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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 60.27% to approximately RMB36.276 billion
- Gross profit decreased by approximately 8.57% to approximately RMB1.934 billion
- Profit attributable to the owners of the Company decreased by approximately 21.02% to approximately RMB661 million
- Basic earnings per share decreased by approximately 21% to RMB58.68 cents

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Tianneng Power International Limited (the “**Company**” or “**Tianneng**”) announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2021, together with the comparative figures for the same period in 2020. 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 2021

		2021	2020
	Notes	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	36,276,133	22,634,969
Cost of sales		(34,341,730)	(20,519,206)
Gross profit		1,934,403	2,115,763
Interest revenue		82,353	53,265
Other income	5	491,561	334,274
Other gains and losses	6	65,620	6,198
Impairment losses, net of reversal		(18,838)	(19,016)
Selling and distribution costs		(409,348)	(377,900)
Administrative expenses		(441,459)	(353,303)
Research and development costs		(615,787)	(532,611)
Other expenses		(11,963)	(8,791)
Share of loss of associates		(569)	(337)
Finance costs		(117,705)	(106,318)
Profit before taxation		958,268	1,111,224
Taxation	7	(214,946)	(251,086)
Profit for the period	8	743,322	860,138

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

For the six months ended 30 June 2021

	2021 <i>RMB'000</i> (unaudited)	2020 <i>RMB'000</i> (unaudited)
Other comprehensive (expense) income:		
<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	(64,770)	60,954
	<u>(64,770)</u>	<u>60,954</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	(786)	(4,130)
Income tax relating to items that may be reclassified subsequently	(129)	—
	<u>(915)</u>	<u>(4,130)</u>
Total comprehensive income for the period	<u>677,637</u>	<u>916,962</u>

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

For the six months ended 30 June 2021

		2021	2020
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(unaudited)
Profit for the period attributable to:			
Owners of the Company		660,863	836,756
Non-controlling interests		82,459	23,382
		<hr/>	<hr/>
		743,322	860,138
		<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income for the period attributable to:			
Owners of the Company		595,178	893,580
Non-controlling interests		82,459	23,382
		<hr/>	<hr/>
		677,637	916,962
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share	<i>10</i>		
– Basic (<i>RMB cents</i>)		58.68	74.27
		<hr/> <hr/>	<hr/> <hr/>
– Diluted (<i>RMB cents</i>)		57.24	72.84
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

		30 June 2021 <i>RMB'000</i> (unaudited)	31 December 2020 <i>RMB'000</i> (audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		5,684,253	5,455,025
Goodwill		23,305	23,305
Right-of-use assets		875,243	793,956
Interest in an associate		23,101	20,670
Equity investments at fair value through other comprehensive income (“FVTOCI”)		262,330	327,101
Deferred tax assets		530,205	459,597
Deposit paid for acquisition of property, plant and equipment		563,809	244,377
Loan receivables		387,648	188,808
Long-term receivable		13,627	13,098
		8,363,521	7,525,937
Current assets			
Inventories		6,329,171	4,485,900
Properties for sale under development		642,796	389,696
Trade and other receivables	<i>11</i>	3,600,694	2,349,281
Loan receivables		77,224	34,825
Amounts due from related parties		1,918	13,475
Debt instruments at fair value through other comprehensive income (“FVTOCI”)		2,022,980	2,069,365
Financial assets at fair value through profit or loss (“FVTPL”)		2,294,107	572,591
Pledged bank deposit		1,758,728	1,303,060
Bank balances and cash		8,267,957	4,456,305
		24,995,575	15,674,498

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 June 2021

		30 June 2021	31 December 2020
	Notes	RMB'000 (unaudited)	RMB'000 (audited)
Current liabilities			
Bills, trade and other payables	12	7,756,247	7,356,002
Amounts due to related parties		258,557	142,308
Taxation payables		355,699	403,788
Borrowings – current portion		4,725,168	919,123
Deferred government grants		32,876	38,699
Lease liabilities		7,217	8,689
Provision		653,092	622,309
Contract liabilities		3,053,227	2,941,370
		<u>16,842,083</u>	<u>12,432,288</u>
Net current assets		<u>8,153,492</u>	<u>3,242,210</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>16,517,013</u>	<u>10,768,147</u>
Non-current liabilities			
Borrowings – non-current portion		1,321,966	718,917
Deferred government grants		509,919	509,833
Lease liabilities		16,092	16,274
Deferred tax liabilities		70,624	63,834
		<u>1,918,601</u>	<u>1,308,858</u>
NET ASSETS		<u><u>14,598,412</u></u>	<u><u>9,459,289</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)**At 30 June 2021*

	30 June	31 December
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Capital and reserves		
Share capital	109,850	109,850
Reserves	12,263,854	8,636,310
	<hr/>	<hr/>
Equity attributable to owners of the Company	12,373,704	8,746,160
Non-controlling interests	2,224,708	713,129
	<hr/>	<hr/>
TOTAL EQUITY	14,598,412	9,459,289
	<hr/> <hr/>	<hr/> <hr/>

1. BASIS OF PREPARATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 16 November 2004 and its shares are listed on The Stock Exchange of Hong Kong Limited (the “**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 (the “**Listing Rules**”).

These condensed consolidated financial statements should be read in conjunction with the 2020 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 2020.

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

In the current period, 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 2021. HKFRSs comprise Hong Kong Financial Reporting Standards; 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 consolidated 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 condensed consolidated 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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Sales of batteries and battery related accessories		
Lead-acid battery products		
Electrical bicycle (tricycle) battery (<i>note i</i>)	11,992,853	10,633,396
Micro electric vehicle battery	677,487	764,163
Special-purpose battery (<i>note ii</i>)	448,685	243,334
Renewable resources product	1,243,582	397,298
Lithium battery products	423,792	402,880
Others	1,318,815	540,383
Trading of new energy materials	20,170,919	9,653,515
	<u>36,276,133</u>	<u>22,634,969</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 start-stop 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 six months ended 30 June 2021

	Sales of batteries and battery related accessories <i>RMB'000</i> (unaudited)	Trading of new energy materials <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
Reportable segment revenue derived from the group's external customer	16,105,214	20,170,919	36,276,133
Inter-segment sales	14,905	326,259	341,164
	<hr/>	<hr/>	<hr/>
Reportable segment revenue	<u>16,120,119</u>	<u>20,497,178</u>	<u>36,617,297</u>
Segment profit	<u>722,828</u>	<u>17,563</u>	740,391
Other gains and losses			8,845
Corporate administrative expenses			(5,167)
Finance costs			(747)
			<hr/>
Profit for the period			<u>743,322</u>

4. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

For the six months ended 30 June 2020

	Sales of batteries and battery related accessories <i>RMB'000</i> (unaudited)	Trading of new energy materials <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (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
	<hr/>	<hr/>	<hr/>
Reportable segment revenue	12,981,454	11,592,319	24,573,773
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Segment profit	856,668	1,904	858,572
	<hr/> <hr/>	<hr/> <hr/>	
Other gains and losses			6,553
Corporate administrative expenses			(4,987)
			<hr/>
Profit for the period			860,138
			<hr/> <hr/>

