

FINANCIAL INFORMATION

You should read the following discussion and analysis on our financial positions and operating results in conjunction with our consolidated financial statements as of December 31, 2019, 2020 and 2021 and for each of the years ended December 31, 2019, 2020 and 2021, along with the accompanying notes set out in the Accountant’s Report included in the Appendix I to this Document. The Accountant’s Report has been prepared in accordance with IFRSs. Prospective investors should read the Accountant’s Report included in the Appendix I to this Document in its entirety and should not rely solely on the information set out in this section.

The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events that involve risks and uncertainties and financial performance. These statements are based on assumptions and analysis made by us in light of our experiences and understanding of historical matters, current conditions and expected future developments, as well as other factors we believe to be appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control or can predict. When assessing our businesses, you should duly and carefully consider all the information provided in this Document, including sections headed “Risk Factors” and “Business”.

OVERVIEW

We are a world-leading new energy technology company. We shoulder the mission of energy safety for mankind. We drive the positive development of the industry with innovative concepts and leading core technologies. Adhering to our corporate spirit of “beyond commerce, bettering mankind”, we are committed to leading the new energy era.

We are mainly engaged in the design, R&D, production and sales of EV batteries and ESS products. Through the continuous innovation of technology, we have built a high degree of mutual trust, synergy and win-win relationship with partners in the upstream and downstream of the industry chain, leading the progress and development of the industry.

Our innovative initiatives, and our achievements in quality, technology and R&D laid the foundation for our leading product capability.

According to Frost & Sullivan, in terms of installed capacity in 2021, we:

- ranked second in China among third-party EV battery companies;
- ranked seventh globally among EV battery companies;
- were the only company with over 100% year-on-year growth rate from 2019 to 2021 among the top ten EV battery companies in China^{Note}; and
- were one of the most rapidly growing core EV battery company in the world.

Note: Entities with installed capacities of less than 0.1 GWh for two years in a row are not applied for calculating year-on-year growth rate.

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BASIS OF PREPARATION

The historical financial information has been prepared in accordance with all applicable international financial reporting standards (the “IFRSs”) issued by the International Accounting Standards Board (the “IASB”), consisting of International Financial Reporting Standards (the “IFRSs”), International Accounting Standards (the “IAS”) and the interpretations thereof. The historical financial information is also in compliance with the applicable disclosure provisions of the Listing Rules and the disclosure requirements of the Companies Ordinance.

Although the adoption of certain new and amended IFRSs may result in changes in accounting policies, it is expected that such IFRSs will not have any material impact on our operating results and financial positions.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our business and historical financial condition and results of operations have been affected by a number of important factors which we believe will continue to affect our financial condition and results of operations in the future. Our results are primarily affected by the following factors:

- macroeconomic conditions and the growth of overall EV battery market;
- continuous investment and innovation in our technology;
- end markets that we serve and fluctuation in customer demand;
- management and expansion of our production capacity;
- our ability to control cost of sales and operating expenses; and
- government policies and regulations for NEVs and smart technology, such as subsidies for NEV purchases and government grants for NEV manufacturers.

Specific Factors Affecting Our Results of Operations

Besides the general factors affecting the industry, our business and results of operations are also affected by specific factors, including the following major factors:

Our ability to attract new customers and grow our customer base

Our results of operations depend significantly on our ability to attract orders from customers, which in turn, impacts our sales volume. We design our EV batteries for NEVs to satisfy the needs and preferences of NEV manufacturers. We enhance brand recognition among our target customers by consistently delivering technically advanced as well as performance

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superior products, so as to better satisfy the requirements of our target customers. Enhanced customer satisfaction will help to solidify our relationship with existing customers and attract new customers. In addition, we intend to strategically expand and strengthen our international market presence. As we continue to develop and launch products with market competitiveness, promote our brand and expand our sales and service network, we expect to attract more customers and achieve revenue growth.

Investment in technology and talents and continued expansion of our product portfolio

We develop our key technologies in-house to achieve a rapid pace of innovation through significant investment of resources in R&D. At the same time, we recruit talented developers and engineers to grow our strength in the key technologies. We expect our strategic focus on innovations will further differentiate our products, which will in turn enhance our competitiveness.

Our ability to constantly introduce new products that meet the demand and preference of our customers will be an important contributor to our future growth. We plan to continuously introduce new products to expand our product portfolio and customer base. We expect our revenue growth to be driven in part by the continued expansion of our product portfolio.

Our ability to control raw material costs and improve operating efficiency

Our cost of sales primarily consists of raw material costs. We purchase a variety of raw materials, and other supplies for our production. We expect that our cost of sales will be affected primarily by the price of raw material and our production volume.

Our results of operations are further affected by our ability to maintain and improve our operating efficiency, thus it is critical for us to successfully manage production ramp-up and quality control so as to deliver products in adequate volume and of high quality to customers. Our supply chain affects our cost of sales and gross margin, and we will further enhance our management and continuously improve our cost management capability, as we ramp up production volume and achieve economies of scale. We also focus on the efficiency in manufacturing process as our production capacity expands. As we expand our product portfolio and grow our revenue, we expect our expenses as a percentage of our revenue to decrease. We may have challenges in our expansion process. See “Risk Factors – Risks Relating to Our Industry and Business – We have limited operating history in EV battery industry and our ability to develop, manufacture and deliver EV batteries is still evolving, and we may not be successful in expanding our operations or managing our growth effectively.”

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IMPACT OF COVID-19 ON OUR OPERATIONS

Please see “Business – The Impact of the COVID-19 Pandemic” for further details on the impact of COVID-19 on our operations.

CRITICAL ACCOUNTING POLICIES

A summary of our significant accounting policies is set forth in note 4 to the Accountants’ Report in Appendix I to this document. Critical accounting policies are those that require our management to exercise judgment in applying assumptions and making estimates that would yield materially different results if our management applied different assumptions or made different estimates. Estimates and judgments are continually re-evaluated and are based on historical experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. We have not changed our assumptions or estimates in the past and have not noticed any material errors regarding our assumptions or estimates. Under current circumstances, we do not expect that our assumptions or estimates are likely to change significantly in the future. We believe the following critical accounting policies involve the most significant judgments in the preparation of our consolidated financial statements.

Revenue

Revenue is recognized when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from the sale of goods is recognized when control of the goods has transferred, being when the goods have shipped to the customer’s specific location (delivery). A receivable is recognized by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Revenue from the provision of services is recognized over the scheduled period on an input method because the customer simultaneously receives and consumes the benefits provided by the Group.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labor and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

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Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognized in profit or loss during the period in which they are incurred. Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis.

The principal annual depreciation rates are as follows:

Buildings	20-35 years
Machinery	10%
Computer equipment	32%
Furniture and office equipment	19%–32%
Leasehold improvements	Over the shorter of the term of the lease and estimated useful life of 5 years
Motor vehicles	24%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period. The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in profit or loss.

Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment losses. Intangible assets are amortized over their estimated useful lives on a straight-line method. The estimated useful lives are as follows:

Computer software	Not more than 10 years
Trademark	10 years
Patent	Not more than 10 years
Others	5 years

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Trade and other receivables

A receivable is recognized when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognized before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset. Receivables are stated at amortized cost using the effective interest method less allowance for credit losses.

Government grants

A government grant is recognized when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognized in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are recorded as deferred income and recognized in profit or loss on a straight-line basis over the useful lives of the related assets.

Repayment of a grant related to income is applied first against any unamortized deferred income set up in respect of the grant. To the extent that the repayment exceeds any such deferred income, or where no deferred income exists, the repayment is recognized immediately in profit or loss. Repayment of a grant related to an asset is recorded by reducing the deferred income by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant is recognised immediately in profit or loss.

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RESULTS OF OPERATIONS

The following table sets forth a summary, of our consolidated results of operations for the years and periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year Ended December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,733,832	2,825,419	6,817,115
Cost of sales	<u>(1,650,574)</u>	<u>(2,440,745)</u>	<u>(6,438,837)</u>
Gross profit	83,258	384,674	378,278
Investment and other income	18,662	31,644	176,247
Government grants and subsidies	308,595	134,861	364,509
Other gains/(losses), net	(142,008)	61,906	78,999
Selling expenses	(52,523)	(82,332)	(160,311)
Administrative expenses	(177,638)	(243,107)	(412,062)
R&D expenses	(135,892)	(201,989)	(285,256)
Impairment losses on trade and bill receivables	(35,418)	(23,351)	(26,600)
Impairment losses on prepayments, deposits and other receivables	<u>(1,659)</u>	<u>(1,281)</u>	<u>(682)</u>
(Loss)/profit from operations	(134,623)	61,025	113,122
Finance costs	(41,175)	(57,365)	(24,975)
Share of (losses)/profits of associates	(8,715)	637	(24,714)
Share of loss of a joint venture	<u>—</u>	<u>—</u>	<u>—</u>
(Loss)/profit before tax	(184,513)	4,297	63,433
Income tax credit/(expense)	<u>28,112</u>	<u>(22,625)</u>	<u>48,107</u>
(Loss)/profit for the year	<u>(156,401)</u>	<u>(18,328)</u>	<u>111,540</u>

In 2019, we completed the acquisition of Luoyang Company. Please see “History, Development and Corporate Structure – Our Corporate Development – Major changes in shareholding and corporate form – Equity transfer and capital increases in July 2019” for more details.

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Luoyang Company constituted a material portion of our financial results during the Track Record Period. To facilitate our investors to understand the financial performance of Luoyang Company, we set forth the financial information of Luoyang Company as follows.

