# TIANNENG POWER INTERNATIONAL LIMITED
# 天能動力國際有限公司

00819.HK

(Incorporated in the Cayman Islands with limited liability)


# 2020
## ANNUAL REPORT

# CONTENTS

# CORPORATE INFORMATION

## Executive Directors

Dr. Zhang Tianren *(Chairman)*
Mr. Zhang Aogen
Mr. Shi Borong
Mr. Zhang Kaihong
Mr. Zhou Jianzhong

## Independent Non-Executive Directors

Mr. Huang Dongliang
Mr. Wu Feng
Mr. Zhang Yong

## Audit Committee Members

Mr. Huang Dongliang *(Chairman)*
Mr. Wu Feng
Mr. Zhang Yong

## Remuneration Committee Members

Mr. Wu Feng *(Chairman)*
Mr. Huang Dongliang
Mr. Zhang Aogen

## Nomination Committee Members

Dr. Zhang Tianren *(Chairman)*
Mr. Huang Dongliang
Mr. Wu Feng

## Company Secretary

Ms. Hui Wai Man Shirley

## Auditor

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## Statutory Address

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KY1-1111
Cayman Islands

## Principal Place of Business in Hong Kong

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## Principal Share Registrar

Conyers Trust Company (Cayman) Limited
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KY1-1111,
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## Hong Kong Branch Share Registrar and Transfer Office

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## Listing Information

The Stock Exchange of Hong Kong Limited
Stock Code: 00819

## Company's Website

http://www.tianneng.com.hk

# COMPANY PROFILE


Tianneng Power International Limited ("Tianneng Power" or the "Company"), together with its subsidiaries (the "Group"), is a leading company in the sector of motive batteries for new-energy vehicles in China, founded in 1986. In 2007, Tianneng Power was listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 00819.HK). After more than 30 years of development, it has become a high-tech energy group focusing on the motive batteries for light electric vehicles and integrating the research and development (R&D), production and sale of various types of batteries (including start-stop batteries for automobiles, power storage batteries, motive batteries for special electric vehicles and standby batteries), the recycling of waste batteries and renewable energy, and smart logistics platforms.

"Responsibility, Innovation, Striving and Sharing" are the core values of Tianneng Power, and these core values focus on striving for value, enhancing responsibilities, persistently driving for innovation, constantly generating motivation, boosting core competitiveness, consistently achieving high-quality development, creating values for customers and providing a platform for employees, with the aims to create returns to our shareholders and to give back to our community through concrete actions.

# FINANCIAL HIGHLIGHTS

(Amounts are expressed in thousand of RMB except per share data)

## Consolidated Statement of Comprehensive Income (Note 1)

| | **2020** | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Revenue | **53,525,039** | 40,613,555 | 34,750,848 | 26,903,901 | 21,480,891 |
| Profit/(Loss) before taxation | **2,949,728** | 2,126,041 | 1,530,650 | 1,407,588 | 1,145,083 |
| Taxation | **(445,153)** | (400,091) | (295,474) | (227,356) | (239,561) |
| Profit/(Loss) for the year | **2,504,575** | 1,725,950 | 1,235,176 | 1,180,232 | 905,522 |
| Non-controlling interests | **27,654** | 44,123 | 46,898 | 1,863 | 46,976 |
| Profit/(Loss) attributable to the owners of the Company | **2,476,921** | 1,681,827 | 1,188,278 | 1,178,369 | 858,546 |
| Earnings/(Loss) per share (RMB/share) | | | | | |
| – Basic | **2.20** | 1.49 | 1.05 | 1.05 | 0.76 |
| – Diluted | **2.15** | 1.47 | 1.03 | 1.02 | 0.74 |

## Consolidated Statement of Financial Position (Note 2)

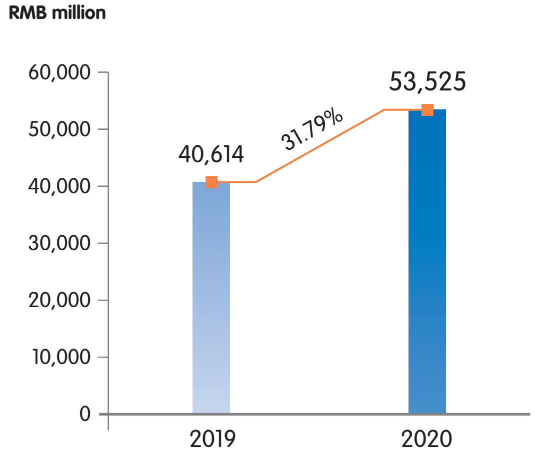
| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 | 2016 |
| Total assets | **23,200,435** | 19,130,327 | 16,856,292 | 13,981,698 | 12,129,825 |
| Total liabilities | **13,741,146** | 11,843,811 | 11,467,094 | 8,918,212 | 8,023,225 |
| Net assets/Total equity | **9,459,289** | 7,286,516 | 5,389,198 | 5,063,486 | 4,106,600 |

Notes:

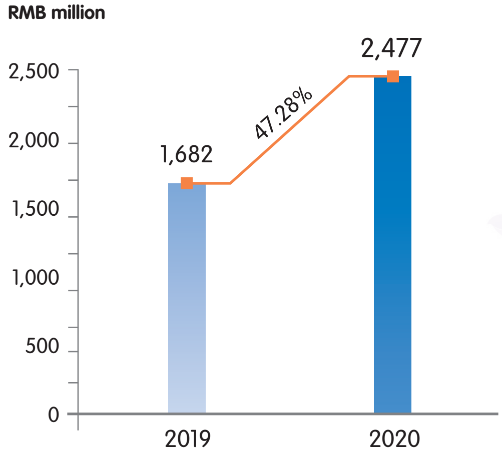
1. The results for the years ended 31 December 2016 and 2017 are set out on page 61 of the Annual Report 2017 of the Company. The results for the years ended 31 December 2018 and 2019 are set out on page 56 of the Annual Report 2019 of the Company. The results for the year ended 31 December 2020 is set out on page 62 of the Annual Report 2020 of the Company. All such information is extracted from the financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRSs").

2. The consolidated statement of financial position as at 31 December 2016 and 2017 are set out on page 62 of the Annual Report 2017 of the Company. The consolidated statement of financial position as at 31 December 2018 and 2019 are set out on page 57 of the Annual Report 2019 of the Company. The results for the year ended 31 December 2020 is set out on page 63 of the Annual Report 2020 of the Company. All such information is extracted from the financial statements prepared under HKFRSs.

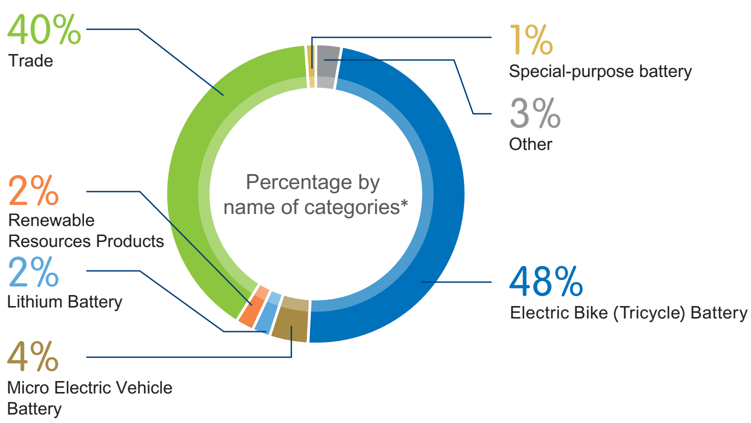
## SALES TURNOVER




## PROFIT ATTRIBUTABLE TO SHAREHOLDERS




## SEGMENT TURNOVER




* Special purpose battery includes battery products mainly for tubular battery, lead-acid starter battery, energy storage battery and standby battery.

# Pursuing Opportunities Strategically Reform and Improvement
## Rising the New Chapter of Green and High-quality Development

Dear shareholders:

2020 is an extraordinary year, and it is also a year for Tianneng Power to draw an upgraded framework of development. In the face of extreme challenges posed by the coronavirus pandemic, as well as the complex global macro environment, the Group has persisted in the overall development tone of "stable and progressive". The Group has been coordinating the pandemic prevention and control while maintaining normal production and operation, and has fully implemented the development strategy of "intelligentization, globalization, platform-building". The Group has committed to pursue great opportunities to open up distinguished ground and has successfully completed the targeted goals and tasks.

## Profit Attributable to Shareholders and Dividend during the Year

For the year ended 31 December 2020, the Company's consolidated turnover was approximately RMB53,525 million, representing an increase of 31.79% as compared to that of the previous year. Profit attributable to owners of the Company was approximately RMB2,477 million, representing an increase of 47.28% as compared to that of the previous year. Basic earnings per share was approximately RMB2.20. The Company proposes to declare a cash dividend of HK40 cents per ordinary share (the "Share(s)") held by the shareholders of Tianneng Power (the "Shareholders"). The proposal shall be subject to the consideration and approval by the Shareholders at the annual general meeting to be held on 18 June 2021.

## 2020: Seizing the Opportunity and Establish Our New Development Pattern

During the year, the Group has actively responded to the ever-changing macro environment and market environment, overcame the challenges posed by the pandemic, seized opportunities and optimized strategies, which further established our business model of high-quality development. The Group places priority on the health and safety of its employees with improving its competitiveness in the industry as its core focus, consolidates the achievements of pandemic prevention and control, and pays close attention to its business objectives. In addition, the Group is committed to the R&D and the use of new technologies, new processes and new materials to fulfill the needs of different markets and customers, and thus the core competitiveness of the corporation has continued to be strengthened.

**Digitalized intelligent manufacturing and promote the high-quality development.** During the year, the Group has continued to enhance its informatization management standard, which has further stimulated efficiency and potential. The Company continues to optimize its intelligent manufacturing system, marketing and brand management system, thus creating a leading comprehensive competitive advantage in the industry.

Intelligent manufacturing is the critical part towards industrial upgrading and transformation. The Group has introduced MES system (i.e. manufacturing execution system) through our intelligent manufacturing technology transformation project. The Group also utilize IoT technology to extend digitalized informationization technology to our production line, and to build a visualized factory. The construction of the MES system is conducive to significantly improving the production efficiency and realizing the full integration of informationization and automation.

The Group has vigorously deepened the digitalization, and through comprehensive optimization of business and supply chain processes, we were able to enhance the transparency and efficiency of our data and information, thus improving the execution efficiency and our ability to rapidly respond during our procurement and production processes, thereby realizing the flexibility, intelligence and automation of our production line. The Group has strived to build a digitalized Tianneng (數字天能) and cloud Tianneng (雲上天能), using data to empower business development, thus further strengthening the new advantages of high-quality development.

**Developing core competitiveness and mastering new technology.** The Group has continued to increase effort on technological R&D, constantly improve its R&D system, focus on key technologies and further build up its core competitiveness. Currently, the Group's subsidiary specialized in lithium-ion battery has cooperated with SAFT Group, a subsidiary of Total S.A., one of the world's leading energy group, to conduct global business in the field of clean energy industries. The Company has actively invested in the R&D and industrialization of lithium-ion battery technology and created various products in the form of cylindrical, prismatic and pouch shell products, and it has mastered a variety of high-performance electrolyte materials and high-safety diaphragm seals application technologies. Together with SAFT Group's developed technological system, the company is able to effectively improve properties such as the energy density, rates and life cycle of lithium-ion battery products.

The Group is aiming to kick start the collaboration and innovation in both the upstream and downstream of the industry chain, as well as maximize resource integration. The Group will also fulfill market demands by accelerating its pace in launching differentiated products and solutions for various consumer groups, further explore greenfield markets, make breakthroughs in competitive technologies in new energy battery and advanced materials, as well as accelerate the innovation of fuel cells. The Group not only adopts on the industrial demands at current stage in the green energy technology field, but also aims at the cutting-edge technology research and development.

**Keen on low-carbon recycling development and boosting growth momentum for new features.** With the steady progress of the Country's goal of "peak carbon dioxide emissions and carbon neutrality", the development of clean energy has entered into an "accelerating" phrase. Tianneng, being as the leading enterprise in the industry, will actively respond to the Country's development strategy of green and low-carbon recycling, and promote energy conservation and emission reduction. The widespread use of light electric vehicle motive batteries and grid-side energy storage power station meets the strategic needs of the balanced development of urban-rural integration, which has made contributions to rural vitalization, livelihood economy, new economy and others. Meanwhile, the tremendous potential of developing the aftermarket of new energy vehicles has made the battery recycling industry became the new focus of the industry. The Group actively assumes its producer's responsibility along with other extended obligations. We have built a battery recycle industry chain that integrates "recycling-smelting-reproduction", which has achieved battery life-cycle management, thus promoting green development along the industry chain with its existing strengths.

