laws and regulations to acquire the shares issued by the Spin-off Company in connection with the Proposed Spin-off and the Proposed A Share Listing.

Based on the information available from the Company’s branch share registrar in Hong Kong, a majority of the Shareholders of the Company are not considered Qualified Foreign Investors. Accordingly, it would be practically difficult, unduly burdensome and not commercially feasible for the Company to comply with the assured entitlement in the shares of the Spin-off Company under paragraph 3(f) of PN15 in relation to the Proposed Spin-off and the Proposed A Share Listing.

By reason of the above, the Company has also applied for and the Listing Committee has granted a waiver from strict compliance with the applicable requirements in relation to the assured entitlement under paragraph 3(f) of PN15.

DISCUSSION

The Group has two major businesses in the PRC, namely (i) the manufacture of batteries; and (ii) batteries recycling. The Spin-off Group, which is the subject of the Proposed Spin-off, is principally engaged in the manufacture of batteries. This business is clearly delineated from the business of the Remaining Group upon completion of the Proposed Spin-off. The business of the Spin-off Group is likely to appeal to a different investor base from the Remaining Group. The Proposed Spin-off allows both the Remaining Group and the Spin-off Group to have separate fundraising platforms and a better focus of resources on their respective business operations.

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Under the expected structure of the Proposed A Share Listing, the gross proceeds to be raised from the issuance of A shares on the Shanghai Stock Exchange by way of initial public offering to public investors in the market is estimated to be approximately RMB3.6 billion, approximately half the present market capitalisation of the Company. This is a substantial sum and will be used for the Spin-off Company's future development of batteries projects, research and development and information systems. Fresh capital to be raised by the Spin-off Group through the Proposed A Share Listing is expected to enhance its business operations and take advantage of new opportunities.

After the Proposed Spin-off and the Proposed A Share Listing, apart from the Group's interest in the Spin-off Company, the Group will continue to engage mainly in the research and development on recycling of resources and manufacture and sales of recycled resources (including recycled lead, alloys and recycled plastics etc.) business and investment management business. The Company will retain the Spin-off Company as a subsidiary following the Proposed A Share Listing, and accordingly will continue to retain control and indirectly benefit from its future profits and growth. It is expected that the net asset and working capital positions of the Group will be improved as a result of the Proposed Spin-off and the Proposed A Share Listing.

The Proposed Spin-off and the Proposed A Share Listing are expected to dilute the Company's interest in the Spin-off Company from approximately 98% as at the Latest Practicable Date to not less than 80%. We consider such level of dilution acceptable, taking into account the benefits which may be derived from the Proposed Spin-off and the Proposed A Share Listing as discussed in this letter. A waiver from strict compliance with the PN15 requirements in relation to the assured entitlement under the Proposed Spin-off has been obtained by the Company.

Based on the estimated minimum market capitalisation of the Spin-off Company and its 2018 earnings, the estimated implied P/E of the Spin-off Company would be approximately 28.1 times. Such P/E ratio is within the range of the P/E ratios of the Comparable Companies and lower than average P/E ratios of the Comparable Companies. It is several times higher than the Company's existing P/E ratio of approximately 4.9 times as at the Latest Practicable Date. We consider the Proposed Spin-off and the Proposed A Share Listing are likely to unlock the value of the Spin-off Company and create a higher market value in the PRC stock markets.

We have analysed the share price movement of the ListCos of other Precedent Spin-off Exercises. The results indicate that the Proposed Spin-off may have a positive impact on the share price, however, the estimation of the Share price movement upon completion of the Proposed Spin-off involves unknown factors and the Share price may or may not change as a result of the Proposed Spin-off. We also note the possible existence of a holding company discount but such discount, if it exists, may in our opinion be lessened by a spin-off exercise due to the benefits arising from the spin-off. We consider that Shareholders should principally take into account factors affecting the Group as a result of the Proposed Spin-off as set out in this letter, in particular the raising of new equity capital and the clearer delineation of the businesses.

