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 2020

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 14.26% to approximately RMB22.635 billion
- Gross profit increased by approximately 14.23% to approximately RMB2.116 billion
- Profit attributable to the owners of the Company increased by approximately 40.42% to approximately RMB837 million
- Basic earnings per share increased by approximately 40.42% to RMB74.27 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 2020, together with the comparative figures for the same period in 2019. 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 2020

	Notes	**For the six months ended 30 June 2020** *RMB'000* **(unaudited)**	2019 *RMB'000* (unaudited) (Restated)
Revenue	*3*	**22,634,969**	19,809,828
Cost of sales		**(20,519,206)**	(17,957,572)
Gross profit		**2,115,763**	1,852,256
Interest revenue		**53,265**	39,602
Other income	*5*	**334,274**	206,041
Other gains and losses	*6*	**6,198**	(5,196)
Impairment losses, net of reversal		**(19,016)**	4,238
Selling and distribution costs		**(377,900)**	(415,505)
Administrative expenses		**(353,303)**	(288,500)
Research and development costs		**(532,611)**	(506,415)
Other expenses		**(8,791)**	(8,956)
Share of loss of associates		**(337)**	–
Finance costs		**(106,318)**	(133,360)
Profit before taxation		**1,111,224**	744,205
Taxation	*7*	**(251,086)**	(153,336)
Profit for the period		**860,138**	590,869

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*
For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(Restated)
Other comprehensive income (expense):		
Items that will not be reclassified to profit or loss:		
Fair value changes of equity investment at fair value through other comprehensive income	**60,954**	(9,998)
	60,954	(9,998)
Items that may be reclassified to profit or loss:		
Fair value change of debt instruments measured at fair value through other comprehensive income	**(4,130)**	(340)
Income tax relating to items that may be reclassified subsequently	–	81
	(4,130)	(259)
Total comprehensive income for the period	**916,962**	580,612

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

For the six months ended 30 June 2020

		For the six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited) (Restated)
Profit for the period attributable to:			
Owners of the Company		**836,756**	595,875
Non-controlling interests		**23,382**	(5,006)
		860,138	590,869
Total comprehensive income for the period attributable to:			
Owners of the Company		**893,580**	585,618
Non-controlling interests		**23,382**	(5,006)
		916,962	580,612
Earnings per share	*10*		
– Basic		**RMB74.27 cents**	RMB52.89 cents
– Diluted		**RMB72.84 cents**	RMB51.84 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	**30 June 2020 RMB'000 (unaudited)**	31 December 2019 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		**5,007,780**	4,783,297
Goodwill		**499**	499
Right-of-use assets		**586,983**	593,720
Interest in an associate		**21,109**	1,446
Equity investments at fair value through other comprehensive income		**366,341**	284,036
Deferred tax assets		**455,455**	451,754
Deposit paid for acquisition of property, plant and equipment		**402,326**	238,360
Loan receivables		**165,583**	–
Long-term receivable		**12,590**	12,103
		7,018,666	6,365,215
Current assets			
Inventories		**4,375,000**	3,740,219
Bills, trade and other receivables	*11*	**2,555,881**	1,513,995
Loan receivables		**82,068**	–
Amounts due from related parties		**3,706**	3,709
Debt instruments at fair value through other comprehensive income		**982,010**	1,207,570
Financial assets at fair value through profit or loss		**1,395,039**	854,102
Pledged bank deposit		**1,085,262**	1,291,326
Bank balances and cash		**5,746,301**	4,154,191
		16,225,267	12,765,112

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
At 30 June 2020

	Notes	**30 June 2020** **RMB'000** **(unaudited)**	31 December 2019 RMB'000 (audited)
Current liabilities			
Bills, trade and other payables	*12*	**7,260,425**	6,746,172
Amounts due to related parties		**29,698**	20,024
Derivative financial instruments		**1,635**	104
Taxation payables		**157,528**	205,778
Borrowings – current portion		**1,761,244**	1,260,415
Long-term loan notes – due within one year		**399,633**	398,853
Deferred government grants		**33,290**	33,859
Lease liabilities		**6,699**	7,076
Provision		**689,124**	650,728
Contract liabilities		**3,634,160**	1,749,311
		13,973,436	11,072,320
Net current assets		**2,251,831**	1,692,792
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,270,497**	8,058,007
Non-current liabilities			
Borrowings – non current portion		**841,910**	252,746
Deferred government grants		**428,889**	425,150
Lease liabilities		**11,245**	15,497
Other payables		**18,120**	–
Deferred tax liabilities		**112,509**	78,098
		1,412,673	771,491
NET ASSETS		**7,857,824**	7,286,516

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2020

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Capital and reserves		
Share capital	**109,850**	109,905
Reserves	**7,039,749**	6,554,699
Equity attributable to owners of the Company	**7,149,599**	6,664,604
Non-controlling interests	**708,225**	621,912
TOTAL EQUITY	**7,857,824**	7,286,516

1. BASIS OF PREPARATION

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

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

These 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 (the "**HKICPA**") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed consolidated financial statements should be read in conjunction with the 2019 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2019.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRS**"); Hong Kong Accounting Standards ("**HKAS**"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

3. REVENUE

Revenue represents the amounts received and receivable for goods sold excluding value added taxes, less returns and allowances and services provided by the Group to outside customers during the period.

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(Restated)
Sales of batteries and battery related accessories Lead-acid battery products		
Electrical bicycle (tricycle) battery *(note i)*	**10,633,396**	11,329,175
Micro electric vehicle battery	**764,163**	755,491
Special-purpose battery *(note ii)*	**243,334**	199,578
Renewable resources product	**397,298**	508,565
Lithium battery products	**402,880**	254,861
Others	**540,383**	260,747
Trading of new energy materials	**9,653,515**	6,501,411
	22,634,969	19,809,828

Note:

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.