The Group has actively practiced the "Clear waters and green mountains are as valuable as mountains of gold and silver theory (綠水青山就是金山銀山理論)" and continued to promote sustainable development. Until now, the Group has a total of six entities that were elected by the Ministry of Industry and Information Technology as Green Factories, and with sixteen products being elected as Green Design Products. While providing low-carbon, low-cost and recyclable travel modes for the mass public, the Company also strongly promotes green economic development, enabling it to enjoy sound social and ecological benefits.

**Speeding up to globalization, and further explore the market.** During the reporting period, the Company's products not only sustained a leading position in China, but also earned a higher brand recognition in the international market which led to the achievement of major progress in global presence. The Company will see such cooperation with global partners as an opportunity to continue carrying on with the technological R&D work in futured battery, to enhance performance and competitiveness of energy products, and to deploy the storage and application of lithium batteries and high-rate batteries around the world, so as to increase the Company's market share and overall strengths. Meanwhile, the Company will establish enhanced the collaborative partnership with high-quality dealers across the country and well-known automaker customers, while the Group will surge its globalized operation in terms of, among others, production, markets, research and development, brand, capital and talents.

## 2021: Becoming Innovation-driven to Further Optimize the Industrial Ecosystem

The Group keeps continuing to emphasize on customer service, create market needs as guide, and use digital empowerment as engine and promote intelligent manufacturing as well as push up transformation and upgrade, the Group is also going to actively intergrate in the entire industry supply chain, leading the cutting-edge technology of the industry, and explore a wider development space for growing in terms of new technologies, new scenarios, and new markets.

The Group will adhere to the sustainable development strategy of "new materials, new structures, new technologies, new sectors", adhere to the concept of technological innovation to drive green development, further broaden the product competitiveness of our series of battery products, actively expand the business in various fields such as renewable resources economy, supply chain logistics, start-stop and energy storage, as well as continue to explore the technologies in areas of fuel cells and new-generation energy, so as to achieve the concept of "product application, strategic reserve and R&D" and become the world's leading green energy solution provider.

## Appreciation

I would like to take this opportunity to extend my sincere gratitude to all staff for their outstanding contribution and to management for their continuous effort. It is the constant effort of each and every member that facilitates the Group to achieve remarkable results. I would also like to express my gratitude to all shareholders, customers and business partners for their long-term support and affirmation.

**Zhang Tianren**
*Chairman*

Hong Kong, 26 March 2021

# MANAGEMENT DISCUSSION AND ANALYSIS

## Operation Review

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

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

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

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



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

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

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

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

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

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

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

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

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

**I. High-end eco-friendly batteries**

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

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

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

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

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

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

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

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

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

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

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

***2. Mini electric vehicle batteries***

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

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

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

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

#### *(1) Start-stop batteries*

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

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

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

#### *(2) Special electric vehicle batteries*

Special electric vehicle batteries are mainly used in freight equipment such as electric forklifts, electric stackers and electric lift trucks. They also serve as the DC power source for equipment such as forklifts, tractors, pallet jacks and underground mining locomotives. They are widely used at places such as airports, stations, ports, vegetable and fruit markets, warehouse of industrial and mining enterprises. The battery products of the same series are also used in other special electric vehicles such as electric tour buses, electric sweepers, electric cleaning vehicles and electric patrol vehicles.

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

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

### (3) *Energy storage batteries and backup batteries*

Energy storage lead batteries refer to batteries used by electric generator to store energy with replacement cycle of about 5 to 8 years, such as wind and solar power. Energy storage batteries are first charged by wind or solar energy, and then the batteries' DC power is changed to AC power through an inverter in order to supply power. Lead batteries are widely used for solar power storage, wind power storage and power station storage. They play a major role in the development of green energy, as they can be made into large-capacity storage systems, have low unit energy cost and system cost, are safe and reliable, have high recycling rates and are adaptable to temperature changes.


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

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

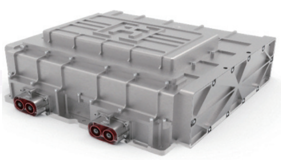
Tianneng Power has a full range of energy storage batteries products that can provide an effective backup power guarantee for global communication, electricity, railway, ships, radio and television broadcast, UPS, digital and consumer products, and other sectors. At the same time, the Company focuses on fulfilling the requirements of energy storage systems, e.g. smooth connection to new energy, emergency power backup, peak and frequency modulation, peak-load shifting and microgrids. Leveraging advanced energy storage technologies, concentrating on high-efficiency energy storage systems and aiming at distributed smart power supply, Tianneng Power is committed to providing "All-in-one" energy storage system solutions and integrated systems to customers, project design and engineering construction.

### II. New energy batteries

The Company's new energy batteries comprise mainly lithium-ion batteries, the production and R&D of next-generation battery products such as fuel cells. The application fields of lithium-ion batteries are mainly divided into two categories: motive field and non-motive field. The application fields for motive category include light electric vehicles, passenger electric vehicles and commercial electric vehicles, while application fields for non-motive category include consumer electronic products and energy storage. As one of the new energy batteries, the lithium-ion battery is an important strategic segment of the Group. During the reporting period, the Group's operating revenue in the new energy battery business was approximately RMB1,059 million, representing a year-on-year increase of 69.03%.

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

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





### III. Renewable new materials

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

In recent years, the Chinese government encourages producers to develop ecological design, establish recycling systems, and promote resource recycling. Meanwhile, relevant laws and regulations promulgated by the Chinese government have also specified in details the recycling and disposal processes of used batteries, which provide strong support for the healthy and orderly development of the recycling industry. At present, China strictly prohibits entities without permits or not in compliance with the requirements of the permits from engaging in operations regarding the collection, storage, utilization and disposal of hazardous wastes.

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

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

In September 2020, the Detailed Rules for the Implementation of the Measures for the Recycling of End-of-Life Vehicles (《報廢機動車回收管理辦法實施細則》), which had been considered and approved by seven ministries including MOFCOM, was officially implemented. Such detailed rules explicitly stated that, the state encourages vehicle manufacturers to engage in end-of-life vehicles (ELV) recycling and dismantling activities. No entity or individual may engage in ELV recycling and dismantling activities if its/his/her qualification has not been recognized. The dismantled motive batteries should be delivered to the motive battery recycling service networks established by new energy vehicle manufacturers, or to the echelon utilization enterprises that meet the relevant national requirements for the management of echelon utilization of motive batteries, or to the enterprises which engage in the comprehensive utilization of waste motive batteries.

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


**IV. Optimizing industrial ecosystem, expanding the global development**

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

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

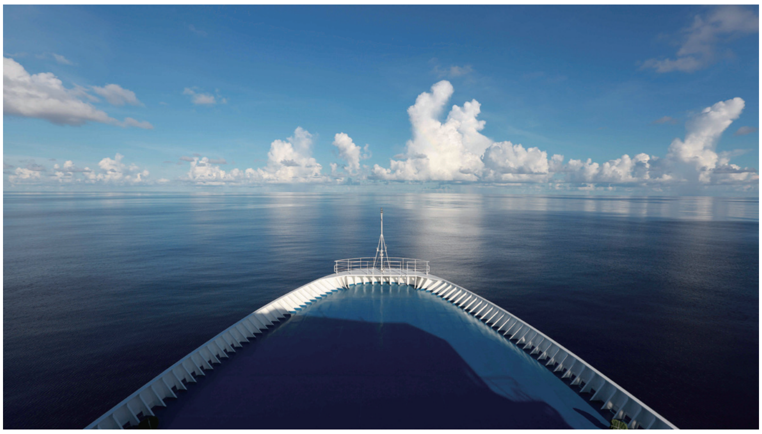
**V. Boosting capital market, upgrading platform motivation**

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

## Prospects

The Company will adhere to the sustainable development strategy of "new materials, new structures, new technologies, new sectors", follow the strategic direction of "artificial intelligence, globalization, platform-building", strive to implement future development of the corporate, as well as fully promote reforms in efficiency and driving forces. The Company intends to focus on the following tasks:

(1) The business development plan of high-end eco-friendly battery: keeping steady and pursuing leading position in the world. The Company will steadily expand the production and sale of lead batteries in the future and expand subdivision fields such as start-stop and smart energy storage on the basis of consolidating the leading position of lead motive battery. Regarding the technology, the Company will speed up the R&D and industrialization of the technology of high-energy lead batteries, such as lead-carbon batteries and pure lead batteries, and gradually develop into a global leading enterprise of lead batteries, a leader of advanced high-energy lead batteries and a maker of international standards.



(2) The business development plan of new energy battery: vigorously develop lithium-ion batteries as a core business and strengthen its presences. The Company intends to continue to enhance its production capacity through the "high-energy power lithium battery and PACK project". With the Company's advantages of established brand and channels in the PRC market, the Company has rapidly seized the lithium-ion motive battery market for light electric vehicles with its mature technology and operating system, and it has gradually expanded its presence in the application fields such as smart energy storage and standby battery. Meanwhile, the Company has actively introduced R&D talents into the field of new battery technology such as fuel cells and established the corresponding mechanism and system, and it has launched several R&D projects for fuel cells, including "Fuel cell metal plate reactors (燃料電池金屬板電堆)" and "Development of high-power graphite plate reactors for commercial vehicles (商用車用大功率石墨板電堆的開發)".

The Company has further enhanced its technical, market and management advantages. These will enable the lithium-ion battery business to become one of the Company's core industries and also fully strengthen the market competitiveness and market share of the Company's lithium-ion battery business in the PRC and worldwide markets.

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

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

## Management Analysis

### Gross profit

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

### Other income

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

### Selling and distribution costs

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

### Administrative expenses

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

### Finance costs

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

### Taxation

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

## Liquidity and Financial Resources

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

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

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

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

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

## Financial Position

### Assets

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

### Liabilities

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

## Analysis by Key Financial KPIs

**Profitability:**

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

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

**Liquidity:**

| | 2020 | 2019 |
|---|---|---|
| Current ratio | **1.26** | 1.15 |
| Quick ratio | **0.90** | 0.82 |

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

**Operating Cycle:**

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

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

**Capital:**

| | **2020** | 2019 |
|---|---|---|
| Net debt ratio | **-29.79%** | -30.77% |
| Interest coverage ratio (Note) | **17.40** | 11.22 |

Note: EBITDA divided by total interest expenses

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

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

**Return of Shareholders:**

| | **2020** | 2019 |
|---|---|---|
| Earning per share (Basic) (RMB) | **2.20** | 1.49 |
| Dividend per share (HK cent/share) | **40(Note)** | 39 |

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

## Capital Expenditure

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

## Capital Commitments

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

## Gearing Ratio

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

## Exposure to Exchange Rate Fluctuation

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

## Contingent Liabilities

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

## Pledge of Assets

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

## Employee and Remuneration Policies

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

Please refer to the paragraphs headed "Emolument Policy" in the "Directors' Report" section of this annual report for the mechanism for determining the emolument payable to the Directors.

## Significant Investments Held

Save for the disclosures in Note 22 and Note 30 to the consolidated financial statements, there were no other significant investments held by the Group as at 31 December 2020. Such investment refers to its increased holdings of those excellent companies in the industry, reflecting its confidence in the prospect of the industry and the increase in corporate interest.

## Material Acquisition and Disposal

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

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

## Purchase, Sale or Redemption of the Company's Listed Shares

Please refer to the paragraph headed "Share Capital and Issue of Securities" as set out in the "Directors' Report" section of this annual report for the purchase, sale and redemption of the Company's shares in this year.

## Principal Risks and Uncertainties

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

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

Please refer to note 4, 5, 6, 29, 43 and 45 to the consolidated financial statements for other risks and uncertainties.

## Future Development

For the Group's future plans and development, please refer to the paragraph headed "Prospects" in the "Management Discussion and Analysis" section of this annual report.

## Closure of Register of Members

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

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

# PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

### Dr. ZHANG Tianren
### 張天任博士

Aged 58, is the chairman (the "Chairman") of the board of directors (the "Board"), president and founder of our Group. Dr. ZHANG is responsible for our overall management and formulation of our business strategies. Dr. ZHANG graduated from Zhejiang University with a master degree of management, and was an honorary doctorate of the International American University (美國加州國際大學) and a visiting professor of the Zhejiang Sci-tech University. Dr. ZHANG has 35 years of experience in technological research and development and management of rechargeable battery industry in China. Dr. ZHANG was the factory manager of Zhejiang Changxing Storage Battery Factory during the period between 1989 and 2002, and has been the chairman and the general manager of Tianneng Battery since 2003. Dr. ZHANG is currently the chairman of Tianneng Share, which is a listed company on the Science and Technology Innovation Board of the Shanghai Stock Exchange.