Luoyang Company

	Years Ended December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)
	<i>Note (1)</i>		<i>Note (2)</i>
Revenue ⁽³⁾	603,763	1,025,890	926,109
Cost of sales	<u>(574,084)</u>	<u>(938,612)</u>	<u>(877,400)</u>
Gross profit	29,679	87,278	48,709
Loss for the year/period	<u>(126,338)</u>	<u>(94,570)</u>	<u>(134,554)</u>

Note (1): This column includes financial figures for the period from July 1, 2019 to December 31, 2019. Luoyang Company became a non-wholly owned subsidiary of our Company on July 1, 2019.

Note (2): This column includes financial figures for the period from January 1, 2021 to November 7, 2021. Luoyang Company was disposed by the Company and became an associate on November 8, 2021.

Note (3): Revenue is generated from the sales to customers which are not our Company or our subsidiaries.

The Group (Excluding Luoyang Company)

	Years Ended December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)
Revenue ⁽¹⁾	1,130,069	1,799,529	5,891,006
Cost of sales	<u>(1,076,490)</u>	<u>(1,502,133)</u>	<u>(5,561,437)</u>
Gross profit	53,579	297,396	329,569
(Loss)/profit for the year	<u>(30,063)</u>	<u>76,242</u>	<u>246,094</u>

Note (1): Revenue is generated from the sales to customers which are not our Company or our subsidiaries.

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PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

During the Track Record Period, we derived substantially all of our revenue from the sales of our products, including EV batteries and ESS products.

Our total revenue increased by 63.0% from RMB1,733.8 million for the year ended December 31, 2019 to RMB2,825.4 million for the year ended December 31, 2020. Our total revenue increased materially from RMB2,825.4 million for the year ended December 31, 2020 to RMB6,817.1 million for the year ended December 31, 2021. This strong increase was mainly due to the increase in sales volume, which was mainly driven by the rapid growth in demand of our EV batteries as supported by the increase in our production capacities. At the same time, the sales of our ESS products also experienced growth, which in turn, was mainly driven by the increase in sales to certain major customers. The increase in the revenue from our other products was mainly attributable to the sales of battery materials.

Revenue by Products

The following table sets forth a breakdown of our revenue by products, each expressed in the absolute amount and as a percentage of our total revenue, for the years indicated.

	Years Ended December 31,					
	2019		2020		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
EV battery	1,409,888	81.3	2,499,300	88.5	6,065,200	89.0
ESS	181,166	10.5	238,181	8.4	446,080	6.5
Others	142,778	8.2	87,938	3.1	305,835	4.5
Total	<u>1,733,832</u>	<u>100</u>	<u>2,825,419</u>	<u>100</u>	<u>6,817,115</u>	<u>100</u>

Note: Others mainly include sales of battery materials, etc.

Sales Volume and Average Selling Price of Our Products

The table below sets forth our sales volume and average selling price of our main product during the Track Record Period.

	Years Ended December 31,					
	2019		2020		2021	
	Sales volume (GWh)	Average selling price (RMB/Wh)	Sales volume (GWh)	Average selling price (RMB/Wh)	Sales volume (GWh)	Average selling price (RMB/Wh)
EV battery	1.62	0.87	3.93	0.64	9.31	0.65
ESS	0.20	0.90	0.33	0.73	0.67	0.67
	<u>0.20</u>	<u>0.90</u>	<u>0.33</u>	<u>0.73</u>	<u>0.67</u>	<u>0.67</u>

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During the Track Record Period, the fluctuations in our average selling price of EV batteries were mainly due to the fluctuations in the selling price of such products in the industry as a whole and subsidy policies that related to end products to which our products were installed. In the same period, the fluctuations in the average selling price of ESS products was mainly due to the price differences in the products sold by us, which generally is tied to the technical specifications of the products. Also, with technological advancement and reduction in cost, the selling prices of our products were adjusted accordingly.

Cost of Sales

Cost of sales primarily consists of raw material costs, direct labor costs and manufacturing costs. Our cost of sales increased by 47.9% from RMB1,650.6 million for the year ended December 31, 2019 to RMB2,440.7 million for the year ended December 31, 2020, and further increased by 163.8% to RMB6,438.8 million for the year ended December 31, 2021, mainly due to the increase in raw material costs and manufacturing costs. The increase was attributable to the increase in our sales volume and the increase in price of our main raw materials, including cathode materials and electrolytes.

Cost of Sales by Nature

The following table sets forth a breakdown of our cost of sales by nature, expressed as an absolute amount and as a percentage of our total cost of sales, for the years indicated.

	Years Ended December 31,					
	2019		2020		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Cost of sales						
Raw materials	1,270,989	77.0	1,856,632	76.1	5,418,907	84.2
Manufacturing costs	288,322	17.5	445,323	18.2	775,721	12.0
Direct labor costs	91,263	5.5	138,790	5.7	244,209	3.8
Total	<u>1,650,574</u>	<u>100</u>	<u>2,440,745</u>	<u>100</u>	<u>6,438,837</u>	<u>100</u>

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Raw material costs

Raw material costs were the largest component of our cost of sales and primarily consisted of the cost of cathode materials, anode materials, electrolytes and separators. Raw material costs accounted for 77.0%, 76.1% and 84.2%, respectively, of our cost of sales for each of the years ended December 31, 2019, 2020 and 2021. The increase in our raw material costs for the year ended December 31, 2021 is mainly due to the increase in sales volume and the substantial increase in market price of battery raw materials, including cathode materials and electrolytes.

For illustration purpose only, the following sensitivity analysis sets forth the estimated impact of hypothetical fluctuations in our average price of raw materials on our profit/(loss) before income tax for the years indicated, assuming all other factors affecting our profitability had remained unchanged.

	Impact on profit/(loss) before tax		
	Years Ended December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Change in price of raw materials			
-/+ 5%	+/-63,549	+/-92,832	+/-270,945
-/+ 10%	+/-127,099	+/-185,663	+/-541,891

Manufacturing costs

Manufacturing costs represent, among others, the depreciation of our plants and manufacturing machinery and costs of utilities. For each of the years ended December 31, 2019, 2020 and 2021, manufacturing costs accounted for 17.5%, 18.2% and 12%, respectively, of our cost of sales. The decrease in manufacturing costs as a percentage of our costs of sales for the year ended December 31, 2021 was mainly due to the increase in the price of battery raw materials along with the increase in raw material costs as a percentage of cost of sales for the year ended December 31, 2021.

Direct labor costs

Direct labor costs represent staff-related costs of our manufacturing operations. Labor cost accounted for 5.5%, 5.7% and 3.8%, respectively, of our cost of sales for each of the years ended December 31, 2019, 2020 and 2021. The decrease in direct labor cost as a percentage of sales cost for the year ended December 31, 2021 was mainly due to the increase in the price of battery raw materials along with the increase in raw material costs as a percentage in cost of sales for the year ended December 31, 2021.

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Cost of Sales by Products

The following table sets forth a breakdown of our cost of sales by products, expressed as an absolute amount and as a percentage of our total cost of sales, for the years indicated.

	Years Ended December 31,					
	2019		2020		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Cost of sales						
EV battery	1,336,987	81.0	2,157,220	88.4	5,729,114	89.0
ESS	151,962	9.2	207,308	8.5	421,122	6.5
Others	161,625	9.8	76,217	3.1	288,601	4.5
Total	<u>1,650,574</u>	<u>100</u>	<u>2,440,745</u>	<u>100</u>	<u>6,438,837</u>	<u>100</u>

Note: Others mainly include raw materials in relation to the sales of battery materials.

Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less our cost of sales. Our gross profit margin represents our gross profit divided by our revenue, expressed as a percentage. For the years ended December 31, 2019, 2020 and 2021, our gross profit was RMB83.3 million, RMB384.7 million and RMB378.3 million, respectively. Our overall gross profit margin was 4.8%, 13.6% and 5.5%, respectively, in the same period. The change in gross profit margin was mainly attributable to price fluctuation of battery raw materials and the positive impact of the economies of scale relating to production capacity expansion.

Gross Profit and Gross Profit Margin by Products

The following table sets forth a breakdown of our gross profit and gross profit margin by products for the years indicated.

	Years Ended December 31,					
	2019		2020		2021	
	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %
EV battery	72,901	5.2	342,080	13.7	336,086	5.5
ESS	29,204	16.1	30,873	13.0	24,958	5.6
Others ⁽¹⁾	(18,847)	(13.2)	11,721	13.3	17,234	5.6
Total	<u>83,258</u>	<u>4.8</u>	<u>384,674</u>	<u>13.6</u>	<u>378,278</u>	<u>5.5</u>

Note (1): Others include the sales of battery materials

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During the Track Record Period, the changes in the gross profit of our EV batteries were mainly due to the increase in our sales of product and the changes in the price of raw materials. While in the same period, the changes in the gross profit margin of our EV batteries were mainly due to (i) the benefit of economies of scale relating to our production capacity expansion; and (ii) the fluctuations in the price of battery raw materials.

During the Track Record Period, the changes in the gross profit of our ESS products was mainly due to the fluctuation in sales and gross profit margin. While in the same period, the changes in the gross profit margin of our ESS products were mainly due to different products sold by us, which generally correlated with (i) the technical specifications of the products sold; and (ii) fluctuations in battery raw material prices.

During the Track Record Period, we had a negative gross margin for the year ended December 31, 2019 due to our disposal of a batch of slow-moving products with relatively low price in our product categories of other products in 2019. Changes to the gross profit margin of our others products were also heavily influenced by the change in raw material prices.

Government Grants and Subsidies

Our government grants and subsidies primarily consist of subsidies on industry development and R&D subsidies. For the years ended December 31, 2019, 2020 and 2021, our government grant and subsidies were RMB308.6 million, RMB134.9 million and RMB364.5 million, respectively.

	Year Ended December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Related to assets			
R&D subsidies	14,848	22,396	19,855
Subsidies on industry development	6,976	12,342	8,924
Others	3,321	4,068	4,345
Related to income			
R&D subsidies	–	71,387	186,002
Subsidies on industry development	248,870	6,821	135,690
Others	34,580	17,847	9,693
	<u>308,595</u>	<u>134,861</u>	<u>364,509</u>

Note: Others mainly include subsidies on employee stability and recruitment.