4. SEGMENT INFORMATION

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

Segment revenue and results

For the period ended 30 June 2020

	Sales of batteries and battery related accessories *RMB'000* (unaudited)	Trading of new energy materials *RMB'000* (unaudited)	Total *RMB'000* (unaudited)
Reportable segment revenue derived from the group's external customer	12,981,454	9,653,515	22,634,969
Inter-segment sales	–	1,938,804	1,938,804
Reportable segment revenue	12,981,454	11,592,319	24,573,773
Segment profit	856,668	1,904	858,572
Other gains and losses			6,553
Corporate administrative expenses			(4,987)
Profit for the period			860,138

4. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

For the period ended 30 June 2019

	Sales of batteries and battery related accessories	Trading of new energy materials	Total
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(unaudited)
	(Restated)	(Restated)	(Restated)
Reportable segment revenue derived from the group's external customer	13,308,417	6,501,411	19,809,828
Inter-segment sales	–	592,735	592,735
Reportable segment revenue	13,308,417	7,094,146	20,402,563
Segment profit/(loss)	602,538	(3,899)	598,639
Other gains and losses			(977)
Corporate administrative expenses			(2,170)
Finance costs			(4,623)
Profit for the period			590,869

4. SEGMENT INFORMATION *(Continued)*

Other segment information

For the period ended 30 June 2020	Sales of batteries and battery related accessories	Trading of new energy materials	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	248,307	73	–	248,380
Amortisation of right-of-use assets	10,652	–	–	10,652
Loss on disposal/written off of property, plant and equipment	8,668	–	–	8,668
Write-down of inventories	1,126	–	–	1,126

For the period ended 30 June 2019	Sales of batteries and battery related accessories	Trading of new energy materials	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(Restated)	(Restated)	(Restated)	(Restated)
Depreciation of property, plant and equipment	208,535	60	–	208,595
Amortisation of right-of-use assets	8,035	–	–	8,035
Loss on disposal/written off of property, plant and equipment	44,625	–	–	44,625
Write-down of inventories	10,686	–	–	10,686

5. OTHER INCOME

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(Restated)
Government grants *(note)*	**294,528**	176,998
Dividend income	**50**	6,468
Others	**39,696**	22,575
	334,274	206,041

Note: The government grants mainly represent unconditional subsidies from the relevant development zone administrative committees and the local governments of the PRC 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

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(Restated)
Net gains (losses) on financial assets at FVTPL		
– structured bank deposits	**18,673**	39,616
– held-for-trading investments *(note i)*	**15,776**	13,678
– commodity derivative contracts *(note ii)*	**(14,518)**	(12,521)
Loss on disposal/write off of property, plant and equipment	**(8,668)**	(44,625)
Net foreign exchange losses	**(5,065)**	(1,344)
	6,198	(5,196)

Notes:

i) Net gains on FVTPL represented gains 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. TAXATION

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(Restated)
Hong Kong Profits Tax:		
– Current tax	**–**	–
PRC Enterprise Income Tax ("**EIT**"):		
– Current tax	**221,321**	144,909
– Underprovision in prior years	**–**	(5,491)
Deferred tax:	**29,765**	13,918
	251,086	153,336

The income tax expense of the Group is recognised based on the PRC EIT rate of 25% (six months ended 30 June 2019: 25%). Certain subsidiaries of the Group were recognised as High-Tech companies and enjoyed a tax rate of 15% during the both periods.

8. PROFIT FOR THE PERIOD

The Group's profit for the period is stated after charging the following:

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(Restated)
Write-down of inventories (included in cost of sales)	**1,126**	10,686
Depreciation of property, plant and equipment	**248,380**	208,595
Amortisation of right-of-use assets	**10,652**	8,035
Directors' remuneration	**1,487**	1,642

Share-based payments expense of approximately RMB6,520,000 (six months ended 30 June 2019: 1,110,000) was recognised in profit or loss during the six months ended 30 June 2020 in respect of restricted shares of a subsidiary of the Group granted in the current period. Details of transactions are set out in note 13.

9. DIVIDENDS

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Dividends recognised as distribution during the year:		
1.1.2020 to 30.6.2020: 2019 final dividend of HK39.00 cents (equivalent to RMB35.04 cents) per ordinary share (1.1.2019 to 30.6.2019: 2018 final dividend of HK38.00 cents (equivalent to RMB33.30 cents))	**404,261**	376,251

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 and 30 June 2019.

10. EARNINGS PER SHARE

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(Restated)
Earnings for the purposes of calculating basic and diluted earnings per share – Profit for the year attributable to the owners of the Company	**836,756**	595,875
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,126,627,269**	1,126,726,500
Effect of dilutive potential ordinary shares – share options	**22,202,044**	22,818,755
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,148,829,313**	1,149,545,255

11. BILLS, TRADE AND OTHER RECEIVABLES

	30 June 2020 *RMB'000* **(unaudited)**	31 December 2019 *RMB'000* (audited)
Trade receivables	**1,362,103**	861,090
Less: Allowance for credit losses	**(231,482)**	(219,221)
	1,130,621	641,869
Other receivables	**295,658**	183,295
Less: Allowance for credit losses	**(44,230)**	(38,035)
	251,428	145,260
Prepayment	**799,051**	490,639
PRC value added tax receivables	**374,781**	236,227
	2,555,881	1,513,995

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

	30 June 2020 *RMB'000* **(unaudited)**	31 December 2019 *RMB'000* (audited)
0 to 45 days	**662,125**	338,350
46 to 90 days	**299,812**	218,825
91 to 180 days	**124,551**	38,061
181 to 365 days	**37,484**	19,614
1 year to 2 years	**3,970**	26,472
Over 2 years	**2,679**	547
	1,130,621	641,869

