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天能

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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 38.47% to approximately RMB20.087 billion
- Gross profit increased by approximately 6.70% to approximately RMB1.823 billion
- Profit attributable to the owners of the Company increased by approximately 10.01% to approximately RMB564 million
- Basic earnings per share increased by approximately 10.11% to RMB50.1 cents

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Tianneng Power International Limited (the "**Company**") announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2019, together with the comparative figures for the same period in 2018. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's independent external auditors and the audit committee of the Company (the "**Audit Committee**").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

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

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

For the six months ended 30 June 2019

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

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

For the six months ended 30 June 2019

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
At 30 June 2019

	NOTES	**30.6.2019** **RMB'000** **(unaudited)**	31.12.2018 RMB'000 (audited)
Current liabilities			
Bills, trade and other payables	*12*	**7,511,301**	6,131,130
Amounts due to related parties		**9,295**	25,550
Taxation liabilities		**44,893**	232,495
Borrowings – current portion		**3,103,512**	1,856,650
Long-term loan notes – due within one year		–	378,588
Lease liabilities		**6,970**	–
Provisions		**593,737**	549,230
Contract liabilities		**1,350,457**	1,124,451
		12,620,165	10,298,094
Net current assets		**1,263,934**	1,072,711
Total assets less current liabilities		**6,728,207**	6,343,197
Non-current liabilities			
Deferred tax liabilities		**64,033**	102,609
Borrowings – non-current portion		**68,800**	68,800
Long-term loan notes		**398,409**	398,508
Lease liabilities		**16,451**	–
Redeemable shares of a subsidiary	*13*	**183,041**	–
		730,734	569,917
		5,997,473	5,773,280

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
At 30 June 2019

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

1. BASIS OF PREPARATION

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

Application of new and amendments to HKFRSs

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

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

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

Notes:

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

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

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

4. SEGMENT INFORMATION

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

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

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

4. SEGMENT INFORMATION *(Continued)*

Other segment information

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

5. OTHER INCOME

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

5. OTHER INCOME *(Continued)*

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

6. OTHER GAINS AND LOSSES

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

Notes:

i. Net gains (losses) on FVTPL represented gains (losses) arising on changes in fair value of equity securities.

ii. Net losses on derivative financial instruments represented losses arising on changes in fair value of commodity derivative contracts.

7. PROFIT BEFORE TAX

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

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

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

8. INCOME TAX EXPENSE

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

8. INCOME TAX EXPENSE *(Continued)*

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

9. DIVIDENDS

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

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

10. EARNINGS PER SHARE

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

11. TRADE AND OTHER RECEIVABLES

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

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

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

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

12. BILLS, TRADE AND OTHER PAYABLES

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade payables	**2,443,650**	2,100,189
Bills payables	**3,229,369**	2,062,703
Other payables and accrued charges	**1,730,882**	1,968,238
Considerations payables for restricted shares of a subsidiary *(note 14)*	**107,400**	–
	7,511,301	6,131,130

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

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

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

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

13. REDEEMABLE SHARES OF A SUBSIDIARY

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

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

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

14. SHARE-BASED PAYMENTS

Share options scheme

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

The total number of shares issued and which may fall to be issued upon exercise of the options granted pursuant to the Scheme to an eligible participant in any 12-month period shall not exceed 1% of the number of shares in issue unless approved by shareholders in a general meeting. The maximum number of shares in respect of which options may be granted under the Scheme shall not in aggregate exceed 10% of the shares in issue on the date on which dealings in the shares first commence on the Hong Kong Stock Exchange, i.e. a total of 100,000,000 shares (the "**Option Limit**"). Pursuant to an annual general meeting held on 16 May 2014, the Option Limit has been refreshed to 10% of the shares in issue on the date of the annual general meeting, i.e. a total of 111,190,800 shares.

All holders of options granted under the Scheme may only exercise their options in the following manner:

Maximum percentage of options exercisable	Vesting period
10% of the options	Upon the first anniversary of the date of grant
Additional 20% of the options	Upon the second anniversary of the date of grant
Additional 30% of the options	Upon the third anniversary of the date of grant
Additional 40% of the options	Upon the fourth anniversary of the date of grant

14. SHARE-BASED PAYMENTS *(Continued)*

Share options scheme *(Continued)*

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

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

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

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

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

14. SHARE-BASED PAYMENTS *(Continued)*

Share award scheme of a subsidiary of the Company

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has three major businesses in the People's Republic of China ("**PRC**" or "**China**"), namely the research and development (R&D), production and sales of: 1) high-end eco-friendly batteries and their related products; 2) new energy batteries and their related products; 3) green renewable materials and their related products.

REVIEW OF OPERATIONS

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

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

A. High-end eco-friendly batteries

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

1. Electric bicycle and electric tricycle battery

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

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

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

(1) Deepening the strategic cooperation with leading vehicle enterprises, strengthening the foundation of trust, enhancing the Group's influence in the new market of electric bicycle assembly, accelerating product standardization and modularized production, as well as achieving quality and efficiency improvements at the operation side.

(2) The Group continued to lead the world in technological upgrades and intelligent manufacturing in the advanced manufacturing industry, adopting crafts and techniques such as continuous casting and rolling, rare earth alloy and other formulas to improve batteries performance and production efficiency.

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

2. *Micro electric vehicles*

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

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

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

(1) Electric forklift

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

(2) Start-stop battery

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

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

(3) Smart energy

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

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

B. Green energy industry

1. New energy batteries

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

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

2. Green renewable materials

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

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

3. *Executing global strategy to expand the market*

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

(1) *International trade*

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

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

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

4. *Others*

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

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

Prospects

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

* *For identification purposes only*

FINANCIAL REVIEW

Turnover

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

Gross profit

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

Other income

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

Selling and distribution costs

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

Administrative expenses

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

Research and development costs

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

Finance costs

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

Operating activities cash flow

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

CAPITAL STRUCTURE, FINANCIAL RESOURCES AND LIQUIDITY

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

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

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

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

Pledge of assets

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

Gearing ratio

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

Exposure to exchange rate fluctuations

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

Contingent liabilities

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

Capital commitments

The amount contracted for but not stated in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment as at 30 June 2019 was approximately RMB388 million (31 December 2018: approximately RMB338 million).

EMPLOYEES AND REMUNERATION POLICIES

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

INTERIM DIVIDEND

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

SIGNIFICANT INVESTMENTS HELD

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

MATERIAL ACQUISITION AND DISPOSAL

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

For details, please refer to note 14 to the condensed consolidated financial statements.

IMPORTANT EVENTS SINCE THE END OF THE FINANCIAL PERIOD

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

CORPORATE GOVERNANCE

The Company is committed to ensuring high standards of corporate governance. The Board believes that good corporate governance practices are increasingly important for maintaining and promoting investors' confidence. The Company has adopted and complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), during the Reporting Period except for the code provision A.2.1 of the CG Code. Dr. Zhang Tianren is both the chairman ("**Chairman**") and Chief Executive Officer ("**CEO**") of the Company who is responsible for managing the Group's business. The Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Company's business strategies and maximizes the effectiveness of its operation. With the present Board structure and scope of business, the Board considers that there is no imminent need to separate the roles into two individuals. However, the Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether the separation of the position of the Chairman and CEO is necessary.

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

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

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

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

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

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

GENERAL INFORMATION

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

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

By order of the Board
Zhang Tianren
Chairman

Hong Kong, 30 August 2019