4. SEGMENT INFORMATION (Continued)

Other segment information

	Sales of batteries and battery related accessories	Trading of new energy materials	Unallocated	Total
For the six months ended 30 June 2021	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
Depreciation of property, plant and equipment	283,142	5	–	283,147
Amortisation of right-of-use assets	12,333	–	–	12,333
Loss on disposal/written off of property, plant and equipment	10,839	–	–	10,839
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	Sales of batteries and battery related accessories	Trading of new energy materials	Unallocated	Total
For the six months ended 30 June 2020	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5. OTHER INCOME

	For the six months ended	
	30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Government grants (<i>note</i>)	347,078	294,528
Dividend income	—	50
Others	144,483	39,696
	<u>491,561</u>	<u>334,274</u>

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	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net gains (losses) on financial assets at FVTPL		
– structured bank deposits	15,247	15,107
– wealth management product	12,044	3,566
– held-for-trading investments (<i>note i</i>)	(11,503)	15,776
– commodity derivative contracts (<i>note ii</i>)	22,433	(14,518)
Loss on disposal/write off of property, plant and equipment	(10,839)	(8,668)
Net foreign exchange losses	38,238	(5,065)
	<u>65,620</u>	<u>6,198</u>

Notes:

- i) Net gains (losses) on held-for-trading investments represented gains (losses) arising on changes in fair value of equity securities.
- ii) Net gains (losses) on derivative financial instruments represented gains (losses) arising on changes in fair value of commodity derivative contracts.

7. TAXATION

	For the six months ended	
	30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Hong Kong Profits Tax:		
– Current tax	–	–
PRC Enterprise Income Tax (“EIT”):		
– Current tax	278,902	221,321
Deferred tax	(63,956)	29,765
	<u>214,946</u>	<u>251,086</u>

The income tax expense of the Group is recognised based on the PRC EIT rate of 25% (six months ended 30 June 2020: 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	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Write-down of inventories (included in cost of sales)	–	1,126
Depreciation of property, plant and equipment	283,147	248,380
Amortisation of right-of-use assets	12,333	10,652
Directors' remuneration	1,662	1,487
	<u> </u>	<u> </u>

Share-based payments expense of approximately RMB6,603,000 (six months ended 30 June 2020: 6,520,000) was recognised in profit or loss during the six months ended 30 June 2021 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	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Dividends recognised as distribution during the year:		
1.1.2021 to 30.6.2021: 2020 final dividend of HK40.00 cents (equivalent to RMB33.28 cents) per ordinary share (1.1.2020 to 30.6.2020: 2019 final dividend of HK\$39.00 cents (equivalent to RMB35.04 cents))	374,810	404,261
	<u> </u>	<u> </u>

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2021 and 30 June 2020.

10. EARNINGS PER SHARE

	For the six months ended	
	30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Earnings for the purposes of calculating basic and diluted earnings per share		
– Profit for the year attributable to the owners of the Company	<u>660,863</u>	<u>836,756</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,126,124,500	1,126,627,269
Effect of dilutive potential ordinary shares – share options	<u>28,445,165</u>	<u>22,202,044</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u><u>1,154,569,665</u></u>	<u><u>1,148,829,313</u></u>

11. TRADE AND OTHER RECEIVABLES

	30 June 2021 <i>RMB'000</i> (unaudited)	31 December 2020 <i>RMB'000</i> (audited)
Trade receivables	1,537,620	1,144,620
Less: Allowance for credit losses	(169,381)	(227,372)
	<u>1,368,239</u>	<u>917,248</u>
Other receivables	307,034	229,788
Less: Allowance for credit losses	(27,097)	(35,689)
	<u>279,937</u>	<u>194,099</u>
Prepayment	1,431,850	996,888
PRC value added tax receivables	520,668	241,046
	<u>3,600,694</u>	<u>2,349,281</u>

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

	30 June 2021 <i>RMB'000</i> (unaudited)	31 December 2020 <i>RMB'000</i> (audited)
0 to 45 days	992,124	725,779
46 to 90 days	177,016	101,132
91 to 180 days	80,255	51,559
181 to 365 days	90,383	12,939
1 year to 2 years	14,809	11,911
Over 2 years	13,652	13,928
	<u>1,368,239</u>	<u>917,248</u>

12. BILLS, TRADE AND OTHER PAYABLES

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Trade payables	2,793,696	2,538,199
Bills payables	2,849,038	2,426,921
Other payables and accrued charges	2,113,513	2,390,882
	7,756,247	7,356,002

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

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
0 to 90 days	2,478,630	1,984,179
91 to 180 days	173,439	370,169
181 to 365 days	76,481	85,243
1 to 2 years	47,974	70,283
Over 2 years	17,172	28,325
	2,793,696	2,538,199

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

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
0 to 180 days	2,793,068	2,329,841
181 to 365 days	55,970	97,080
	2,849,038	2,426,921

13. 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 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 commenced on the 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 six months ended 30 June 2021 and 2020.

13. SHARE OPTION SCHEMES (Continued)

The following tables disclose movements of the Company's options granted under the Scheme during the six months ended 30 June 2021 and 2020, respectively:

Option	Name of grantee	Date of grant	Exercisable period	Exercise price	Outstanding as at 1.1.2021 (unaudited)	Granted during the period (unaudited)	Exercised during the period (unaudited)	Forfeited during the period (unaudited)	Outstanding as at 30.6.2021 (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	7,814,000	–	–	(83,000)	7,731,000
Option C	Employees	16.6.2014	16.6.2017 – 15.6.2024	HK\$2.9	11,721,000	–	–	(124,500)	11,596,500
Option C	Employees	16.6.2014	16.6.2018 – 15.6.2024	HK\$2.9	15,628,000	–	–	(166,000)	15,462,000
					<u>35,410,500</u>	<u>–</u>	<u>–</u>	<u>(373,500)</u>	<u>35,037,000</u>
Exercisable at the end of the period									<u>35,037,000</u>
Weighted average exercise price					HK\$2.9			HK\$2.9	HK\$2.9

13. SHARE OPTION SCHEMES (Continued)

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
					<u>37,836,500</u>	<u>–</u>	<u>–</u>	<u>(1,057,500)</u>	<u>36,779,000</u>
Exercisable at the end of the period									<u>36,779,000</u>
Weighted average exercise price					HK\$2.9			HK\$2.9	HK\$2.9

13. SHARE OPTION SCHEMES (Continued)

At 30 June 2021, the total number of shares in respect of which options under the Scheme had been granted and remained outstanding was 35,037,000 (as at 30 June 2020: 36,779,000), representing approximately 3.11% (as at 30 June 2020: approximately 3.27%) of the shares of the Company in issue on that date. The options outstanding at the end of the reporting period have a weighted average remaining contractual life of 2.9 (2020: 3.9) years.

No option was exercised during the six months ended 30 June 2021 and 2020.