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Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of sales services expenses, employee remuneration expenses, and transportation and travel expenses. During the Track Record Period, the increase in selling and distribution expenses was mainly attributable to the increase in sales services expenses and employee remuneration expenses, which in turn is connected to the increase in our sales volume and business scale.

The following table sets forth a breakdown of the key components of our selling and distribution expenses, each expressed as an absolute amount and as a percentage of our total selling and distribution expenses, for the years indicated.

	Years Ended December 31,					
	2019		2020		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Selling and distribution expenses						
Sales services expenses	32,091	61.1	61,191	74.3	125,694	78.4
Employee remuneration expenses	7,120	13.6	12,377	15.0	20,398	12.7
Transportation and travel expenses	2,604	5.0	2,219	2.7	2,658	1.7
Insurance expenses	2,381	4.5	672	0.8	741	0.5
Others	8,327	15.8	5,873	7.2	10,820	6.7
Total	<u>52,523</u>	<u>100.00</u>	<u>82,332</u>	<u>100.00</u>	<u>160,311</u>	<u>100.00</u>

Note: Others mainly include publicity expenses, intermediary expenses, etc.

Our selling and distribution expenses increased from RMB52.5 million for the year ended December 31, 2019 to RMB82.3 million for the year ended December 31, 2020, and further increased to RMB160.3 million for the year ended December 31, 2021, which was primarily due to the increase in sales services expenses and employee remuneration expenses, both of which were a result of our business growth.

Administrative Expenses

Our administrative expenses primarily consist of employee remuneration expenses and depreciation and amortization expenses. During the Track Record Period, the increase in our administrative expenses was mainly due to the increase in employee remuneration expenses as a result of the increase in the headcount of our employees, as well as the increase in office and electronic equipment rendering an increase in depreciation and amortization expenses.

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For the years ended December 31, 2019, 2020 and 2021, our administrative expenditure were RMB177.6 million, RMB243.1 million and RMB412.1 million, respectively. The following table sets forth a breakdown of the key components of our administrative expenses, each expressed as an absolute amount and as a percentage of our total administrative expenses, for the years indicated.

	Years Ended December 31,					
	2019		2020		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Administrative expenses						
Employee remuneration expenses	79,100	44.5	76,256	31.4	128,916	31.3
Depreciation and amortization expenses	31,067	17.5	58,971	24.3	91,608	22.2
Taxes and surcharges	15,839	8.9	26,684	11.0	53,602	13.0
Property management fees	13,146	7.4	20,840	8.6	26,830	6.5
Rental expenses	4,185	2.4	6,527	2.7	15,201	3.7
Legal and professional fee	9,336	5.3	6,986	2.9	10,467	2.5
Other expenses	24,965	14.0	46,843	19.1	85,438	20.8
Total	177,638	100.00	243,107	100.00	412,062	100.00

Note: Other expenses mainly include office expenses, travel expenses, information system construction expenses, etc.

R&D Expenses

Our R&D expenses primarily consist of employee remuneration expenses, depreciation and amortization expenses and materials fee. The increase in our R&D expenses was mainly due to the growth in employee compensation expenses, material fee and additional expenses. With increased investment in R&D, our employee remuneration expenses increased as the remuneration for the relevant employees increased.

For the years ended December 31, 2019, 2020 and 2021, our R&D expenses were RMB135.9 million, RMB202.0 million and RMB285.3 million, respectively. The following table sets forth a breakdown of the key components of our R&D expenses, each expressed as an absolute amount and as a percentage of our total R&D expenses, for the years indicated.

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	Years Ended December 31,					
	2019		2020		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
R&D expenses						
Employee remuneration expenses	38,859	28.6	74,276	36.8	86,023	30.2
Depreciation and amortization expenses	60,195	44.3	56,810	28.1	75,104	26.3
Materials fee	12,427	9.1	42,164	20.9	49,900	17.5
Outsourcing expenses	10,334	7.6	12,270	6.0	28,129	9.9
Patent related expenses	399	0.3	1,726	0.9	18,375	6.4
Other expenses	13,678	10.1	14,743	7.3	27,725	9.7
Total	<u>135,892</u>	<u>100</u>	<u>201,989</u>	<u>100</u>	<u>285,256</u>	<u>100</u>

Note: Other expenses mainly include utility expenses, travel expenses and testing expenses, etc.

Other Gains and Losses, Net

Our other gains and losses, net, primarily consist of gain on disposal of the subsidiary, allowance or reversal of allowance for inventories, impairment loss on property, plant and equipment, impairment losses of investments in associates and fair value change in financial instruments.

For the years ended December 31, 2019, 2020 and 2021, our other gains and losses, net were loss of RMB142.0 million, gain of RMB61.9 million and gain of RMB79.0 million, respectively. Changes to our other gains and losses, net, were mainly attributable to allowance or reversal of allowance for inventories and gain on disposal of Luoyang Company.

We stocked up strategically in 2019 to prepare for the technological upgrading and transformation of the production line in 2020 and to guarantee the sufficient supplies to customers in 2020. As we had relatively large inventory, the allowance for inventory was made accordingly. In 2020, we had a reversal of allowance for inventory as our inventory management improved and we experienced an increase in sales. In 2021, the cost of finished products increased as a result of the rise in prices of main raw materials and the increase in our orders received. Accordingly, the allowance for inventories increased correspondingly when we had larger inventory.

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The following table sets forth a breakdown of the key components of our other gains and losses, net, for the years indicated.

	Year Ended December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Allowance)/reversal of allowance for inventories	(120,920)	49,999	(90,088)
Gain on disposal of a subsidiary	–	–	347,240
Impairment losses of investments in associates	–	–	(178,700)
Fair value change in financial assets at FVTPL	726	2,419	13,705
Fair value change in put option liabilities	–	–	(14,512)
Fair value change in financial guarantees	–	–	1,755
Impairment loss on property, plant and equipment	(18,660)	–	–
Impairment loss on intangible assets	–	–	(15)
Net foreign exchange losses	(1,252)	(251)	(361)
Net (loss)/gain on disposals of property, plant and equipment	(1,902)	7,417	(25)
Net gain on early termination of lease	–	2,322	–
	<u>(142,008)</u>	<u>61,906</u>	<u>78,999</u>

Investment and Other Income

Our investment and other income primarily consists of interest income from bank deposits and others. For the years ended December 31, 2019, 2020 and 2021, our investment and other income was RMB18.7 million, RMB31.6 million and RMB176.2 million, respectively.

FINANCIAL INFORMATION

Changes in our investment and other income was primarily attributable to the increase in our interest income as a result of making deposits and purchasing investment products by using the capital contribution we received from investors. The following table sets forth a breakdown of the key components of our investment and other income for the years indicated.

	Year Ended December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest income on:			
Bank deposits	17,580	22,056	66,882
Financial assets at FVTOCI	337	5,653	105,384
	17,917	27,709	172,266
Total interest income	17,917	27,709	172,266
Others	745	3,935	3,981
	18,662	31,644	176,247
	18,662	31,644	176,247

Finance Costs

Our finance costs primarily consist of interest expenses. The change in finance costs is mainly attributable to the change in interest on our bank borrowings and the amount capitalized. The amount capitalized represent interest expenses capitalized relating to certain construction projects. The following table sets forth a breakdown of the key components of our finance costs for the years indicated.

	Year Ended December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank borrowings	19,304	31,072	81,119
Interest on other loans	5,110	15,804	6,717
Interest on loan from related companies	14,594	7,937	–
Interest expenses on lease liabilities	2,167	2,552	695
	41,175	57,365	88,531
Total financial costs	41,175	57,365	88,531
Less: amount capitalised	–	–	(63,556)
	41,175	57,365	24,975
	41,175	57,365	24,975

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Income Tax Credit/(Expense)

Our income taxation in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits, based on the existing legislation, interpretations and practices in respect thereof.

The table below sets forth a breakdown of our income tax credit/(expense) for the years indicated:

	Years Ended December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Income tax credit/(expense)			
Current tax – the PRC Provision for the year/period	–	–	(220,352)
Deferred tax	28,112	(22,625)	268,459
	<u>28,112</u>	<u>(22,625)</u>	<u>268,459</u>
Total	<u>28,112</u>	<u>(22,625)</u>	<u>48,107</u>

During the Track Record Period and as of the Latest Practicable Date, we did not have any material dispute or unresolved issues with the relevant tax authorities.

COMPARISON OF RESULTS OF OPERATION

Year ended December 31, 2020 compared to year ended December 31, 2021

Revenue

Our revenue for the year ended December 31, 2020 and the year ended December 31, 2021 was RMB2,825.4 million and RMB6,817.1 million, respectively. The substantial increase was primarily due to the increase in revenue generated from our EV batteries sold to certain major customers.

EV battery

Revenue generated from sales of EV batteries increased by 142.7% from RMB2,499.3 million for the year ended December 31, 2020 to RMB6,065.2 million for the year ended December 31, 2021, primarily due to increase in sales to certain major customers. Such increase in sales included sales to Customer G, Customer C and Customer X, which are all leading NEV brands. Please see “Business – Sales and Marketing – Major Customers” for further details.

FINANCIAL INFORMATION

ESS

Revenue generated from sales of ESS products increased by 87.3% from RMB238.2 million for the year ended December 31, 2020 to RMB446.1 million for the year ended December 31, 2021, primarily due to the increase in the sales volume of our ESS products from 0.33 GWh to 0.67 GWh.

Others

Revenue from other products increased by 247.9% from RMB87.9 million for the year ended December 31, 2020 to RMB305.8 million for the year ended December 31, 2021, primarily due to the increase of the sales of battery materials. This increase was mainly attributable to the expansion of our scale of operation and an increase in our sales volume.

