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TIANNENG POWER INTERNATIONAL LIMITED

天能動力國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00819)

**RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020**

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 31.79% to approximately RMB53.525 billion.
- Profit attributable to shareholders increased by approximately 47.28% to approximately RMB2.477 billion.
- Basic earnings per share increased by approximately 47.65% to approximately RMB2.20.
- A final dividend of HK40 cents per share is proposed.

2020 ANNUAL RESULTS

The board of directors (the “Board”) of Tianneng Power International Limited (the “Company” or “Tianneng Power”) hereby announces the results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2020 together with the previous financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

		2020	2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	53,525,039	40,613,555
Cost of sales		(48,032,934)	(35,925,798)
Gross profit		5,492,105	4,687,757
Interest revenue		137,930	93,091
Other income		530,491	369,165
Other gains and losses	5	36,408	(6,311)
Impairment losses, net of reversal		(9,348)	(32,546)
Selling and distribution costs		(937,657)	(896,684)
Administrative expenses		(791,154)	(662,969)
Research and development costs		(1,270,497)	(1,153,860)
Other expenses		(25,643)	(16,313)
Share of loss of an associate		(776)	(254)
Finance costs	6	(212,131)	(255,035)
Profit before taxation		2,949,728	2,126,041
Taxation	7	(445,153)	(400,091)
Profit for the year	8	2,504,575	1,725,950

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

For the year ended 31 December 2020

	2020	2019
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other comprehensive income (expense):		
<i>Items that will not be reclassified to profit or loss:</i>		
Fair value changes of equity investment at fair value through other comprehensive income	<u>21,513</u>	<u>(13,321)</u>
	<u>21,513</u>	<u>(13,321)</u>
<i>Items that may be reclassified to profit or loss:</i>		
Fair value change of debt instruments measured at fair value through other comprehensive income	(10,414)	(1,184)
Income tax relating to items that may be reclassified subsequently	<u>2,456</u>	<u>264</u>
	<u>(7,958)</u>	<u>(920)</u>
Total comprehensive income for the year	<u><u>2,518,130</u></u>	<u><u>1,711,709</u></u>
Profit for the year attributable to:		
Owners of the Company	2,476,921	1,681,827
Non-controlling interests	<u>27,654</u>	<u>44,123</u>
	<u><u>2,504,575</u></u>	<u><u>1,725,950</u></u>
Total comprehensive income for the year attributable to:		
Owners of the Company	2,490,476	1,667,761
Non-controlling interests	<u>27,654</u>	<u>43,948</u>
	<u><u>2,518,130</u></u>	<u><u>1,711,709</u></u>
Earnings per share	<i>10</i>	
– Basic (RMB)	<u><u>2.20</u></u>	<u><u>1.49</u></u>
– Diluted (RMB)	<u><u>2.15</u></u>	<u><u>1.47</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

		2020	2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment		5,455,025	4,783,297
Goodwill		23,305	499
Right-of-use assets		793,956	593,720
Interest in associates		20,670	1,446
Equity investments at fair value through other comprehensive income		327,101	284,036
Deferred tax assets		459,597	451,754
Deposit paid for acquisition of property, plant and equipment		244,377	238,360
Loan receivables		188,808	—
Long-term receivable		13,098	12,103
		<hr/>	<hr/>
		7,525,937	6,365,215
		<hr/>	<hr/>
Current assets			
Inventories		4,485,900	3,740,219
Properties for sale under development		389,696	—
Trade and other receivables	<i>11</i>	2,349,281	1,513,995
Loan receivables		34,825	—
Amounts due from related parties		13,475	3,709
Debt instruments at fair value through other comprehensive income		2,069,365	1,207,570
Financial assets at fair value through profit or loss		572,591	854,102
Pledged bank deposit		1,303,060	1,291,326
Bank balances and cash		4,456,305	4,154,191
		<hr/>	<hr/>
		15,674,498	12,765,112
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)**At 31 December 2020*

		2020	2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities			
Bills, trade and other payables	12	7,356,002	6,746,172
Amounts due to related parties		142,308	20,024
Derivative financial instruments		—	104
Taxation payables		403,788	205,778
Borrowings – current portion		919,123	1,260,415
Long-term loan notes – due within one year		—	398,853
Deferred government grants		38,699	33,859
Lease liabilities		8,689	7,076
Provision		622,309	650,728
Contract liabilities		2,941,370	1,749,311
		12,432,288	11,072,320
Net current assets		3,242,210	1,692,792
TOTAL ASSETS LESS CURRENT LIABILITIES		10,768,147	8,058,007
Non-current liabilities			
Borrowings – non-current portion		718,917	252,746
Deferred government grants		509,833	425,150
Lease liabilities		16,274	15,497
Deferred tax liabilities		63,834	78,098
		1,308,858	771,491
NET ASSETS		9,459,289	7,286,516

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)**At 31 December 2020*

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Capital and reserves			
Share capital		109,850	109,905
Reserves		8,636,310	6,554,699
		<hr/>	<hr/>
Equity attributable to owners			
of the Company		8,746,160	6,664,604
Non-controlling interests		713,129	621,912
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TOTAL EQUITY		9,459,289	7,286,516
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

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 is an investment holding company. The Company and its subsidiaries are collectively referred to as the “Group”.

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

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 (the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (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 (the “HKFRS”); Hong Kong Accounting Standards (the “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 year 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. SEGMENT INFORMATION

The Group’s operating and reportable segments are based on information prepared and reported to the chief operating decision makers (“CODM”), being the board of directors of the Company, for the purposes of resource allocation and performance assessment. For the sales of batteries and battery related accessories operation, there were no further discrete financial information since the financial information provided to the CODM does not contain profit or loss information of each product line or each market segment and the CODM review the operating results of the sales of batteries and battery related accessories operation on a consolidated basis. Therefore, the operation of the Group constitutes two single operating and reportable segments, (1) sales of batteries and battery related accessories, (2) trading of new energy materials.