During the six months ended 30 June 2021 and 2020, 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
Stock price as at grant date	HK\$2.89
Exercise price	HK\$2.9
Expected volatility	55%
Expected life of options	10 years
Risk free rate	2.06%
Expected dividend yield	4.26%
Sub-optimal exercise factor for directors/senior management/employees	3.5/3.5/3.5

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 C granted on that date was HK\$70,620,000 (equivalent to approximately RMB56,065,000).

13. 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 Group Co., Ltd. ("**Tianneng Share**") adopted a share award scheme for eligible senior management and eligible employees of Tianneng Share and its subsidiaries (the "**Selected Employees**") (the "**Share Award Scheme**"). The objective of the Share Award Scheme is to recognise the contribution by the Selected Employees and to provide them with incentives in order to retain them for the continuing operation and development of Tianneng Share and its subsidiaries.

According to the Share Award Scheme, 41,200,000 shares of Tianneng Share were granted to certain limited partnerships (the "**Limited Partnerships**"), which were legally owned by Zhejiang Tianneng Commercial Management Co., Ltd. ("**Tianneng Commercial**"), a wholly owned subsidiary of the Group, and the Selected Employees and for the purpose of facilitating the purchasing, holding and selling of shares of Tianneng Share for the benefit of the Selected Employees. 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 Share in A-share market (the "**Qualified IPO**").

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

If the Qualified IPO does not incur by 31 December 2022, the Selected Employees have the right to ask Tianneng Commercial to repurchase the awarded shares at a share price of RMB7.69 per share plus an 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 per share plus an 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 Employees amounted to approximately RMB178,767,000. For the six months ended 30 June 2021, an expense of approximately RMB6,603,000 (for the six months ended 30 June 2020: RMB6,520,000) was recognised by the Group in relation to restricted shares granted by Tianneng Share under the Share Award Scheme.

As at 30 June 2021, financial liabilities of approximately RMB119,258,000 (as at 31 December 2020: RMB116,952,000) was recognised according to the repurchase consideration to be paid under the Share Award Scheme if the granted shares become unvested.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY PROFILE

The Group is a leading company in the sector of batteries for new-energy vehicles in the People's Republic of China (“**China**” or the “**PRC**”), founded in 1986. In 2007, Tianneng was listed on the Main Board of the Stock Exchange (Stock Code: 00819.HK). After more than 30 years of development, the Group has become an energy group focusing on the manufacturing and services of 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 electric vehicles, start-stop batteries for automobiles, energy storage batteries and motive batteries for special electric vehicles), the recycling of waste batteries, renewable energy, green and intelligent manufacturing industrial parks and smart logistics platforms.

OPERATION REVIEW

2021 is the first year for China to implement the 14th Five-Year Plan. In it, the country sets out its timeline and roadmap for achieving peak CO₂ emissions and carbon neutrality, and puts forward the requirement of meeting nationally determined contribution targets to address climate change by 2030 and formulating an action plan to peak CO₂ emissions by 2030 and to achieve carbon neutrality by 2060. Realising the objectives of Peak CO₂ Emissions and Achieve Carbon Neutrality is not just China shouldering its responsibility to tackle climate change and build a community of shared future for the mankind, but a major initiative to deliver on new development concepts and driving green development.

Green development will also give rise to new demands and industries, as well as fresh growth opportunities for such eco-friendly industries as energy conservation, environmental protection and clean energy. Tianneng provides consumers with means of travel and production that are low-carbon, low-cost and recyclable, coupled with its promotion of a green energy mix that replaces oil with electricity, which is of great significance.

China maintained a stable macroeconomic recovery for the first half of 2021, which was attributable to effective pandemic control and policy support. Nonetheless, the global pandemic situation has been evolving in a perplexing mode, and the prices of commodities remain under considerable rising pressure amidst the external instability and a myriad of uncertainties.

During the reporting period, the Group realised a turnover of approximately RMB36,276 million and a net profit of approximately RMB743 million, representing an increase of approximately 60.27% and a decrease of approximately 13.58% year-on-year, primarily because the prices of relevant raw materials recorded a year-on-year increase. The raw materials of the Company mainly include lead metal and alloy, PE plastics, as well as anode and cathode materials, diaphragm and electrolyte for lithium batteries, which were used in its main products.

In spite of the changing macro environment, the entire staff of the Company worked in a down-to-earth attitude, dedicated themselves to innovation, and carried out the strategy of Intelligence, Platform-Building and Globalisation in an intensive manner, which yielded robust operating results.

During the reporting period, the Group saw synergetic development of lead batteries and lithium-ion batteries and proceeded with the industrialisation of fuel cells steadily. Meanwhile, the Group worked proactively to develop its internal and external circulation, so as to prepare fresh momentum for the Group's global development and continue to lead in the development of the industry. The Group has established production bases and logistics systems in Zhejiang, Anhui and Henan provinces where the demand is vigorous. In tandem with that, Tianneng adopted the Go Abroad strategy and established its operating networks in Vietnam and India and multiple African countries, as the Company actively engages itself in global operations. The Group was listed in the Global 500 New Energy Companies in 2020, Fortune China 500 in 2020 by the Fortune magazine, Top 500 Chinese Private Enterprises in 2020, Top 500 Chinese Manufacturing Enterprises in 2020 and other rankings. On the list of 2021 Fortune China 500 released in July 2021, Tianneng ranked 17th in terms of ROE.

In recent years, Tianneng has primarily steered towards green intelligent manufacturing, capitalised on the opportunities of digital economy, and focused on establishing its user ecosystem operation platform and Industrial Internet of Things (“IIoT”) platform to build Cloud-based Tianneng (雲上天能). The Group has successively developed a number of digitisation projects, such as smart factories for motive batteries of new-energy vehicles, Tianchang Smart Warehouse Industrial Park (天暢智庫產業園) and Tianneng Green Manufacturing Park (天能綠色製造產業園). During the reporting period, the Group was successfully listed in the Pilot Enterprises for the Future Factories in Zhejiang province in 2021 and the Key Provincial Projects for IIoT Platform in 2021, as released by the Economy and Information Technology Department of Zhejiang province.

Attaching great importance to R&D, Tianneng has established a three-tier R&D structure that comprises Central International Research Institute, Technology Centres of Business Divisions and Technology Departments of Production Bases. Rooted in the lead battery business, the Group strives to develop its lithium battery business, steadily industrialise fuel cells, and keep exploring new battery technologies such as sodium-ion batteries and solid-state batteries. It also dedicates itself to the R&D and application of new technologies, new technique and new materials to meet the demands of diverse markets and customers and shape the core competitiveness for the Company's high-quality development. During the reporting period, Tianneng launched the first high-end eco-friendly batteries that use the new materials of nano carbon alloy and lanthanum crystal alloy, the Balance Tech (衡科技) series of super manganese iron lithium batteries, lithium-ion portable power stations and five new series of start-stop batteries for automobiles. At the same time, the Company launched hydrogen-powered electric bicycles jointly with Yadea Group (Stock code: 1585.HK), and Nanjing Jinlong Urban Passenger Buses that are installed with Tianneng T60-C Hydrogen Fuel Cell System have been listed in the 345th batch of Road Vehicle Manufacturers and Products (《道路機動車輛生產企業及產品》) by the PRC Ministry of Industry and Information Technology ("MIIT").