Cost of Sales

Our cost of sales increased by 163.8% from RMB2,440.7 million for the year ended December 31, 2020 to RMB6,438.8 million for the year ended December 31, 2021. The increase was primarily due to increase in raw material costs, which was attributable to both the increase in (i) our sales volume and business expansion and (ii) the significant increase in the market price of raw materials including cathode materials and electrolytes.

Cost of Sales by Nature

Raw material costs

Our raw materials costs increased by 191.9% from RMB1,856.6 million for the year ended December 31, 2020 to RMB5,418.9 million for the year ended December 31, 2021. Our raw material costs as a percentage of our total cost of sales increased from 76.1% for the year ended December 31, 2020 to 84.2% for the year ended December 31, 2021. The increase was mainly due to (i) the expansion of our sales volume and business and (ii) the significant increase in the market price of raw materials including cathode materials and electrolytes.

Manufacturing costs

Manufacturing costs increased by 74.2% from RMB445.3 million for the year ended December 31, 2020 to RMB775.7 million for the year ended December 31, 2021. The proportion of manufacturing costs in the total cost of sales decreased from 18.2% for the year ended December 31, 2020 to 12.0% for the year ended December 31, 2021. The overall increase in manufacturing costs is mainly due to the increase in depreciation and amortization expenses, and utility expenses as our business scale expanded.

FINANCIAL INFORMATION

Direct labor costs

Our labor costs increased by 75.9% from RMB138.8 million for the year ended December 31, 2020 to RMB244.2 million for the year ended December 31, 2021. Our labor costs as a percentage of our total sales cost decreased from 5.7% for the year ended December 31, 2020 to 3.8% for the year ended December 31, 2021. The overall labor cost is increasing generally, mainly due to the growth in number of production-related staff as our business scale expanded.

Cost of Sales by Products

EV battery

The cost of EV batteries increased by 165.6% from RMB2,157.2 million for the year ended December 31, 2020 to RMB5,729.1 million for the year ended December 31, 2021. The overall growth trend of our cost of sales of EV batteries outpaced that of the corresponding revenue, mainly because of the substantial increase in the prices of raw materials including cathodes materials and electrolytes.

ESS

The cost of ESS products increased by 103.1% from RMB207.3 million for the year ended December 31, 2020 to RMB421.1 million for the year ended December 31, 2021. The overall growth trend of the cost of sales of our ESS products outpaced that of the corresponding revenue mainly because of the substantial increase in the prices of raw materials including cathodes materials and electrolytes.

Others

The cost from sales of others increased by 278.7% from RMB76.2 million for the year ended December 31, 2020 to RMB288.6 million for the year ended December 31, 2021. The overall growth trend of the cost of sales of others exceeds that of the corresponding revenue mainly because of the increase in the prices of raw materials used to produce battery materials.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by 1.7% from RMB384.7 million for the year ended December 31, 2020 to RMB378.3 million for the year ended December 31, 2021. Our overall gross profit margin decreased from 13.6% for the year ended December 31, 2020 to 5.5% for the year ended December 31, 2021.

FINANCIAL INFORMATION

EV battery

The gross profit of EV batteries decreased by 1.8% from RMB342.1 million for the year ended December 31, 2020 to RMB336.1 million for the year ended December 31, 2021. The gross profit margin for the year ended December 31, 2020 and 2021 decreased from 13.7% to 5.5% mainly because of the material increase in the prices of cathodes materials and electrolytes.

ESS

The gross profit of ESS products decreased by 19.1% from RMB30.9 million for the year ended December 31, 2020 to RMB25.0 million for the year ended December 31, 2021 and the gross profit margin decreased from 13.0% for the year ended December 31, 2020 to 5.6% for the year ended December 31, 2021, mainly due to the substantial increase in the prices of cathodes materials and electrolytes.

Others

Gross profit generated from other products increased by 47.0% from RMB11.7 million for the year ended December 31, 2020 to RMB17.2 million for the year ended December 31, 2021, with the gross profit margin decreasing from 13.3% for the year ended December 31, 2020 to 5.6% for the year ended December 31, 2021 mainly because of the increase in the prices of battery materials.

Investment and Other Income

Investment and other income primarily consists of interest income from bank deposits and investment products. Investment and other income increased by 457.6% from RMB31.6 million for the year ended December 31, 2020 to RMB176.2 million for the year ended December 31, 2021. The increase in our investment and other income was primarily attributable to the increase in our interest income, which was a result of the deposit products we purchased after we received capital contribution from investors in 2021.

Government Grants and Subsidies

Our government grants and subsidies increased by 170.2% from RMB134.9 million for the year ended December 31, 2020 to RMB364.5 million for the year ended December 31, 2021, mainly because we continuously carried out operating and R&D activities and government authorities provided relevant subsidies.

FINANCIAL INFORMATION

Other Gains and Losses, Net

Our other gains and losses, net, increased by 27.6% from gain of RMB61.9 million for the year ended December 31, 2020 to gain of RMB79.0 million for the year ended December 31, 2021, which was mainly attributable to (i) gains on disposal of Luoyang Company, and partially offset by (ii) the increase in provision of allowance for inventories. The increase in the allowance for inventories was in line with the increase in inventories, which was resulted from the increase in orders received and the increase in prices of main raw material.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 94.7% from approximately RMB82.3 million for the year ended December 31, 2020 to approximately RMB160.3 million for the year ended December 31, 2021, which was primarily due to the increase in sales services expense and employee remuneration expenses. With the increase in revenue, the sales service expenses grew correspondingly, and the employee remuneration expenses grew alongside our business scale expansion.

Administrative Expenses

Our administrative expenses increased by 69.5% from approximately RMB243.1 million for the year ended December 31, 2020 to approximately RMB412.1 million for the year ended December 31, 2021, which was mainly due to the increase in employees remuneration expenses as a result of the increase in headcount.

R&D Expenses

Our R&D expenses increased by 41.2% from approximately RMB202.0 million for the year ended December 31, 2020 to approximately RMB285.3 million for the year ended December 31, 2021, primarily due to the increase in depreciation and amortization, and employee remuneration expenses. Depreciation and amortization expenses increased along with our investment in R&D equipment, and with the expansion of business scale, employee compensation expenses increase accordingly.

Finance Costs

Our finance costs decreased by 56.4% from approximately RMB57.4 million for the year ended December 31, 2020 to approximately RMB25.0 million for the year ended December 31, 2021. Although the finance costs before capitalization incurred during the year increased from approximately RMB57.4 million for the year ended December 31, 2020 to approximately RMB88.5 million for the year ended December 31, 2021 as a result of the increase in bank borrowings, interest expenses of syndicated loans for certain projects amounting to approximately RMB63.6 million were capitalized. As a result, the expensed finance costs decreased.

FINANCIAL INFORMATION

Loss/profit for the Year

As a result of the foregoing, our financial result for the year changed from loss of RMB18.3 million for the year ended December 31, 2020 to profit of RMB111.5 million for the year ended December 31, 2021.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2020

Revenue

Our revenue increased by 63.0% from RMB1,733.8 million for the year ended December 31, 2019 to RMB2,825.4 million for the year ended December 31, 2020. The increase was primarily due to the increase in revenue generated from our EV batteries.

EV battery

The revenue generated from sales of EV batteries increased by 77.3% from RMB1,409.9 million for the year ended December 31, 2019 to RMB2,499.3 million for the year ended December 31, 2020, which was primarily due to the increase in sales to certain major customers. The revenue generated from sales to Customer G increased from RMB461.2 million for the year ended December 31, 2019 to RMB1,557.5 million for the year ended December 31, 2020.

ESS

Revenue from sales of ESS products increased by 31.5% from RMB181.2 million for the year ended December 31, 2019 to RMB238.2 million for the year ended December 31, 2020, which was primarily due to the increase in sales volume from 0.20GWh for the year ended December 31, 2019 to 0.33GWh for the year ended December 31, 2020.

Others

Revenue from other products decreased by 38.4% from RMB142.8 million for the year ended December 31, 2019 to RMB87.9 million for the year ended December 31, 2020, which was primarily due to the sales to Luoyang Company before we acquired Luoyang Company as a subsidiary in July 2019, while such sales were no longer recognized at consolidated statement of profit or loss of the Group for the year ended December 31, 2020.

Cost of Sales

Cost of sales increased by 47.9% from RMB1,650.6 million for the year ended December 31, 2019 to RMB2,440.7 million for the year ended December 31, 2020. The increase was primarily due to the increase in raw materials and manufacturing costs as a result of the increase in sales volume.

FINANCIAL INFORMATION

Cost of Sales by Nature

Raw materials

The cost of raw materials increased by 46.1% from RMB1,271.0 million for the year ended December 31, 2019 to RMB1,856.6 million for the year ended December 31, 2020. The cost of raw materials as a percentage of total cost of sales decreased from 77.0% for the year ended December 31, 2019 to 76.1% for the year ended December 31, 2020. The growth of cost of raw materials was generally in line with the growth of sales.

Manufacturing costs

The manufacturing costs increased by 54.5% from RMB288.3 million for the year ended December 31, 2019 to RMB445.3 million for the year ended December 31, 2020. Manufacturing costs as a percentage of total cost of sales increased from 17.5% for the year ended December 31, 2019 to 18.2% for the year ended December 31, 2020. The overall increase in manufacturing costs was primarily due to the increase in depreciation and amortization, utility expense with the expansion of our scale of operation.

Direct labor costs

The labor costs increased by 52.0% from RMB91.3 million for the year ended December 31, 2019 to RMB138.8 million for the year ended December 31, 2020. Labor costs as a percentage of total cost of sales increased from 5.5% for the year ended December 31, 2019 to 5.7% for the year ended December 31, 2020. The overall growth of labor costs was in line with our business growth.