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

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

Segment revenue and results

For the year ended 31 December 2020

	Sales of batteries and battery related accessories <i>RMB'000</i>	Trading of new energy materials <i>RMB'000</i>	Total <i>RMB'000</i>
Reportable segment revenue derived from the Group's external customer	31,911,346	21,613,693	53,525,039
Inter-segment sales	1,609	9,391	11,000
Reportable segment revenue	31,912,955	21,623,084	53,536,039
Segment profit	2,490,997	33,015	2,524,012
Other gains and losses			10,226
Corporate administrative expenses			(28,829)
Finance costs			(834)
Profit for the year			2,504,575

For the year ended 31 December 2019

	Sales of batteries and battery related accessories <i>RMB '000</i>	Trading of new energy materials <i>RMB '000</i>	Total <i>RMB '000</i>
Reportable segment revenue derived from the Group's external customer	30,605,852	10,007,703	40,613,555
Inter-segment sales	—	985,423	985,423
Reportable segment revenue	<u>30,605,852</u>	<u>10,993,126</u>	<u>41,598,978</u>
Segment profit	<u>1,707,772</u>	<u>16,342</u>	1,724,114
Other gains and losses			13,679
Corporate administrative expenses			(7,220)
Finance costs			<u>(4,623)</u>
Profit for the year			<u><u>1,725,950</u></u>

Other segment information

For the year ended 31 December 2020	Sales of batteries and battery related accessories <i>RMB'000</i>	Trading of new energy materials <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Depreciation of property, plant and equipment	510,116	112	—	510,228
Amortisation of right-of-used assets	19,011	—	—	19,011
Loss on disposal/written off of property, plant and equipment	51,234	—	—	51,234
Interest revenue	122,831	14,931	168	137,930
Income tax expense	433,279	11,874	—	445,153
Write-down of inventories	4,831	—	—	4,831
	<u>510,116</u>	<u>112</u>	<u>—</u>	<u>510,228</u>
For the year ended 31 December 2019	Sales of batteries and battery related accessories <i>RMB'000</i>	Trading of new energy materials <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Depreciation of property, plant and equipment	460,256	157	—	460,413
Amortisation of prepaid lease payments	20,728	—	—	20,728
Loss on disposal/written off of property, plant and equipment	84,814	—	—	84,814
Interest revenue	80,264	12,822	5	93,091
Income tax expense	388,007	12,084	—	400,091
Write-down of inventories	23,082	—	—	23,082
	<u>460,256</u>	<u>157</u>	<u>—</u>	<u>460,413</u>

Information about major customers

During the year ended 31 December 2020 and 2019, none of the Group's individual customer contributed more than 10% to the total revenue of the Group.

4. 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 year.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Sales of batteries and battery related accessories		
Lead-acid battery products		
Electrical bicycle (tricycle) battery (<i>note i</i>)	25,560,588	25,684,597
Micro electric vehicle battery	2,070,322	2,057,863
Special-purpose battery (<i>note ii</i>)	706,574	477,726
Renewable resources product	1,207,542	940,806
Lithium battery products	1,059,440	626,788
Others	1,306,880	818,072
Trading of new energy materials	21,613,693	10,007,703
	<u>53,525,039</u>	<u>40,613,555</u>

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.

5. OTHER GAINS AND LOSSES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Net gains (losses) on financial assets at FVTPL		
– structured bank deposits	54,214	76,127
– held-for-trading investments (<i>note i</i>)	32,664	12,735
– commodity derivative contracts (<i>note ii</i>)	(26,300)	(2,304)
Write off/loss on disposal of property, plant and equipment	(51,234)	(84,814)
Net foreign exchange gains (losses)	27,064	(8,055)
	<u>36,408</u>	<u>(6,311)</u>

Notes:

- i) Net gains on held-for-trading investments included gains arising on changes in fair value of RMB32,664,000 (2019: RMB12,735,000), which were earned on these investments in listed equity securities during the year ended 31 December 2020. Such gains (2019: gains) included unrealised gains of RMB32,664,000 (2019: RMB12,735,000) and no realised gains (2019: no realised gains).
- ii) Net losses on commodity derivative contracts represented realised losses of RMB28,057,000 (2019: RMB2,081,000) and unrealised gains of RMB1,757,000 (2019: losses of RMB223,000) arising on changes in fair value of commodity derivative contracts.

6. FINANCE COSTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on borrowings	130,902	124,721
Effective interest on long-term loan note	24,217	37,540
Interest on factorised bills	47,472	86,529
Lease liabilities interest	1,358	1,231
Others	8,182	5,014
	<u>212,131</u>	<u>255,035</u>

7. TAXATION

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Hong Kong Profits Tax:		
– Current tax	–	–
PRC Enterprise Income Tax (“EIT”):		
– Current tax	479,880	428,438
– (Over) underprovision in prior years	(25,076)	4,594
Deferred tax:	(9,651)	(32,941)
	<u>445,153</u>	<u>400,091</u>

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

For the year ended 31 December 2020 and 2019, Hong Kong Profits Tax is calculated under two-tier profits tax system where the first HK\$2 million of estimated assessable profits is taxed at a reduced rate of 8.25% and the remaining of estimated assessable profits is taxed at 16.5%.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the applicable tax rate of PRC subsidiaries is 25% during the year ended 31 December 2020 except that, Tianneng Battery Group Co., Ltd. ("Tianneng Battery"), Tianneng Battery Group (Anhui) Co., Ltd. ("Tianneng Battery Anhui"), Zhejiang Tianneng Energy Technology Co., Ltd. ("Zhejiang Tianneng Energy"), Zhejiang Tianneng Power Energy Co., Ltd. ("Zhejiang Tianneng Power"), Tianneng Battery (Wuhu) Co., Ltd. ("Tianneng Battery Wuhu"), Anhui Zhongneng Power Supply Co., Ltd. ("Anhui Zhongneng"), Tianneng Group (Henan) Energy Technology Co., Ltd. ("Tianneng Henan"), Jiyuan Wanyang Green Energy Co., Ltd. ("Jiyuan Wanyang"), Tianneng Battery Group Jiangsu Technology Co., Ltd. ("Tianneng Jiangsu Technology"), Zhejiang Tianneng Battery (Jiangsu) New Energy Co., Ltd., Zhejiang Hercules Energy Co., Ltd., 天能集團江蘇科技有限公司, Anhui Hongda Power Supply Co., Ltd. ("Anhui Hongda"), 天能帥福得能源股份有限公司, 浙江昊楊新能源科技有限公司 and 浙江暢通能源有限公司 which were recognised as High-Tech companies and enjoyed a tax rate of 15% for the year ended 31 December 2020 (1.1.2019 to 31.12.2019: 15% applicable for Tianneng Battery, Tianneng Battery Anhui, Zhejiang Tianneng Energy, Zhejiang Tianneng Power, Tianneng Battery Wuhu, Anhui Zhongneng, Tianneng Henan, Jiyuan Wanyang, Tianneng Jiangsu Technology, Zhejiang Tianneng Battery (Jiangsu) New Energy Co., Ltd., Zhejiang Hercules Energy Co., Ltd and 天能集團江蘇科技有限公司).