Based on its stellar product quality, systematic after-sales service and strong sales base, "Tianneng" has become a well-known brand for new energy batteries. With speedy development of the Internet and new media, Tianneng has carried out its Youth, End Customer Focus and Globalisation brand strategies, worked to create its brand mascot "Tab (泰博)" and founded the 819 Battery Day. During the reporting period, Tianneng ranked 84th in terms of brand value on the 2021 Top 500 Chinese Brands released by Asia Brand Forum in Tianjin, advancing by 19 places from the previous year.

Tianneng has been further recognised by capital markets for the robust growth of its performance and market potential over recent years. During the reporting period, the Company was included in the Hang Seng Shanghai-Shenzhen-Hong Kong Autonomous and Electric Vehicles Index and became the sole Hong Kong listed battery firm selected into such index. In January 2021, the Company's holding subsidiary, Tianneng Share (Stock code: 688819.SH), was listed on the Science and Technology Innovation Board of the Shanghai Stock Exchange. In June 2021, Tianneng Share was included in the China A400 Index by FTSE (the second largest index compilation company globally) and amongst the first batch of constituent stocks of the STAR & CHINEXT 50 Index compiled by China Securities Index Co., Ltd (中證指數有限公司).

The Group is principally engaged in three lines of business, namely, the R&D, manufacturing and sale of 1) high-end eco-friendly batteries; 2) new energy batteries; and 3) renewable new materials.

I. High-end eco-friendly batteries

High-end eco-friendly batteries are a series of sealed maintenance-free lead battery products created by Tianneng relying on its R&D and technology innovations.

Lead batteries, advantageous for its price-performance ratio, safety and stability and high recyclability, serve as the most commonly used batteries in vehicles and equipment such as light electric vehicles, special electric vehicles and start-stop systems in automobiles. Lead batteries enjoyed a stable overall growth in market demand during the reporting period.

Tianneng, a leading enterprise in lead batteries, has earned extensive brand and quality recognition amongst consumers. According to the information provided by the China Battery Industry Association, Tianneng's market share exceeded 40% in lead motive batteries for domestic light electric vehicles, and has sustained a momentum of year-on-year growth in recent years.

During the reporting period, the operating revenue of high-end eco-friendly battery business amounted to approximately RMB13,119 million, representing an increase of approximately 12.70% year-on-year. As the Group's key business, high-end eco-friendly batteries have maintained the momentum of high-quality sustainable development.

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

Lead batteries are one of the most commonly used batteries for two-wheeled and three-wheeled electric vehicles such as electric bicycles, tricycles, light motorcycles and scooters, with primary application to the power systems of vehicles for daily commuting, logistics and express delivery. Owing to their safety, stability and high price-performance ratio as well as rigidity of demand, lead batteries have grown into essential consumer goods for commuting among the Chinese public with a huge market. In recent years, the thriving new economy has driven the demand for two-wheeled and three-wheeled electric vehicles in the short-distance delivery and express delivery. Meanwhile, the COVID-19 pandemic has propelled the transformation to the commuting alone mode for end consumers. As such, the market of two-wheeled and three-wheeled electric vehicles has embraced another peak in its growth.

According to the White Paper for the Development of the Chinese Two-wheeled Electric Vehicles Industry (2021) (《中國電動二輪車行業發展白皮書(2021)》) published by EVTank, a research institute, China produced a total of 48.34 million two-wheeled electric vehicles in 2020, recording a year-on-year rise of approximately 27.2%. Given the aggregate ownership of approximately 340 million two-wheeled electric vehicles, approximately every four Chinese people own one two-wheeled electric vehicle. As suggested by the MIIT information, 16.202 million new electric bicycles were produced from January to June 2021, which represented an increase of approximately 33.6% year-on-year. Due to the frequent daily use by consumers, lead batteries need replacement every 0.5 to 3 years, generating an even greater replacement demand. Apart from that, the replacement market has a massive base of individuals as the end consumers.

The Company has established an extensive range of deep-rooted sales and after-sales service channels. Following years of development and accumulation, the Company has built a national integrated marketing and after-sales network of over 3,000 distributors that covers extensive end markets. In recent years, the Company has been engaged in an ongoing digital transformation of its sales network. Tianneng has launched the Tabor Cloud (泰博雲), a digital tool to help its distributors analyse the latest market supply and demand and grasp market incremental points in real time, which has sharpened their capabilities of business operation and refined operation.

On 15 April 2019, China formally implemented the Safety Technical Specifications for Electric Bicycles GB17761-2018 as the new national standard (the “**New National Standard**”), which specifies such standards as the weight and maximum hourly speed for electric bicycles. The implementation of the New National Standard has promoted the healthy development of the light electric vehicles market, and the outdated production capacity within the industry will gradually be eliminated.

Amidst the healthy industry development, the Company has kept enhancing its R&D and product quality and launching new products. During the reporting period, the Company presented its Nano-Carbon-Crystal vehicle batteries that pioneered the industry with its application of the new materials, namely nano carbon alloy and lanthanum crystal alloy, as well as the cutting-edge technology of 720° 3D mixed paste (立體混膏). The new product has addressed the issues of lead batteries in respect of anode and cathode additives, and satisfied the consumers' demand for endurance, high quality and sound pricing. As of the present, the Company has developed a series of products such as Nano Carbon Crystal, King Kong (金剛), New Black Gold (真黑金), Longevity King (長壽王), Long Mileage King (長跑王) and Big Black Bull (大黑牛), catering to the demands from various market segments. During the reporting period, the sales volume of batteries for two-wheeled and three-wheeled electric bicycles amounted to approximately 36 GWh, representing an increase of approximately 14.86% as compared with the same period last year.

2. *Mini electric vehicle batteries*

Mini electric vehicle batteries are the motive batteries for low-speed four-wheelers powered solely by electricity. Such vehicles have a top speed ranging from 40 to 70 km/h with no more than four seats, and usually serve as a substitute for short-distance commuting. Currently, such vehicles use lead batteries as one of the power sources, with a battery replacement period of approximately 1 to 5 years.

Mini electric vehicles are popular in rural areas, urban-rural integration areas as well as third and fourth-tier cities in China with a relatively low per capita income, primarily 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 commuting of urban and rural residents, with a low speed limit which can ensure the safety of elderly drivers; and 3) their owners can charge them easily via household power directly, without installing special charging piles.

In June 2021, MIIT released the GB/T 28382 Pure Battery Electric Passenger Cars - Specifications (Draft for Comment) (《純電動乘用車技術條件》(徵求意見稿)) (the “**Draft**”). Mini electric vehicles serve as a sub-category of pure electric passenger vehicles under the name of Mini Low-speed Passenger Vehicles Powered Solely by Electricity in the Draft. In the meantime, such vehicles are also specified with relevant technical specifications and experimental approaches that correspond to their low-speed, miniature and lightweight characteristics in the Draft. The release of the Draft is conducive to accelerating the well-regulated management of the industry, facilitating the orderly development of such industry norms and ensuring that people’s demand for travel safety is met, which will provide a tremendous boost to the quick expansion of the mini electric vehicles market.