12. BILLS, TRADE AND OTHER PAYABLES

	30 June 2020 *RMB'000* **(unaudited)**	31 December 2019 *RMB'000* (audited)
Trade payables	**2,156,981**	1,980,354
Bills payables	**3,143,848**	2,771,524
Other payables and accrued charges	**1,977,716**	1,994,294
	7,278,545	6,746,172
Less: Amount due and repayable over one year shown under non-current liabilities	**(18,120)**	–
	7,260,425	6,746,172

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

	30 June 2020 *RMB'000* **(unaudited)**	31 December 2019 *RMB'000* (audited)
0 to 90 days	**1,724,232**	1,530,362
91 to 180 days	**206,277**	303,362
181 to 365 days	**139,763**	75,309
1 to 2 years	**45,013**	41,329
Over 2 years	**41,696**	29,992
	2,156,981	1,980,354

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

	30 June 2020 *RMB'000* **(unaudited)**	31 December 2019 *RMB'000* (audited)
0 to 180 days	**3,080,568**	2,556,387
181 to 365 days	**63,280**	215,137
	3,143,848	2,771,524

13. SHARE-BASED PAYMENTS

Share Option Schemes

The Company has a share option 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, options 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	From the date of grant to the first anniversary of the date of grant
Additional 20% of the options	From the date of grant to the second anniversary of the date of grant
Additional 30% of the options	From the date of grant to the third anniversary of the date of grant
Additional 40% of the options	From the date of grant to the fourth anniversary of the date of grant

No share option was granted during the period ended 30 June 2020 and 2019.

13. SHARE-BASED PAYMENTS *(Continued)*

Share Option Schemes *(Continued)*

The following tables disclosed movements of the Company's options granted under the Scheme during the period ended 30 June 2020:

Option	Name of grantee	Date of grant	Exercisable period	Exercise price	Outstanding as at 1.1.2020 (unaudited)	Granted during the period (unaudited)	Exercised during the period (unaudited)	Forfeited during the period (unaudited)	Outstanding as at 30.6.2020 (unaudited)
	Directors								
Option C	Huang Dongliang	16.6.2014	16.6.2016 – 15.6.2024	HK$2.9	20,000	–	–	–	20,000
Option C	Huang Dongliang	16.6.2014	16.6.2017 – 15.6.2024	HK$2.9	30,000	–	–	–	30,000
Option C	Huang Dongliang	16.6.2014	16.6.2018 – 15.6.2024	HK$2.9	40,000	–	–	–	40,000
	Employees								
Option C	Employees	16.6.2014	16.6.2015 – 15.6.2024	HK$2.9	157,500	–	–	–	157,500
Option C	Employees	16.6.2014	16.6.2016 – 15.6.2024	HK$2.9	8,202,000	–	–	(235,000)	7,967,000
Option C	Employees	16.6.2014	16.6.2017 – 15.6.2024	HK$2.9	12,303,000	–	–	(352,500)	11,950,500
Option C	Employees	16.6.2014	16.6.2018 – 15.6.2024	HK$2.9	16,404,000	–	–	(470,000)	15,934,000
Option B	Employees	22.11.2010	22.11.2011 – 21.11.2020	HK$3.18	68,000	–	–	–	68,000
Option B	Employees	22.11.2010	22.11.2012 – 21.11.2020	HK$3.18	136,000	–	–	–	136,000
Option B	Employees	22.11.2010	22.11.2013 – 21.11.2020	HK$3.18	204,000	–	–	–	204,000
Option B	Employees	22.11.2010	22.11.2014 – 21.11.2020	HK$3.18	272,000	–	–	–	272,000
					37,836,500	–	–	(1,057,500)	36,779,000
	Exercisable at the end of the period								36,779,000
	Weighted average exercise price				HK$2.9			HK$2.9	HK$2.9

13. SHARE-BASED PAYMENTS *(Continued)*

Share Option Schemes *(Continued)*

Option	Name of grantee	Date of grant	Exercisable period	Exercise price	Outstanding as at 1.1.2019 (unaudited)	Granted during the period (unaudited)	Exercised during the period (unaudited)	Forfeited during the period (unaudited)	Outstanding as at 30.6.2019 (unaudited)
	Directors								
Option C	Huang Dongliang	16.6.2014	16.6.2016 – 15.6.2024	HK$2.9	20,000	–	–	–	20,000
Option C	Huang Dongliang	16.6.2014	16.6.2017 – 15.6.2024	HK$2.9	30,000	–	–	–	30,000
Option C	Huang Dongliang	16.6.2014	16.6.2018 – 15.6.2024	HK$2.9	40,000	–	–	–	40,000
	Employees								
Option C	Employees	16.6.2014	16.6.2015 – 15.6.2024	HK$2.9	157,500	–	–	–	157,500
Option C	Employees	16.6.2014	16.6.2016 – 15.6.2024	HK$2.9	8,606,000	–	–	(280,000)	8,326,000
Option C	Employees	16.6.2014	16.6.2017 – 15.6.2024	HK$2.9	12,909,000	–	–	(420,000)	12,489,000
Option C	Employees	16.6.2014	16.6.2018 – 15.6.2024	HK$2.9	17,212,000	–	–	(560,000)	16,652,000
Option B	Employees	22.11.2010	22.11.2011 – 21.11.2020	HK$3.18	68,000	–	–	–	68,000
Option B	Employees	22.11.2010	22.11.2012 – 21.11.2020	HK$3.18	136,000	–	–	–	136,000
Option B	Employees	22.11.2010	22.11.2013 – 21.11.2020	HK$3.18	204,000	–	–	–	204,000
Option B	Employees	22.11.2010	22.11.2014 – 21.11.2020	HK$3.18	272,000	–	–	–	272,000
					39,654,500	–	–	(1,260,000)	38,394,500
	Exercisable at the end of the period								38,394,500
	Weighted average exercise price				HK$2.9			HK$2.9	HK$2.9

13. SHARE-BASED PAYMENTS *(Continued)*

Share Option Schemes *(Continued)*

At 30 June 2020, the total number of shares in respect of which options under the Scheme had been granted and remained outstanding was 36,779,000 (at 30 June 2019: 38,394,500), representing 3.27% (2019: 3.41%) of the shares of the Company in issue at that date. The options outstanding at the end of year have a weight average remaining contractual life is 3.9 (2019: 4.9) years.