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

	2020	2019
	RMB'000	RMB'000
Profit before taxation	2,949,728	2,126,041
Tax at the applicable income tax rate of 25% (2019: 25%)	737,432	531,510
Tax effect of income not taxable and expenses not deductible for tax purposes	(3,931)	19,457
Tax effect of tax losses not recognised	17,976	6,015
Utilisation of tax losses previously not recognised	(23,222)	(11,203)
Income tax at concessionary rates	(122,719)	(83,444)
(Over) under provision in prior years	(25,076)	4,594
Tax effect of additional deduction related to research and development costs and certain staff costs	(132,372)	(112,257)
Withholding tax on undistributed profits of PRC subsidiaries	(2,935)	45,419
	445,153	400,091

8. PROFIT FOR THE YEAR

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Auditor's remuneration	1,720	1,470
Cost of inventories sold	48,032,934	35,925,798
Write-down of inventories (included in cost of sales)	4,831	23,082
Depreciation of property, plant and equipment	510,228	460,413
Amortisation of right-of-use assets	19,011	20,728
Expenses related to short-term lease	10,548	10,500
Expenses related to variable lease payments not included in lease liabilities	9,140	6,505
Directors' remuneration	4,489	4,310
Other staff costs	2,111,060	1,845,090
Retirement benefits scheme contributions, excluding directors	134,577	97,325
Share-based payments	13,084	7,590
Total staff costs	<u>2,263,210</u>	<u>1,954,315</u>

9. DIVIDENDS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Dividends recognised as distribution during the year:		
2020: 2019 final dividend of HK39.00 cents (equivalent to RMB35.04 cents) per ordinary share		
(2019: 2018 final dividend of HK38.00 cents (equivalent to RMB33.30 cents) per ordinary share)	<u>404,261</u>	<u>376,251</u>

Subsequent to the end of the reporting period, a final dividend of HK40.00 cents (equivalent to RMB33.67 cents) (2019: HK39.00 cents (equivalent to RMB35.04 cents)) in respect of the year ended 31 December 2020 per ordinary share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. EARNINGS PER SHARE

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings for the purposes of calculating basic and diluted earnings per share		
– Profit for the year attributable to the owners of the Company	2,476,921	1,681,827
	2020	2019
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,126,376,156	1,126,726,500
Effect of dilutive potential ordinary shares – share options	27,420,469	21,086,923
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,153,796,625	1,147,813,423

11. TRADE AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	1,144,620	861,090
Less: Allowance for credit losses	(227,372)	(219,221)
	917,248	641,869
Other receivables	229,788	183,295
Less: Allowance for credit losses	(35,689)	(38,035)
	194,099	145,260
Prepayment	996,888	490,639
PRC value added tax receivables	241,046	236,227
	2,349,281	1,513,995

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

	2020 RMB'000	2019 <i>RMB'000</i>
0 to 45 days	725,779	338,350
46 to 90 days	101,132	218,825
91 to 180 days	51,559	38,061
181 to 365 days	12,939	19,614
1 year to 2 years	11,911	26,472
Over 2 years	13,928	547
	<u>917,248</u>	<u>641,869</u>

12. BILLS, TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 <i>RMB'000</i>
Trade payables	2,538,199	1,980,354
Bills payables	2,426,921	2,771,524
Other payables and accrued charges	2,390,882	1,994,294
	<u>7,356,002</u>	<u>6,746,172</u>

The Group normally receives credit terms of 5 days to 90 days (2019: 5 days to 90 days) from its suppliers. The following is an aged analysis of trade payables at the end of the reporting period, presented based on the invoice date:

	2020 RMB'000	2019 <i>RMB'000</i>
0 to 90 days	1,984,179	1,530,362
91 to 180 days	370,169	303,362
181 to 365 days	85,243	75,309
1 to 2 years	70,283	41,329
Over 2 years	28,325	29,992
	<u>2,538,199</u>	<u>1,980,354</u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
0 to 180 days	2,329,841	2,556,387
181 to 365 days	97,080	215,137
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	2,426,921	2,771,524
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MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

The Group has adhered to its operational principle of “stable and progressive”. Facing the challenges of COVID-19 pandemic, the Group strengthened its prevention and control of the pandemic, promoted production and operation, and successfully achieved the annual goals as the employees have worked in an effective and orderly manner. The spin-off and listing of a subsidiary, Tianneng Battery Group Co., Ltd. (“Tianneng Battery”), Stock Code: 688819.SH, on the STAR Market of the Shanghai Stock Exchange were successful, which remarks the Group’s high-quality development entering into a upgraded stage.

During the reporting period, the Group realised turnover of approximately RMB53,525 million, representing an increase of 31.79% year-on-year; and profit attributable to shareholders of approximately RMB2,477 million, representing an increase of 47.28%.

The Group has actively assumed its responsibilities as a leading enterprise in the industry, adhered to the path of quality brand development, and focused on production and operation as well as buildings up corporation culture. During the year, the Group obtained a number of important awards: on 23 September, Tianneng Battery obtained the “2019 Zhejiang Provincial Government Quality Awards (2019年浙江省政府品質獎)” for its excellent quality and innovation, and became one of the ten awarded enterprises in the province; on 20 November, the Group was honoured with the title of “National Civilised Unit (全國文明單位)” at the National Spiritual Civilisation Construction Commendation Conference (全國精神文明建設表彰大會); and on 27 December, Tianneng’s “high-performance lead-carbon battery industrialisation demonstration project (高性能鉛炭電池產業化示範專案)” was awarded with China Industrial Awards (中國工業大獎) by the China Federation of Industrial Economics (中國工業經濟聯合會).

The Company has now formed a product system based on the synergies of lead batteries and lithium-ion batteries, with joint production capacity of over 80 million kVAh. According to the data by the Ministry of Industry and Information Technology (MIIT) of the People’s Republic of China, from January to December 2020, the capacity of lithium-ion battery amounted to approximately 18.85 billion unit, representing a year-on-year increase of 14.4%; the capacity of lead-acid battery was approximately 227.356 million kVAh, representing a year-on-year increase of 16.1% for the major products in the battery manufacturing industry in China. Both mentioned battery has weighted position in the global market of rechargeable batteries. It is expected that the overall market demand will continue to grow.

The Company's batteries products are mainly used to provide power for light electric vehicles, special electric vehicles, start-stop batteries for automobiles and energy storage batteries. The types of light electric vehicles include two-wheeled and three-wheeled electric bicycles, and micro electric vehicles. Among which, two-wheeled and three-wheeled electric vehicles refer to mechatronic light vehicles that use batteries as a power source or auxiliary power, and are installed with motors, controllers and other components on the basis of ordinary two-wheeled and three-wheeled vehicles which can achieve electricity-powered and/or electricity-propelled functions. They are generally used for commute or for carrying loads with characteristics of convenience, economy and environmental-friendly. They are one of the most common transportation in mainland China. The development of the electric bicycle industry has the following characteristics:

1) Meeting the strong demand for commuting, with a huge user base

As a transportation means, two-wheeled electric bicycle has a broad range of consumer groups in mainland China. It is an environmental-friendly product with affordable price among users, requires minimal maintenance when in use, and its endurance mileage can meet, at the large extent, the existing short-distance commute needs within the travel radius in both urban and rural areas. According to the data provided by the China Bicycle Association, ownership of electric bicycles in China has reached approximately 300 million as of the end of 2019.