Sustaining its market leadership in mini electric vehicle batteries, the Company offers motive battery system solutions and technical support and services to such key clients as Levdeo (雷丁), Honri (鴻日) and Jingpeng (金彭). The Company also continues to develop the replacement market’s demand and expand its market share.

3. Other high-end eco-friendly batteries

(1) Start-stop batteries

Start-stop batteries are applied to the ignition and lighting of automobiles, motorcycles, vessels and internal combustion engines. Capable of effectively reducing emissions, the start-stop system is an energy-saving and emissions-reducing technology that has developed rapidly in recent years. The system has a marked uptick in its penetration rate since 2016. According to the China Industry Information Network, China reached a 70% market penetration for its automobile start-stop batteries in 2020. Lead batteries have become the mainstream batteries in automobile start-stop system, for their good safety, high price-performance ratio and wide temperature range.

Based on different customers for sale, the market of start-stop batteries can be divided into primary and secondary markets. Automobile start-stop batteries have an average operating life of three to five years, with approximately a fifth of operating vehicles in need of battery replacement each year. During the reporting period, the Company integrated and optimised its network resources with consolidation and deeper engagement in the channel market, engaging over 600 distributors. In tandem with that, the Company fast-tracked its development of the primary market, leveraging commercial vehicles as a breakthrough. Tianneng has realised volume shipment to Sinotruk and Cowin Auto, and has met the standard of OEM factories for passenger vehicles.

In June 2021, Tianneng held a press conference on its strategy for new automobile start-stop batteries, during which the Company presented its fresh concept that Replacement and Upgrade Deliver Greater Durability than Original Installations, and released five new series of products that are suitable for different market needs, including the superior series of Classic, Premium and Selection as well as AGM and EFB. In aggregate, they constitute a consummate product pedigree of automobile batteries. During the reporting period, the sales volume of start-stop batteries amounted to approximately 0.97 million pieces, representing a year-on-year increase of approximately 184.53%.

Going forward, Tianneng's automobile start-stop batteries will leverage on the Group's brand merits and technology accumulation to keep exploring its market potential.

(2) *Energy storage batteries and backup batteries*

Energy storage batteries are mainly used in solar and wind power generation equipment as well as other electric equipment. Backup batteries are chiefly used in substations to provide closing current to power units and to provide backup energy in public facilities. Energy storage batteries and backup batteries have a replacement cycle of roughly 5 to 8 years.

This year has seen a raft of policies introduced by state authorities to accelerate the development of the energy storage industry. In June 2021, the National Energy Administration solicited public opinions as to the Administrative Regulations on New Energy Storage Projects (Tentative) (Draft for Comment) (《新型儲能項目管理規範(暫行)(徵求意見稿)》), and underscored the safety of the energy storage projects on echelon utilisation of motive batteries, emphasizing the importance of batteries' consistent management technology. In July 2021, the National Development and Reform Commission and the National Energy Administration jointly issued the Guiding Opinions on Accelerating the Development of New Energy Storage (《關於加快推動新型儲能發展的指導意見》), which sets out that new energy storage shall evolve from initial commercialisation to large-scale utilisation with the installed capacity of new energy storage technology to surpass 30GW by 2025 and that new energy storage shall attain fully market-based development by 2030. In July 2021, the National Development and Reform Commission issued the Notice on Further Improving the Mechanism of Electricity Pricing Based on Time Slots (《關於進一步完善

分時電價機制的通知》). It sets forth that electricity price shall, in principle, increase by no less than 20% on top of such price during the peak period, and that the peak-trough price difference shall not be lower than 4:1 where the maximum systemic peak-trough difference in electricity price exceeded 40% in the previous year or is estimated to exceed 40% in the current year. The rollout of such policies has specified the unique position of new energy storage, improved the pricing mechanism of new energy storage, and provided better guidance for users in peak-load shifting, improving power supply and demand and facilitating the consumption of new energy.

As a leader in the Chinese new energy industry, Tianneng has proactively explored the development of smart energy storage, kept exploring cutting-edge technology, and worked to develop energy storage products and system solutions combining lead batteries and lithium-ion batteries for years. The High-performance Lead-carbon Battery Industrialisation Demonstration Project (高性能鉛炭電池產業化示範項目) works on a new type of batteries developed independently by Tianneng in line with leading international technical standards, with the product extensively used in such fields as energy storage power stations and new energy hybrid vehicles. In December 2020, the high-performance lead-carbon battery won the China Industrial Award (中國工業大獎), the most prestigious accolade in the Chinese industrial sector established by the State Council.

Owing to its years of deep engagement, Tianneng has been pushing for more application scenarios for energy storage. For instance, Tianneng was involved in the 10 KV Energy Storage Power Station in Zhicheng of Changxing and the Project of 0.4 KV Energy Storage Power Station in Da Mai Yuan Village, Huiping Township of Quzhou amongst the first four projects on grid-side energy storage power stations in Zhejiang province. The former is the first grid-side lead-carbon energy storage power station in China in cooperation with the State Grid. Lead batteries have an impactful role to play in new energy storage, for their safety and reliability, low unit energy cost and system cost, high recycling rate and good adaptability to temperature changes. Overseas, Tianneng also managed to develop a number of demonstration projects on energy storage, such as the off-grid photovoltaic energy storage project in Africa (非洲光伏儲能離網項目), to promote the green development of the industry.

(3) Special electric vehicle batteries

Special electric vehicle batteries are mainly used in freight equipment such as electric forklifts, electric stackers and electric lift trucks as well as engineering machinery such as excavators. Such batteries are also used in other special electric vehicles such as electric tour buses, electric cleaning vehicles, electric patrol vehicles and golf carts.

Tianneng has a complete series of special electric vehicle batteries that can provide various industrial scenarios with assurance in safe and reliable green energy. Deeply rooted in forklift batteries for years, Tianneng has been engaging itself in research and development with a stream of technological innovation achievements. The Company has obtained such core patents as An Enclosed Battery Formation Process for Tubular Lead-Acid Batteries, and has been well-received amongst mainstream enterprises from home and abroad, such as Hangcha Group Co., Ltd. (杭叉集團), Anhui Heli Co., Ltd. (安徽合力), KION Baoli (Jiangsu) Forklift Co., Ltd. (凱傲寶驪), Linde Group (林德) and Ding Li Machinery Co., Ltd (鼎力), with products sold to a number of overseas countries. Tianneng has become the second largest domestic brand in the field of forklift batteries. During the reporting period, the sales volume of batteries for special electric vehicles amounted to approximately 0.61 million pieces, representing a year-on-year increase of approximately 86.06%.