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Overall, we are of the view that the Proposed Spin-off is a strategic move for the Group to finance the development of its batteries business at advantageous pricing. This should also result in an increase in net assets of the Group, strengthening its financial position. The Proposed Spin-off, if realised, will create a separate funding platform providing financing flexibility for the Spin-off Group, allowing it to have direct access to the PRC capital market and to enhance its possibility to explore new financing and fund raising channels for the development of its business.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that the terms of the Proposed Spin-off are fair and reasonable so far as the Company and the Shareholders are concerned and that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Proposed Spin-off.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Clifford Cheng
Director

Mr. Clifford Cheng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over nine years of experience in the corporate finance industry.

For illustration purposes, RMB is converted into HK\$ at RMB0.88 = HK\$1 in this letter.

CONSOLIDATED FINANCIAL STATEMENTS

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited balance sheet together with the notes on the annual accounts for the last financial year for the Group.

The audited consolidated financial statements of the Group for the year ended 31st December 2018 are set out from page 57 to page 139 in the Annual Report 2018 of the Company, which was published on 25 March 2019. Please see below a link to the Annual Report 2018 posted on the website of the Stock Exchange:

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0325/LTN20190325027.pdf>

The audited consolidated financial statements of the Group for the year ended 31st December 2017 are set out from page 61 to page 121 in the Annual Report 2017 of the Company, which was published on 26 March 2018. Please see below a link to the Annual Report 2017 posted on the website of the Stock Exchange:

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0326/LTN20180326017.pdf>

The audited consolidated financial statements of the Group for the year ended 31st December 2016 are set out from page 61 to page 123 in the Annual Report 2016 of the Company, which was published on 27 March 2017. Please see below a link to the Annual Report 2016 posted on the website of the Stock Exchange:

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2017/0327/LTN20170327045.pdf>

INDEBTEDNESS STATEMENT

As at the 30 April 2019, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the indebtedness of the Group comprises the following:

	As at 30 April 2019
	RMB'000
Borrowings	
Unsecured and unguaranteed:	
Bank borrowings	2,212,500
Other borrowings	93,800
	<u>2,306,300</u>
Sub-total	<u>2,306,300</u>
Unsecured and guaranteed:	
Bank borrowings	50,000
	<u>50,000</u>
Secured by assets owned by the Group and unguaranteed:	
Bank borrowings	2,644,542
	<u>2,644,542</u>
Total borrowings	<u>5,000,842</u>
Unsecured and unguaranteed:	
Loan notes	398,331
	<u>398,331</u>
Total borrowings and loan notes	<u><u>5,399,173</u></u>

Lease obligations

As of 30 April, 2019, the Group, as a lessee, had outstanding unpaid contractual lease payments, which represented the undiscounted amount after taking into account all embedded option and assessment under Hong Kong Financial Reporting Standards 16, for the remainder of the relevant lease terms amounting to RMB20,198,000 in aggregate (excluding contingent rental arrangement). Of the outstanding unpaid contractual lease payments, RMB14,190,000 were secured by rental deposits and unguaranteed, RMB5,412,000 were unsecured and guaranteed by an independent third party, and the remaining amounts of RMB596,000 were unsecured and unguaranteed.

Save as disclosed above or as otherwise mentioned herein, and apart from intra-group liabilities and normal accounts and other payables in the ordinary course of business, as of 30 April 2019, the Group did not have any other debt securities issued and outstanding, and authorised or otherwise created but unissued, and other term loans, other borrowings or indebtedness in the nature of borrowing including liabilities under acceptances or acceptance credits, other recognised lease liabilities, or lease commitments, and any other mortgages and charges, guarantees and material contingent liabilities.

STATEMENT OF SUFFICIENCY OF WORKING CAPITAL

Taking into account the financial resources available to the Group including the internally generated funds, available bank facilities and successful additional financing provided through successful issuance of new shares of the Spin-off Company to the strategic investors and some partnership enterprises, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF ON THE GROUP

The Spin-off Company will continue to be an indirect non-wholly owned subsidiary of the Company upon the completion of the Proposed Spin-off and the Proposed A Share Listing. Accordingly, the operating results of the Spin-off Company will be consolidated into the financial statements of the Company. The following is the expected financial impact of the Proposed Spin-off on the Group:

Earnings

The Proposed Spin-off will be regarded as a transaction with non-controlling interest, the carrying amount of the non-controlling interest will be adjusted to reflect the proportionate change in the non-controlling interest in the Spin-off Company. It is expected that there would be no expected gain or loss on the deemed disposal credited to the Company's consolidated income statement as gain or loss upon the completion of the Proposed Spin-off and the Proposed A Share Listing in accordance with HKFRS 10. The difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration received will be recorded in equity attributed to the shareholders of the Company. In addition, as the proportion of the Company's shareholding in the Spin-off Company will be diluted by not less than 70% immediately after the completion of the Proposed Spin-off and the Proposed A Share Listing, it is expected that the earnings attributable to controlling shareholders of the Company contributed by the Spin-off Company will decrease while the earnings attributable to non-controlling interests of the Company will increase.

Assets and liabilities

The Proposed A Share Listing will increase the number of shares of the Spin-off Company and raise corresponding funds. The net proceeds of the Proposed A Share Listing will increase the cash recorded in the consolidated balance sheet of the Group and increase the total assets of the Group correspondingly. The Proposed Spin-off will not affect the liabilities of the Group. However, the Proposed A Share Listing will raise funds and further improve the structure of the Group's assets and liabilities.

FINANCIAL AND OPERATIONAL PROSPECTS OF THE GROUP

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 and achieving the Group's high-quality and sustainable development.

In the future, the Group will deepen its reform comprehensively. In a new era where opportunities meet challenges, the Group will keep its strategic stamina and move forward without fear. While consolidating the foundation and stabilizing the major business, the Group will continue to boost the R&D of world-class sophisticated technology and the cultivation of global and senior professionals, making achievements in the process of optimizing the world energy pattern with high-end energy technologies. The Group will actively plan the diversified capital development, laying a solid foundation for the globalization, as well as creating a sustainable development industry with core competitiveness.

(a) The Spin-off Group*1. Electric bicycle and electric tricycle battery*

China is the world's largest producer and distributor of electric bicycles. 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. The Spin-off Group will consolidate its leading position in the industry, and increase its market share steadily with the following main measures:

- (1) Deepening the strategic cooperation with leading vehicle enterprises, accelerating product standardization and modular production, and rapidly realizing technological cost reduction.

- (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) Currently, the Spin-off Group has close to 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. In the future, the Spin-off Group will continue to give full play to brand advantages and channel advantages to accelerate the coordinated development of lead and lithium and provide high-quality solutions for customers.

2. *Micro electric vehicle battery*

Driven by factors such as diversified traffic conditions and moderate consumption upgrade, micro electric vehicles have gradually become an important part as usual traffic tools in rural areas and in urban areas. Currently, high-end eco-friendly batteries are the best option for micro electric vehicles and the Spin-off Group will continue to maintain its market leading position in the batteries for micro vehicles.

3. *Other high-end eco-friendly battery*

In the fields of electric forklift, start-stop system and smart energy, the Spin-off Group has strong brand power, marketing power, service support and industry leadership, and it continues to establish strategic cooperation with various leading manufacturers in the industry. The Spin-off Group has integrated resources by collaborating with strong manufacturers to further promote innovation in its business model and to increase its market share.

4. *New energy battery*

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. 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%.

As the new energy battery is an important strategic industrial segment of the Spin-off Group, the Spin-off Group will increase its investment and actively explore opportunities for new business development in order to lay a solid foundation and create an industry with core competitiveness.

(b) The Remaining Group

The key business of the Remaining Group is in renewable resources. The principal raw materials of the Remaining Group are waste batteries, waste metals, scrap and waste plastic products, etc. The principal products of the Remaining Group are secondary lead, lead alloys and recycled plastics. The principal sales model adopted is direct sale. The Remaining Group has an independent marketing team, which has established its own sales system and selected customers based on market-oriented principles to optimize its channel system.

The Remaining Group has two production bases in Changxing and Puyang in Zhejiang and Henan. The target customers of the Remaining Group are recycled materials traders and manufacturers that use recycled materials as raw materials (such as lead-acid battery manufacturers, recycled metal smelting companies, plastic products manufacturers, etc.). The major suppliers of the Remaining Group are waste resources recycling companies, waste resources traders, vehicle manufacturers, battery manufacturers, etc..