2) New national standards creating new growth opportunities, and the industry's concentration level further increases

The national standard for the "Safety Technical Specifications for Electric Bicycles" (the "New National Standard"), which was officially implemented on 15 April 2019, has had great significance to the high-quality development of the industry. The New National Standard divides two-wheeled electric vehicles into three categories: electric bicycles, light electric vehicles and electric motorcycles. Among which, electric bicycles must meet various standards such as equipped pedal-riding functions, maximum speed not exceeding 25km/h, total weight not over 55kg, and motor power not exceeding 400 watts, as well as obtaining China Compulsory Certification (3C certification). Bicycle models not meeting the New National Standard requirements must complete the transition and replacement processes within specific time periods in respective regions.

The roll-out and implementation of the New National Standard policy have created new growth opportunities for the leading manufacturers. The requirement for products to pass through 3C-certification has raised the entry barriers for suppliers and automobile manufacturers, which enhances the industry concentration level. In addition, the New National Standard has further driven the demand of consumers to trade in their old vehicles for new ones, thus it has become a trend among leading automobile manufacturers and battery enterprises to strengthen their cooperation in order to seize such market opportunities.

3) Healthy Awareness promote carbon neutrality, explore new scenarios and new markets for new development

In 2020, the impact of COVID-19 pandemic not only changed our lifestyles, but also provided the light electric vehicles industry with further opportunities for development. For instance, in order to reduce interaction in public areas, more and more residents prefer the “commuting alone” mode, thus two-wheeled electric vehicles with features such as fast, convenient, high price-performance ratio and zero-emission have become residents’ first choice for transportation. Meanwhile, since more and more consumers use online shopping due to the prosperous development of the new economy, the growth of corresponding short-distance delivery services has multiplied and the number of professional deliveryman has also displayed a growing trend, resulting in light electric vehicles possibly converting from a transportation means to a production tool, thereby better support the development of the internal economy in China.

In addition, people in Southeast Asian countries have similar commuting habits as those in mainland China, therefore, with the improvement of road infrastructure construction and the strengthening of the environmental management concept in Southeast Asian countries, there are great opportunities for the two-wheeled electric vehicles industry to explore such potential new markets.

I. High-end eco-friendly batteries

High-end eco-friendly batteries are sealed maintenance-free lead battery series products created by Tianneng Power relying on its R&D and technology innovations. They are environmental-friendly battery products with high stability, high price-performance ratio and remarkable recyclability, with application areas including light electric vehicles, special electric vehicles, start-stop systems in automobiles and energy storage and backup. Being the Group's key cornerstone business, it provides stable cashflows for the Group.

In 2020, the Company's high-end eco-friendly battery business continued to maintain its high-quality development. During the reporting period, the operating revenue in the high-end eco-friendly battery business was approximately RMB28,337 million and sales volume was 83.9722 million kVAh, with a year-on-year increase of 16.32%.

1. Two-wheeled and three-wheeled electric vehicles battery

The Company is a leading enterprise in the production and operation of motive batteries for two-wheeled and three-wheeled electric vehicles, and has earned widespread brand and quality recognitions among consumers, with the following development traits:

(1) High market share, large distribution market, strong marketing system

According to the information provided by the China Battery Industry Association, the market share of the Company's products in the light electric vehicle is exceeded 40% in 2018, and the Company maintained continuous growth. Under general circumstances, the operating life of electric vehicles is longer than the operating life of motive batteries, and motive batteries are needed to be replaced several times during the service life of a vehicle, with a replacement cycle of around 0.5 to 3 years, and high ownership volume has led to the distribution sales market becoming several times larger than direct sales. Therefore, the distribution sales market bought greater contributions to the Company's turnover. The Company has adopted direct sales and distribution modes in the market, with vehicle manufacturers as major direct sales customers (including Yadea (雅迪), Aima (愛瑪) and Tailg (台鈴)) and a distribution network consisting of over 3,000 distributors throughout mainland China.

- (2) Fully complying with the New National Standard, constantly developing new products

The implementation of the New National Standard not only regulates the two-wheeled electric vehicles, but also raises the entry barriers of the industry chain. Against such backdrop, the Company has closely followed the policy by constantly making improvements in areas of R&D and product quality, launching product series that beyond the requirements of the New National Standard and market demands, as well as combining digitalized experience to provide better service.

For example, Tianneng E5 King Kong (E5金剛) products are designed to solve the pain points of usage that are mostly welcomed by consumers and have features of extremely high-power, high-endurance and long-lifespan. The Company's R&D team has developed powerful energy-accumulated batteries (聚能芯) for E5 King Kong products. These batteries have grid structures of high-energy density and excellent conductivity which can reduce battery internal resistance, increase the rate of electrochemical reaction, and therefore ensure that under the condition of high-power discharge, the battery's cruising ability become stronger and its perform more stable.

- (3) Equipping with industry-leading technology, reducing costs and increasing efficiency with intelligence manufacturing

From 2017 to present, the Company continues to make R&D and technological improvements in green manufacturing, and has increased the efficiency of raw material usage and the automation level of production lines, which promotes the economic, social and ecological benefits. Production bases have successively deployed self-developed full-automated manufacturing equipment and have applied the upgraded continuous casting and rolling technology to optimize the grid manufacturing process, and also cancelled the separation (分片) process, thus reducing the loss of raw materials. In addition, the intelligent improvement in equipment, such as automatic casting-and-welding production equipment, automatic palletizers and automatic plastic injection molding machines, has been achieved remarkably, which has further increased the accuracy and the average labor efficiency in the manufacturing process.

2. *Mini electric vehicle batteries*

Mini electric vehicles are low-speed four-wheelers driven by lead batteries. The full charge endurance of this type of vehicle is usually greater than 100 kilometers and can carry people or loads, and is mainly driven by lead batteries, with a replacement period of around 1 to 5 years.

Mini electric vehicles are popular, mostly because: 1) their price-performance ratio is high while the cost of use is low compared with other four-wheelers; 2) they match the needs as the cruising range of a mini electric vehicle can generally cover the daily traveling of urban and rural residents; 3) their owners can charge them easily by using household power directly, without installing special charging piles.

The mini electric vehicle market was mainly concentrated in the Eastern and Central plains such as Province of Shandong, Henan and Hebei. In recent years, with intensified efforts against poverty in mainland China, the construction of the rural road networks is also speeding up and upgrading, more and more residents of towns and mountainous areas in the southwest have no longer faced transport difficulties, which has further stimulated the travel demands between rural and urban areas and led to a growing demand for vehicles. The Company continues to maintain the market leading position in the mini electric vehicle battery sector.