II. New energy batteries

The Company's new energy battery business comprises mainly lithium-ion batteries, and the production and R&D of next-generation battery products such as fuel cells. The application fields of our new energy battery business are principally divided into two categories: motive field and non-motive field. The application fields for the motive category include two-wheeled and three-wheeled electric vehicles, passenger electric vehicles, commercial electric vehicles and special electric vehicles, while the application fields for the non-motive category include consumer electronic products and energy storage.

During the reporting period, the sales of the Group's new energy battery business amounted to approximately 0.72 GWh, representing an increase of approximately 16.90% year-on-year, and an operating revenue of approximately RMB424 million was recorded, which represented an increase of approximately 5.19% year-on-year. As a major strategic segment of the Group, new energy batteries, together with high-end eco-friendly batteries, form the Dual Drive Strategy of the Group.

(1) *Lithium-ion batteries*

In November 2019, Tianneng formed a joint venture, Tianneng SAFT Energy Joint Stock Company* (天能帥福得能源股份有限公司) (“**Tianneng SAFT**”), with SAFT, a subsidiary of the French company Total S.A., a Global 500 enterprise, to focus on the development, manufacture and sale of advanced lithium-ion batteries for Chinese and global markets. Tianneng SAFT is mainly engaged in the design, development, production and sale of cylindrical batteries, pouch shell batteries, prismatic batteries and the lithium-ion battery management system (“**BMS**”). The products are widely used in two-wheeled and three-wheeled electric vehicles, energy storage, new energy vehicles, electronic appliances, communications equipment and special industries. The Company is equipped with mainstream lithium battery technologies including LFP, NCM and lithium manganate and advanced materials such as nickel-rich multi-element materials, NCA, silicon carbide and graphene.

Since the establishment of Tianneng SAFT, the integration of resources between Tianneng and the French company has been progressing steadily, with the production capacity development project taking place smoothly. Both parties have been actively developing new products to meet the needs of emerging markets and overseas markets, such as the super manganese iron lithium battery (超能錳鐵鋰電池) under the self-developed Balance Tech series. High in both energy density and safety performance, the lithium-ion battery products represent an all-round upgrade in four respects, namely materials, battery cells, PACK and BMS. Meanwhile, for the purpose of the ongoing safety and maintenance of its after-sales efforts, Tianneng SAFT has independently developed its smart battery testing APP named Tianneng SAFT Service (天能帥服). Users can have instant access to the status and score of their batteries in every aspect, and to assess the use of their lithium batteries.

Tianneng features a multidimensional product lines in new energy batteries. The Company's lithium-ion battery products apply to battery electric vehicles and hybrid ones. The Group has forged strategic cooperation with new energy vehicle manufacturers such as Haiquan (海全), Honri (鴻日) and Lichi (麗馳), supplying lithium-ion motive batteries to them. As regards smart energy storage, the Group's lithium-ion energy storage batteries are mainly used in communications base stations, user-side peak-load shifting, off-grid power stations, microgrids and UPS, with an independently developed energy storage cabinet system. In addition, Tianneng has rolled out a number of portable power stations dedicated to personal users, which cater to outdoor electricity access as well as various scenarios at work and in daily life that require emergency power supply. As regards consumable lithium batteries, Tianneng has its products extensively used in perambulators, toys, electric instruments and electronic media, which are attributable to their superb functionality and quality.

(2) Fuel cells

Since 2017, Tianneng has been engaged in the research and development of multiple key materials and stacks on fuel cells. To fast-track the industrialisation of its fuel cell technology, the Group established Zhejiang Tianneng Hydrogen Energy Technology Co., Ltd. (浙江天能氫能源科技有限公司) in February 2021.

Capable of providing a variety of stack solutions, Tianneng has its products covering air-cooling, graphite and metal stacks, which are small, medium and large in power. Its products are also used in such fields as drones, two-wheeled bicycles, standby power, sightseeing vehicles, buses, heavy-duty trucks and logistics vehicles. Tianneng can offer personalised solutions to fuel cell systems based on specific application scenarios.

Tianneng has built an R&D team that comprises academician-level advisors, experts under national talent introduction schemes and seasoned industry specialists. Furnished with well-equipped specialised laboratories, the Company has undertaken merit-based projects commissioned under the provincial key R&D scheme of Zhejiang province in 2020, and engaged in the preparation of relevant industry standards as a member of the National Industry Standard Committee (國家行業標準委員會). Tianneng has achieved multiple breakthroughs in catalyst, membrane electrode, metal plate, graphite bearing and simulation design. The Company successively launched alcohol-hydrogen generators, hydrogen-powered motorcycles and a range of 500W-110kW fuel cell systems, and finished developing samples for metal-plate stacks with a rated power of 120kW and a peak power of 130kW.

Owing to its leading practice in the production and application of hydrogen fuel cells, Tianneng obtained the 2021 Outstanding Contribution Award for Domestic Products of Chinese Hydrogen Power Industry Chain (2021年度中國氫電產業鏈國產化優秀貢獻獎) at GGII Hydrogen Power Industry Summit (高工氫電產業峰會) in April 2021. This has been another honour for Tianneng after the Fuel Cell Product of the Year Award received at the 2020 China Industry Summit Forum for Hydrogen Power and Fuel Cell Vehicles (中國氫能與燃料電池汽車產業高峰論壇).

The Company has expedited the market-oriented application of its fuel cells this year. During the China North International Bicycle & E-Bike Exhibition in March 2021, Tianneng reached a strategic cooperation agreement with Yadea Group on hydrogen-powered electric bicycles, pursuant to which both parties will jointly work on hydrogen fuel cells research, formally launch hydrogen-powered electric bicycles and make joint efforts to promote the commercialisation of such bicycles. In April 2021, the high-performance TNFC-TP2020 hydro-cooling stacks independently developed by Tianneng started to fit into the FCV six-seat tour buses, and commenced demonstration operation in Jiaxing, the leading city of China's fuel cell vehicle demonstration application city cluster. In June 2021, MIIT announced the list of the 345th batch of Road Vehicle Manufacturers and Products, which included Nanjing Jinlong NJL6106 Fuel-cell Urban Passenger Buses installed with Tianneng T60-C Hydrogen Fuel Cell System. This represents that the hydrogen fuel cell system of Tianneng has managed to enter the application field of fuel cell vehicles. The Company is also working proactively to negotiate on in-depth cooperation with manufacturers in other fields such as special motive and passenger vehicles.

III. Renewable new materials

In terms of the renewable new materials segment, the Company, based on the Extended Producer Responsibility Scheme(生產者責任延伸制度), has developed the recycling business of used lead battery and lithium-ion battery apart from the main business, forming a closed-loop for the full life cycle of batteries; in tandem with that, the Company is also actively exploring other green recycling businesses including solid waste and hazardous waste disposal. The Company is one of the first enterprises in the industry to enter the renewable new materials 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, with an important position in its future development plan. During the reporting period, the Group recorded an operating revenue of approximately RMB1,244 million in its renewable new materials business, representing a year-on-year increase of approximately 213.01%.