No option was exercised during the period ended 30 June 2020 and 2019.

During the period ended 30 June 2020 and 2019, no expenses was recognised in relation to share options.

The fair value of the share options was determined at the date of grant using the Binomial option pricing model (the "**Binomial Model**") with the following inputs and based on the respective vesting period of the share options:

	Option C 16.6.2014	**Option B 22.11.2010**
Stock price as at grant date	HK$2.89	HK$3.15
Exercise price	HK$2.9	HK$3.18
Expected volatility	55%	64%
Expected life of options	10 years	10 years
Risk free rate	2.06%	2.43%
Expected dividend yield	4.26%	2.90%
Sub-optimal exercise factor for directors/senior management/employees	3.5/3.5/3.5	nil/2.8/2.2

The Binomial Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Expected volatility was determined by using the historical volatility of the Company's share prices over the previous four years. Changes in variables and assumptions may result in changes in the fair value of the options.

The total estimated fair value of the share options B granted on that date was HK$73,820,000 (equivalent to approximately RMB63,205,000) and the total estimated fair value of the share options C granted on that date was HK$70,620,000 (equivalent to approximately RMB56,065,000).

13. SHARE-BASED PAYMENTS *(Continued)*

Share Option Schemes *(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 initial public offering of Tianneng Battery in A-share market (the "**Qualified IPO**").

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. For the period ended 30 June 2020, an expense of approximately RMB6,520,000 (2019: RMB1,110,000) was recognised by the Group in relation to restricted shares granted by Tianneng Battery under the Share Award Scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

Founded in 1986, Tianneng Power International Limited ("**Tianneng**" or the "**Company**", together with its subsidiaries, the "**Group**") is a leading company in the sector of motive batteries for new-energy vehicles. In 2007, Tianneng was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). After more than 30 years of development, the Group has become a large-scale high-tech energy group focusing on the manufacture and services of environmentally friendly motive batteries for light electric vehicles and integrating the research and development (R&D), production and sale of various types of batteries (including motive batteries for special electric vehicles, motive batteries for new energy vehicles and start-stop batteries for automobiles), the recycling of waste batteries, the construction of urban smart microgrids, the construction of green and smart manufacturing industrial parks, and smart logistics platforms.

OPERATIONAL REVIEW

In the first half of the year, the coronavirus pandemic had an unprecedented impact on China's economy as well as on the global economy. At the same time, the uncertainty and risks facing the global economy increased due to factors such as international relations and geopolitics. In the second quarter of 2020, the growth rate of China's economy returned to the positive territory, with key indicators showing signs of recovering growth and the country's economic operation beginning to recover. Aided by governments at all levels, the Group adhered to its operational principle of "innovating, growing and improving quality while maintaining stability", thereby forging ahead in these difficult times. While strengthening measures to prevent and control the pandemic, the Group focused on its production and operation, promoting the resumption of work and production in an effective and orderly manner. In the first half of the year, the impact of the pandemic on the overall performance of the Group was limited, as the Group achieved solid economic, social and ecological benefits.

On May 10, the "China Brand Day", the brand management professional committee of China-Asia Economic Development Association and Asia Brand Network jointly released the list of "Top 500 Chinese Brands 2020". With a brand value of RMB76.531 billion, Tianneng Battery ranked first once again in the battery industry. Moreover, Tianneng was selected as one of the "Top 100 Private Enterprises in Technological Innovation in 2020" at the Forum on the Development of Innovative Countries 2020, where the White Paper (Report) on the Innovative Development of Enterprises 2020 was released.

On July 27, the Chinese edition of the Fortune magazine released the 2020 list of Fortune China 500. Tianneng jumped nine places to rank 246th on the list. This was also the eighth consecutive year where Tianneng made the Fortune China 500.

During the reporting period, the Group realised sales revenue of approximately RMB22,635 million, representing an increase of 14.26% year-on-year, and a net profit of approximately RMB860 million, representing an increase of 45.57% year-on-year.

I. High-end eco-friendly batteries

High-end eco-friendly batteries are one of the Group's main businesses, providing the Group with a solid cash flow. During the reporting period, the sales revenue of high-end eco-friendly batteries was approximately RMB11,641 million.

In the first half of the 2020, despite a complex and unpredictable external environment, the Company's main businesses maintained stable growth momentum with steady progress and improvement of quality. The Company has now formed a product system based on lead batteries and supplemented by lithium batteries that includes motive, start-stop and energy storage batteries. Among these types of batteries, lead batteries have a history of more than 160 years. Characterised by their high safety, high recyclability, high price-performance ratio, mature technology and excellent performance in high and low temperature environment, lead batteries enjoy a sharp competitive edge. As a result, lead batteries occupy a leading position in the global market of rechargeable batteries and are currently the most commonly used batteries in vehicles and equipment such as light electric vehicles, special electric vehicles and start-stop systems in automobiles. The overall market demand for them will continue to grow steadily.