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

(1) Start-stop batteries

Start-stop batteries are mainly used for starting, ignition and lighting of vehicles and equipment such as automobiles, motorcycles and fuel engines, which can effectively reduce emissions. It is an energy-saving and emission-reducing technology that has developed rapidly in recent years, with a replacement period of around 3 to 5 years. In 2017, China issued the Measures for the Parallel Administration of the Average Fuel Consumption and New Energy Vehicle Points of Passenger Vehicle Enterprises (“Parallel Point-based Administration”) to restrict the production of large displacement vehicles in respect of average fuel consumption and new energy vehicle points. Thus, the market size of the automotive start-stop batteries has surged.

Through continuous self-dependent innovation, the Company launched start-stop batteries product of its own brand with an independent and complete technical system to the market in 2017, and has actively made breakthroughs in the factory inspection of automobile manufactures and production trial run. The Company currently focuses on the replacement market while undergoing customer authentication.

In the future, the Company will increase production capacity and expand the market while actively developing new product and accumulating technology. As one of the Group's emerging businesses, the start-stop battery business is planned to continuously develop through capacity expansion, market development and introduction of talents.

(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 places such as airports, stations, ports, vegetable and fruit markets, warehouse of industrial and mining enterprises. The battery products of the same series are also used in other special electric vehicles such as electric tour buses, electric sweepers, electric cleaning vehicles and electric patrol vehicles.

The Group has become the second largest domestic brand in the field of forklift batteries and has formed strategic partnerships with domestic and overseas renowned enterprises such as Hangcha Group Co., Ltd. (杭叉集團), Heding Jidian (和鼎機電), KION Baoli (Jiangsu) Forklift Co., Ltd. (寶驪叉車) and Anhui Heli Co., Ltd. (安徽合力). 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.

At the same time, China is striving to expand domestic demand and actively encourages its residents consumption. While the vehicles used in warehousing, logistics, tourism and golf carts, etc. major use special electric vehicle batteries, it is expected that the products of corresponding battery series will have ample room for growth.

(3) Energy storage batteries and backup batteries

Energy storage lead batteries refer to batteries used by electric generator to store energy with replacement cycle of about 5 to 8 years, such as wind and solar power. 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 in order to supply power. Lead batteries are widely used for solar power storage, wind power storage and power station storage. They 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 are adaptable to temperature changes.

In October 2020, the 10 kV energy storage power station in Zhicheng of Changxing, in which the energy storage batteries are provided by Tianneng Power, was officially connected to the grid and put into operation. It is the first grid-side lead-carbon energy storage power station in China. The station connects with the nearby substations, achieves the bidirectional conversion and circulation of electrical energy, effectively plays the role of peak-load shifting, and provides more abundant adjustment means for the safe operation of urban power grids. In recent years, Tianneng Power has actively explored the development of smart energy, used new models to develop multi-level energy storage products and system solutions and to promote the extension of industrial chain and high-end upgrading. At present, Tianneng Power has built several projects, such as the off-grid photovoltaic energy storage project in Africa (非洲光伏儲能離網項目) and the smart microgrid lead-carbon battery energy storage power station (智慧微網鉛炭電池儲能電站).

Backup batteries used in power transmission stations to provide closing current to power units and batteries used in public facilities to provide backup energy, with replacement cycle of about 5 to 8 years. Currently, lead batteries are widely used in communication and continuous power supply system. The construction of communication networks and the updates of communication technologies worldwide will bring continuous demand for lead backup batteries.

Tianneng Power has a full range of energy storage batteries products that can provide an effective backup power guarantee for global communication, electricity, railway, ships, radio and television broadcast, UPS, digital and consumer products, and other sectors. 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 microgrids. Leveraging advanced energy storage technologies, concentrating on high-efficiency energy storage systems and aiming at distributed smart power supply, Tianneng Power is committed to providing “All-in-one” energy storage system solutions and integrated systems to customers, project design and engineering construction.

II. New energy batteries

The Company’s new energy batteries comprise mainly lithium-ion batteries, the production and R&D of next-generation battery products such as fuel cells. The application fields of lithium-ion batteries are mainly divided into two categories: motive field and non-motive field. The application fields for motive category include light electric vehicles, passenger electric vehicles and commercial electric vehicles, while application fields for non-motive category include consumer electronic products and energy storage. 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 RMB1,059 million, representing a year-on-year increase of 69.03%.

In November 2019, Tianneng Power signed a cooperation agreement with SAFT, a subsidiary of the French company Total S.A., one of the world's top energy group, to form a joint venture Tianneng SAFT Energy Joint Stock Company (天能帥福得能源股份有限公司) 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 cylindrical batteries, pouch shell batteries, prismatic batteries and battery management system. The products can be used in light electric vehicles, grid energy storage, new energy vehicles, electronic appliances and special industries. The cooperation with SAFT will help the Group to acquire the world-leading lithium battery company's rich experience in the construction and management of R&D systems, technological reserve to enhance the Company's global competitiveness.

Since the establishment of the joint venture, the integration of resources between Tianneng Power and the French company has been progressing steadily. Both parties have been actively developing new products to meet the needs of emerging markets and overseas markets, such as the superpower manganese iron lithium module battery (超能錳鐵鋰模組電池). In addition to the sector of motive batteries, the Company's lithium battery business has also gained a foothold in smart energy storage and backup battery industries. In July 2020, the Company won the awards of Year 2020 "Best Provider of Systems Integration Solutions" and "Best Demonstration Project for Energy Storage" at the 7th Global Solar+Energy Storage Conference & Expo. The "engineering R&D and application of stack system and core components of high-power fuel cells (高功率燃料電池電堆系統及核心零部件的工程化研發與應用)" applied by the Company for fuel cells has been listed as the preferred commissioned project of major R&D plans of Zhejiang Province in 2020 (浙江省2020年度省重點研發計畫擇優委託專案).

III. Renewable new materials

Renewable new materials refer to the material recovery and utilization business of the battery main business developed based on the Extended Producer Responsibility scheme, and it also includes the disposal of solid wastes and resource utilization business. The finished products include lead metal, nickel-ion compound and cobalt-ion compound. The Company is one of the first enterprises in the industry to enter the renewable new material industry. After over ten years of technology accumulation and scientific operations, this business segment has become one of the three major businesses of the Company, and it has had an important position in the Company's future development plan. During the reporting period, the Group's operating revenue in renewable new material business recorded approximately RMB1,208 million, representing a year-on-year increase of 28.35%. On 21 January 2021, after expert review, on-site verification and online publicity and other procedures, Tianneng Power was successfully listed in the second batch of enterprises that meet the "Industry Standards and Conditions for the Comprehensive Utilization of Waste Power Batteries for New Energy Vehicles 《新能源汽車廢舊動力蓄電池綜合利用行業規範條件》" by the Ministry of Industry and Information Technology of China.

