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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)

CONTINUING CONNECTED TRANSACTIONS MASTER SERVICES AGREEMENT

MASTER SERVICES AGREEMENT

On 29 April 2022 (after trading hours), Tianneng Holding, an indirect wholly-owned subsidiary of the Company, and Zhejiang Changneng entered into the Master Services Agreement in relation to the continuing connected transactions between the Group and the Zhejiang Changneng Group for a term of three years commencing from 1 January 2022 to 31 December 2024.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Zhejiang Changneng is a wholly-owned subsidiary of Tianchang Holding, which is in turn owned as to 98% by Dr. Zhang, who is the controlling shareholder and an executive Director of the Company and the remaining 2% by Dr. Zhang's son, Mr. Zhang Hao (張昊). Accordingly, Zhejiang Changneng is a connected person of the Company under the Listing Rules, and the Transactions constitute continuing connected transactions for the Company.

As one or more of the applicable percentage ratios in respect of the largest Annual Cap of the Transactions contemplated under the Master Services Agreement exceed 0.1% but all of them are less than 5%, the entering into of the Master Services Agreement is subject to the reporting, announcement and annual review requirements but are exempt from any independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

BACKGROUND

In the course of its daily production and operation, the Group conducts continuing connected transactions with the Zhejiang Changneng Group in relation to the labour and leasing services. In order to better regulate such continuing connected transactions under the Listing Rules, the Company and Zhejiang Changneng entered into the Master Services Agreement on 29 April 2022.

MASTER SERVICES AGREEMENT

Principal Terms of the Master Services Agreement

The principal terms of the Master Services Agreement are summarised as follows:

Date:	29 April 2022
Parties:	(a) Tianneng Holding, an indirect wholly-owned subsidiary of the Company; and (b) Zhejiang Changneng
Term:	A term of three years, commencing from 1 January 2022 to 31 December 2024, both days inclusive (the “ Term ”).
Scope of the Services:	Pursuant to the Master Services Agreement, the Zhejiang Changneng Group shall provide the labour services in respect of catering, property management and conference services to the Group and the Group shall provide leasing services in respect of certain properties and/or ancillary equipment and facilities to the Zhejiang Changneng Group, from time to time.

Individual Agreements: In compliance with the terms and conditions of the Master Services Agreement, the Group shall enter into separate agreements to set out the specific provisions of the labour services and the leasing of properties and ancillary equipment and facilities (the “**Individual Agreements**”) with the Zhejiang Changneng Group. The terms and conditions of the Individual Agreements shall be determined by the signing parties through arm’s length negotiations in accordance with the terms of the Master Services Agreement and based on the principles of fairness and reasonableness.

The term of each of the Individual Agreements shall not exceed the Term.

Payment terms: Payment for the provision of labour and leasing services shall be settled by way of bank transfer or other means as agreed by the parties and in accordance with the agreed timing and manners as specified in the Individual Agreements, and in any event by 31 January of the subsequent financial year.

Pricing policy: The price for provision of labour and leasing services shall be determined in accordance with the following principles:

- (i) the prices prescribed by the government of the PRC or any regulatory authority(ies) (if any) (“**government-prescribed prices**”) or the pricing guidelines or prices to be determined by the parties within the range as set by the government of the PRC or any regulatory authority(ies) (if any) (“**government-guided prices**”);
- (ii) the market prices determined in accordance with the prevailing prices charged by Independent Third Parties providing the same types of services on normal commercial terms, where none of the government-prescribed prices or government-guided prices are available or applicable; and

- (iii) the agreed prices based on the actual or reasonable cost incurred thereof plus a reasonable profit (which is determined with reference to the nature and historical price of services, current market price (if applicable) of the similar services and the Group's forecasted demand and increase in the market price of such services in the remaining term), where none of the above pricing principles are available or applicable.

It is further agreed by Tianneng Holding and Zhejiang Changneng that, all Transactions contemplated under the Master Services Agreement shall be conducted at the price and/or payment terms which shall be fair and reasonable to the Group and no less favourable to the Group than those offered by the Independent Third Parties. In order to further safeguard the Group's interest, the Master Services Agreement provides that in the event that the price and/or payment terms offered by the Zhejiang Changneng Group are less favourable than those offered by the Independent Third Parties, the Group will have the right to terminate and cancel such purchases with the Zhejiang Changneng Group.