In the future, the fields of application for lead batteries will continue to grow and expand, and the related technologies and processes will continue to develop with the aim of achieving higher energy densities, higher price-performance ratio and higher safety. With the in-depth application of the 5th generation mobile network (5G), lead batteries will also go "smart" with features like identifiability and traceability, remote controllability and connectivity to the Internet of things.

1. Batteries for light electric vehicles — two-wheeled and three-wheeled electric bicycles

The coronavirus pandemic has impacted the economy, but it has also brought opportunities for the development of new economic models. For example, more and more consumers buy daily living supplies online through e-commerce platforms so that they can avoid going out, resulting in significant increase in the corresponding short-distance distribution services, which further promoted the development of light electric vehicle industry.

(1) The rise of new consumption models opens up ample room for the development of light electric vehicles

Under new consumption models, food delivery and courier services have boomed, which has driven the growth of the two-wheeled electric bicycle industry. According to statistics, China's online food ordering market has maintained rapid growth since 2011. In 2019, the market size reached approximately RMB284.55 billion, a year-on-year increase of approximately 17.9%. In 2019, the number of online food delivery users in China exceeded 400 million, a year-on-year increase of approximately 16.2%. Demand for vehicles used for intra-city distribution and group buying has surged in recent years, and millions of deliverymen have driven the demand for two-wheeled electric bicycles.

China has the world's largest courier delivery volume. According to data from the State Post Bureau, China's courier service companies delivered approximately 63.52 billion parcels in 2019, a year-on-year increase of approximately 25.3%, generating an income of approximately RMB749.78 billion, a year-on-year increase of approximately 24.2%. As three-wheeled electric bicycles are the point to point delivery means of transportation for courier services, the demand for electric bicycles have gradually expanded with the development of the courier industry.

(2) Commuting alone amid the pandemic, many make two-wheeled electric bicycles their first choice for transportation

With the hectic resumption of work and production and the new national standard policy in place, the two-wheeled electric bicycle industry is seeing new growth opportunities. As people begin to adopt new means of commuting, and more and more citizens make two-wheeled electric bicycles which are fast, convenient, have a high price-performance ratio and cause zero pollution, their first choice for transportation when commuting alone.

(3) Active development of "livelihood economy" results in the significant growth in demand for electric tricycle batteries

In this year's national "two sessions", "employment" and "people's livelihood" were two high-frequency terms. Under the impact of the coronavirus pandemic, "protecting people's jobs" and "protecting people's basic livelihoods" are the top priorities of each local government in 2020. Being an essential part of the socialist market economy with Chinese characteristics, the "street vendor economy" will be a dynamo that drives people's livelihoods as well as economic and social development in the post-pandemic era. As electric tricycles are the relatively commonly used means of transportation by individual street vendors, an enlarged market for electric tricycles will emerge with the active development of "livelihood economy" such as night markets.

(4) Trade-in deals flourish due to the new national standard, and the concentration of light electric vehicle manufacturers increases

The roll-out and implementation of the new national standard policy have created new sales growth opportunities for the leading manufacturers of light electric vehicles. As the industry's entry barrier has been raised after the introduction of new national standards and its products have been standardised, the industry's market concentration has increased. In addition, the implement of new national standard has further driven the demand of users for replacement of light electric vehicles and encouraged users to trade in their old vehicles for new ones, thus promoting the healthy development of the light electric vehicle industry. Light electric vehicle manufacturers will continue to compete with each other in terms of R&D ability and quality of their products while strengthen their cooperation with quality suppliers, aiming to seize the opportunities arising from the market. Against this backdrop, Tianneng will continue to provide customers with premium products and services according to the needs of the market.

2. Light electric vehicle — mini electric vehicle batteries

Mini electric vehicle batteries is mainly used in mini electric vehicles such as electric sightseeing vehicles, electric cleaning vehicles, electric patrol vehicles and scooters for elderly people. A mini electric vehicle is a low-speed four-wheeler powered solely by electricity, with a top speed ranging from 40 to 70 km/h and usually with lead batteries as its power source.

The rise of Chinese citizens' consumption and the soaring urbanization rate provide ample room for the healthy development of China's mini electric vehicles. According to the National Bureau of Statistics of China, the urbanization rate of China's permanent population exceeded 60% for the first time at the end of 2019. The sweeping urbanization process has benefited the economic development of rural areas and small- and medium-sized towns. In third- and fourth-tier cities with relatively low per capita income, mini electric vehicles are popular, mostly because: 1) their price-performance ratio is high while their cost of use is low compared with diesel and petrol vehicles; 2) their owners can charge them easily by using household power directly, without installing charging piles.

In addition, the Chinese government strongly encourages the development of tourism and the bed and breakfast business, and the vehicles used for transportation and sightseeing in scenic areas are mostly mini electric vehicles. It is expected that China's mini electric vehicle industry will continue to grow, there is still a lot of room for the industry's development, and Tianneng will continue to maintain its leading position in the market of mini electric vehicle batteries.

3. Other high-end eco-friendly batteries

(1) Start-stop batteries

Start-stop batteries are mainly used for the starting, ignition and lighting of vehicles and equipment such as automobiles, motorcycles and fuel engines. In recent years, with the continuous development of the industrial economy and increasing awareness of environmental protection, the global market of automobile start-stop batteries has grown rapidly. National automobile markets have call for stricter requirements on carbon dioxide emissions and fuel economy. The start-stop system, which can effectively reduce emissions, is an energy-saving and emission-reducing technology that has developed quickly in recent years. According to data from the China Industry Information Network, 2015-2018 was the golden period of growth for China's automobile start-stop batteries, with a compound annual growth rate of 46%. By the end of 2020, the penetration rate of start-stop batteries will reach 70%, with a shipment volume of approximately 21 million sets and a production value of approximately RMB14 billion.