In recent years, the Chinese government encourages producers to develop ecological design, establish recycling systems, and promote resource recycling. Meanwhile, relevant laws and regulations promulgated by the Chinese government have also specified in details the recycling and disposal processes of used batteries, which provide strong support for the healthy and orderly development of the recycling industry. At present, China strictly 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 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 was officially implemented on 1 September 2020. Such amended law mainly includes: 1) the state sets up an 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 September 2020, the Detailed Rules for the Implementation of the Measures for the Recycling of End-of-Life Vehicles (《報廢機動車回收管理辦法實施細則》), which had been considered and approved by seven ministries including MOFCOM, was officially implemented. Such detailed rules explicitly stated that, the state encourages vehicle manufacturers to engage in end-of-life vehicles (ELV) recycling and dismantling activities. No entity or individual may engage in ELV recycling and dismantling activities if its/his/her qualification has not been recognized. The dismantled motive batteries should be delivered to the motive battery recycling service networks established by new energy vehicle manufacturers, or to the echelon utilization enterprises that meet the relevant national requirements for the management of echelon utilization of motive batteries, or to the enterprises which engage in the comprehensive utilization of waste motive batteries.

In order to coordinate the geographical advantages of our battery production bases, the Company has formed a total of approximately 700,000 tons of supporting waste lead battery disposal capacity and approximately 7,000 tons of lithium-ion battery disposal capacity and has obtained the qualifications for launching pilot recycling projects in 15 provinces where waste battery resources are relatively concentrated. In terms of pipelines, the Company has cooperated closely with local recycling networks, and the largest “recycling cloud” platform for used batteries in China has also been launched by Tianneng Power. At the same time, relying on the terminal stores in China to expand recycling pipelines, the Company has gradually formed a “after-sales +” service model. The Group will continue to put much effort in the renewable new materials business, expand the recycling system (e.g. LFP battery) in due course, as well as, increase the influence in subdivision fields such as carbon and modified plastic, thus steadily progressing towards the goal of setting up large circular industry clusters.

IV. Optimizing industrial ecosystem, expanding the global development

In 2020, the Company continues to build a digitalized Tianneng. Distributors have joined the cloud system, so that the Company can be well-informed of the market sales situation, inventory product classification. It better helps distributors to carry out refined operation and management, further enhances the entire market competitiveness of the Tianneng Power. The supply chain of Tianchang has integrated the upstream and downstream of the industry chain, providing service by ways of freight, storage and financial technology, to build an One-stop solutions for supply chain management in terms of procurement, manufacturing, sales and recycling. The trading business of new energy materials focuses on raw materials and metals. The Company actively builds an “integrated service platform for non-ferrous metal (有色金屬綜合服務平台)” and strives to become an influential service provider of non-ferrous metal system integration in the industry.

For overseas business, the Group has fully investigated the market potential in regions such as Southeast Asia, South Asia, Europe, Middle East and Africa, and it has established branches or cooperative organizations in Vietnam, India, Africa and other countries. The Company will continue to strengthen cooperations with scientific research institutions overseas, continue to explore cooperation opportunities for up and down streams globally, establish R&D production bases overseas in due course while creating a global supply chain network. The Company is dedicated to becoming the world’s leading green energy solution provider.

V. Boosting capital market, upgrading platform motivation

On 15 December 2020, the China Securities Regulatory Commission approved the registration of Tianneng Battery for the initial public offering of its shares on the Science and Technology Innovation Board of the Shanghai Stock Exchange. On 18 January 2021, Tianneng Battery was successfully listed on the Shanghai Stock Exchange. The controlling interest of the Company in Tianneng Battery is approximately 86.53%. Tianneng Battery remains to be a subsidiary of the Company and its results will continue to be consolidated into the financial statements of the Company.

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 intelligence, globalization, platform-building”, strive to implement future development of the corporate, as well as fully promote reforms in efficiency and driving forces. The Company intends to focus on the following tasks:

- (1) The business development plan of high-end eco-friendly battery: keeping steady and pursuing leading position in the world. The Company will steadily expand the production and sale of lead batteries in the future and expand subdivision fields such as start-stop and smart energy storage on the basis of consolidating the leading position of lead motive battery. Regarding the technology, the Company will speed up the R&D and industrialization of the technology of high-energy lead batteries, such as lead-carbon batteries and pure lead batteries, and gradually develop into a global leading enterprise of lead batteries, a leader of advanced high-energy lead batteries and a maker of international standards.
- (2) The business development plan of new energy battery: vigorously develop lithium-ion batteries as a core business and strengthen its presences. The Company intends to continue to enhance its production capacity through the “high-energy power lithium battery and PACK project”. With the Company’s advantages of established brand and channels in the PRC market, the Company has rapidly seized the lithium-ion motive battery market for light electric vehicles with its mature technology and operating system, and it has gradually expanded its presence in the application fields such as smart energy storage and standby battery. Meanwhile, the Company has actively introduced R&D talents into the field of new battery technology such as fuel cells and established the corresponding mechanism and system, and it has launched 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 Company has further enhanced its technical, market and management advantages. These will enable the lithium-ion battery business to become one of the Company’s core industries and also fully strengthen the market competitiveness and market share of the Company’s lithium-ion battery business in the PRC and worldwide markets.

- (3) The business development plan of renewable new materials: the Company will actively participate in the national zero-waste city building as a strategic development direction, adhere to the concept of green, low carbon and circular development based on the recycling idea of lead batteries. The Company integrates the lithium-ion battery recycling with the disposal and resource utilization of solid wastes and others, and puts much effort in building a green sustainable new material industry system.

Leveraging on its advantages in technology, production framework, marketing and branding and information technology system which have been accumulated in the battery industry for many years, the Company will strengthen the international leading position of its high-end eco-friendly batteries, enhance the product competitiveness of new energy batteries, create digitized advanced renewable new material industry chain, actively expand businesses and continue with the technological development of new-generation batteries, with the aim of becoming the most respected first-tier new energy corporate worldwide.

MANAGEMENT ANALYSIS

Gross profit

The Group's gross profit increased by approximately 17.16% to approximately RMB5,492 million in 2020 from RMB4,688 million in 2019, which was attributable to the increase in sales volume and the rise in gross profit margin of batteries. The overall gross profit margin decreased by 1.28 percentage points to 10.26% from 11.54% in 2019. Among which, gross profit margin of manufacturing segment was 17.08%, representing an increase of 1.69 percentage points when compared with 2019, but the gross profit margin of the newly-added trading segment in 2020 was relatively low, thus resulting in a decrease in the overall gross profit margin.