Cost of Sales by Products

EV battery

The cost of sales of EV batteries increased by 61.3% from RMB1,337.0 million for the year ended December 31, 2019 to RMB2,157.2 million for the year ended December 31, 2020. The growth of cost of sales in this product is generally in line with the growth of our revenue.

ESS

The cost of sales of ESS increased by 36.4% from RMB152.0 million for the year ended December 31, 2019 to RMB207.3 million for the year ended December 31, 2020. The growth of cost of sales in this product is generally in line with the growth of our revenue.

Others

The costs of sales of others decreased by 52.8% from RMB161.6 million for the year ended December 31, 2019 to RMB76.2 million for the year ended December 31, 2020, which was in line with the trend for the sales of our other products.

FINANCIAL INFORMATION

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 361.8% from RMB83.3 million for the year ended December 31, 2019 to RMB384.7 million for the year ended December 31, 2020, which was primarily due to the increase in revenue and gross profit margin. The overall gross profit margin increased from 4.8% for the year ended December 31, 2019 to 13.6% for the same period in 2020. The change in gross profit margin was primarily due to the benefits of economies of scale in our production volume as we are able to spread our fixed costs over a larger number of products sold.

EV battery

The gross profit of EV batteries increased by 369.3% from RMB72.9 million for the year ended December 31, 2019 to RMB342.1 million for the year ended December 31, 2020. The gross profit margin of EV batteries increased from 5.2% for the year ended December 31, 2019 to 13.7% for the same period in 2020, which was primarily due to the benefits of economies of scale in our production volume and we were able to spread our fixed costs over a larger number of products sold.

ESS

The gross profit of ESS products increased by 5.8% from RMB29.2 million for the year ended December 31, 2019 to RMB30.9 million for the year ended December 31, 2020. The gross profit margin of ESS products decreased from 16.1% for the year ended December 31, 2019 to 13.0% for the same period in 2020, which was primarily due to different products sold by us in 2019.

Others

Our gross profit generated from other products achieved a turnaround from loss of RMB18.8 million for the year ended December 31, 2019 to profit of RMB11.7 million for the year ended December 31, 2020. The gross profit margin increased from (13.2)% for the year ended December 31, 2019 to 13.3% for the same period in 2020. We had negative gross margin in 2019 due to our disposal of a batch of slow-moving products with relatively low price.

Investment and Other Income

Our investment and other income primarily consists of interest income from bank deposits and others. Our investment and other income increased by 69.0% from RMB18.7 million for the year ended December 31, 2019 to RMB31.6 million for the year ended December 31, 2020. The increase in our investment and other income was primarily attributable to the increase in our interest income, which in turn was a result of increase in bank deposits and financial products we purchased.

FINANCIAL INFORMATION

Government Grants and Subsidies

Our government grants and subsidies decreased by 56.3% from RMB308.6 million for the year ended December 31, 2019 to approximately RMB134.9 million for the year ended December 31, 2020, which was mainly attributable to the subsidies we received in relation to industry development and R&D in 2019, while there was no such large one-off subsidy received by us in 2020.

Other Gains and Losses, Net

Our other gains and losses turned from net loss of RMB142.0 million for the year ended December 31, 2019 to net gain of approximately RMB61.9 million for the year ended December 31, 2020. This is primarily because we carried out strategic stocking in 2019 in response to our planned production line upgrade in 2020, which led to a relatively high balance of inventories and consequently incurred allowance for inventories. While in 2020 the increase in our sales and our strengthened inventory management led to the reversal of allowance for inventories.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 56.8% from approximately RMB52.5 million for the year ended December 31, 2019 to approximately RMB82.3 million for the year ended December 31, 2020 primarily due to the expansion of our business scale. The main reason for the change is the increase in sales service fee and employee remuneration expenses. With the rapid development of our business, the provision of sales service fee increased with the revenue growth, and the number of employees increased with the expansion of our business.

Administrative Expenses

Our administrative expenses increased by 36.9% from approximately RMB177.6 million for the year ended December 31, 2019 to approximately RMB243.1 million for the year ended December 31, 2020, mainly due to our business expansion. The change is mainly due to the increase in business tax and property management fee with the expansion of the business scale. In addition, we incurred an increase in depreciation and amortization expenses as our office and electronic equipment increased.

R&D Expenses

Our R&D expenses increased by 48.6% from approximately RMB135.9 million for the year ended December 31, 2019 to approximately RMB202.0 million for the year ended December 31, 2020, primarily due to increase in employee remuneration expenses and material costs.

FINANCIAL INFORMATION

Finance Costs

Our finance costs increased by 39.3% from approximately RMB41.2 million for the year ended December 31, 2019 to approximately RMB57.4 million for the year ended December 31, 2020 primarily because we maintained a relatively high level of borrowings throughout the year ended December 31, 2020 as compare to 2019.

Loss for the Year

As a result of the foregoing, our loss for the year decreased by 88.3% from RMB156.4 million for the year ended December 31, 2019 to RMB18.3 million for the year ended December 31, 2020.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we satisfied the need of our operations primarily with net cash generated from our operations, bank borrowings and equity fund raising. Our primary uses of cash were to fund working capital and other recurring expenses, and capital expenditures.

Consolidated Statements of Cash Flows

The following table sets forth a summary of our consolidated cash flow statements for the years indicated.

	Year Ended December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash (used in)/generated from operating activities	(513,765)	1,942,229	1,586,003
Net cash used in investing activities	(1,250,963)	(5,263,527)	(15,007,227)
Net cash generated from financing activities	<u>2,044,325</u>	<u>4,569,990</u>	<u>14,837,464</u>
Net increase in cash and cash equivalents	279,597	1,248,692	1,416,240
Cash and cash equivalents at the beginning of the year	165,703	445,229	1,693,284
Effect of foreign exchange rate changes	<u>(71)</u>	<u>(637)</u>	<u>(6)</u>
Cash and cash equivalents at the end of the year	<u><u>445,229</u></u>	<u><u>1,693,284</u></u>	<u><u>3,109,518</u></u>

FINANCIAL INFORMATION

Net Cash (used in)/generated from operating activities

For the year ended December 31, 2021, net cash generated from operating activities amounted to RMB1,586.0 million, and was derived primarily from the following amounts plus profit before tax of RMB63.4 million: (i) an increase of RMB4,499.8 million in trade and bills payables related to business expansion; (ii) increase of RMB1,125.6 million in other payables and accruals; and (iii) RMB453.5 million in depreciation of property, plant and equipment, which was partially offset by (i) an increase in inventories of RMB1,963.6 million, and (ii) an increase in trade and bills receivables of RMB2,088.5 million.

For the year ended December 31, 2020, net cash generated from operating activities amounted to RMB1,942.2 million, and was derived primarily from the following amounts plus a profit before tax of RMB4.3 million: (i) an increase of RMB228.9 million in trade and bills payables; (ii) a decrease of RMB598.9 million in inventories; (iii) RMB214.6 million in depreciation of property, plant and equipment; and (iv) an increase of RMB740.9 million in other payables and accruals.

For the year ended December 31, 2019, net cash used in operating activities amounted to RMB513.8 million, and was derived primarily from the following amounts plus a loss before tax of RMB184.5 million: an increase of RMB666.6 million in inventories due to strategic stocking in preparation of production line upgrade, which was partially offset by RMB203.1 million of depreciation in property, plant and equipment.

Net cash used in investing activities

For the year ended December 31, 2021, net cash used in investing activities amounted to RMB15,007.2 million, which was primarily due to (i) purchases of other financial assets of RMB17,485.0 million; (ii) payment of property, plant and equipment of RMB8,853.0 million; (iii) deposit of RMB1,269.7 million paid for the purchase and construction of property, plant and equipment; and (iv) increase of RMB786.6 million in pledged bank deposits, which was partially offset by the proceeds of RMB13,930.0 million from disposal of other financial assets.

Net cash used in investing activities was RMB5,263.5 million in 2020, which was primarily due to (i) purchase of other financial assets of RMB2,863.0 million; (ii) payment of property, plant and equipment of RMB2,603.9 million; (iii) additions of intangible assets of RMB296.9 million due to investment in development cost and patents; and (iv) deposit of RMB231.7 million paid for the acquisition and construction of property, plant and equipment, which was partially offset by (i) a decrease of RMB446.5 million in pledged bank deposits and (ii) proceeds of RMB352.0 million from disposal of other financial assets.

Net cash used in investing activities was RMB1,251.0 million in 2019, which was primarily due to (i) payment of property, plant and equipment of RMB1,088.6 million; (ii) increase of RMB492.7 million in pledged bank deposits; and (iii) purchases of other financial assets of RMB310.0 million, which was partially offset by a decrease of RMB626.3 million in restricted bank balances.

FINANCIAL INFORMATION

Net cash generated from financing activities

In 2021, net cash generated from financing activities amounted to RMB14,837.5 million, which was primarily due to net proceeds from issuance of shares of RMB11,990 million and net increase in bank borrowings of RMB2,371.6 million.

In 2020, net cash generated from financing activities amounted to RMB4,570.0 million, which was primarily due to the amounts of RMB4,810.8 million from net proceeds from issuance of shares, which was partially offset by repayment of bank borrowings and other loans of RMB114.3 million.

In 2019, net cash generated from financing activities amounted to RMB2,044.3 million, which was primarily due to the net proceeds of RMB1,910.0 million from issuance of shares.

NET CURRENT ASSETS

The following table sets forth a breakdown of our current assets and liabilities as of the dates indicated.