In addition to his key position in our Group, Dr. ZHANG was also a member of the 12th and 13th National People's Congress, an executive committee member of All-China Federation of Industry and Commerce and vice chairman of Zhejiang Federation of Industry and Commerce. Besides, he was a vice president of China Electrical Equipment Industry Association, vice council chairman of China Battery Industry Association, a member of China EV100, vice president of the National Technology and Equipment Industry Association (全國工商聯科技裝備業商會副會長), president of Battery Industry Association of Zhejiang Province and etc.

Dr. ZHANG was awarded as one of the World Outstanding Chinese at 11th World Outstanding Chinese Award, 1st New Technological Merchants in Zhejiang, 2009 Outstanding Zhejiang Merchants, Top Ten Influential Persons of the PRC Electric Appliance Industry 2009, the Personalities for the Year in the Chinese Market Economy Award 2011, 2012 Bauhinia Cup Outstanding Entrepreneur, the 2012 Ernst & Young Entrepreneur of the Year, 2014 Honorary Zhejiang Merchant and Distinguished Zhejiang Merchant (二零一四年光榮浙商、傑出浙商), 8th Outstanding Entrepreneur of China and 2016 Global New Energy Business Leader. Dr. ZHANG is the younger brother of Mr. ZHANG Aogen.

### Mr. ZHANG Aogen
### 張敖根先生

Aged 63, is our executive Director and vice-president and is responsible for our foreign trade and overseas investment functions. Mr. ZHANG joined Zhejiang Changxing Storage Battery Factory as a deputy factory manager in 1988 and was appointed as a deputy general manager of Tianneng Battery in 2001. Mr. ZHANG attended the seminar of business management for senior president in Zhejiang University from September 2007 to December 2008. Mr. ZHANG is currently a director of Tianneng Share, which is a listed company on the Science and Technology Innovation Board of the Shanghai Stock Exchange. Mr. ZHANG is a senior economist and has experience in sales management, procurement management as well as trade and investment. Mr. ZHANG is also an elder brother of Dr. ZHANG Tianren, chairman of our Board.

**Mr. SHI Borong**
**史伯榮先生**

Aged 67, is our executive Director and vice president. Mr. SHI joined Zhejiang Changxing Storage Battery Factory in 1989 and was promoted as deputy factory manager of Zhejiang Changxing Storage Battery Factory in 1990. He acted as deputy general manager of Tianneng Battery in 2003 and was appointed as the standing deputy general manager of Tianneng Battery in 2010. In September 2013, Mr. SHI was appointed as the chairman of Tianneng Battery (Anhui) Co., Ltd. and Anhui Zhongneng Power Supply Co., Ltd. Mr. SHI attended the seminar of business management for senior president in Zhejiang University from August 2007 to September 2008. Mr. SHI is a senior economist and has 31 years of management experience in rechargeable battery enterprises.

**Mr. ZHANG Kaihong**
**張開紅先生**

Aged 63, is our executive Director, vice president and the chief expert of technical center. Mr. ZHANG joined Zhejiang Changxing Storage Battery Factory in 1988 and acted as deputy factory manager of Zhejiang Changxing Storage Battery Factory in 1992. Mr. ZHANG was also appointed as deputy general manager of Tianneng Battery in 2003 and as general manager of Tianneng Wuhu in 2006. From February 2014, Mr. ZHANG was appointed as a vice-president of national level technology centre of the Group. Mr. ZHANG attended the seminar of business management for senior president in Zhejiang University from August 2007 to September 2008. Mr. ZHANG is a senior engineer with 34 years of experience in research and development, quality control and corporate management of rechargeable battery products.

**Mr. ZHOU Jianzhong**
**周建中先生**

Aged 50, is our executive Director and vice president. Mr. ZHOU is responsible for promoting the development of strategic and emerging industries of our Group as well as assisting the president in operations and management. Mr. ZHOU joined the Group in 1996 and has been the head of market management section of Tianneng Battery, standing deputy general manager of Tianneng Power Supply, standing deputy general manager of Tianneng Battery, standing deputy general manager of Tianneng Energy Technology, general manager of Tianneng Power Energy and general manager of Tianneng Power Supply Material. He was appointed as vice-president of the Group in 2011. Mr. ZHOU attended the seminar of business management for senior president in Zhejiang University from September 2007 to December 2008, and attended the training program for general managers in China Europe International Business School from July 2017 to March 2018. Mr. ZHOU is currently a director of Tianneng Share, which is a listed company on the Science and Technology Innovation Board of the Shanghai Stock Exchange. He is a senior economist with 26 years of experience in the sales and management of rechargeable batteries and corporate management.

## Independent Non-Executive Directors

### Mr. WU Feng
### 吳鋒先生

Aged 70, was appointed as an independent non-executive Director in June 2015. Mr. WU graduated from Taiyuan Institute of Technology (太原工學院) in 1981 with a master degree of engineering. In 2014, Mr. WU was awarded an honorary doctorate degree by the University of Massachusetts Boston in America. Mr. WU is currently the professor, tutor of PHD students and the chief professor of the energy and environmental materials discipline of Beijing Institute of Technology, the academician of Chinese Academy of Engineering, the academician of the International Eurasian Academy of Sciences and vice council chairman of China Battery Industry Association. Mr. WU takes the lead in the field of new secondary battery and related energy resources in China. He took charge of and undertook multiple important and key national researches and special projects. Mr. WU was appointed as the "Chief Scientist of the Special Project of New Secondary Battery of National (973) Key Basic Research Program" by the Ministry of Science and Technology of the PRC for three times in a row. Mr. WU was an independent director of Shenzhen Senior Technology Material Co., Ltd., which is a listed company on Shenzhen Stock Exchange in China, until his resignation in October 2018. Mr. WU was an independent director of EVE Energy Co., Ltd. which is a listed company on Shenzhen Stock Exchange in China, until his resignation in October 2019.

### Mr. HUANG Dongliang
### 黃董良先生

Aged 65, was appointed as an independent non-executive Director in February 2007. Mr. HUANG graduated from Zhongnan Finance University in 1988 with a bachelor degree majored in economics. Mr. HUANG obtained the qualifications of professor, senior accountant and registered tax agent in China. Mr. HUANG is a certified public accountant registered under the Chinese Institute of Certified Public Accountants. Mr. HUANG is currently an independent director of Zhejiang Medicine Co., Ltd. (浙江醫藥股份有限公司) which is a listed company on Shanghai Stock Exchange. Mr. HUANG was an independent director of Lander Sports Development Co., Ltd. (萊茵達體育發展股份有限公司), which is a listed company on Shenzhen Stock Exchange in China, until his retirement in May 2018.

### Mr. ZHANG Yong
### 張湧先生

Aged 45, was appointed as an independent non-executive Director in August 2018. Mr. ZHANG graduated from Fudan University, majoring in international finance and obtained a doctoral degree in economics. Mr. ZHANG is currently a researcher of the Comprehensive Research Institute of Shanghai Free Trade Zone of Fudan University (復旦大學上海自貿區綜合研究院), a part time professor of Nanjing University, a part time tutor for postgraduate students of Shanghai University of Finance and Economics and a visiting professor of Shanghai Lixin University of Accounting and Finance (上海立信會計金融學院).

## Senior Management

### Mr. ZHAO Haimin
### 趙海敏先生

Aged 56, is the vice-president of the Group. Mr. ZHAO is responsible for managing the research centre as well as the information technology commission of the Group. Mr. ZHAO joined us in 2004 as an assistant to the general manager and deputy general manager, etc. of Tianneng Battery Company. Mr. ZHAO was responsible for aftersale services, human resources and sales management of the Group, during which he organized and implemented the first tracking system of laser printing for quality and aftersale informationalization and the introduction of overseas high-end talents under the national "Thousand Talents Program" (國家千人) in respect of the field of new energy. Mr. ZHAO graduated from Bengbu Industrial Technology Institute (蚌埠工業技術學校), majoring in textile. Later, he attended a vocational school and a university for corporate management and was enrolled in the MBA programme in China University of Geosciences in 2009. Mr. ZHAO is a professorate senior engineer. He has extensive knowledge in non-woven fabrics and battery separators. Prior to joining us, Mr. ZHAO was an assistant to the general manager in Huzhou KINGSAFE Group Co., Ltd. (湖州金三發集團) and was responsible for the management of technology, production and sales.

### Ms. WANG Jing
### 王靜女士

Aged 57, is our financial controller. Ms. WANG is responsible for the financial management of the Group. She joined the Group in 2004 as the manager of financial department of Tianneng Battery and was appointed as our financial controller in 2009. She has more than 39 years of financial management experience. Ms. WANG graduated from Hangzhou Institute of Electrical Engineering in Industrial Accounting in July 1988 and attended the advanced seminar of modern management (CFO) in Zhejiang Institute of Finance & Economics from June 2008 to June 2009. Prior to joining us, Ms. WANG worked in Zhejiang Leomax Cement Company Limited (浙江三獅水泥股份有限公司), Huzhou Kingsafe Group (湖州金三發集團) and Huzhou Tianheng United CPA Firm (湖州天衡聯合會計師事務所) and was responsible for the financial management and audit.

### Ms. HUI Wai Man, Shirley
### 許惠敏女士

Aged 53, is the company secretary of the Company (the "Company Secretary"). Ms. HUI is responsible for the company secretarial affairs of the Group. She joined the Group in September 2009. She is a certified public accountant in Hong Kong, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Secretaries and Administrators as well as a fellow member of the Hong Kong Institute of Chartered Secretaries. Also, she is a member of the Society of Chinese Accountants and Managements and the Hong Kong Securities Institute. Ms. HUI has over 31 years of professional experience in public accounting and corporate financing.

# CORPORATE GOVERNANCE REPORT

The Company is committed to ensuring high standards of corporate governance. The Board of Directors (the "Board") believes that good corporate governance practices are increasingly important for maintaining and promoting investors' confidence.

## Corporate Governance Code

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

## Board of Directors

### Composition

As at 31 December 2020, the Board comprised eight members. Dr. Zhang Tianren is an executive Director, the Chairman and CEO of the Company. The executive Directors of the Company are Mr. Zhang Aogen, Mr. Zhang Kaihong, Mr. Shi Borong and Mr. Zhou Jianzhong. In compliance with Rule 3.10 of the Listing Rules, the Company had three independent non-executive Directors comprising one-third of the members of the Board, namely, Mr. Huang Dongliang, Mr. Wu Feng and Mr. Zhang Yong. Mr. Huang Dongliang has appropriate professional accounting experience and expertise.

All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director are disclosed on pages 29 to 31 of this annual report.

Each independent non-executive Director has pursuant to Rule 3.13 of the Listing Rules, confirmed that he is independent of the Company and the Company also considers each of them to be independent.

Apart from Mr. Zhang Aogen being an elder brother of Dr. Zhang Tianren, the Chairman of the Board, there is no other relationship (including financial, business, family or other material relationship) among members of the Board. All of them are able to make free and independent judgment.

## Function

The Board, led by the Chairman, is responsible for formulation and approval of the Group's development, business strategies and policies, approval of business plans, recommendation of dividend and supervision of management. While the management of the Company was given sufficient autonomy by the Board to handle the daily ordinary course of administration and management, when the Board delegates aspects of its management and administration functions to management, it has given clear directions as to the powers of management, in particular, with respect to the circumstances where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

There is a formal schedule of matters specifically reserved to and delegated by the Board. The Board had given clear directions to the management of the Company that certain matters (including the following) must be reserved to the Board:

- Publication of final, interim and quarterly results (if any) of the Company;
- Dividend distribution or other distributions;
- Treasury policy, accounting policy and remuneration policy;
- Review on internal control system and risk management;
- Changes to major corporate structure of the Group or Board composition requiring notification by announcement;
- Notifiable transaction and non-exempted connected transaction/continuing connected transaction;
- Proposed transaction requiring Shareholders' approval;
- Capital re-structuring and issue of new securities;
- Joint-venture with outside party involving capital commitment from the Group of over 5% of the relevant size test of the Company; and
- Financial assistance to the Directors.