The Company has launched its own brand of start-stop battery products and negotiated with many automobile manufacturers. At the same time, it always focuses on cultivating its core technical capabilities and strives to promote industrial development through technological innovation. It has gradually formed its own complete technological system. In the future, the start-stop battery business will become an important segment of the Group. The Company plans to continue to increase its business scale through capacity expansion, market development and introduction of talents. On the market side, it will actively commence cooperation with automobile manufacturers while continuing to expand its share in the replacement market.

(2) Special electric vehicle batteries

Special electric vehicle batteries are mainly used in freight equipment such as electric forklifts, electric stackers and electric lift trucks. They also serve as the DC power source for equipment such as forklifts, tractors, pallet jacks and underground mining locomotives. They are widely used at transportation hubs such as airports, stations and ports, and in industries such as agriculture, textile, medicine, and food. As a DC power supply for clean and pollution-free vehicles, this series of products is also widely used for public transportation and in sports and entertainment venues.

The Group has formed strategic partnerships with domestic and overseas renowned enterprises such as Hangcha Group Co., Ltd., Heding Jidian (和鼎機電), KION Baoli (Jiangsu) Forklift Co., Ltd. and Anhui Heli Co., Ltd., and has become the second largest domestic brand in the field of forklift batteries. For R&D, the Company actively conducts cutting-edge research on lead batteries with new structures. It has developed and reserved new structure technologies (tubular, bipolar, winding, and horizon lead-acid battery) and formed a core patent of "an enclosed battery formation process for tubular lead-acid batteries". The technical achievements of the tubular structure have been transformed and applied to lead batteries for electric forklifts, with solid economic benefits achieved.

(3) Energy storage batteries and standby batteries

Energy storage lead batteries refer to lead batteries used by power generation equipment to store energy, such as wind and solar power generation equipment. Energy storage batteries are first charged by wind or solar energy, and then the batteries' DC power is changed to AC power through an inverter and connected to power grids. Lead batteries are widely used for solar and wind power storage and play a major role in the development of green energy, as they can be made into large-capacity storage systems, have low unit energy cost and system cost, are safe and reliable, have high recycling rates and adaptable to temperature changes. The energy storage market is also undergoing rapid development due to multiple factors such as the demand for grid stability, the overall cost reduction of energy storage systems, the implementation of support policies and the transformation of motive battery companies.

Standby batteries refer to batteries used in power transmission stations to provide closing current to power units and batteries used in public facilities to provide backup energy. Currently, lead batteries are widely used in communication and uninterruptible power supply. The construction of communication networks and the updates of communication technologies worldwide will bring continuous demand for lead standby batteries.

Tianneng has a full range of energy storage solutions that can provide a solid green energy guarantee for global communication, electricity, transportation, uninterruptible power supply (UPS) and consumer products. At the same time, the Company focuses on fulfilling the requirements of energy storage systems, e.g. smooth connection to new energy, emergency power backup, peak and frequency modulation, peak-load shifting and micro-grids. Leveraging advanced energy storage technologies, concentrating on high-efficiency energy storage systems and aiming at distributed smart power supply, Tianneng is committed to providing customers with energy storage system solutions.

II. New energy batteries

As one of the new energy batteries, the lithium-ion battery is an important strategic segment of the Group. During the reporting period, the Group's operating revenue in the new energy battery business was approximately RMB403 million, representing an increase of 58.08% year-on-year.

In November 2019, Tianneng signed a cooperation agreement with SAFT, a subsidiary of the French company Total S.A., one of the world's top 500 enterprises, to form a joint venture that focuses on the development, manufacture and sale of advanced lithium-ion batteries for the Chinese and global markets. The joint venture is mainly engaged in the design, development, production and sale of new energy batteries such as cylindrical batteries and pouch batteries, and lithium-ion battery system. The products are widely used in high-end two-wheeled electric bicycles, grid energy storage, new energy vehicles, electronic appliances and special industries. The joint venture has successively introduced first-class automated production equipment and technologies developed in China and overseas, boasting mainstream lithium battery technologies including lithium iron phosphate, ternary and lithium manganate and advanced materials such as nickel-rich multi-element materials, lithium nickel cobalt aluminium oxides, silicon carbide and graphene. The cooperation with SAFT will allow the Group to share the world-leading lithium battery company's rich experience in the construction and management of R&D systems and technological reserve to enhance the Company's global competitiveness.

Since the establishment of the joint venture, the integration of resources between Tianneng and the French company has been progressing steadily. Despite the impact of the pandemic, both parties have been still actively developing new products to meet the needs of emerging markets and overseas markets, such as the super lithium iron phosphate battery series. This series of products can be used in electric two-wheeled and three-wheeled bicycles under the new national standard. Based on the advanced material technology of super modified lithium iron phosphate, this type of battery has an ultra-long life and ultra-high safety performance and provides approximately 2,000 regular life cycles. In addition, the energy storage system products developed by the joint venture have the characteristics of high energy densities, fast and cost-effective installation and remote controllability.

Over the years, the Company has continued to expand its product line of lithium-ion batteries. In addition to the sector of motive batteries, the Company's lithium battery business has also gained a foothold in smart energy storage, 3C and backup battery industries. Take smart energy storage as an example. The Company has entered the smart energy storage market since 2016 and has completed the implementation and services of smart energy storage solutions in many places in and outside China. With the strong support of national industrial policies and against the background of 5G construction, the Company will continue to deepen and expand its smart energy storage business. The Company won the awards of "Best Provider of Systems Integration Solutions" and "Best Demonstration Project for Energy Storage" at the 7th Global Solar+Energy Storage Conference & Expo (2020) July this year.