In recent years, the Chinese government has paid extra attention to developing its circular economy and has successively drafted or issued such laws and regulations as the 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》), the 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》) and the Interim Measures for the Management of the Recycling and Utilisation of Lead Batteries (Draft for Comments) (《鉛蓄電池回收利用管理暫行辦法》(徵求意見稿)), with a view to setting out detailed provisions on the recycling and disposal processes of used batteries, establishing an Extended Producer Responsibility scheme for products such as lead batteries and vehicle motive batteries, and executing a target accountability system for lead battery recovery. The objective is for China to recover over 70% of its lead batteries by the end of 2025. At present, under its law, China strictly prohibits entities without licences or not in compliance with the requirements of the licences from engaging in operations regarding the collection, storage, utilisation and disposal of hazardous wastes.

At the Two Sessions in 2021, Peak CO₂ Emissions and Achieve Carbon Neutrality was included in the government work report. In July 2021, the National Development and Reform Commission issued the 14th Five-Year Plan for the Development of Circular Economy, setting out overarching objectives and a roadmap for developing circular economy in China during the 14th Five-Year period. Recycling of used motive batteries and lifetime management of automobiles have been listed into the six key actions under the 14th Five-Year Plan for the Development of Circular Economy. Going forward, the recycling industry will receive growing support for its sound and orderly development, with outdated and substandard capacity to phase out.

By far, Tianneng has built three internationally advanced industrial parks for circular economy, and has obtained the qualifications for launching pilot recycling projects in 15 provinces where used battery resources are relatively concentrated. The Company can process 700,000 tons of used lead batteries each year and reach a metal recovery rate of more than 99% for used batteries, a 99% recovery rate for plastics and a 100% recovery rate for residual acids. In terms of channels, the Company has worked closely with local recycling networks and launched the Recycling Cloud (回收雲), the largest platform for recycling used batteries nationwide, and Tianneng has gradually developed an After Sales Plus service model.

Meanwhile, the Company is one of the 27 enterprises that meet the Industry Standards and Conditions for the Comprehensive Utilisation of Waste Power Batteries for New Energy Vehicles (《新能源汽車廢舊動力電池綜合利用行業規範條件》) by MIIT, and has deployed a capacity of 7,000 tons for the disposal of lithium-ion batteries. With regard to the technology for recycling lithium batteries, Tianneng has applied for 23 relevant patents, and led or participated in establishing 36 national standards. In June 2021, the Joint Innovation Laboratory for the Disassembly and Resource Utilisation of Retired Lithium-ion Batteries (退役鋰離子電池拆解與資源化利用聯合創新實驗室) of Tianneng was included in the list of the second batch of recognised joint innovation laboratories under the China Technology Innovation Strategic Alliance for Resources Recycling Industry (CIAR) (中國再生資源產業技術創新戰略聯盟).

The Group will continue to exert effort in the recyclable new materials industry, build the recycling system for LFP batteries in due course, extend upstream and downstream within the industrial chain, and amplify its influence in segments such as carbon and modified plastic, thus steadily progressing towards the goal of setting up large circular industry clusters.

IV. Opening Up Industry Chain, Driving Global Development and Developing New Growth Drivers

During the first half of the year, the Company proceeded with its digital upgrade and built green manufacturing plants. Tianneng's Smart Factories for High-Performance Motive Batteries and High-Performance Materials for New Energy Batteries have successfully been included in the list of digital workshops and smart factories of Zhejiang province in 2020 released by the Economy and Information Technology Department of Zhejiang province.

The Company has established the Tianchang Supply Chain (天暢供應鏈) as a subsidiary to provide resources in the supply chain. Meanwhile, the Company made efforts to build a platform for smart supply chain services and to offer clients with integrated service solutions to supply chains that cover a range of functions, such as trading, information and logistics. In 2021, the Tianchang Supply Chain added a shipping module named Smart Shipping (船小智), indicating that Tianneng completed a new round of digital system upgrade for its multimodal transport system that integrated road, railway and water transport.

Aside from that, Tianneng has set up its subsidiary for manufacturing intelligent equipment. This has realised its independent R&D, manufacturing, assembly and sales of precision equipment, ramped up the precision and quality of moulds and their manufacturing components during battery production, and achieved the precision manufacturing in battery production.

In the trading of new energy materials, our business focuses on the raw materials of non-ferrous metals such as lead, zinc and nickel, as we further grasp market information, boost the Company's market clout and actively build an Integrated Service Platform for Non-ferrous Metal (有色金屬綜合服務平台), in an effort to become an impactful 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 has established sales networks in Vietnam, India, Africa and other countries and regions to develop the overseas clientele. At the same time, the Company will continue to strengthen its cooperation with scientific research platforms overseas to further explore new markets and spaces.

PROSPECTS

The Company will continue to steadily widen the application fields of lead batteries, expand segments such as start-stop and smart energy storage on the basis of consolidating its leading position in lead motive batteries, and strive to develop its business in China and overseas. Regarding the technology, Tianneng will speed up the R&D and industrialisation of the technology of high-energy lead batteries, such as lead-carbon batteries and pure lead batteries, and gradually develop into a global leader in lead batteries, a pioneer in advanced high-energy lead batteries and a maker of international standards.

The Company will continue to vigorously develop lithium-ion batteries business and strengthen its presence. The Company will continue to enhance its production capacity through the High-Energy Motive Lithium-Ion Battery and PACK Project. With advantages such as its established brand and channels in the international market, the Company will capture the lithium-ion motive battery market for light electric vehicles with its mature technology and operating system, and gradually advance its development in application fields such as new energy vehicles, smart energy storage and standby batteries. Meanwhile, the Company will actively facilitate the R&D in fields of new battery technology such as fuel cells. It will also accelerate the industrialisation of 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 will adhere to the concept of green, low carbon and circular development and integrate the recycling of lead batteries and lithium-ion batteries with the disposal and resource utilisation of solid wastes from urban life, industry and rural areas, sparing no effort to build a green sustainable system for the new materials industry.

2021 is the first year under the Eighth Five-Year Plan of Tianneng. The Company will centre on the sustainable development strategy of New Materials, New Structures, New Technologies and New Sectors and follow the strategic directions of Intelligence, Globalisation and Platform-Building. Tianneng will strive to realise diversified capital utilisation to support its business development, fully promote reforms in driving forces, enhance quality and efficiency, and cultivate brand new momentum, so as to lay a solid foundation for its new round of high-quality and sustainable development.

FINANCIAL REVIEW

Turnover

The Group's turnover for the reporting period was approximately RMB36,276 million, representing an increase of approximately 60.27% as compared with the same period last year.

Gross profit

The gross profit for the reporting period was approximately RMB1,934 million, representing a decrease of approximately 8.57% as compared with the same period last year. It was mainly attributable to an increase in sales volume and a decrease in the battery's gross profit margin. The gross profit margin for the reporting period was approximately 5.33%, representing a drop of approximately 4.01 percentage points as compared with the same period last year, of which the gross profit margin of the manufacturing industry was approximately 11.63%, representing a decrease of approximately 4.66 percentage points as compared with the same period last year. It was mainly attributable to the increase in prices of raw materials as compared with the same period last year.