Internal Control Measures

In order to ensure that the pricing mechanism and terms of the Master Services Agreement are fair and reasonable, and the Transactions will be conducted on normal commercial terms (or on terms no less favourable to the Group than terms available from (or to) the Independent Third Parties), the Group has established a series of internal control procedures, namely:

- (i) with respect to the provision of labour services by the Zhejiang Changneng Group to the Group, in determining whether the price and/or payment terms offered by the Zhejiang Changneng Group are fair and reasonable, the Group will obtain and compare price references from the market to the extent that those labour services are of comparable requirements, skills, experience and expertise. In the event that the price and/or payment terms offered by the Zhejiang Changneng Group are less favourable than those offered by any Independent Third Party, the Group will have the right to terminate and cancel such labour services;
- (ii) with respect to the leasing of properties and ancillary equipment and facilities by the Group to the Zhejiang Changneng Group, in determining whether the rent and/or payment terms offered to the Zhejiang Changneng Group are fair and reasonable, the Group will obtain and compare price references from the market to the extent that those properties and ancillary equipment and facilities are of comparable location, area and usage, etc.;

- (iii) the Group’s audit committee will convene meetings every year to discuss and assess the implementation of the continuing connected transactions of the Group;
- (iv) the external auditors of the Group will conduct an interim review and a year-end audit for each financial year, and will issue their conclusion and letter to the Board in relation to the pricing policies and annual caps of the continuing connected transactions of the Group conducted during the preceding financial year pursuant to the Listing Rules; and
- (v) in accordance with the Listing Rules, the independent non-executive Directors will conduct an annual review with respect to the continuing connected transactions of the Group throughout the preceding financial year and give confirmation on the transaction amounts and terms of the transactions in each annual report of the Group.

In view of the above, the Directors (including the independent non-executive Directors) consider that there are adequate internal control procedures and external supervision measures to ensure that the Transactions will be conducted either on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) the Independent Third Parties, the terms of the Master Services Agreement and the Annual Caps are fair and reasonable, and not prejudicial to the interests of the Company and its minority shareholders and will be in the interests of the Company and its shareholders as a whole.

Historical transaction amounts

Set out below is a summary of the historical transaction amounts of the transactions between the Group and the Zhejiang Changneng Group for the year ended 31 December 2021 and the two months ended 28 February 2022:

	Year ended 31 December 2021 (RMB millions) (audited)	Two months ended 28 February 2022 (RMB millions) (unaudited)
Amount paid by the Group to the Zhejiang Changneng Group for the provision of the labour services by the Zhejiang Changneng Group	7.647	5.298
Amount paid by the Zhejiang Changneng Group to the Group for the provision of the leasing services by the Group	—	0.03

Annual Caps

The Company expects that the Annual Caps under the Master Services Agreement for the three years ending 31 December 2022, 2023 and 2024 will be as follows:

	Year ending 31 December		
	2022	2023	2024
	(RMB millions)	(RMB millions)	(RMB millions)
Amount paid or to be paid by the Group to the Zhejiang Changneng Group for the provision of the labour services by the Zhejiang Changneng Group	19.500	7.000	7.000
Amount paid or to be paid by the Zhejiang Changneng Group to the Group for the provision of the leasing services by the Group	0.500	0.500	0.500

The Annual Caps are determined by the parties with reference to the following assumptions which the Directors (including the independent non-executive Directors) consider reasonable:

- (i) the historical transaction amounts of the transactions between the Group and the Zhejiang Changneng Group as set out in the section “Historical Transaction Amounts” above;
- (ii) the projected transaction amounts in respect of rental income under the Master Services Agreement taking into account the prevailing average rental and estimated growth of the rental of the proximity in the market;
- (iii) the projected transaction amounts in respect of labour expenses under the Master Services Agreement taking into account the prevailing average remuneration and estimated growth of the remuneration of the relevant staff rankings, experience and expertise in the market;
- (iv) the business development plan of the Group;
- (v) the expected growth of the Group’s business and the business of the Zhejiang Changneng Group; and

- (vi) the expected increase in the demand of the properties and ancillary equipment and facilities by the Zhejiang Changneng Group.

REASONS FOR AND BENEFITS OF THE MASTER SERVICES AGREEMENT

The Group and the Zhejiang Changneng Group have maintained business relationship during the past few years and are familiar with each other's business needs and requirements.

The Zhejiang Changneng Group has been supplying labour in respect of catering, property management and conference services to the Group to support its battery production and business operation since 2021. Under such arrangement, the Group is able to secure a stable supply of staff with the relevant experience and expertise and with stable staffing to support its business operation and implement its strategies.

In addition, the Group has leased certain properties (including restaurant, guest room and conference room, etc.) and/or ancillary equipment and facilities (including furniture and kitchenware etc.) located in Changxing County, Zhejiang Province, the PRC to the Zhejiang Changneng Group since February 2022 due to their needs for professional management services. The Company considers that it is in the interest of the Group to better utilise and lease such properties and/or ancillary equipment and facilities to the Zhejiang Changneng Group for rental income.