With the increasing consumption of primary lead resources, the reserves and mined output of its lead resources will decline year after year. Currently, the consumption proportions of recycled lead in the western developed countries, including the United States, Germany, Italy, the United Kingdom, Japan, Canada, Belgium and France, exceed 80%, while the current proportion of recycled lead production volume in China merely represents approximately 50% of the total lead production volume, thus showing a great room for development.

The Remaining Group will continue to leverage on the existing used battery recovery bases all the way and deepen all-round green circular economy. With the battery recovery rate as high as approximately 99%, the Remaining Group has become a benchmark enterprise for the harmless treatment of used batteries.

The Remaining Group will gradually carry out the initial smelting and recycling of precious metals (such as tin, copper and antimony) in used batteries with its own technologies, and will formulate plans for the recycling and reuse of other used materials (such as other scrap metal, waste electronic products, waste plastic products and scrap cars) in the future in order to further diversify its recycling business. The lithium battery recycling project has been developed simultaneously to improve the design of the multi-product circular industry chain. The green renewable new materials will provide the Remaining Group with steady profit contribution and generate favourable economic and social benefits.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

DISCLOSURE OF INTEREST**Interests and short positions of Directors in the Company**

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares and debentures of the Company (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under the provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Name of Director	Capacity	Number of interest shares held (note 1)	Aggregate approximate percentage of issued share capital of the Company (note 7)
Zhang Tianren	Interest of a controlled corporation (note 2)	410,355,650 (L)	36.42%
	Interest of spouse (note 2)	438,000 (L)	0.04%
Zhang Aogen	Interest of a controlled corporation (note 3)	13,641,022 (L)	1.21%
Zhang Kaihong	Interest of a controlled corporation (note 3)	18,884,174 (L)	1.68%
Shi Borong	Interest of a controlled corporation (note 5)	15,686,141 (L)	1.39%
Zhou Jianzhong	Interest of a controlled corporation (note 6)	2,362,815 (L)	0.21%
Huang Dongliang	Beneficial owner	240,000 (L)	0.02%

Notes:

- The letters “L” and “S” denote long position and short position in the shares of the Company respectively.
- The 410,355,650 shares of the Company were held by Prime Leader Global Limited, which was wholly-owned by Dr. Zhang Tianren. The interest in 438,000 shares arise from the share options granted to Ms. Yang Yaping, spouse of Dr. Zhang Tianren.
- The 13,641,022 shares of the Company were held by Top Benefits International Limited, which was wholly-owned by Mr. Zhang Aogen.

4. The 18,884,174 shares of the Company were held by Plenty Gold Holdings Limited, which was wholly-owned by Mr. Zhang Kaihong.
5. The 15,686,141 shares of the Company were held by Precise Asia Global Limited, which was wholly-owned by Mr Shi Borong.
6. The 2,363,815 shares of the Company were held by Centre Wealth Limited, which was wholly-owned by Mr. Zhou Jianzhong.
7. Shareholding percentage is based on 1,126,726,500 issued shares of the Company as at 31 December 2018.

Save as disclosed above, on 22 November 2010, a total of 1,680,000 options were granted to the associates of the Directors in accordance with the Company's share option scheme adopted pursuant to a resolution passed by the then Shareholders on 26 February 2007 (the "Scheme"). The names of other grantees who are associates of the Directors were listed in the announcement dated 22 November 2010. On 16 June 2014, the Company was granted 58,660,000 options to subscribe for Shares. Among the options, 2,215,000 options were granted to the associates of the Directors. The names of the grantees who are associates of the Directors were listed in the announcement dated 16 June 2014.

Interests in the Group's Assets or Contracts or Arrangements Significant to the Group

As at the Latest Practicable Date, none of the Directors of the Company had any interest in any asset which have been, since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors of the Company was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the businesses of the Group.