Other income

The Group's other income for the reporting period was approximately RMB492 million (for the six months ended 30 June 2020: approximately RMB334 million), representing an increase of approximately 47.05% as compared with the same period last year. It was mainly attributable to the increase in government grants. Interest income for the reporting period was approximately RMB82 million (for the six months ended 30 June 2020: approximately RMB53 million), representing an increase of approximately 54.61% as compared with the same period last year. The increase was mainly attributable to optimised fund allocation and increase in interest income from deposit.

Selling and distribution costs

Selling and distribution costs increased from approximately RMB378 million in the same period last year to approximately RMB409 million for the reporting period, which was mainly attributable to the increase in travel expenses and commission.

Administrative expenses

Administrative expenses increased from approximately RMB353 million in the same period last year to approximately RMB441 million for the reporting period, which was mainly attributable to the increase in salaries.

Research and development costs

R&D costs increased from approximately RMB533 million in the same period last year to approximately RMB616 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 RMB106 million in the same period last year to approximately RMB118 million for the reporting period, which was mainly due to the increase in loan size.

Operating activities cash flow

The net cash generated from operating activities of the Group changed from approximately RMB1,924 million in the same period last year to the net cash used in operating activities of approximately RMB2,201 million for the reporting period. It was mainly attributable to the increase in inventory and accounts receivable.

As at 30 June 2021, the equity attributable to the owners of the Company amounted to approximately RMB12.374 billion (31 December 2020: approximately RMB8,746 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 2021, the Group had total assets of approximately RMB33.359 billion, increasing by approximately 43.79% as compared with approximately RMB23.200 billion as at 31 December 2020, including total current assets of approximately RMB24.996 billion and total non-current assets of approximately RMB8,364 million, increasing by approximately 59.47% and 11.13%, respectively. The increase in the current assets was mainly due to the increase in the inventory, accounts receivable and bank deposits. The increase in the non-current assets was mainly due to the increase in deposits for the acquisition of property, plant and equipment.

As at 30 June 2021, the total liabilities of the Group were approximately RMB18.761 billion, increasing by approximately 36.53% as compared with approximately RMB13.741 billion as at 31 December 2020, including total current liabilities of approximately RMB16.842 billion and total non-current liabilities of approximately RMB1,919 million, increasing by approximately 35.47% and 46.59%, respectively. The increase in the current liabilities was mainly due to the increase in bank notes and short-term loans held by the Group. The increase in the non-current liabilities was mainly due to the increase in long-term loans.

As at 30 June 2021, the cash and bank balances of the Group (including pledged bank deposits and bank deposits) were approximately RMB10.027 billion (31 December 2020: approximately RMB5,759 million), of which approximately RMB285 million and approximately RMB9 million are denominated in US dollars and Hong Kong Dollars, respectively. As at 30 June 2021, the interest bearing borrowings and loan notes (together as “**interest bearing loans**”) of the Group with maturity of within one year amounted to approximately RMB4,725 million (31 December 2020: approximately RMB919 million). The interest bearing loans with maturity of more than one year amounted to approximately RMB1,322 million (31 December 2020: approximately RMB719 million). The interest bearing loans of approximately RMB6,047 million was denominated in Renminbi. The loans denominated in RMB had fixed interest rates ranging from approximately 2.23% to 6.5% (2020: approximately 2.23% to 8%) per annum. In conclusion, the borrowings of the Group as at 30 June 2021 remained at a healthy and controllable level. With unutilized credit facilities of approximately RMB5,185 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 2021, 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 RMB4,146 million (31 December 2020: approximately RMB2,784 million).

Gearing ratio

As at 30 June 2021, 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 18.13% (31 December 2020: approximately 7.06%).

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 2021 (31 December 2020: 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 2021 was approximately RMB1,455 million (31 December 2020: approximately RMB1,338 million).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2021, the Group employed a total of 25,099 employees (30 June 2020: 23,523). Staff cost of the Group for the reporting period was approximately RMB1,146 million (for the six months ended 30 June 2020: approximately RMB998 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

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 30 June 2021. 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.

Financial assets at fair value through profit or loss

As at 30 June 2021, the Group's financial assets at fair value through profit or loss mainly included unlisted financial products purchased from commercial banks. The following table summarizes the Group's financial assets at fair value through profit or loss as at 30 June 2021:

Issuer	Product category	Principal activities	Investment cost/ nominal value (RMB'000)	Fair value as at 30 June 2021 (RMB'000)	Interest/ dividend received	Percentage of total assets of the Company as at 30 June 2021
Industrial and Commercial Bank of China Limited	Structured deposit	Banking services	100,000.00	100,000.00	—	0.30%
Agricultural Bank of China Limited	Structured deposit	Banking services	300,000.00	300,000.00	—	0.90%
Bank of China Limited	Structured deposit	Banking services	40,000.00	40,000.00	—	0.12%
China CITIC Bank	Structured deposit	Banking services	400,000.00	400,000.00	—	1.20%
Bank of Communications Co., Ltd.	Structured deposit	Banking services	100,000.00	100,000.00	—	0.30%
Ping An Bank Co., Ltd.	Structured deposit	Banking services	286,000.00	286,000.00	—	0.86%
Shanghai Pudong Development Bank Co., Ltd.	Structured deposit	Banking services	240,000.00	240,000.00	—	0.72%
Bank of Shanghai	Structured deposit	Banking services	50,000.00	50,000.00	—	0.15%
China Merchants Bank Co., Ltd.	Structured deposit	Banking services	350,000.00	350,000.00	—	1.05%
China Zheshang Bank Co., Ltd.	Wealth management product	Banking services	99,600.00	99,600.00	—	0.30%
Industrial Bank Co., Ltd.	Wealth Management Product	Banking services	250,000.00	250,000.00	—	0.75%
Listed company	Equity securities listed in China	—	29,475.08	32,118.07	—	0.10%
Listed company	Equity securities listed in Hong Kong	—	17,887.95	44,185.17	—	0.13%
Futures	Commodity derivative contracts	—	—	2,204.02	—	0.01%

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 30 June 2021.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

For details, please refer to note 21 to the condensed consolidated financial statements in the interim report.

IMPORTANT EVENTS SINCE THE END OF THE FINANCIAL PERIOD

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

CORPORATE GOVERNANCE

The Company is committed to ensuring high standards of corporate governance. The Board believes that good corporate governance practices are increasingly important for maintaining and promoting investors’ confidence. The Company has adopted and complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as contained in Appendix 14 to the 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 the appointment, renewal and resignation of the Company's independent external auditors and the related remuneration and appointment terms. The Company's Audit Committee has reviewed this interim report with the management of the Company and the Company's independent external auditors and recommended its adoption by the Board.

The interim financial information of the Company in this report has not been audited. However, it has been prepared in accordance with HKAS 34 "Interim Financial Reporting" and has been reviewed by the Company's independent external auditors, Zhonghui ANDA CPA Limited, 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 2021.

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

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

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

GENERAL INFORMATION

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

This announcement will be published on the website of the 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, 27 August 2021