	As of December 31,			As of
	2019	2020	2021	January 31, 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)
Current assets				
Inventories	1,309,227	760,326	1,756,784	2,235,398
Trade and bills receivables	1,141,881	1,246,319	2,714,704	3,456,283
Prepayments, deposits and other receivables	534,080	628,621	1,645,749	1,910,780
Amount due from related parties	6,717	5,769	1,924,932	2,161,391
Other financial assets	89,726	2,603,689	6,182,575	4,357,396
Current tax assets	402	302	–	–
Pledged bank deposits	1,078,744	632,233	1,251,564	1,826,151
Restricted bank balances	1,422	252	252	252
Bank and cash balances	445,229	1,693,284	3,109,518	1,830,026
	<u>4,607,428</u>	<u>7,570,795</u>	<u>18,586,078</u>	<u>17,777,677</u>
Current liabilities				
Trade and bills payables	2,036,979	2,656,718	6,316,866	7,253,176
Accruals and other payables	645,430	1,510,634	2,118,779	2,206,836
Contract liabilities	26,585	32,014	106,918	164,304
Amounts due to related parties	50,780	29,258	22,864	19,802
Lease liabilities	22,230	5,346	11,042	17,236
Bank borrowings	626,810	687,459	3,647	–
Other loans	175,711	60,564	–	–
Provisions	48,675	84,827	136,396	154,770
Financial guarantee	–	–	12,354	12,354
Put option liabilities	–	–	941,132	1,173,064
Current tax liabilities	–	–	220,352	220,352
	<u>3,633,200</u>	<u>5,066,820</u>	<u>9,890,350</u>	<u>11,221,894</u>
Net current assets	<u>974,228</u>	<u>2,503,975</u>	<u>8,695,728</u>	<u>6,555,783</u>

FINANCIAL INFORMATION

Our net current assets decreased from RMB8,695.7 million as of December 31, 2021 to RMB6,555.8 million as of January 31, 2022, primarily due to (i) an increase in trade and bills payables; (ii) an increase in put option liabilities; (iii) a decrease in bank and cash balances; and (iv) a decrease in other financial assets, partially offset by (i) an increase in inventories; (ii) an increase in trade and bills receivables; and (iii) an increase in prepayments, deposits and other receivables.

Our net current assets increased from RMB2,504.0 million as of December 31, 2020 to RMB8,695.7 million as of December 31, 2021, primarily due to (i) an increase in trade and bills receivables; (ii) an increase in other financial assets; (iii) a decrease in bank borrowings; (iv) an increase in bank and cash balances; (v) an increase in prepayments, deposits and other receivables; (vi) an increase in amount due from related parties and (vii) an increase in inventory, partially offset by (i) an increase in accruals and other payables; and (ii) increase in trade and bills payables.

Our net current assets increased from RMB974.2 million as of December 31, 2019 to RMB2,504.0 million as of December 31, 2020, primarily due to (i) increase in other financial assets; (ii) increase in bank and cash balances as our business expanded; and (iii) decrease in other loans; partially offset by (i) decrease in inventories; (ii) decrease in pledged bank deposits; (iii) increase in trade and bill payables; (iv) increase in bank borrowings; and (v) increase in accruals and other payables.

ANALYSIS OF SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, Plant and Equipment

Our property, plant and equipment mainly consist of (i) building, (ii) machinery and (iii) construction in progress. The following table sets forth a breakdown of the net book amount of our property, plant and equipment as of the dates indicated:

	As of December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Buildings	1,493,110	2,989,664	3,159,272
Machinery	1,857,557	1,836,661	3,068,269
Construction in progress	1,405,861	3,592,425	8,771,908
Computer equipment	22,801	39,311	93,262
Furniture and office equipment	19,363	52,525	99,323
Motor vehicles	4,996	4,499	3,903
Leasehold improvement	41,988	51,383	55,565
	<hr/>	<hr/>	<hr/>
Total	4,845,676	8,566,468	15,251,502
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

FINANCIAL INFORMATION

Our property, plant and equipment increased from RMB8,566.5 million as of December 31, 2020 to RMB15,251.5 million as of December 31, 2021. The growth was mainly due to the increase in the number of construction in progress, which related to the addition of major projects in 2021 based on our business plan, and is partially offset by the depreciation of the relevant assets.

Our property, plant and equipment increased from RMB4,845.7 million as of December 31, 2019 to RMB8,566.5 million as of December 31, 2020. The increase was mainly due to (i) an increases in buildings assets, and (ii) an increases in construction in progress at one of our production base, which is partially offset by the depreciation of the relevant assets.

Intangible Assets

Our intangible assets mainly consist of development cost and patent and proprietary technology. The following table sets forth a summary of our intangible assets balances as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Patent and proprietary technology	443,315	386,484	808,836
Development cost	85,849	362,873	198,099
Computer software	23,034	27,472	66,006
Others	17	13	2,066
	<hr/>	<hr/>	<hr/>
Total	552,215	776,842	1,075,007
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Our intangible assets increased from RMB776.8 million as of December 31, 2020 to RMB1,075.0 million as of December 31, 2021, mainly due to the increase in patents and proprietary technology as (i) result of transfer of development costs to patents and proprietary technology; and (ii) the patents and proprietary technology we purchased from Luoyang Company.

Our intangible assets increased from RMB552.2 million as of December 31, 2019 to RMB776.8 million as of December 31, 2020, mainly due to an increase in our development costs as a result of our continuous R&D efforts, partially offset by the amortization of our patents and proprietary technology.

FINANCIAL INFORMATION

Inventories

Our inventories consist of raw materials, work in progress and finished goods. To minimize the risk of inventory accumulation, we review our inventory levels on a regular basis. We believe that maintaining appropriate levels of inventories can help us better plan raw material procurement and deliver our products to meet customer demand in a timely manner without straining our liquidity. The following table sets forth a summary of our inventory balances as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	129,560	214,860	1,079,889
Work in progress	432,481	193,861	192,848
Finished goods	747,186	351,605	484,047
	1,309,227	760,326	1,756,784

Note: Finished goods as of December 31, 2019 includes goods in transit of RMB2.5 million.

Our inventory increased from RMB760.3 million as of December 31, 2020 to RMB1,756.8 million as of December 31, 2021, primarily due to (i) the trend of the increase in the price of raw materials, in response to which we implemented strategic stocking for raw materials in 2021; and (ii) a safety stock in advance for finished goods implemented by us in 2021 according to the production plan.

Our inventory decreased from RMB1,309.2 million as of December 31, 2019 to RMB760.3 million as of December 31, 2020, mainly because (i) we strengthened our inventory management amid the growth of sales, and (ii) in 2019, we implemented strategic stocking for both work in progress and finished goods in advance for the technological upgrading of the production line in order to ensure the sufficient supply of products in 2020.

As of January 31, 2022, our inventories as of December 31, 2021 have been consumed or sold by RMB1,360.4 million.

The following table sets forth our inventories turnover days for the years or the period indicated.

	For the year ended December 31,		
	2019	2020	2021
Inventory turnover days	163	155	71

Note: Inventory turnover days equals the average of the beginning and ending inventories for the year divided by cost of sales for the year and multiplied by the number of days of the year.

FINANCIAL INFORMATION

Our inventory turnover days decreased from 163 days for the year ended December 31, 2019 to 71 days for the year ended December 31, 2021, which was primarily due to the increase in sales and strengthened inventory management, resulting in the significant acceleration of inventory turnover.

Trade and Bills Receivables

The following table sets forth our trade and bills receivables as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	596,799	1,034,524	2,143,559
Bills receivables	641,723	331,409	608,336
	<u>1,238,522</u>	<u>1,365,933</u>	<u>2,751,895</u>
Allowance for impairment	(96,641)	(119,614)	(37,191)
	<u>1,141,881</u>	<u>1,246,319</u>	<u>2,714,704</u>

Our trade and bills receivables increased from RMB1,246.3 million as of December 31, 2020 to RMB2,714.7 million as of December 31, 2021, primarily due to the significant increase in sales along with our business expansion.

Our trade and bills receivables increased slightly from RMB1,141.9 million as of December 31, 2019 to RMB1,246.3 million as of December 31, 2020, primarily due to an increase in the sales of our products. Our revenue increased significantly but our trade and bills receivables did not have a corresponding significant increase, which was attributable to the increase in our sales to customers who provide advance payment.

The significant decrease in the allowance for impairment of our trade and bills receivables as of December 31, 2021 was attributable to the disposal of Luoyang Company.

As of January 31, 2022, RMB634.2 million of our trade receivables as of December 31, 2021 have been collected.

The following table sets forth our trade receivables turnover days for the years indicated.

	For the year ended December 31,		
	2019	2020	2021
Trade receivables turnover days	<u>134</u>	<u>91</u>	<u>81</u>

Note: The turnover days of trade receivables is calculated as the average of the beginning and ending balances of trade receivables for the year divided by the revenue for the year and multiplied by the number of days of the year.

FINANCIAL INFORMATION

Our trade receivables turnover days decreased from 134 days in 2019 to 91 days in 2020, and further decreased to 81 days in 2021, which is mainly due to the change in customer structure, the increase in our sales to customers who provide advance payment and the reduction in credit period. We generally grant our customers a credit period of 30 to 90 days.

The following table sets forth the aging analysis of our trade receivables, presented based on the invoice date, as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 180 days	354,922	772,707	2,077,688
181 to 365 days	32,875	76,620	7,559
1 to 2 years	92,450	27,743	21,121
Over 2 years	19,911	37,840	–
	<hr/>	<hr/>	<hr/>
Total	<u>500,158</u>	<u>914,910</u>	<u>2,106,368</u>

Prepayments, Deposits and Other Receivables

The following table sets forth our prepayments, deposits and other receivables as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposits paid for acquisition of property, plant and equipment	252,455	484,181	1,675,984
Prepayments	54,833	48,659	571,998
Other tax receivables	395,541	542,868	1,042,216
Other receivables	83,706	37,094	31,535
	<hr/>	<hr/>	<hr/>
	<u>786,535</u>	<u>1,112,802</u>	<u>3,321,733</u>

Note: Other receivables include government subsidies receivable, deposits and rental income receivable, etc.