In addition, the Board carries the function of reviewing the corporate governance practice and disclosure system as follows:

– Review the Company's policies and practices on corporate governance;

– Review and monitor the training and continuous professional development of Directors and senior management;

– Review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

– Review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

– Review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

The Company held five Board meetings and one general meeting during the year ended 31 December 2020. The attendance of individual Directors at these meetings was as follows:

| **Name** | **Attendance of Board meeting in person** | **Attendance of general meeting in person** |
|---|---|---|
| **Executive Directors** | | |
| Dr. Zhang Tianren | 3/5 | 1/1 |
| Mr. Zhang Aogen | 3/5 | 1/1 |
| Mr. Zhang Kaihong | 5/5 | 1/1 |
| Mr. Shi Borong | 5/5 | 1/1 |
| Mr. Zhou Jianzhong | 3/5 | 1/1 |
| **Independent Non-executive Directors:** | | |
| Mr. Huang Dongliang | 5/5 | 1/1 |
| Mr. Wu Feng | 4/5 | 1/1 |
| Mr. Zhang Yong | 5/5 | 1/1 |

The term of appointment of the independent non-executive Directors is as follows:

| | |
|---|---|
| Mr. Huang Dongliang | 11 June 2020 to 10 June 2021 |
| Mr. Wu Feng | 6 June 2020 to 5 June 2021 |
| Mr. Zhang Yong | 8 August 2018 to 7 August 2021 |

The Company has taken out appropriate insurance coverage for the Directors in respect of legal actions taken against Directors and officers of the Group. The Board reviews the extent of the insurance coverage every year.

**Responsibilities**

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and the Shareholders. Their responsibilities include:

– holding regular Board meetings focusing on business strategy, operational issues and financial performance;

– monitoring the quality, timeliness, relevance and reliability of internal and external reporting;

– monitoring and managing the potential conflicts of interest of management, Board members and Shareholders, including misuse of corporate assets and abuse in connected transactions; and

– ensuring processes are in place to maintain the overall integrity of the Company, including financial statements and internal control systems.

**Board Diversity**

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. According to Rule 13.92 of the Listing Rules, the above Board diversity policy of the Company has been approved by the Board and adopted by the Nomination Committee (as defined below) on 30 August 2013 and amended with effect from 1 January 2019 in compliance with the Listing Rules.

The nomination committee of the Company (the "Nomination Committee") holds meeting at least once a year to review the diversity of the Board, discusses the measurable objectives, including knowledge, appropriate professional qualifications, relevant business background and experience, skills, relevant management expertise and independence of Directors, and gives recommendation to the Board. During the year, the Nomination Committee took the view that the measurable objectives were achieved to a large extent. It paid particular attention to the cultural and educational background, professional and technical experience, and skills of the members of Board and also reviewed the composition of executive Directors and independent non-executive Directors so as to ensure appropriate independence within the Board.

**Directors' Training**

Pursuant to Provision A.6.5 of the Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors have been given relevant guideline materials to ensure that they are apprised of the latest changes in the commercial, legal and regulatory requirements in relation to the Company's businesses, and to refresh their knowledge and skills on the roles, functions and duties of a listed company director.

For the period from 1 January 2020 to 31 December 2020, all Directors provided their records of training to the Company. All Directors, namely Dr. Zhang Tianren, Mr. Zhang Aogen, Mr. Zhang Kaihong, Mr. Shi Borong, Mr. Zhou Jianzhong, Mr. Huang Dongliang, Mr. Wu Feng and Mr. Zhang Yong, participated in continuous professional development mainly by reading various materials regarding directors' responsibilities, prevention of breaching the Listing Rules and disclosure of inside information, etc.

**Company Secretary's Training**

Pursuant to Rule 3.29 of the Listing Rules, the Company Secretary must take no less than 15 hours of relevant professional training in each financial year. The Company Secretary provided her training records to the Company indicating that she had taken more than 15 hours of relevant professional development by means of attending in-house briefings and seminars and reading relevant guideline materials.

**Shareholders' Rights**

Set out below is a summary of certain rights of the Shareholders as required to be disclosed pursuant to the Code.

**Convening an extraordinary general meeting and procedures for putting forward proposals by Shareholders at general meeting**

Each general meeting other than an annual general meeting shall be called an extraordinary general meeting. General meetings may be held in any part of the world as may be determined by the Board.

According to Article No. 58 of the Company's articles of association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the secretary of the Board of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Any requisition to convene an extraordinary general meeting or proposal to be put forward at the general meeting can be addressed to the principal place of business of the Company in Hong Kong marked with the attention of the Company Secretary. The requisitionists must state in their request(s) the objects of the extraordinary general meeting to be convened, and such request must be signed by all the requisitionists. Upon receipt, the Company will verify the requisitionists' particulars and if the request is in order, the Company will convene the extraordinary general meeting in accordance with its articles of association.

## Enquiries from Shareholders to the Board

In order to ensure effective communication between the Shareholders and the Board, the Company adopted the Shareholders communication procedures on 24 February 2012. According to the Shareholders communication procedures, the Board should be responsible for maintaining an on-going dialogue with the Shareholders and in particular, use annual general meetings or other general meetings to communicate with them and encourage their participation. The Chairman of the Board should attend the annual general meeting. He should also invite the independent non-executive Directors, chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, the chairman should invite another member of the committee or failing this, his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

The chairman of the independent Board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent Shareholders' approval.

Shareholders and investors are welcome to visit the Company's website and raise enquiries through our Investor Relations Department and/or our Company's public relations representative (Porda Havas International Finance Communications (Group) Holdings Company Limited) whose contact details are available on the website.

## Remuneration Committee

The Company has established a remuneration committee (the "Remuneration Committee") with specific terms of reference which deal clearly with its duties and responsibilities. As at 31 December 2020, the Remuneration Committee had three members, comprising Mr. Wu Feng (chairman and independent non-executive Director), Mr. Huang Dongliang (independent non-executive Director) and Mr. Zhang Aogen (executive Director).

The terms of reference of the Remuneration Committee follow the guidelines set out in the Code and it is mainly responsible for making recommendations to the Board on the Company's policy for the remuneration of Directors and senior management.

The Remuneration Committee shall meet at least once a year. One committee meeting was held in 2020 to approve and adopt the revised terms of reference of the Remuneration Committee. The attendance of each member is set out as follows:

| Name | Meeting held | Meeting attended in person |
|---|---|---|
| Mr. Huang Dongliang | 1 | 1 |
| Mr. Wu Feng | 1 | 1 |
| Mr. Zhang Aogen | 1 | 1 |

During the Remuneration Committee meeting, proposal for adjustment of remuneration package for Directors and senior management ("the Proposal") was reviewed and approved by the Remuneration Committee and the Proposal was proposed to the Board for approval. The Proposal was approved by the Board.

## Nomination Committee

The Company has established the Nomination Committee with specific terms of reference which deal clearly with its duties and responsibilities. As at 31 December 2020, the Nomination Committee had three members, comprising Dr. Zhang Tianren (the chairman and an executive Director), Mr. Huang Dongliang (independent non-executive Director) and Mr. Wu Feng (independent non-executive Director).

The terms of reference of the Nomination Committee have been determined with reference to the Code. The Nomination Committee is responsible for identifying potential new Directors and recommending to the Board for decision. A Director appointed by the Board is subject to re-election by the Shareholders at the first annual general meeting after his/her appointment. Under the Company's articles of association, at each annual general meeting, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years.

## Appointment and Re-election of Directors

The Board has established and adopted a written nomination policy (the "Nomination Policy") specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company.

### Selection criteria

The Nomination Committee shall, based on those criteria as set out in the Nomination Policy (such as reputation for integrity, qualifications and experience, time commitment and contribution to diversity of the Board according to the Board diversity policy, etc.), identify and recommend the proposed candidate to the Board for approval of an appointment. In the case of re-appointment of Director, the Nomination Committee would take into account factors such as contribution, attendance in meetings and level of participation from the retiring Directors. Where the candidate is appointed for the position of independent non-executive Director, the Nomination Committee will also assess his/her independence with reference to the requirements set out in the Listing Rules.

### Nomination procedures

In appointing a new Director, the Nomination Committee and/or the Board will first call a meeting of the Nomination Committee and invite nominations of candidates from Board members for its consideration prior to the meeting. The Nomination Committee may also put forward candidates who are not nominated by the Board. The Nomination Committee shall then make recommendations for the Board's consideration and approval. The information, including biography, independence (for nomination of non-executive or independent non-executive Directors only), proposed remuneration and other information as required under the applicable laws and regulations will be included in the circular to Shareholders. A Shareholder may also serve to the principal place of business of the Company in Hong Kong a notice in writing for its intention to propose a resolution to elect a certain candidate as Director and a notice by the nominated person of his/her willingness to be elected according to the articles of association, without the Board's recommendation or nomination of the Nomination Committee other than those candidates as set out in the circular. The Board shall then consider and have the final decision on all matters relating to whether to have the recommended candidates to stand for election at a general meeting. The Nomination Committee shall ensure the transparency and fairness of the selection procedure.

New Directors, on appointment, will be given an induction package containing all key legal and Listing Rules' requirements as well as guidelines on the responsibilities and obligations to be observed by a Director. The package will also include the latest published financial reports of the Company and the documentation for the corporate governance practices adopted by the Board. The senior management will subsequently conduct such briefing as is necessary to give the new Directors more detailed information on the Group's operations, business and activities.

According to Clause 87 of the articles of association of the Company, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of Directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Any Director appointed by the Board pursuant to Article 86(3) shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation. The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election.

According to code provision A.4.2 of the Code of the Listing Rules, all Directors appointed to fill a casual vacancy should be subject to election by Shareholders at the first general meeting after appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Potential new Directors are selected on the basis of their qualification, skills and experience which the Nomination Committee considers will make a positive contribution to the performance of the Board.

When making recommendations regarding the appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board, the Nomination Committee shall consider a variety of factors including without limitation the following in assessing the suitability of the proposed candidate:

a. Reputation for integrity;

b. Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;

c. Willingness to devote adequate time to discharge duties as a Board member and other directorships and significant commitments;

d. Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service; and

e. Such other perspectives appropriate to the Company's business.

These factors are for reference only, and are not meant to be exhaustive and decisive. The Nomination Committee may consider other factors so as to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

The Nomination Committee shall meet at least once a year. One committee meeting was held in 2020 to review the composition of the Board, consider the independence of the independent non-executive Directors and the retirement of Directors. The attendance of each member is set out as follows:

| **Name** | **Meeting held** | **Meeting attended in person** |
|---|---|---|
| Dr. Zhang Tianren | 1 | 1 |
| Mr. Huang Dongliang | 1 | 1 |
| Mr. Wu Feng | 1 | 1 |

## Remuneration of the Senior Management and Directors

The remuneration of the senior management of our Group for the year ended 31 December 2020 falls within the following band:

| | **Number of People** |
|---|---|
| Nil to RMB1,000,000 | 4 |

## Model Code for Securities Transactions by Directors

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

## Audit Committee

The Company has established an audit committee (the "Audit Committee") in compliance with Rule 3.21 of the Listing Rules. As at 31 December 2020, the Company's Audit Committee comprised three independent non-executive Directors, namely Mr. Huang Dongliang (chairman), Mr. Wu Feng and Mr. Zhang Yong.

The primary duties of the Audit Committee (inter alia) are to review the financial reporting process and internal control system of the Group, and to make proposals to the Board as to appointment, renewal and resignation of the Company's independent external auditors and the related remuneration and appointment terms. The Audit Committee has reviewed the annual report with the management and the Company's independent external auditors and recommended its adoption by the Board.

The written terms of reference, which describe the authority and duties of the Audit Committee, are regularly reviewed and were updated by the Board to comply with provision C.3.3 of the Code in 2020. The Audit Committee held two meetings during the year ended 31 December 2020. The attendance of each member is set out as follows:

| Name | Meeting held | Meeting attended in person |
|---|---|---|
| Mr. Huang Dongliang | 2 | 2 |
| Mr. Wu Feng | 2 | 2 |
| Mr. Zhang Yong | 2 | 2 |

The Audit Committee oversees the financial reporting process. In this process, the management of the Company is responsible for the preparation of the Group's financial statements including the selection of suitable accounting policies. Independent external auditors are responsible for auditing and attesting to the Group's financial statements and evaluating the Group's system of internal controls. The Audit Committee oversees the respective works of the management and the independent external auditors to monitor the processes and safeguards employed by them. The Audit Committee reports to the Board on its findings after each of its meeting. With effect from 1 January 2020, the Audit Committee oversees the Group's risk management system.