Furthermore, the Directors consider that the Master Services Agreement can set out a framework to regulate and streamline the on-going transactions between the members of the Group and the members of the Zhejiang Changneng Group. The Master Services Agreement will also provide a single basis on which the Company will comply with the relevant reporting, announcement and annual review requirements (to the extent applicable) in compliance with the Listing Rules and thereby enhance administrative efficiency and save costs for the Company in complying with such requirements.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Zhejiang Changneng is a wholly-owned subsidiary of Tianchang Holding, which is in turn owned as to 98% by Dr. Zhang, who is the controlling shareholder and an executive Director of the Company and the remaining 2% by Dr. Zhang's son, Mr. Zhang Hao (張昊). Accordingly, Zhejiang Changneng is a connected person of the Company under the Listing Rules, and the Transactions constitute continuing connected transactions for the Company.

As one or more of the applicable percentage ratios in respect of the largest Annual Cap of the Transactions contemplated under the Master Services Agreement exceed 0.1% but all of them are less than 5%, the entering into of the Master Services Agreement is subject to the reporting, announcement and annual review requirements but are exempt from any independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Due to conflict of interests, Dr. Zhang has abstained from voting on the resolution approving the Master Services Agreement and the Transactions. Save as mentioned above, none of the Directors has any material interest in the Master Services Agreement and the Transactions and therefore no other Director is required to abstain from voting on such resolution.

The Board (excluding Dr. Zhang but including the independent non-executive Directors) considers that the Master Services Agreement and the Transactions have been or will be entered into in the ordinary and usual course of business of the Group, and the terms thereof and the Annual Caps are on normal commercial terms, or on terms no less favourable to the Group than terms available to or from (as appropriate) the Independent Third Parties which are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Company will disclose information in relation to the Master Services Agreement in its subsequently published annual report and accounts in accordance with the relevant requirements as set out in Rule 14A.71 of the Listing Rules.

INFORMATION ON THE PARTIES

The Group

The Group principally engages in three major businesses, namely the research and development, production, sale and service of (i) high-tech eco-friendly batteries; (ii) new energy batteries; and (iii) renewable new materials. High-tech eco-friendly battery products are mainly used in electrical bicycles, electrical tricycles and mini electric vehicles, as well as for start-stop and energy storage. The Group mainly operates in the PRC.

Tianneng Holding

Tianneng Holding is a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. Tianneng Holding principally engages in provision of investment management, enterprise management consulting and investment advisory services, and sales of metal materials, construction materials, metal appliances, batteries production equipment and related products.

Zhejiang Changneng

Zhejiang Changneng is a company established in the PRC with limited liability. Zhejiang Changneng principally engages in the provision of, among other things, hotel management, enterprise management and consulting, property management, social economic consulting services, technical services, technical development, consultation, exchange, transfer and promotion, and parking services.

DEFINITIONS

In this announcement, the following terms and expressions shall, unless the context requires otherwise, have the following meanings:

“Annual Cap(s)”	the maximum aggregate annual transaction amounts in respect of the provision of labour and leasing services under the Master Services Agreement for a term of three years commencing 1 January 2022 and expiring on 31 December 2024, both days inclusive
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Tianneng Power International Limited (天能動力國際有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 819)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Dr. Zhang”	Dr. Zhang Tianren (張天任)
“Group”	the Company and its subsidiaries, and “member of the Group” means any one of them

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	any third party(ies) which, together with their respective beneficial owner(s) (if any) and to the best of the Directors’ knowledge, information and belief, having made all reasonable enquires, are third party(ies) independent of the Company and its connected persons in accordance with the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Services Agreement”	the master services agreement dated 29 April 2022 entered into between Tianneng Holding and Zhejiang Changneng in relation to the provision of labour and leasing services between the Group and the Zhejiang Changneng Group for a term of three years commencing 1 January 2022 and expiring on 31 December 2024, both days inclusive
“percentage ratio(s)”	has the meaning ascribed to it under Rule 14.04(9) of the Listing Rules
“PRC”	the People’s Republic of China and, for the purposes of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianchang Holding”	Tianchang Holding Co., Ltd.* (天暢控股有限公司), a company established under the laws of the PRC with limited liability and is owned as to 98% and 2% by Dr. Zhang and his son, Mr. Zhang Hao (張昊), respectively
“Tianneng Holding”	Tianneng Holding Group Co., Ltd.* (天能控股集團有限公司), a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company

“Transactions”	the transactions in respect of the provision of labour and leasing services between the Group and the Zhejiang Changneng Group as contemplated under the Master Services Agreement
“Zhejiang Changneng”	Zhejiang Changneng Commercial Management Company Limited* (浙江暢能商業管理有限公司), a company established under the laws of the PRC with limited liability
“Zhejiang Changneng Group”	Zhejiang Changneng, its subsidiaries, associates and other controlled entities, and “members of Zhejiang Changneng Group” means any one of them
“%”	per cent.

By order of the Board
TIANNENG POWER INTERNATIONAL LIMITED
ZHANG Tianren
Chairman

Hong Kong, 29 April 2022

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. XIAO Gang.

* *For ease of reference, the names of the PRC established companies or entities (if any) and the PRC laws and regulations (if any) have generally been included in this announcement in both Chinese and English languages and in the event of inconsistency, the Chinese language shall prevail.*