The Company will further increase its cooperation with renowned battery companies in and outside China, deepen its distribution in the sectors of lithium-ion motive batteries for special vehicles and lithium-ion batteries for smart energy storage, and pay close attention to the technological trends and market developments of automobile start-stop lithium batteries, lithium-sulfur batteries and solid-state batteries, so as to make the lithium-ion battery business one of the Company's core industries and enhance the market competitiveness of the Company's lithium battery business.

III. Green new materials

The Company is the first enterprise to develop circular business. After over ten years of technology accumulation and scientific operations, green new materials segment has become one of the three major businesses of the Company, and has had an important position in the Company's future development plan. In the first half of this year, the Group adhered to General Secretary Xi Jinping's idea of "Clear water and green mountains are gold and silver mountains (綠水青山就是金山銀山) (meaning ecological advantages bring forward economic advantages)" ("**two mountains**" concept), accelerated the industry distribution, and focused on the development of circular business. During the reporting period, the Group's external operating revenue in green new materials business recorded approximately RMB397 million.

In April 2020, the 17th meeting of the Standing Committee of the 13th National People's Congress approved the amended Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), which will be officially implemented on 1 September 2020. Such amended law mainly includes: 1) the state set up a Extended Producer Responsibility scheme for products such as electrical appliances, lead storage battery and vehicle motive battery; 2) the state encourages product manufacturers to develop ecological design as well as promotes the recovery and utilization of resources; 3) the state encourages business units and individuals to purchase and use products with comprehensive use and reusable products.

In June 2020, in order to fully implement the requirements of Notice of the General Office of the State Council on Issuing the Implementation Plan for Extended Producer Responsibility (《國務院辦公廳關於印發生產者責任延伸制度推行方案的通知》), the National Development and Reform Commission drafted the Interim Measures for the Management of the Recycling and Utilisation of Lead Storage Batteries (Draft for Comments) (《鉛蓄電池回收利用管理暫行辦法》(徵求意見稿)) with relevant departments. The Interim Measures refer to the state implementing the target accountability system for lead storage battery recovery, and by the end of 2025, lead storage battery recovery rate must reach over 70%. Moreover, lead storage battery manufacturers (including importing companies) shall, through methods such as self recovery, joint recovery, and commissioned recovery, achieve the recovery targets set by the state.

In addition, China prohibits entities without permits or not in compliance with the requirements of the permits from engaging in operations regarding the collection, storage, utilization and disposal of hazardous wastes. In recent years, relevant laws and regulations promulgated by various authorities in China have specified in details the recycling and disposal processes of used batteries, which provides strong support for the healthy and orderly development of the circular economy. Currently, the Company has already obtained several recycling permits in those provinces and regions where waste battery resources are relatively concentrated, as well as formed closed cooperations with social recycling networks, so as to gradually expand its recycling channels.

The Group will continue to put much effort in the circular business, gradually expand the categories of renewable materials for recycling, and at the same time extend to the up and down streams in the industry, thus steadily progress towards the goal of setting up large circular industry clusters.

IV. Pushing forward the globalization strategy

During the first half of this year, the Group leveraged on its overseas offices as the “bridgehead”, deeply explored the market potentials in regions such as Southeast Asia, South Asia, Europe as well as Central and East Africa, constantly developed new markets and sectors, and used its overseas business division as platforms, thereby enhancing international communications and cooperations.

Moreover, the Company also devoted in creating an open and globalized R&D system. On the one hand, the Company further broadened its technological R&D horizons by establishing industry-academic-research collaborations with prestigious domestic and overseas universities, such as Harbin Institute of Technology, Huazhong University of Science and Technology, and University of Wollongong (伍倫貢大學) in Australia. On the other hand, the Company actively introduced international R&D talents into the field of new battery technology such as fuel cells, and it has started several R&D projects for fuel cells, including “Fuel cell metal plate reactors (燃料電池金屬板電堆)” and “Development of high-power graphite plate reactors for commercial vehicles (商用車用大功率石墨板電堆的開發)”.

The Group will continue to strengthen cooperations with scientific research platforms overseas, integrate world’s top technological resources, thus foster core technological advantages for the entire industrial chain. At the same time, the Group continues to seek mergers and acquisitions opportunities for upstream and downstream products, and establishes research and development production bases overseas in due time while creating a global supply chain network, with the Group striving to become the “world’s leading green energy solution provider”.

V. Capital development

In accordance with the results of the 51st review meeting of the Listing Committee for Science and Technology Innovation Board of the Shanghai Stock Exchange (the "**Committee**") in 2020 that was held on 6 July 2020, the issue of A shares by Tianneng Battery Group Co., Ltd. (the "**Spin-off Company**") and the listing of the A shares of the Spin-off Company on the Science and Technology Innovation Board of the Shanghai Stock Exchange has been approved by the Listing Committee, and the "Tianneng Battery Group Co., Ltd.'s initial public offering and listing on the Science and Technology Innovation Board (Registration Proof)" was published on the website of the Shanghai Stock Exchange. Meanwhile, the announcement of "Updates on the 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" was disclosed by the Company on the Stock Exchange's website. Further details of the 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 can be referred to the announcements of the Company dated 9 November 2018, 23 April 2019, 30 December 2019, 24 June 2020 and 6 July 2020 and the circular of the Company dated 24 June 2019.