Our prepayment, deposits and other receivables increased from RMB1,112.8 million as of December 31, 2020 to RMB3,321.7 million as of December 31, 2021, primarily due to an increase in (i) deposit paid for acquisition and construction of property, plant and equipment as we continued to expand our production capacity, (ii) prepayments for materials and (iii) an increase in the amount of tax credit for the input of value-added tax.

FINANCIAL INFORMATION

Our prepayment, deposits and other receivables increased from RMB786.5 million as of December 31, 2019 to RMB1,112.8 million as of December 31, 2020, primarily due to (i) an increase in deposit paid for acquisition of property, plant and equipment and (ii) an increase in the amount of tax credit for the input of value-added tax.

Other Financial Assets

The following table sets forth our financial assets as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investment in wealth management product, at fair value	89,726	–	–
Investments in structured products, at fair value	–	1,002,420	3,713,705
Certificate of deposit	–	1,601,269	2,468,870
	<u>89,726</u>	<u>2,603,689</u>	<u>6,182,575</u>

Our other financial assets increased from RMB89.7 million as of December 31, 2019 to RMB2,603.7 million as of December 31, 2020 and then to RMB6,182.6 million as of December 31, 2021, primarily due to capital contributions we received from investors in 2020 and 2021. In order to improve the capital utilization efficiency and reduce the capital cost, we used part of the capitals received to purchase bank deposit products.

Amounts Due from Related Parties

The following table sets forth our amounts due from related parties as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due from associates	3,666	–	945,351
Amount due from a joint venture	29	3,550	–
Amounts due from subsidiaries of shareholders	3,022	–	979,200
Amount due from a shareholder	–	2,219	381
	<u>6,717</u>	<u>5,769</u>	<u>1,924,932</u>

FINANCIAL INFORMATION

Our amounts due from related parties decreased from RMB6.7 million as of December 31, 2019 to RMB5.8 million as of December 31, 2020 and then increased to RMB1,924.9 million as of December 31, 2021. The material increase in amounts due from related parties in 2021 was primarily due to (i) an increase in amount due from Luoyang Company as Luoyang Company became an associate after the disposal and an increase in prepayment to Luoyang Company in connection with entrusted processing services; and (ii) an increase in amount due from Jincheng Technology in relation to the consideration receivable on the disposal of Luoyang Company.

Trade and Bills Payables

The following table sets forth our trade and bills payables as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bills payables	1,129,992	1,383,929	2,871,688
Trade payables	906,987	1,272,789	3,445,178
	2,036,979	2,656,718	6,316,866

Our trade payables mainly relate to the procurement of raw materials from our suppliers. The trade payables are non-interest-bearing and normally settled within 180 days.

Our trade and bills payables increased from RMB2,656.7 million as of December 31, 2020 to RMB6,316.9 million as of December 31, 2021, due to increases in both bills payables and trade payables, which was a result of increase in raw material purchase to support our expanding operation.

Our trade and bills payables increased from RMB2,037.0 million as of December 31, 2019 to RMB2,656.7 million as of December 31, 2020, primarily due to (i) the increase in the payables related to raw material purchase, and (ii) the increase in our settlements with suppliers with bank acceptance bills in 2020.

Our trade payables as of December 31, 2021 were paid up to RMB2,117.2 million as of January 31, 2022.

The following table sets forth our trade payables turnover days for the years indicated.

	For the year ended December 31,		
	2019	2020	2021
Trade payables turnover days	131	163	134

Note: The trade payables turnover days is calculated as the average of the beginning and ending balances of the trade payables for the year divided by the cost of sales of the year and multiplied by the number of days in the year.

FINANCIAL INFORMATION

The change in our trade payables turnover days during the Track Record Period is mainly due to the increase in our settlements with suppliers with bank acceptance bills in 2020 in order to slow down the outflow of cash, which led to the increase in our trade payables turnover days. In 2021, as the raw material market supply was under tension, we accelerated to make payment to prepare strategic stocking in advance and ensure the supply of raw materials, which led to the decrease in our trade payables turnover days compared with 2020.

The following table sets forth the aging analysis of our trade payables as of the dates indicated, based on the invoice date.

	As of December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 180 days	859,219	1,234,387	3,439,948
181 to 365 days	34,320	17,712	976
1 to 2 years	12,089	10,579	654
Over 2 years	1,359	10,111	3,600
Total	<u>906,987</u>	<u>1,272,789</u>	<u>3,445,178</u>

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we did not default in payment of any trade and bills payables.

Other Payables and Accruals

The following table sets forth our other payables and accruals as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposits received	19,086	42,530	82,074
Accrued salaries	113,379	150,768	139,657
Accrued expenses	11,711	17,975	142,838
Payable for property, plant and equipment	468,923	736,564	1,207,095
Fund advanced from government	–	500,000	500,000
Other tax payable	8,504	24,626	21,406
Other	23,827	38,171	25,709
	<u>645,430</u>	<u>1,510,634</u>	<u>2,118,779</u>

FINANCIAL INFORMATION

Our other payables and accruals increased from RMB1,510.6 million as of December 31, 2020 to RMB2,118.8 million as of December 31, 2021, primarily due to increases in amounts payable for property, plant and equipment, which is in line with our production expansion.

Our other payables and accruals increased from RMB645.4 million as of December 31, 2019 to RMB1,510.6 million as of December 31, 2020, primarily due to (i) receipt of fund advanced from government in relation to R&D and operation, and (ii) increase in our payables for property, plant and equipment, which is in line with our production expansion.

Financial Position of Luoyang Company

In 2019, we completed the acquisition of Luoyang Company. Please see “History, Development and Corporate Structure – Our Corporate Development – Major changes in shareholding and corporate form – Equity transfer and capital increases in July 2019” for more details.

Luoyang Company constituted a material portion of our financial results during the Track Record Period. To facilitate our investors to understand the financial position of Luoyang Company, we set forth the financial information of Luoyang Company as follows.

Luoyang Company

	Year Ended December 31,	
	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Non-current assets	2,311,244	2,445,299
Current assets	2,868,419	2,100,095
Current liabilities	<u>(2,814,836)</u>	<u>(2,445,153)</u>
Net current assets/(liabilities)	<u>53,583</u>	<u>(345,058)</u>
Total assets less current liabilities	<u>2,364,827</u>	<u>2,100,241</u>
Non-current liabilities	(614,707)	(438,918)
Net assets	<u><u>1,750,120</u></u>	<u><u>1,661,323</u></u>

Note: Luoyang Company was disposed by the Company and became an associate on November 8, 2021.

FINANCIAL INFORMATION

The Group (Excluding Luoyang Company)

	Year Ended December 31,	
	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Non-current assets	4,215,169	8,259,804
Current assets	1,739,009	5,494,700
Current liabilities	<u>(818,364)</u>	<u>(2,621,667)</u>
Net current assets	<u>920,645</u>	<u>2,873,033</u>
Total assets less current liabilities	<u>5,135,814</u>	<u>11,132,837</u>
Non-current liabilities	<u>(820,135)</u>	<u>(185,539)</u>
Net assets	<u><u>4,315,679</u></u>	<u><u>10,947,298</u></u>

WORKING CAPITAL SUFFICIENCY STATEMENT

In view of the positive turning of our operating cash flows, increase in net current assets, and gradual narrow-down of the losses from operations during the Track Record Period, based on our cash flow projections and taking into account the cash and cash equivalents on hand as of the date of this document and the financial resources available to us, our Directors are of the opinion that we have sufficient working capital for our present requirement, which is, for at least the next 12 months from the date of this document.

FINANCIAL INFORMATION

INDEBTEDNESS

The following table sets forth our indebtedness as of the dates indicated:

	As of December 31			As of
	2019	2020	2021	January 31, 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)
Current				
Loan from a subsidiary of a shareholder	45,907	–	–	–
Lease liabilities	22,230	5,346	11,042	17,236
Bank borrowings	626,810	687,459	3,647	–
Other loans	175,711	60,564	–	–
Financial guarantees	–	–	12,354	12,354
Put option liabilities	–	–	941,132	1,173,064
	<u>870,658</u>	<u>753,369</u>	<u>968,175</u>	<u>1,202,654</u>
Non-current				
Loan from a shareholder	650,260	–	–	–
Lease liabilities	69,511	5,612	15,709	82,353
Bank borrowings	249,019	140,000	2,887,000	3,384,000
Other loans	163,735	212,982	–	–
	<u>1,132,525</u>	<u>358,594</u>	<u>2,902,709</u>	<u>3,466,353</u>
	<u><u>2,003,183</u></u>	<u><u>1,111,963</u></u>	<u><u>3,870,884</u></u>	<u><u>4,669,007</u></u>

As of January 31, 2022, all of our bank borrowings were secured by certain property, plant and equipment and right of use assets. Our total bank borrowings decreased from RMB875.8 million as of December 31, 2019 to RMB827.5 million as of December 31, 2020 primarily because of the decrease in loans more than one year, but not exceeding two years. Our bank borrowings as of December 31, 2021 was RMB2,890.6 million primarily because of the increase in loans in order to meet the capital needs of our business expansion and the continuous investment in major projects.

As of January 31, 2022, our Company had unutilized bank borrowing facility of RMB2,966.0 million.

FINANCIAL INFORMATION

FINANCIAL GUARANTEES

As of January 31, 2022, the Group has provided financial guarantee in respect of bank borrowings granted to Luoyang Company. The maximum potential liability of the Group as of January 31, 2022 under the aforesaid financial guarantee was approximately RMB140.0 million.