Other income

Other income of the Group increased by approximately 43.70% from approximately RMB369 million in 2019 to approximately RMB530 million in 2020. The increase was mainly attributable to the increase in government grants. Interest income increased from approximately RMB93 million in 2019 to approximately RMB138 million in 2020. The increase was mainly attributable to optimised fund allocation and increase in interest income from deposit.

Selling and distribution costs

Selling and distribution costs of the Group increased by approximately 4.57% from approximately RMB897 million in 2019 to approximately RMB938 million in 2020. The increase in selling and distribution costs was mainly due to the increase in staff costs and advertising expenses.

Administrative expenses

Administrative expenses increased by approximately 19.33% from approximately RMB663 million in 2019 to approximately RMB791 million in 2020. Such increase was mainly due to the increase in staff cost and consultancy expenses.

Finance costs

Finance costs decreased by approximately 16.82% from approximately RMB255 million in 2019 to approximately RMB212 million in 2020, which was mainly due to the decrease in loan size and the interest rates of loans during the year.

Taxation

Tax charges of the Group increased by approximately 11.26% from approximately RMB400 million in 2019 to approximately RMB445 million in 2020, which was mainly due to the increase in profit during the year.

LIQUIDITY AND FINANCIAL RESOURCES

The net cash from operating activities for the year of 2020 was approximately RMB2,102 million (2019: RMB1,739 million). In this year, the Group had a better profit and strengthened the management of prepayments and account payables enabling the overall cash flow of operating activities to maintain at a good level.

As at 31 December 2020, the bank balances and cash (including pledged bank deposits) of the Group was approximately RMB5,759 million (31 December 2019: approximately RMB5,446 million). As at 31 December 2020, the Group obtained undrawn banks facilities of approximately RMB8,985 million (31 December 2019: approximately RMB6,500 million). The bank balances and cash (including pledged bank deposits) of approximately RMB5,634 million, RMB105 million, RMB20.63 million and RMB0.01 million were denominated in Renminbi, Hong Kong Dollars, US Dollars and Euros respectively. As the bank balances in Hong Kong Dollars, US Dollars and Euros collectively accounted for approximately 2.18% of the total balances, the Group's relevant exchange risk is low.

As at 31 December 2020, the net current assets of the Group were approximately RMB3,242 million (31 December 2019: net current assets of approximately RMB1,693 million). The increase was primarily attributable to the increase in inventories, bills receivables, prepayments and bank deposits of the Company, and that the Company was able to control the level of its liabilities and financial risks.

As at 31 December 2020, the interest bearing borrowings, finance leases and loan notes (together as “interest bearing loans”) of the Group with maturity of within one year totally amounted to approximately RMB919 million (31 December 2019: approximately RMB1,659 million). The interest bearing loans of the Group with maturity of more than one year amounted to approximately RMB719 million (31 December 2019: RMB253 million). In which, the interest bearing loans of RMB1,543 million carried fixed and variable interest rates ranging from 2.23% to 4.79% (2019: 4.08% to 8.00%) per annum. The Company will closely monitor the changes in interest rate and assess the interest rate risk.

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

FINANCIAL POSITION

Assets

As at 31 December 2020, the total assets of the Group were approximately RMB23,200 million, representing an increase of 21.28% as compared to approximately RMB19,130 million as at 31 December 2019. Among them, non-current assets increased by approximately 18.24% to approximately RMB7,526 million and current assets increased by approximately 22.79% to approximately RMB15,674 million. The major reason for the increase of non-current assets was due to the capital expenditure on production plants and equipment upgrading. The increase in current assets was mainly attributable to the increase in inventories, bill receivables, prepayments and bank deposits.

Liabilities

As at 31 December 2020, the total liabilities of the Group were approximately RMB13,741 million, representing an increase of approximately 16.02% as compared to approximately RMB11,844 million as at 31 December 2019. Among them, non-current liabilities increased by approximately 69.65% to approximately RMB1,309 million, mainly due to the increase in long-term interest bearing borrowings; current liabilities increased by approximately 12.28% to approximately RMB12,432 million, mainly due to the increase in account payables and contract liabilities.

ANALYSIS BY KEY FINANCIAL KPIS

Profitability:

	2020	2019
Return on equity	29.91%	27.23%
Gross profit margin	10.26%	11.54%
– Trading	0.19%	-0.22%
– Sales of batteries and battery related accessories	17.08%	15.39%
Net profit margin	4.68%	4.25%

The overall gross profit margin in 2020 decreased compared to 2019 due to the increase of trading business. Not considering the trading business, the gross profit margin increased by 1.69 percentage point to 17.08% in 2020 compared to 2019.

Liquidity:

	2020	2019
Current ratio	1.26	1.15
Quick ratio	0.90	0.82

Both the ratios above in 2020 increased when compared with those in 2019, mainly due to a higher increase of current assets as compared to that of the current liabilities.

Operating Cycle:

	2020	2019
Inventory turnover days	31	34
Account receivables turnover days	7	8
Account payables turnover days	17	21
Bills and account receivables turnover days	18	18
Bills and account payables turnover days	37	45

The inventory turnover days decreased by 3 days to 31 days in 2020 due to the enhancement of production capacity in 2020. Account receivables turnover days decreased by 1 day from 2019 to 7 days in 2020 due to improved management of account receivables in 2020. Account payables turnover days for 2020 decreased by 4 days to 17 days mainly due to the decrease in account payables. Bills and account receivables turnover days were basically the same as last year. Bills and account payables turnover days decreased by 8 days to 37 days due to the decrease in account payables.

Capital:

	2020	2019
Net debt ratio	-29.79%	-30.77%
Interest coverage ratio (<i>Note</i>)	17.40	11.22

Note: EBITDA divided by total interest expenses

As the interest bearing debt (“Debt”) and the cash and bank balances as at 31 December 2020 were RMB1,638 million and RMB4,456 million respectively, the net debt was RMB-2,818 million. The net debt ratio was basically the same as last year. There was adequate total capital during the year.

The interest coverage ratio increased by 6.18 times from the prior year, and the ability to make interest payments remained strong.

Return of Shareholders:

	2020	2019
Earning per share (Basic) (<i>RMB</i>)	2.20	1.49
Dividend per share (<i>HK cent/share</i>)	40 (<i>Note</i>)	39

Note: representing the dividend proposed by the Company’s Board for 2020, which is subject to approval at the annual general meeting.

CAPITAL EXPENDITURE

The capital expenditure in 2020 was approximately RMB1,180 million (2019: approximately RMB1,118 million). A majority of expenditure was incurred on the lithium-ion battery segments, the start-and-stop battery segments and construction investment in the recycling segments.