Service Contracts

All of the executive Directors and independent non-executive Directors of the Company have entered into services contracts or a letter of appointment with the Company respectively. The term of appointment of Dr. Zhang Tianren, Mr. Zhang Aogen, Mr. Zhang Kaihong, Mr. Shi Borong and Mr. Huang Dongliang, is 3 years from 11 June 2007; the term of appointment of Mr. Zhou Jianzhong is 3 years from 27 March 2015; the term of appointment of Mr. Wu Feng, is 1 year from 6 June 2015; the term of appointment of Mr. Zhang Yong is 3 years from 8 August 2018. The term of appointment of each Director is renewable by mutual agreement of both parties unless terminated by not less than three months' prior notice in writing served by either party. All Directors are subject to retirement by rotation and re-election at the Company's annual general meeting at least once every three years in accordance with Article No. 87 of the Company's articles of association.

Save as disclosed above, no Director has a service contract which is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

Competing Interests

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective associates was interested in any business (apart from the Group's businesses) which competes or is likely to compete either directly or indirectly with the Group's businesses (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them were a controlling shareholder).

Material Adverse Changes

The Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up).

Litigation

As at the Latest Practicable Date, none of the members of the Group were engaged in any litigation or arbitration or claim of material importance and the Directors were not aware of any litigation or arbitration or claim of material importance pending or threatened by or against any member of the Group.

Material Contracts

No material contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within two years preceding the date of this circular.

Expert

- (a) The following are the qualifications of the expert who has given opinion or advice contained in this circular:

Name	Qualification
Somerley Capital Limited	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO

- (b) Somerley Capital has given and has not withdrawn its written consent to the issue of this circular, with inclusion of its letter and references to its name in the form and context in which it appears.
- (c) As at the Latest Practicable Date, Somerley Capital did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

- (d) As at the Latest Practicable Date, Somerley Capital had no interest in any asset which have been since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

Miscellaneous

- (a) Ms. Hui Wai Man Shirley is the company secretary of the Company.
- (b) The registered office and the head office of the Company are situated at Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands.
- (c) The principal place of business of the Company is Suite 3202, 32 Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (d) The Hong Kong branch share registrar and transfer office is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Saved as otherwise stipulated in this circular, in the event of any inconsistency between the English version and the Chinese version, the English version shall prevail.

Documents for Inspection

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Suite 3202, 32 Floor Central Plaza, 18 Harbour Road, Wanchai, Hong Kong from the date of this circular up to 14 days thereafter:

- (a) the bye-laws of the Company;
- (b) the letter from the Board, the text of which is set out on pages 3 to 27 of this circular;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 28 of this circular;
- (d) the letter from Somerley Capital, the text of which is set out on pages 29 to 55 of this circular;
- (e) the written consent of the expert referred to in the paragraph headed "Expert" in this appendix;
- (f) the annual reports of the Company for each of the years ended 31 December 2017 and 2018; and
- (g) this circular.

NOTICE OF EGM



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Tianneng Power International Limited (the “**Company**”) will be held at Conference Room No. 9, 3/F, Tianneng Group Building, No. 18 Baoqiao Road, Huaxi Industrial Function Zone, Changxing County, Zhejiang, China on 12 July 2019 (Friday) at 2:00 p.m. for the purposes of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

1. “**THAT**

- (a) the spin-off of 天能電池集團有限公司 Tianneng Battery Group Co., Ltd. (the “**Spin-off Company**”), currently a 100% indirect non-wholly owned subsidiary of the Company, and a separate listing of the shares of the Spin-off Company on the Shanghai Stock Exchange (the “**Proposed Spin-off**”) be and is hereby approved; and
- (b) any one director of the Company be and is hereby authorised on behalf of the Company to do all such acts and sign all such documents and to enter into all such transactions and arrangements as may be necessary or expedient in order to ensure smooth implementation of and to give effect to the Proposed Spin-off.”

By Order of the Board
Tianneng Power International Limited
Zhang Tianren
Chairman

Hong Kong, 24 June 2019

Notes:

- (1) Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. All proxy forms must be deposited 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 less than 48 hours before the time appointed for the meeting or any adjournment meeting.

NOTICE OF EGM

- (2) The register of members of the Company will be closed from 9 July 2019 to 12 July 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 Meeting, 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 8 July 2019. Shareholders whose names are recorded in the register of members of the Company on 12 July 2019 are entitled to attend and vote at the Meeting.
- (3) Pursuant to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, all resolution(s) set out in this notice will be decided by poll at the Meeting.

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.

** for identification purposes only*