PUT OPTION LIABILITIES

The Company has signed investment agreements containing put options (the “**Written Put Option(s)**”) with certain non-controlling interest shareholders of the Company’s subsidiaries. The Written Put Options give the non-controlling interest shareholders the right to demand that the Company repurchase the equity interests of the subsidiaries held by the non-controlling shareholders within specified periods at the put option exercise prices. According to the investment agreements, such Written Put Option will be terminated automatically and of no effect on the date when our Company submits our listing application for the listing of our Shares on any domestic or foreign stock exchange. If subsequently our Company withdraws our listing application or our listing application is not approved, such Written Put Option will be automatically restored. As of December 31, 2021 and January 31, 2022, the Company has put option liabilities at fair value amounted to approximately RMB941.1 million and RMB1,173.1 million.

CONTINGENT LIABILITIES

The Group has the following contingent liabilities:

- (a) As of December 31, 2021, the Group has Claims disclosed in “Business – Regulatory compliance and legal proceedings – Intellectual Property Infringement Claims” claimed for total damages of RMB185 million and cost of RMB3 million.
- (b) The Group endorsed certain bills receivables for the settlement of trade and other payables. For details, please see Note 48 of Section B to the Accountant’s Report set out in Appendix I to this Document. The maximum exposure to the Group that may result from the default of these endorsed bills are as follows:

	As of December 31,			As of
	2019	2020	2021	January 31,
	RMB’000	RMB’000	RMB’000	2022
				RMB’000
				(unaudited)
Endorsed bills for settlement of trade and other payables	93,865	25,131	111,950	37,914

FINANCIAL INFORMATION

Post-Track Record Period Financing

As of the Latest Practicable Date, in addition to the bank borrowings and facilities mentioned above, we was in the process of obtaining approvals for banking facilities of approximately RMB16.0 billion. All the banking facilities will be utilized for expansion and construction of lithium-ion battery manufacturing plant and supplementary of working capital purposes.

Except for our indebtedness as disclosed above, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptance (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities as of January 31, 2022, being the latest practicable date for our indebtedness statement.

Except for our indebtedness as disclosed above, since December 31, 2021 and up to the date of this document, there has not been any material and adverse change in our indebtedness and contingent liabilities. Our Directors do not foresee any potential difficulty in obtaining bank facilities should the need arise.

CAPITAL EXPENDITURES

Our capital expenditures increased from RMB1,342.7 million for the year ended December 31, 2019 to RMB3,030.1 million for the year ended December 31, 2020, and further to RMB9,648.5 million for the year ended December 31, 2021. Our capital expenditures were used primarily for the expansion of our production capacities, including the construction of additional production facilities and the upgrading of our existing machinery and equipment. The following table sets forth our capital expenditures for the years indicated.

	Years Ended December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment and right-of-use assets	1,245,287	2,733,125	9,120,873
Intangible assets	97,453	296,935	527,597
	<u>1,342,740</u>	<u>3,030,060</u>	<u>9,648,470</u>
Total	<u>1,342,740</u>	<u>3,030,060</u>	<u>9,648,470</u>

FINANCIAL INFORMATION

CAPITAL COMMITMENTS

Our capital commitments during the Track Record Period were primarily relating to the acquisition of property, plant and equipment, intangible assets and capital contribution to associates. As of December 31, 2019, 2020 and 2021, the total amount of our capital expenditures contracted for but not yet incurred was RMB1,249.1 million, RMB2,477.8 million and RMB16,895.0 million, respectively.

	As of December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	1,195,253	2,469,278	16,857,495
Intangible assets	1,821	8,492	37,492
Capital contribution to associates	52,000	–	–
Total	<u>1,249,074</u>	<u>2,477,770</u>	<u>16,894,987</u>

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners’ equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or R&D services with us.

KEY FINANCIAL RATIOS

The following table sets forth a summary of our key financial ratios as of the dates or for the years indicated.

	Year Ended December 31,		
	2019	2020	2021
Return on equity (%) ⁽¹⁾	NM ⁽³⁾	NM ⁽³⁾	0.4
Return on assets (%) ⁽²⁾	NM ⁽³⁾	NM ⁽³⁾	0.3
Gearing ratio (%) ⁽⁴⁾	33.0	8.8	15.5
Current ratio (time) ⁽⁵⁾	1.3	1.5	1.9
Quick ratio (time) ⁽⁶⁾	0.9	1.3	1.7

FINANCIAL INFORMATION

Notes:

1. Return on equity is calculated based on the profit for the relevant year divided by the ending balance of total equity and multiplied by 100%.
2. Return on assets is calculated based on the profit for the relevant year divided by the ending balance of total assets and multiplied by 100%.
3. NM: The metric is not meaningful due to net loss recorded during the relevant years.
4. Gearing ratio is calculated based on the loans from related parties, lease liabilities, bank borrowings, other loans, financial guarantees and put option liabilities divided by total equity as at the respective year and multiplied by 100%.
5. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of the respective year.
6. Quick ratio is calculated as total current assets less inventories divided by the total current liabilities as at the end of the respective year.

Gearing ratio

Gearing ratio increased from 8.8% as of December 31, 2020 to 15.4% as of December 31, 2021, mainly due to the increase in the Group’s bank borrowings. The Group’s bank borrowings increased from RMB827.5 million as of December 31, 2020 to RMB2,890.6 million as of December 31, 2021 to meet the capital needs of the Group’s business expansion and the continuous investment in major projects.

Gearing ratio decreased from 33.0% as of December 31, 2019 to 8.8% as of December 31, 2020, mainly due to the increase in the Group’s total equity, which was mainly attributable to (i) the net proceeds from issuance of capital of RMB4,810.8 million in 2020; (ii) the capital injection in the form of non-monetary assets (including land, building and equipment) of RMB1,080.6 million; and (iii) the conversion of loan from a shareholder of approximately RMB650.3 million to capital in 2020.

Current ratio

The Group’s current ratio increased from 1.5 as of December 31, 2020 to 1.9 as of December 31, 2021, which was attributable to the increase in bank and cash balances from RMB1,693.3 million as of December 31, 2020 to RMB3,109.5 million as of December 31, 2021. The Group received net proceeds from issuance of capital of RMB11,990 million.

The Group’s current ratio increased from 1.3 as of December 31, 2019 to 1.5 as of December 31, 2020, which was attributable to the increase in bank and cash balances from RMB445.2 million as of December 31, 2019 to RMB1,693.3 million as of December 31, 2020. The Group received proceeds from issuance of capital of RMB4,810.8 million.

Quick ratio

The quick ratio increased from 0.9 in 2019 to 1.3 in 2020, and increased to 1.7 in 2021. The trend of our quick ratio was in line with the current ratio as disclosed above.

FINANCIAL INFORMATION

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

Our business is principally located in the PRC and our transactions are mainly settled in Renminbi. Most of our assets and liabilities were denominated in RMB, except for certain bank balances denominated in U.S. dollars and other foreign currencies as disclosed in note 6(a) in the Accountants' Report in Appendix I to this document. Our assets and liabilities denominated in U.S. dollars were mainly incurred from sales to and procurement from overseas companies outside PRC which had U.S. dollars as their functional currency, and we did not have material foreign currency transactions in PRC during the Track Record Period. Therefore, we did not have material foreign currency risks during the Track Record Period.

Interest Rate Risk

Our exposure to interest-rate risk mainly arises from its bank deposits and bank borrowings. These deposits and borrowings bear interests at variable rate varied with the then prevailing market condition.

Please see note 6(d) in Appendix I to this document for further details.

Credit Risk

We are exposed to credit risk from our operating activities (primarily trade receivables) and from our financing activities, including deposits with banks and financial institutions, and other financial instruments. Our exposure to credit risk arising from cash and cash equivalents and restricted bank balances is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which we consider to have low credit risk. For further details for our credit risk please see note 6(b) to the Accountants' Report in Appendix I to this document.

Liquidity Risk

We monitor our exposure to a shortage of funds by considering the maturity of both our financial liabilities and financial assets and projected cash flows from operations. Our policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. For further details for our liquidity risk please see note 6(c) to the Accountants' Report in Appendix I to this document.

RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member are also considered as related parties. For a discussion of related party transactions, see note 51 to the Accountants' Report in Appendix I to this document.

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DIVIDEND POLICY

We did not pay or declare any dividends during the Track Record Period. We currently do not have a pre-determined dividend payout ratio. The Board may declare and our Company may pay dividend after taking into account our results of operations, financial condition, operational and capital expenditure requirements, future business development strategies and estimates and other factors that may be deemed as relevant.

DISTRIBUTABLE RESERVES

As of December 31, 2019, 2020 and 2021, we had no reserves available for distribution.

NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our Directors confirm that, up to the date of this document, there has not been any material adverse change in our financial or trading position or prospects since December 31, 2021, and there is no event since December 31, 2021 which would materially affect the data shown in the Accountants’ Report set out in Appendix I to this document.

[REDACTED] EXPENSES

[REDACTED] expenses represent professional fees, [REDACTED] and other fees incurred in connection with the [REDACTED]. We incurred [REDACTED] expenses of HK\$19.2 million for the year ended December 31, 2021. We expect to incur additional [REDACTED] expenses of approximately [REDACTED] (assuming the [REDACTED] is not exercised and based on the [REDACTED] of [HK\$[REDACTED]] per [REDACTED], being the [mid-point] of the [REDACTED] range). The [REDACTED] expenses we incurred in the Track Record Period and expect to incur would consist of approximately [REDACTED] and approximately [REDACTED] non-[REDACTED]. Among the total [REDACTED] expenses which we expect to incur, approximately [REDACTED] is expected to be charged to profit or loss, and approximately [REDACTED] is expected to be capitalized, which will be deducted from equity upon the [REDACTED]. Our total [REDACTED] expenses are estimated to account for [REDACTED] of the gross proceeds of the [REDACTED] (assuming the [REDACTED] is not exercised and based on the [REDACTED] of [HK\$[REDACTED]] per [REDACTED], being the mid-point of the [REDACTED] range). The [REDACTED] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.