PROSPECTS

The Company will adhere to the sustainable development strategy of "new materials, new structures, new technologies, new sectors", follow the strategic direction of "artificial intelligent, globalization, platform-building", strive to seek after diversified fund raising channels to assist businesses with sufficient fundings for future development, as well as fully promote reforms in quality, efficiency and driving forces. Leveraging on its advantages in technology, production framework, market channels, brands and information technology system which have been accumulated in the battery industry for many years, Tianneng will strengthen the international leading position of its high-end eco-friendly batteries, enhance the product competitiveness of new energy batteries, create closed-loop green smart industry chain, construct a smart energy service system, build a logistics supply chain platform, actively expand businesses such as start-stop batteries and energy storage systems, and continue with the technological development of fuel cells and new-generation batteries, with the aim of becoming the most respected first-tier new energy enterprise across the globe.

FINANCIAL REVIEW

Turnover

The Group's turnover for the reporting period was approximately RMB22,635 million, representing an increase of approximately 14.26% as compared with the same period last year.

Gross profit

The gross profit for the reporting period was approximately RMB2,116 million, representing an increase of 14.23% 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 9.35%, which remained stable as compared with the same period last year, of which the gross profit margin of the manufacturing industry was approximately 16.29%, representing an increase of 2.26 percentage points as compared with the same period last year. It was mainly attributable to a lower gross profit margin of the trading segment during the first half year of 2020, which led to the overall gross profit margin remained stable.

Other income

The Group's other income (excluding interest income) for the reporting period was approximately RMB334 million (for the six months ended 30 June 2019: approximately RMB206 million), representing an increase of approximately 62.24% 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 decreased from approximately RMB416 million in the same period last year to approximately RMB378 million for the reporting period, which was mainly attributable to the decrease in transportation cost.

Administrative expenses

Administrative expenses increased from approximately RMB289 million in the same period last year to approximately RMB353 million for the reporting period, which was mainly attributable to the increase in salary.

Research and development costs

R&D costs increased from approximately RMB506 million in the same period last year to approximately RMB533 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 RMB133 million in the same period last year to approximately RMB106 million for the reporting period, which was mainly due to the decrease in loan size and the interest rates of loans.

Operating activities cash flow

The net cash generated from operating activities of the Group increased from RMB812 million in the same period last year to approximately RMB1,924 million for the reporting period. It was mainly attributable to the increase in prepayments.

As at 30 June 2020, equity attributable to the owners of the Company amounted to approximately RMB7,150 million (31 December 2019: approximately RMB6,665 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 2020, the Group had total assets of approximately RMB23,244 million, increasing by approximately 21.50% as compared with approximately RMB19,130 million as at 31 December 2019, including total current assets of approximately RMB16,225 million and total non-current assets of approximately RMB7,019 million, increasing by approximately 27.11% and 10.27% respectively. The increase in current assets was mainly due to the increase in inventory, account receivables 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 2020, total liabilities of the Group were approximately RMB15,386 million, increasing by approximately 29.91% as compared with approximately RMB11,844 million as at 31 December 2019, including total current liabilities of approximately RMB13,973 million and total non-current liabilities of approximately RMB1,413 million, increasing by approximately 26.20% and 83.11% 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 long-term loans.

As at 30 June 2020, the cash and bank balances of the Group (including pledged bank deposits and bank deposits) were approximately RMB6,832 million (31 December 2019: approximately RMB5,446 million), of which approximately RMB237 million and approximately RMB56 million are denominated in Hong Kong Dollars and Euros respectively. As at 30 June 2020, the interest bearing borrowings and loan notes of the Group with maturity of within one year amounted to approximately RMB2,161 million (31 December 2019: approximately RMB1,659 million). The interest bearing borrowings and loan notes (together as "**interest bearing loans**") with maturity of more than one year amounted to approximately RMB842 million (31 December 2019: approximately RMB253 million). The interest bearing loans of approximately RMB3,003 million was denominated in Renminbi. The loans denominated in RMB had fixed interest rates ranging from 2.23% to 8% (2019: 4.08% to 8%) per annum. In conclusion, the borrowings of the Group as at 30 June 2020 remained at a healthy and controllable level. With unutilized credit facilities of RMB6,250 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 2020, 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 RMB3,850 million (31 December 2019: approximately RMB2,891 million).

Gearing ratio

As at 30 June 2020, 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 12.92% (31 December 2019: approximately 9.99%).

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 2020 (31 December 2019: 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 2020 was approximately RMB763 million (31 December 2019: approximately RMB852 million).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group employed a total of 23,523 employees (30 June 2019: 20,965). Staff cost of the Group for the reporting period was approximately RMB998 million (for the six months ended 30 June 2019: approximately RMB881 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 2020: Nil).

SIGNIFICANT INVESTMENTS HELD

During the reporting period, the Group recorded a net profit of approximately RMB15.78 million (for the six months ended 30 June 2019: net loss of approximately RMB13.68 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 2020 (31 December 2019: Nil, apart from the disclosures made in note 19 to the consolidated financial statements in the 2019 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 13 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 announcement.

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 results announcement 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 announcement 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 2020.

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

During the reporting period, the Company repurchased a total of 602,000 Shares of HK$0.10 each in the capital of its own shares on the Hong Kong Stock Exchange, details of which are as follows:

Date of repurchase	**Number of Shares repurchased**	**Highest price paid per Share** *(HK$)*	**Lowest price paid per Share** *(HK$)*	**Approximate aggregate consideration** *(HK$)* (exclude relevant expenses)
1 June 2020	602,000	8.88	8.68	5,299,620
	602,000			5,299,620

The issued share capital of the Company was reduced by the par value of the repurchased Shares which had been cancelled on 30 June 2020. The repurchases of Shares were effected by the Directors pursuant to the general mandate to repurchase Shares which was duly approved by the Shareholders at the annual general meeting of the Company held on 22 May 2020.

The repurchases were made for the benefit of the Company and the Shareholders as a whole with a view to enhancing the net assets value per share of the Company/earnings per Share.

Except as disclosed above, during the reporting period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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, 29 August 2020