CAPITAL COMMITMENTS

The amount contracted for but not stated in the consolidated financial statements in respect of the acquisition of property, plant and equipment as at 31 December 2020 was approximately RMB1,338 million (31 December 2019: approximately RMB852 million).

GEARING RATIO

The Group's gearing ratio (which is based on the amount of total interest bearing loans divided by total assets multiplied by 100%) as at 31 December 2020 was approximately 7.06% (31 December 2019: approximately 9.99%).

EXPOSURE TO EXCHANGE RATE FLUCTUATION

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

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2020 (31 December 2019: Nil).

PLEDGE OF ASSETS

As at 31 December 2020, the bank facilities of the Group were secured by bank deposits, bills receivables, property, plant and equipment and prepaid lease payments. The aggregate net book value of the assets pledged amounted to approximately RMB2,784 million (31 December 2019: RMB2,891 million).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2020, the Group employed a total of 24,379 employees (31 December 2019: 21,676 employees). Staff costs excluding directors' emoluments of the Group for the year of 2020 amounted to approximately RMB2,259 million (2019: RMB1,950 million). The costs included basic salaries and benefits as well as staff benefits such as discretionary bonus, medical and insurance plans, pension scheme (including the schemes under the statutory requirement of the government such as pension insurance in China and mandatory provident fund in Hong Kong), unemployment insurance plans and share option scheme etc. Competitive remuneration packages were offered to employees. The Company has adopted incentive programs (including share option scheme) to encourage employee performance and provided a range of training programs for the development of its staff.

SIGNIFICANT INVESTMENTS HELD

Save for the investments in equity securities listed in Hong Kong and the PRC, unlisted equity securities in the PRC and the structured bank deposits, there were no other significant investments held by the Group as at 31 December 2020. Such investment refers to its increased holdings of those excellent companies in the industry, reflecting its confidence in the prospect of the industry and the increase in corporate interest.

MATERIAL ACQUISITION AND DISPOSAL

On 18 January 2021, the shares of Tianneng Share were separately listed on the Science and Technology Innovation Board of the Shanghai Stock Exchange (the "Separate Listing"). Pursuant to the Separate Listing, Tianneng Share issued a total of 116,600,000 A shares at an offer price of RMB41.79 per share to investors. Upon completion of the Separate Listing and the new issue, the Group's controlling interest in Tianneng Share was reduced from 98.33% to 86.53%.

Save as disclosed above, the Group has no material acquisition and disposal as at 31 December 2020.

PRINCIPAL RISKS AND UNCERTAINTIES

Many economic experts closely monitor whether the global and China economy growth will slow down in coming years. The Group's traditional business such as the sale of e-bike battery may be under uncertainties if the consumer market downturn exists. It is the reason that the Group started industries transformation and upgrading a few years ago, aiming to diversify the risk of over reliance on any single business segment.

In the past few years, labour cost in China continuously increased and the production-oriented entities in China were facing the increasing pressure of higher production cost. The Group will apply more resources in establishing production automation system in order to reduce manpower per production unit. At the same time, the new incentive scheme will be adopted as the other way for improving the manpower efficiency.

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

On 1 June 2020, the Company repurchased 602,000 shares and on 30 June 2020 cancelled 602,000 shares through purchases on the Hong Kong Stock Exchange. The total amount paid to acquire the shares was approximately HK\$5,300,000 (equivalent to approximately RMB4,891,000), whereas the highest price per share paid was HK\$8.88 and the lowest price per share paid was HK\$8.68. 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 and earnings per share.

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

EVENTS AFTER THE REPORTING PERIOD

(a) Completion of the Proposed A Share Listing

The proposed listing of the shares of Tianneng Share on the Science and Technology Innovation Board was completed on 18 January 2021.

Pursuant to the said listing, Tianneng share issued a total of 116,600,000 A Share at an offer price of RMB41.79 per share to investors. Upon completion of the said listing and new issue, the controlling interest of the Company in Tianneng Share was reduced from 98.33% to 86.53%. For the details, please refer to the Company's announcement dated 18 January 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 11 June 2021 to Friday, 18 June 2021 (both days inclusive), during which period no transfer of the shares of the Company will be registered. In order to qualify for attending the annual general meeting of the Company of this year, all share certificates, together with duly completed transfer forms, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 10 June 2021.

Further, the register of members of the Company will be closed from Monday, 28 June 2021 to Wednesday, 30 June 2021 (both days inclusive), during which period no transfer of the shares of the Company will be registered. In order to establish entitlements to the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 25 June 2021. Subject to the approval of the shareholders at the annual general meeting of the Company to be held on Friday, 18 June 2021, the proposed final dividend is expected to be paid on or before Friday, 30 July 2021.

AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") in accordance with the requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("Listing Rules") for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. As at 31 December 2020, the Audit Committee comprised three independent non-executive directors, namely, Mr. Huang Dongliang, Mr. Wu Feng and Mr. Zhang Yong.

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

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2020.

CORPORATE GOVERNANCE CODE

The Company has adopted the provisions of the Corporate Governance Code (the “Code”) as contained in Appendix 14 to the Listing Rules during the period from 1 January 2020 to 31 December 2020. For the year ended 31 December 2020, except for the Code provision A.2.1, the Company has complied with the provisions set out in the Code. Dr. Zhang Tianren is both the chairman and CEO of the Company who is responsible for managing the Group’s business. The Board considers that vesting the roles of chairman and CEO in the same person facilitates the execution of the Company’s business strategies and maximizes the effectiveness of its operation. With the present Board structure and scope of business, the Board considers that there is no imminent need to separate the roles into two individuals. However, the Board will continue to review the effectiveness of the Group’s corporate governance structure to assess whether the separation of the position of the chairman and CEO is necessary.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Group’s auditors, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year ended 31 December 2020. The work performed by ZHONGHUI ANDA CPA Limited in this respect did not constitute an assurance engagement in accordance with the Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ZHONGHUI ANDA CPA Limited on this announcement.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. Having made specific enquiry, all directors of the Company confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2020.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held at Conference Room, 3/F, Tianneng Group Building, Huaxi Industrial Function Zone, Changxing County, Zhejiang Province, the PRC on Friday, 18 June 2021 at 2:00 p.m.. Notice of annual general meeting will be published on the Company's website at www.tianneng.com.hk and the website of the Hong Kong Stock Exchange at www.hkexnews.hk and despatched to the shareholders of the Company as soon as practicable.

PUBLICATION

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

GENERAL INFORMATION

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

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

By Order of the Board

TIANNENG POWER INTERNATIONAL LIMITED

ZHANG Tianren

Chairman

Hong Kong, 26 March 2021

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.