The Audit Committee reviewed and discussed the Group's financial statements for the year ended 31 December 2020 with the management and independent external auditors. The Audit Committee also received reports and met with the independent external auditors to discuss the general scope of their audit work and their assessment of the Group's internal controls.

Based on these reviews, discussions and the report of the independent external auditors, the Audit Committee recommended for the Board's approval of the consolidated financial statements for the six months ended 30 June 2020 and the year ended 31 December 2020, with the Auditors' Report thereon.

The Audit Committee recommended to the Board that the Shareholders be asked to re-appoint ZHONGHUI ANDA CPA Limited ("ZHONGHUI ANDA") as the Group's independent external auditor for the year ending 31 December 2021.

## Independent External Auditor

Deloitte Touche Tohmatsu ("Deloitte") has resigned as the auditor of the Group with effect from 18 December 2019 after taking into account, among other factors, the level of audit fees, the professional risk associated with the audit and its available internal resources in light of current work flows for the Company's financial year ending 31 December 2019.

The Board, with the recommendation from the Audit Committee, has resolved to appoint ZHONGHUI ANDA as the new auditor of the Group with effect from 24 December 2019 to fill the casual vacancy following the resignation of Deloitte and to hold office until the conclusion of the forthcoming annual general meeting of the Company.

Deloitte has confirmed in its letter of resignation dated 18 December 2019 that there were no matters connected to its resignation as the auditor of the Group that need to be brought to the attention of holders of the Company's securities or the Company's creditors. In addition, there were no circumstances connected with its resignation that Deloitte considers should be brought to the attention of members or creditors of the Company's subsidiaries established in Hong Kong.

The Board and the Audit Committee confirmed that there was no disagreement or dispute between the Company and Deloitte except for the 2019 annual audit fee and that there were no unresolved issues concerning the change of the auditor. The Board and the Audit Committee also confirmed that there were no other matters or circumstances connected to the change of the Group's auditor that need to be brought to the attention of holders of the Company's securities or the Company's creditors.

The Audit Committee reviews a letter from the independent external auditor of the Company, ZHONGHUI ANDA, confirming its independence, approves its appointment, discusses the scope of its audit and approves its fees.

ZHONGHUI ANDA has provided annual statutory audit services in respect of the Company's financial statements prepared under HKFRSs for the year ended 31 December 2020. ZHONGHUI ANDA has also reviewed the 2020 unaudited interim financial report of the Company, prepared under HKFRSs.

During the year ended 31 December 2020, the fee paid and payable to ZHONGHUI ANDA in respect of audit and audit related services amounted to approximately RMB1,750,000. In respect of non-audit services, the fees paid and payable to ZHONGHUI ANDA relating to review on interim financial report amounted to approximately RMB580,000.

Save as disclosed above, there were no other changes in auditor of the Company during the past three years.

## Internal Control and Risk Management

The Board is responsible for maintaining an adequate system of internal controls within the Group and reviewing their effectiveness at least annually, covering all material controls, including financial, operational and compliance controls as well as risk management functions. The Board is committed to strengthening the Group's internal control system, and has established a series of internal control policies and procedures. The system of internal controls is designed to facilitate effective and efficient operations, to safeguard assets and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. It is also designed to provide reasonable, but not absolute, assurance that material misstatement or loss can be avoided, and to manage and minimize risks of failure in operation systems.

The Company engaged an international professional management consultancy firm, BT Corporate Governance Limited ("BTCG"), to assess and evaluate the risk and effectiveness of its system of internal controls up to 31 December 2020. The Audit Committee members, together with the senior management, have reviewed, considered and discussed all the findings and recommendations of the internal control review relating to the internal control system that operates within the Group, and the Audit Committee is satisfied that the internal control system of the Group is sound and adequate. Pursuant to the system improvement recommendations made by BTCG, the Group will continue to improve its internal management and control systems.

The Board has also conducted an annual review on the effectiveness of the accounting and financial reporting function of the Company and takes the view that the Company possesses adequate resources and its staff are equipped with suitable qualifications and experience in this regard.

Going forward, the Company will conduct regular reviews of the Company's internal control and risk management systems and their effectiveness to ensure that the interest of the Shareholders is safeguarded.

## Going Concern

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

## Communication with Shareholders

The objective of Shareholder communication is to provide the Shareholders with detailed information about the Company so that they can exercise their rights as the Shareholders in an informed manner. The Company uses a range of communication tools to ensure the Shareholders are kept well informed. These include general meeting, annual report, various notices, announcements and circulars. Procedure for demanding voting by poll has been included in all circulars accompanying notice convening general meeting and the detailed procedures for conducting a poll has been read out by the Chairman at general meeting. The general meeting provides the Shareholders with a useful forum and encourages the Shareholders to attend the general meetings of the Company to raise comments and exchange views with the Board. The Chairman, Directors and independent external auditor, where appropriate, are available to answer questions at the meeting.

## Directors' Responsibility in Preparing the Financial Statements

The Directors acknowledge that it is their responsibilities to prepare the financial statements. The responsibilities of the independent external auditor with respect to financial reporting are set out in the Independent Auditor's Report on page 59 to page 61.

## Constitutional Documents

There are no significant changes in the Company's constitutional documents during the year ended 31 December 2020.

## Formation of Joint Venture Company

As set out in the announcement dated 17 January 2020, on 17 January 2020, Tianneng Holding (an indirect wholly-owned subsidiary of the Company), Tianneng Financial (an indirect wholly-owned subsidiary of the Company) and Prime Leader (a connected person of the Company) entered into the JV Arrangement pursuant to which the parties agreed to establish the JV Company in the PRC. As at 17 January 2020, Prime Leader is wholly-owned by Dr. Zhang. Dr. Zhang is a controlling shareholder and an executive Director of the Company. Accordingly, Prime Leader is an associate of Dr. Zhang and a connected person of the Company pursuant to the Listing Rules.

Tianneng Holding, Tianneng Financial and Prime Leader expect to invest a total of RMB170,000,000 into the JV Company by contributing to its registered capital. Tianneng Holding, Tianneng Financial and Prime Leader have agreed to contribute RMB85,000,000, RMB42,500,000 and RMB42,500,000, respectively, representing 50%, 25% and 25% of the registered capital of the JV Company, respectively. 30% of the capital contributions will be payable by the parties in cash upon establishment of the JV Company and the remaining 70% of the capital contributions will be payable by the parties in cash before 30 December 2020.

The Group focuses primarily on research and development, production and sales of high-end ecofriendly batteries, new energy batteries, green renewable materials and their related products.

In order to increase the profitability and core competitiveness of the Group, Tianneng Holding and Tianchang Holding Co., Ltd.* (天暢控股有限公司) entered into the Tianneng Factoring JV Arrangement on 31 December 2019, pursuant to which the parties agreed to establish another joint venture company, Tianneng Factoring, to provide factoring financing services, management of sales ledgers, accounts receivable collection, provision on non-commercial bad debt guarantees and other related services to its upstream and downstream business partners. For details of the Tianneng Factoring JV Arrangement, please refer to the announcement of the Company dated 31 December 2019.

To offer more comprehensive financial solutions to both upstream and downstream business partners of the Group and to meet the increasing demands of leasing and financial leasing services from such business partners, the Group intends to provide leasing and financial leasing services and other related services through the investment in the JV Company. By entering into the JV Arrangement, the Group can leverage on the financial resources of Prime Leader, thus reducing the risk to the Group of carrying out the new financial leasing business through the JV Company. The investment in the JV Company is in line with the Group's long-term corporate strategy and potential business transformation. The Group believes that the expansion and diversification of its financial solutions to its business partners will further increase the profitability and core competitiveness of the Group and can diversity risks with an aim to improve the returns for the Shareholders.

Please refer to the announcement dated 17 January 2020 for further details.

* for identification purpose only

## Non-exempt Continuing Connected Transactions

## Past Continuing Connected Transactions and Master Purchase Agreement

## Background

As set out in the announcement dated 25 December 2020, Zhejiang Changtong Technology Company Limited* (浙江暢通科技有限公司) ("Zhejiang Changtong") is a company established in the PRC. As Ms. Zhang Mei'e, being the sister of Dr. Zhang Tianren (an executive Director, the Chairman of the Board and a controlling shareholder has the meaning ascribed to it under the Listing Rules of the Company) and Mr. Zhang Aogen (an executive Director), acquired 90% shareholding interest in Zhejiang Changtong in December 2019, Zhejiang Changtong then became a company directly and jointly owned by Ms. Zhang Mei'e and her spouse, Mr. Ni Danqing, as to 90% and 10%, respectively. As Ms. Zhang Mei'e and Mr. Ni Danqing are associates has the meaning ascribed to it under the Listing Rules of Dr. Zhang Tianren and Mr. Zhang Aogen, Zhejiang Changtong has become a connected person of the Company since the completion of the change of business registration in respect of the equity transfer on 30 December 2019 by virtue of Rule 14A.12(2) of the Listing Rules.

## Reasons for the transactions

As Zhejiang Changtong produces certain plastic and glass fiber components, which are the essential materials for the production of the components of lead storage batteries by the Company, purchasing these components from Zhejiang Changtong is part of the Company's ordinary businesses.

## Pricing basis and policy

According to the Listing Rules, the Company and Zhejiang Changtong entered into the 2020 Master Purchase Agreement (the "2020 MPA") on 1 January 2020, pursuant to which the Company will purchase certain plastic and glass fiber components from Zhejiang Changtong from time to time for a period of one year commencing 1 January 2020 and expiring on 31 December 2020, both days inclusive.

In view of the expiry of the 2020 MPA on 31 December 2020, on 25 December 2020, the Company entered into the 2021-23 Master Purchase Agreement (the "2021-23 MPA") with Zhejiang Changtong for the purchase of certain components for its production of lead storage batteries (including plastic and glass fiber components) by member(s) of the Group from Zhejiang Changtong during the 3-year period commencing 1 January 2021 and expiring on 31 December 2023, both days inclusive.

In respect of the pricing of the products purchased from Zhejiang Changtong, agreed prices should be comparable with prevailing market prices; and agreed prices should be no less favourable than those offered to independent third party enterprises of the same industry as the Group at the material time, to the extent that those products are of comparable nature, quality, brand and specification.

* for identification purpose only

## Exemption and annual caps

The aggregate consideration for the transactions under the 2020 MPA was approximately RMB280,000,000.

## Actual transaction values for the year

The total transaction amount under the 2020 MPA entered into with Zhejiang Changtong for the year ended 31 December 2020 was approximately RMB 263,338,000.

The independent non-executive Directors have reviewed the above continuing connected transactions, and confirmed that they have been entered into:

a) in the ordinary and usual course of businesses of the Group;

b) on normal commercial terms; and

c) in accordance with the relevant written agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company was engaged to perform works on the continuing connected transactions set out above in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has provide a letter to the Board confirming that the continuing connected transactions disclosed above:

(1) have been approved by the listed issuer's Board;

(2) were, in all material respects, in accordance with the pricing policies of the Group;

(3) were entered into, in all material respects, in accordance with the relevant agreements governing the transaction; and

(4) have not exceeded the cap.

A copy of the auditor's letter will be provided by the Company to the Hong Kong Stock Exchange.

During the year, the Group has not entered into any other significant connected transaction or continuing connected transaction which should be disclosed pursuant to the requirement under the Listing Rules. The Directors confirmed that the Company has complied with the applicable requirements under Chapter 14A of the Listing Rules with regard to the related party transactions set out in note 48 to the financial statements which were also connected transactions or continuing connected transactions.

# DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2020.

## Principal Activities

The Company acts as an investment holding company and provides corporate management services. The Group is principally engaged in the production of motive batteries in China. The activities of principal subsidiaries are shown in note 51 to the consolidated financial statements.

## Results and Appropriations

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 62. The Directors propose to declare a final dividend of HK40.00 cents per Share (2019: HK39.00 cents).

## Property, Plant and Equipment

During the year, approximately RMB74 million and RMB141 million construction in progress were completed and transferred to buildings and plant and machinery, respectively. During the year, the Group continued to expand its manufacturing facilities. The Group acquired buildings, plant and machinery for approximately RMB679 million. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

## Business Review

Details of the Company's business review are set out in the "Management Discussion and Analysis" section of this annual report, of which this Directors' Report forms part.

## Share Capital and Issue of Securities

Details of the movement during the year in the share capital of the Company are set out in note 40 to the consolidated financial statements.

On 1 June 2020, the Company repurchased 602,000 shares and on 30 June 2020 cancelled 602,000 Shares through purchases on the Hong Kong Stock Exchange. The total amount paid to acquire the shares was approximately HK$5,300,000 (equivalent to approximately RMB4,891,000), whereas the highest price per Share paid was HK$8.88 and the lowest price per share paid was HK$8.68. The repurchases were made for the benefit of the Company and the Shareholders as a whole with a view to enhancing the net assets value per share of the Company and earnings per share.

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

## Distributive Reserves of the Company

As at 31 December 2020, the Company's reserve available for distribution amounted to approximately RMB727 million (2019: RMB780 million). Under the Company Law (Revised) Chapter 25 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to Shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

## Directors

The directors of the Company during the year and up to the date of this report were:

**Executive Directors:**
Dr. Zhang Tianren *(Chairman)*
Mr. Zhang Aogen
Mr. Zhang Kaihong
Mr. Shi Borong
Mr. Zhou Jianzhong

**Independent non-executive Directors:**
Mr. Huang Dongliang
Mr. Wu Feng
Mr. Zhang Yong

The term of appointment of the independent non-executive Directors is as follows:

| | |
|---|---|
| Mr. Huang Dongliang | 11 June 2020 to 10 June 2021 |
| Mr. Wu Feng | 6 June 2020 to 5 June 2021 |
| Mr. Zhang Yong | 8 August 2018 to 7 August 2021 |

In accordance with Article 86 and/or Article 87 (as the case may be) of the Company's articles of association, Mr. Zhang Kaihong, Mr. Shi Borong and Mr. Zhang Yong will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("AGM").

## Directors' Service Contracts

All of the executive Directors and independent non-executive Directors of the Company have entered into services contracts or a letter of appointment with the Company respectively. The term of appointment of Dr. Zhang Tianren, Mr. Zhang Aogen, Mr. Zhang Kaihong, Mr. Shi Borong and Mr. Huang Dongliang, is 3 years from 11 June 2007; the term of appointment of Mr. Zhou Jianzhong is 3 years from 27 March 2015; the term of appointment of Mr. Wu Feng, is 1 year from 6 June 2015; the term of appointment of Mr. Zhang Yong is 3 years from 8 August 2018. The term of appointment of each Director is renewable by mutual agreement of both parties unless terminated by not less than three months' prior notice in writing served by either party. All Directors are subject to retirement by rotation and re-election at the Company's AGM at least once every three years in accordance with Article No. 87 of the Company's articles of association.

Save as disclosed above, no Director proposed for re-election at the AGM has a service contract which is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

## Permitted Indemnity

The Company has taken out appropriate insurance coverage for the Directors in respect of legal actions taken against Directors and officers of the Group. The Board reviews the extent of the insurance coverage every year.

## Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures

As at 31 December 2020, the interests and the short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and the debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

## Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures (Continued)

### (a) Long positions

Ordinary Shares of HK$0.1 each of the Company:

| Name of Director | Capacity | Number of interested Shares held (note 1) | Aggregate approximate percentage of issued share capital of the Company (note 7) |
|---|---|---|---|
| Zhang Tianren | Interest of a controlled corporation (note 2) | 410,355,650 (L) | 36.44% |
| | Interest of spouse (note 2) | 438,000 (L) | 0.04% |
| Zhang Aogen | Interest of a controlled corporation (note 3) | 13,641,022 (L) | 1.21% |
| Zhang Kaihong | Interest of a controlled corporation (note 4) | 18,884,174 (L) | 1.68% |
| Shi Borong | Interest of a controlled corporation (note 5) | 15,686,141 (L) | 1.39% |
| Zhou Jianzhong | Interest of a controlled corporation (note 6) | 2,362,815 (L) | 0.21% |
| Huang Dongliang | Beneficial owner | 240,000 (L) | 0.02% |

Notes:

1. The letters "L" and "S" denote long position and short position in the Shares of the Company respectively.

2. The 410,355,650 Shares of the Company were held by Prime Leader Global Limited, which was wholly-owned by Dr. Zhang Tianren. 438,000 Shares are held by Ms. Yang Yaping and the interest in the remaining 180,000 Shares arises from the share options granted to Ms. Yang Yaping, spouse of Dr. Zhang Tianren.

3. The 13,641,022 Shares of the Company were held by Top Benefits International Limited, which was wholly-owned by Mr. Zhang Aogen.

4. The 18,884,174 Shares of the Company were held by Plenty Gold Holdings Limited, which was wholly-owned by Mr. Zhang Kaihong.

5. The 15,686,141 Shares of the Company were held by Precise Asia Global Limited, which was wholly-owned by Mr. Shi Borong.

6. The 2,362,815 Shares of the Company were held by Centre Wealth Limited, which was wholly-owned by Mr. Zhou Jianzhong.

7. Shareholding percentage is based on 1,126,124,500 issued Shares of the Company as at 31 December 2020.

## Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures (Continued)

### (b) Other interests and short positions

Save as disclosed above, on 16 June 2014, the Company has granted 58,660,000 options to subscribe for Shares in accordance with the Company's share option scheme adopted pursuant to a resolution passed by the then Shareholders on 26 February 2007 (the "Scheme"). Among the options, 2,215,000 options were granted to the associates of the Directors. The names of the grantees who are associates of the Directors were listed in the announcement dated 16 June 2014.

## Retirement Benefits Scheme

Details of the retirement benefits scheme of the Group are set out in note 46 to the consolidated financial statements.

## Directors' Rights to Acquire Shares or Debentures

Save as disclosed on page 55, at no time during the year was the Company, its parent company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company or any of their spouses or children under 18 years of age to acquire benefits by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

## Directors' Interest in Competitors

As at the date of this report, within the knowledge of the Directors, no Director or any of his/her respective associates has any interest in a business which competes or may compete with the business of the Group.

## Directors' Interests in Contracts of Significance

No transaction, arrangement or contract of significance, to which the Company, or any of its subsidiaries was a party and in which a Director or any entity in connection with any Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Management Contracts

No contracts concerning the management and administration of the whole and any substantial part of the business of the Company were entered into or existed during the year.

## Substantial Shareholders

As at 31 December 2020, the register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following persons, other than a Director or chief executive of the Company, had notified the Company of relevant interests and short positions in the Shares or underlying Shares of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO in the issued share capital of the Company:

Ordinary Shares of HK$0.1 each of the Company:

| **Name of Shareholder** | **Capacity** | **Number of Shares held** (Note 1) | **Approximate percentage of issued share capital of the Company** (Note 4) |
|---|---|---|---|
| Zhang Tianren | Interest of a controlled corporation (Note 2) | 410,355,650 (L) | 36.44% |
| | Interest of spouse (Note 2) | 438,000(L) | 0.04% |
| Yang Yaping | Beneficial owner (Note 2) | 438,000 (L) | 0.04% |
| | Interest of spouse (Note 2) | 410,355,650 (L) | 36.44% |
| Prime Leader Global Limited | Beneficial owner | 410,355,650 (L) | 36.44% |
| UBS Group AG | Interest of a controlled corporation (Note 3) | 62,507,702 (L)<br>58,187,718 (S) | 5.55%<br>5.17% |

Notes:

1. The letters "L" and "S" denote long position and short position in the Shares of the Company respectively.

2. The 410,355,650 Shares were held by Prime Leader Global Limited, which was wholly-owned by Dr. Zhang Tianren. 438,000 Shares are held by Ms. Yang Yaping and the interest in the remaining 180,000 Shares arises from the share options granted to Ms. Yang Yaping, spouse of Dr. Zhang Tianren. Ms. Yang Yaping, being the spouse of Dr. Zhang Tianren, is deemed to be interested in the Shares held by Dr. Zhang Tianren.

3. Pursuant to Part XV of the SFO, as at 31 December 2020, UBS Group AG is deemed or taken to be interest in 62,507,702 Shares (long position) and is holding a short position in 58,187,718 Shares of the Company. The details of the shareholding interests of the subsidiaries directly and indirectly controlled by UBS Group AG are set out below:-

| **Name of controlled subsidiary** | **Number of Shares** |
|---|---|
| UBS AG | 61,327,702(L)<br>51,161,889(S) |
| UBS Asset Management Trust Company | 30,000(L) |
| UBS Securities LLC | 1,150,000(L)<br>7,025,829(S) |

4. Shareholding percentage is based on 1,126,124,500 issued Shares of the Company as at 31 December 2020.

## Share Options

The Scheme was adopted pursuant to a resolution passed by the Shareholders on 26 February 2007 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. Details of the Scheme are set out in Note 42 to the financial statements. An ordinary resolution was passed at the annual general meeting of the Company held on 16 May 2014 (the "2014 AGM") relating to the refreshment of scheme mandate limit of the Scheme as set out in the supplemental notice of the 2014 AGM. The Scheme expired on 10 June 2017.

On 30 March 2009, a total of 36,340,000 share options were offered to the eligible participants under the Scheme. 35,310,000 share options were accepted and granted on the same day. On 22 November 2010, a total of 44,720,000 share options were offered and granted to the Directors and eligible participants under the Scheme. After the refreshment of the Scheme, on 16 June 2014, a total of 58,660,000 options were offered and granted to the Directors and eligible participants. The details of the movement of the Company's share options during the reporting period are as follows:

| Name of grantee | Date of grant of the options | Exercise period | Exercise price of the options (HK$) | Closing price of Company's Shares immediately before the date of grant (HK$) | Weighted average closing price of Company's Shares immediately before the date of exercise (HK$) | Number of option outstanding as at 1 January 2020 | Number of options granted during the period | Number of options exercised during the period | Number of options cancelled during the period | Number of options lapsed in accordance with the terms of the options or the Scheme during the period | Number of options outstanding as at 31 December 2020 | Approximate shareholding percentage of the underlying Shares for the options in the share capital of the Company |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Huang Dongliang (Independent non-executive Director) | 16/6/2014 | 16/6/2015 to 15/6/2024 | 2.90 | 2.89 | – | 90,000 | – | – | – | – | 90,000 | 0.01% |
| Other eligible participants | 22/11/2010 | 22/11/2011 to 21/11/2020 | 3.18 | 3.02 | – | 680,000 | – | – | – | (680,000) | – | – |
| | 16/6/2014 | 16/6/2015 to 15/6/2024 | 2.90 | 2.89 | – | 37,066,500 | – | – | – | (1,746,000) | 35,320,500 | 3.14% |
| | | | | | | 37,836,500 | – | – | – | (2,426,000) | 35,410,500 | 3.14% |

On 18 May 2018, the Company by ordinary resolution approved the adoption of a new share option scheme with terms in line with the provisions of Chapter 17 of the Listing Rules. No options have yet been granted under such new share option scheme.

## Independent Non-Executive Directors

Mr. Huang Dongliang has signed a letter of appointment with the Company for an initial period of three years commencing 11 June 2007 and will continue thereafter until terminated by either party giving not less than three months' prior written notice to the other. The letters of appointment with the Company and independent non-executive Directors expired on 10 June 2010. Thereafter, the terms of the independent non-executive Directors have been renewed for a further term of one year in each year. Mr. Wu Feng (appointed on 6 June 2015) have signed the letters of appointment with the Company for an initial period of one year commencing 6 June 2015. Mr. Zhang Yong (appointed on 8 August 2018) has signed the letter of appointment with the Company for an initial period of three years commencing 8 August 2018. By mutual agreement of both parties, the appointment was renewed for a further year commencing 6 June 2017. The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

## Discloseable transactions

### Acquisition of Land Use Rights in Huzhou, Zhejiang Province

As set out in the announcement dated 5 January 2020, on 3 January 2020, ZCTPS, ZTSTRE and ZTCD, wholly-owned subsidiaries of the Company, became the successful bidder for the land use rights in respect of Land A, Land B and Land C, respectively (subject to the signing of the land transfer agreement(s) and payment of the land transfer fees), at the Total Consideration of RMB450 million through the Public Bidding.

The Lands are located in Huzhou, Zhejiang Province, the PRC. The Group intends to develop the Lands as the Tianneng Taihu Science and Technology City, which will comprise headquarters of the Group, business centers, science and technology parks, training and education centers, apartments and other communal facilities.

Please refer to the announcement dated 5 January 2020 for further details.

### Subscriptions of Wealth Management Products

As set out in the announcement dated 14 October 2020, during the period from 1 January 2019 and up to 31 August 2020 (both dates inclusive), the Group subscribed for the Type A Products which comprised low risk principal preservation type wealth management products with either fixed, guaranteed or floating income.

During the period from 1 January 2019 and up to 31 August 2020 (both dates inclusive), the Group subscribed for the Type B Products which comprised low to medium risk non-principal preservation type wealth management products with non-guaranteed floating income.

Please refer to the announcement dated 14 October 2020 for further details.

## Emolument Policy

The Group's emolument policies are as follows:

(i) the amount of remuneration is determined on a case by case basis depending on the Directors or employee's relevant experience, responsibility, workload and the time devoted to the Group;

(ii) non-cash benefits may be provided at the discretion of the Board to the relevant Directors or employees under their remuneration package; and

(iii) the Directors or employees who are eligible participants under the share option scheme may be granted, at the discretion of the Board, options of the share option scheme adopted by the Company, as part of their remuneration package.

## Dividend Policy

The Company has adopted a dividend policy, pursuant to which the Company may distribute profit by way of (i) cash or (ii) shares as may be determined by the Board from time to time. The profit distribution policy of the Company is:

(a) Profit distribution policy of the Company shall achieve continuity, stability and sustainability;

(b) The Company targets a payout ratio with balance on distribution of profits and profits retained for business operation and future development;

(c) Profit distribution of the Company shall take into account:

  (i) the earnings per share of the Company;

  (ii) the reasonable return in investment of the investors and the Shareholders in order to provide incentive for them to continue to support the Company in their long-term development;

  (iii) the financial conditions and business plan of the Company; and

  (iv) the market sentiment and circumstances.

## Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro rata basis to the existing Shareholders.

## Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's five largest customers were less than 15.08% of the Group's turnover. The largest customer accounted for 5.15% of the Group's total turnover. During the year, the Group's five largest suppliers accounted for 13.40% of the Group's total purchase and the largest supplier accounted for 4.01% of the Group's total purchase. At no time during the year did a Director, an associate of a Director or a Shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

## Corporate Governance

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" section of this annual report.

## Environmental Protection

Details of the Company's environmental policy and performance are published in the separate Environmental, Social and Governance Report which will be available at the Company's website and the website of the Stock Exchange not later than 3 months after the publication of this annual report.

## Audit Committee

The Audit Committee was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. As at 31 December 2020, the Audit Committee comprised three independent non-executive Directors, namely, Mr. Huang Dongliang, Mr. Wu Feng and Mr. Zhang Yong.

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

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

## Donations

During the year ended 31 December 2020, the Group made charitable donations of approximately RMB11.6746 million (2019: RMB1.9240 million).

## Sufficiency of Public Float

From information publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, at least 25% of the Company's total issued share capital is held by the public throughout the year ended 31 December 2020 as required under the Listing Rules.

## Auditor

A resolution will be submitted to the AGM to re-appoint ZHONGHUI ANDA as the auditor of the Company.

On behalf of the Board

**Zhang Aogen**
*Director*

Hong Kong, 26 March 2021

# INDEPENDENT AUDITOR'S REPORT

**ZHONGHUI**

**TO THE SHAREHOLDERS OF TIANNENG POWER INTERNATIONAL LIMITED**
天能動力國際有限公司
*(incorporated in the Cayman Islands with limited liability)*

## Opinion

We have audited the consolidated financial statements of Tianneng Power International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 62 to 127, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### 1. Provision

**Refer to Note 36 to the consolidated financial statements**

The Group tested the estimation for provision. This estimation is significant to our audit because the balance of provision of RMB622,309,000 as at 31 December 2020 is material to the consolidated financial statements. In addition, the Group's estimation involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

- Understanding and assessing reasonableness of the methodology adopted by management by comparing with the historical estimates against actual warranty claims, our knowledge in the Group and the industry practices;
- Challenging the key assumptions on the estimated replacement cost and repair cost for returned products and predicted future warranty claim rate made by management; and
- Checking mathematic accuracy of calculation provided by management.

We consider that the Group's estimation for provision is supported by the available evidence.

**2. Inventories**

**Refer to Note 24 to the consolidated financial statements**

The Group tested the amount of inventory for impairment. This impairment test is significant to our audit because the balance of inventory of RMB4,485,900,000 as at 31 December 2020 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

- Assessing the Group's procedures on ordering and holding of inventory;
- Evaluating the Group's impairment assessment;
- Assessing the marketability of the inventory;
- Assessing the ageing of the inventory;
- Assessing the net realisable values of the inventory; and
- Checking subsequent sales and usage of the inventory.

We consider that the Group's impairment test for inventory is supported by the available evidence.

## Other Information

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:
http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/
This description forms part of our auditor's report.

**ZHONGHUI ANDA CPA Limited**
*Certified Public Accountants*
**Sze Lin Tang**
*Audit Engagement Director*
Practising Certificate Number P03614
Hong Kong, 26 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Revenue | 7 | **53,525,039** | 40,613,555 |
| Cost of sales | | **(48,032,934)** | (35,925,798) |
| Gross profit | | **5,492,105** | 4,687,757 |
| Interest revenue | | **137,930** | 93,091 |
| Other income | 9 | **530,491** | 369,165 |
| Other gains and losses | 10 | **36,408** | (6,311) |
| Impairment losses, net of reversal | 11 | **(9,348)** | (32,546) |
| Selling and distribution costs | | **(937,657)** | (896,684) |
| Administrative expenses | | **(791,154)** | (662,969) |
| Research and development costs | | **(1,270,497)** | (1,153,860) |
| Other expenses | | **(25,643)** | (16,313) |
| Share of loss of an associate | | **(776)** | (254) |
| Finance costs | 12 | **(212,131)** | (255,035) |
| **Profit before taxation** | | **2,949,728** | 2,126,041 |
| Taxation | 13 | **(445,153)** | (400,091) |
| **Profit for the year** | 14 | **2,504,575** | 1,725,950 |
| **Other comprehensive income (expense):** | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Fair value changes of equity investment at fair value through other comprehensive income | | **21,513** | (13,321) |
| | | **21,513** | (13,321) |
| *Items that may be reclassified to profit or loss:* | | | |
| Fair value change of debt instruments measured at fair value through other comprehensive income | | **(10,414)** | (1,184) |
| Income tax relating to items that may be reclassified subsequently | | **2,456** | 264 |
| | | **(7,958)** | (920) |
| **Total comprehensive income for the year** | | **2,518,130** | 1,711,709 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | | **2,476,921** | 1,681,827 |
| Non-controlling interests | | **27,654** | 44,123 |
| | | **2,504,575** | 1,725,950 |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **2,490,476** | 1,667,761 |
| Non-controlling interests | | **27,654** | 43,948 |
| | | **2,518,130** | 1,711,709 |
| **Earnings per share** | 17 | | |
| – Basic (RMB) | | **2.20** | 1.49 |
| – Diluted (RMB) | | **2.15** | 1.47 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 18 | **5,455,025** | 4,783,297 |
| Goodwill | 20 | **23,305** | 499 |
| Right-of-use assets | 19 | **793,956** | 593,720 |
| Interest in associates | 21 | **20,670** | 1,446 |
| Equity investments at fair value through other comprehensive income | 22 | **327,101** | 284,036 |
| Deferred tax assets | 23 | **459,597** | 451,754 |
| Deposit paid for acquisition of property, plant and equipment | | **244,377** | 238,360 |
| Loan receivables | 27 | **188,808** | – |
| Long-term receivable | | **13,098** | 12,103 |
| | | **7,525,937** | 6,365,215 |
| **Current assets** | | | |
| Inventories | 24 | **4,485,900** | 3,740,219 |
| Properties for sale under development | 25 | **389,696** | – |
| Trade and other receivables | 26 | **2,349,281** | 1,513,995 |
| Loan receivables | 27 | **34,825** | – |
| Amounts due from related parties | 33 | **13,475** | 3,709 |
| Debt instruments at fair value through other comprehensive income | 28 | **2,069,365** | 1,207,570 |
| Financial assets at fair value through profit or loss | 30 | **572,591** | 854,102 |
| Pledged bank deposit | 31 | **1,303,060** | 1,291,326 |
| Bank balances and cash | 31 | **4,456,305** | 4,154,191 |
| | | **15,674,498** | 12,765,112 |
| **Current liabilities** | | | |
| Bills, trade and other payables | 32 | **7,356,002** | 6,746,172 |
| Amounts due to related parties | 33 | **142,308** | 20,024 |
| Derivative financial instruments | | **–** | 104 |
| Taxation payables | | **403,788** | 205,778 |
| Borrowings – current portion | 34 | **919,123** | 1,260,415 |
| Long-term loan notes – due within one year | 38 | **–** | 398,853 |
| Deferred government grants | 35 | **38,699** | 33,859 |
| Lease liabilities | 39 | **8,689** | 7,076 |
| Provision | 36 | **622,309** | 650,728 |
| Contract liabilities | 37 | **2,941,370** | 1,749,311 |
| | | **12,432,288** | 11,072,320 |
| **Net current assets** | | **3,242,210** | 1,692,792 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **10,768,147** | 8,058,007 |
| **Non-current liabilities** | | | |
| Borrowings – non-current portion | 34 | **718,917** | 252,746 |
| Deferred government grants | 35 | **509,833** | 425,150 |
| Lease liabilities | 39 | **16,274** | 15,497 |
| Deferred tax liabilities | 23 | **63,834** | 78,098 |
| | | **1,308,858** | 771,491 |
| **NET ASSETS** | | **9,459,289** | 7,286,516 |

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 40 | **109,850** | 109,905 |
| Reserves | 41 | **8,636,310** | 6,554,699 |
| **Equity attributable to owners of the Company** | | **8,746,160** | 6,664,604 |
| Non-controlling interests | | **713,129** | 621,912 |
| **TOTAL EQUITY** | | **9,459,289** | 7,286,516 |

The consolidated financial statements on pages 62 to 127 were approved and authorised for issue by the board of directors on 26 March 2021 and are signed on its behalf by:

**ZHANG Tianren**
*Director*

**ZHANG Aogen**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

| | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** RMB'000 | **Share premium** RMB'000 | **Special reserves** RMB'000 (Note 41) | **Capital reserves** RMB'000 (Note 41) | **Share options reserve** RMB'000 | **Investment revaluation reserve** RMB'000 | **Other fair value through other comprehensive income reserve** RMB'000 | **Statutory surplus reserves fund** RMB'000 (Note 41) | **Discretionary surplus reserve fund** RMB'000 (Note 41) | **Accumulated profits** RMB'000 | **Sub-total** RMB'000 | **Non-controlling interests** RMB'000 | **Total** RMB'000 |
| At 1 January 2019 | 109,905 | 783,403 | 10,000 | 26,027 | 41,647 | (120,299) | (3,478) | 642,165 | 143,212 | 3,514,757 | 5,147,339 | 241,859 | 5,389,198 |
| Profit for the year | – | – | – | – | – | – | – | – | – | 1,681,827 | 1,681,827 | 44,123 | 1,725,950 |
| Other comprehensive income for the year | – | – | – | – | – | (13,321) | (745) | – | – | – | (14,066) | (175) | (14,241) |
| Total comprehensive (expense) income for the year | – | – | – | – | – | (13,321) | (745) | – | – | 1,681,827 | 1,667,761 | 43,948 | 1,711,709 |
| Transfer | – | – | – | – | – | – | – | 243,535 | - | (243,535) | - | – | – |
| Capital injection from non-controlling shareholders | – | – | – | 225,443 | – | – | – | – | – | – | 225,443 | 330,999 | 556,442 |
| Equity transaction with non-controlling shareholders | – | – | – | 88 | – | – | – | – | – | – | 88 | 533 | 621 |
| Payment of dividends | – | – | – | – | – | – | – | – | – | (376,251) | (376,251) | – | (376,251) |
| Dividend paid to non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | (2,793) | (2,793) |
| Forfeiture of share options | – | – | – | – | (1,754) | – | – | – | – | 1,754 | – | – | – |
| Recognition of equity-settled share-based payment (note 42) | – | – | – | – | – | – | – | – | – | – | – | 7,590 | 7,590 |
| Forfeiture of equity-settled share-based payment | – | – | – | – | – | – | – | – | – | 224 | 224 | (224) | – |
| At 31 December 2019 | 109,905 | 783,403 | 10,000 | 251,558 | 39,893 | (133,620) | (4,223) | 885,700 | 143,212 | 4,578,776 | 6,664,604 | 621,912 | 7,286,516 |
| At 1 January 2020 | 109,905 | 783,403 | 10,000 | 251,558 | 39,893 | (133,620) | (4,223) | 885,700 | 143,212 | 4,578,776 | 6,664,604 | 621,912 | 7,286,516 |
| Profit for the year | – | – | – | – | – | – | – | – | – | 2,476,921 | 2,476,921 | 27,654 | 2,504,575 |
| Other comprehensive income for the year | – | – | – | – | – | 21,513 | (7,958) | – | – | – | 13,555 | – | 13,555 |
| Total comprehensive income for the year | – | – | – | – | – | 21,513 | (7,958) | – | – | 2,476,921 | 2,490,476 | 27,654 | 2,518,130 |
| Transfer | – | – | – | – | – | – | – | 127,220 | – | (127,220) | – | – | – |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | – | – | – | 37,553 | 37,553 |
| Capital injection from non-controlling shareholders | – | – | – | – | – | – | – | – | – | – | – | 70,738 | 70,738 |
| Payment of dividends | – | – | – | – | – | – | – | – | – | (404,261) | (404,261) | – | (404,261) |
| Dividend paid to non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | (57,580) | (57,580) |
| Share repurchase | (55) | (4,836) | – | – | – | – | – | – | – | – | (4,891) | – | (4,891) |
| Forfeiture of share options | – | – | – | – | (2,909) | – | – | – | – | 2,909 | – | – | – |
| Recognition of equity-settled share-based payment (note 42) | – | – | – | – | – | – | – | – | – | – | – | 13,084 | 13,084 |
| Forfeiture of equity-settled share-based payment | – | – | – | – | – | – | – | – | – | 232 | 232 | (232) | – |
| At 31 December 2020 | 109,850 | 778,567 | 10,000 | 251,558 | 36,984 | (112,107) | (12,181) | 1,012,920 | 143,212 | 6,527,357 | 8,746,160 | 713,129 | 9,459,289 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before taxation | | |
| Adjustments for: | **2,949,728** | 2,126,041 |
| Interest revenue | **(137,930)** | (93,091) |
| Gains on structured bank deposits | **(54,214)** | (76,127) |
| Amortisation of government grants | **(39,760)** | (32,357) |
| Dividend income | **(10,007)** | (13,705) |
| Finance costs | **212,131** | 255,035 |
| Share of loss of an associate | **776** | 254 |
| Depreciation of property, plant and equipment | **510,228** | 460,413 |
| Depreciation of right-of-use assets | **19,011** | 20,728 |
| Write-off/loss of property, plant and equipment | **51,234** | 84,814 |
| Recognition of allowance for bad and doubtful debts, net of reversal | **8,224** | 32,546 |
| Recognition of allowance for inventories | **4,831** | 23,082 |
| Recognition of allowance for loan receivables | **1,124** | – |
| Share-based payments | **13,084** | 7,590 |
| Fair value changes of held-for-trading investments | **(32,664)** | (12,735) |
| Fair value changes of derivative financial instruments | **26,300** | 2,304 |
| Operating cash flows before movements in working capital | **3,522,096** | 2,784,792 |
| Increase in inventories | **(743,768)** | (790,738) |
| Increase in properties for sale under development | **(389,696)** | – |
| Increase in bills, trade and other receivables | **(792,152)** | (300,303) |
| Increase in debt instruments at fair value through other comprehensive income | **(872,209)** | (239,191) |
| Increase in bills, trade and other payables | **572,371** | 918,391 |
| Increase in contract liabilities | **1,192,059** | 102,088 |
| Increase in provisions | **(28,419)** | 19,274 |
| Decrease in amount due to related parties with trade nature | **121,339** | (5,526) |
| Decrease in amount due from related parties with trade nature | **(9,766)** | 5,192 |
| **Cash generated from operations** | **2,571,855** | 2,493,979 |
| Interest paid | **(202,941)** | (246,002) |
| Income tax paid | **(267,134)** | (509,463) |
| **Net cash generated from operating activities** | **2,101,780** | 1,738,514 |
| **Cash flows from investing activities** | | |
| Interest received | **119,483** | 92,816 |
| Dividend income from equity investments at fair value through other comprehensive income | **10,007** | 7,473 |
| Investment in an associate | **(20,000)** | (1,700) |
| Proceeds on disposal of property, plant and equipment | **31,546** | 19,418 |
| Purchase of property, plant and equipment | **(957,470)** | (941,966) |
| Purchases of financial assets at FVTPL | **(5,672)** | (4,185) |
| Purchases of equity instruments at FVTOCI | **(21,210)** | – |
| Payment for derivative financial instruments | **(800,613)** | (14,724) |
| Proceeds from derivative financial instruments | **772,556** | 12,643 |
| Increase of pledged bank deposit | **(11,734)** | (222,877) |
| Decrease in structured bank deposit | **375,714** | 345,907 |
| Asset-related government grants received | **123,760** | 103,388 |
| Deposit for acquisition of property, plant and equipment | **(185,191)** | (216,341) |
| Acquisition of right-of-use assets | **(161,079)** | (63,528) |
| Advance to independent third parties for loan receivable | **(381,436)** | – |
| Receipt of repayment for loan receivables | **174,131** | – |
| Net cash outflow relating to acquisition of subsidiaries accounted for as assets acquisition | **(73,490)** | – |
| Net cash outflow relating to acquisition of subsidiaries | **(88,421)** | – |
| **Net cash used in investing activities** | **(1,099,119)** | (883,676) |

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

| | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|
| **Cash flows from financing activities** | | |
| New bank borrowings raised | **5,502,683** | 5,356,232 |
| Repayment of borrowings | **(5,397,489)** | (5,771,375) |
| Repayments of loan notes | **(400,000)** | (380,000) |
| Serurity deposit for borrowings | **–** | (15,000) |
| Dividend paid | **(404,261)** | (376,251) |
| Dividend paid to non-controlling interests | **(57,580)** | (2,793) |
| Capital contribution from a non-controlling shareholders | **70,738** | 556,442 |
| Equity transaction with non-controlling shareholders | **–** | 621 |
| Considerations received for subscribing restricted shares of a subsidiary | **–** | 107,400 |
| Repayment of restricted shares of a subsidiary | **–** | (2,454) |
| Share repurchase | **(4,891)** | – |
| Repayment of lease liabilities | **(9,747)** | (7,220) |
| **Net cash used in financing activities** | **(700,547)** | (534,398) |
| **Net increase in cash and cash equivalents** | **302,114** | 320,440 |
| Cash and cash equivalents at the beginning of the year | **4,154,191** | 3,833,751 |
| **Cash and cash equivalents at the end of the year** | **4,456,305** | 4,154,191 |
| **Analysis of cash and cash equivalents** | | |
| Bank and cash balances | **4,456,305** | 4,154,191 |

## 1. General Information

Tianneng Power International Limited (the "Company") was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 16 November 2004 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") with effect from 11 June 2007. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporation Information" section of the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 51 to the consolidated financial statements. The Company and its subsidiaries are collectively referred to as the "Group".

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

## 2. Adoption of New and Revised Hong Kong Financial Reporting Standards

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

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

## 3. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the equity investments at fair value through other comprehensive income, debt instruments at fair value through other comprehensive income, financial assets at fair value through profit or loss and derivative financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 4 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

# 3. Significant Accounting Policies (Continued)

## Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

## Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

## 3. Significant Accounting Policies (Continued)

### Business combination and goodwill (Continued)

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, equity investments at fair value through other comprehensive income), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

### Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

# 3. Significant Accounting Policies (Continued)

### Associates (Continued)

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's presentation currency and functional currency.

#### (b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

#### (c) Translation on consolidation

The results and financial position of all the group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the translation reserve.

# 3. Significant Accounting Policies (Continued)

## Foreign currency translation (Continued)

### (c) Translation on consolidation (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## Property, plant and equipment

Buildings comprise mainly factories and offices. Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss.

Subsequent costs are included in the asset's carrying amount or recognised 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 recognised 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 costs less their residual values over the estimated useful lives or annual rate on a straight-line basis. The principal annual rates are as follows:

| | |
|---|---|
| Buildings | 4.8% |
| Plant and machinery | 9.5% |
| Motor vehicles | 19% |
| Furniture, fixtures and equipment | 9.5%-19% |

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

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 recognised in profit or loss.

## Leases

## The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

| | |
|---|---|
| Land and buildings | 1.52% – 6.06% |
| Land use rights | 1.43% – 2.08% |

## 3. Significant Accounting Policies (Continued)

### Leases (Continued)

### The Group as lessee (Continued)

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$5,000.

### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

– the technical feasibility of completing the intangible asset so that it will be available for use or sale;

– the intention to complete the intangible asset and use or sell it;

– the ability to use or sell the intangible asset;

– how the intangible asset will generate probable future economic benefits;

– the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

– the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

### Properties for sale under development

Properties for sale under development are stated at the lower of cost and net realisable value. Costs include acquisition costs, prepaid land lease payments, construction costs, borrowing costs capitalised and other direct costs attributable to such properties. Net realisable value is determined by reference to sale proceeds received after the reporting period less selling expenses, or by estimates based on prevailing market condition. On completion, the properties are reclassified to properties held for sale at the then carrying amount.

# 3. Significant Accounting Policies (Continued)

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable 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.

### Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

### Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss (the "Financial assets at FVTPL). Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified under the following categories:

– Financial assets at amortised cost;

– Debt instruments at fair value through other comprehensive income (the "Debt instruments at FVTOCI");

– Equity investments at fair value through other comprehensive income (the "Equity investments at FVTOCI") and

– Financial assets at FVTPL.

## 3. Significant Accounting Policies (Continued)

### Financial assets (Continued)

#### (i) Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

– the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

– the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

#### (ii) Debt instruments at FVTOCI

Debt instruments are classified under this category if they satisfy both of the following conditions:

– the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling assets; and

– the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at fair value. Interest income calculated using the effective interest method is recognised in profit or loss.

The assets are treated as monetary items. A foreign currency asset is treated as an asset measured at amortised cost in the foreign currency. Exchange differences on the amortised cost are recognised in profit or loss.

Other gains or losses are recognised in other comprehensive income and accumulated in the debt investment revaluation reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the debt investment revaluation reserve are reclassified to profit or loss.

The loss allowance for expected credit losses is recognised in other comprehensive income and does not reduce the carrying amount of the assets.

# 3. Significant Accounting Policies (Continued)

## Financial assets (Continued)

### (iii) Equity investments at FVTOCI

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity investments that are not held for trading as at fair value through other comprehensive income.

Equity investments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair values recognised in other comprehensive income and accumulated in the investment revaluation reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the investment revaluation reserve are not reclassified to profit or loss.

Dividends on these investments are recognised in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investment.

### (iv) Financial assets at FVTPL

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of debt instruments at FVTOCI unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition.

Financial assets at FVTPL are subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss. The fair value gains or losses recognised in profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in profit or loss.

## Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost and debt instruments at FVTOCI. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

## Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

## 3. Significant Accounting Policies (Continued)

### Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

### Borrowings and long-term loan note

Borrowings and long-term loan note are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings and long-term loan note are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### Derivative financial instruments

Derivatives (including contingent considerations under business combinations) are initially recognised and subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss.

### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

– the customer simultaneously receives and consumes the benefits provided by the Group's performance;

– the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

– the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

# 3. Significant Accounting Policies (Continued)

## Other revenue

Interest income is recognised using the effective interest method.

Dividend income is recognised when the shareholders' rights to receive payment are established.

## Employee benefits

### (a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the at the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

### (b) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged in profit or loss represents contributions payable by the Group to the funds.

### (c) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

## Share-based payments

The Group issues equity-settled share-based payments to certain directors and employees.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

## Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## 3. Significant Accounting Policies (Continued)

### Government grants

A government grant is recognised 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 recognised 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 recognised 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 recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

### Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

# 3. Significant Accounting Policies (Continued)

## Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is related to the Group (reporting entity) if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

# 3. Significant Accounting Policies (Continued)

### Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investments, investories, tax recoverable and receivables, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

### Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

# 4. Critical Judgements and Key Estimates

## Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

### (a) Warranty provision

The Group provides a warranty up to fifteen months on all lead-acid motive battery products. For lead-acid motive battery products found to be defective under the terms of the warranty, the Group undertakes to replace the battery free of charge for products returned within eight months from the date of sale, and to repair the battery free of charge for products returned between the ninth month and the fifteenth month after the date of sale. Estimated costs related to product warranty are accrued at the time of sale and are based upon various factors including the historical actual warranty claims, the estimated replacement cost and repair cost for returned products, predicted future warranty claim rate with reference to prior experiences and volumes of products sold. The amount of warranty is adjusted as required to reflect the actual costs incurred when information becomes available. In case where the actual future warranty expenses are less or more than expected, a material reversal or further recognition of warranty provision may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

### (b) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale.

The Group does not have a general provision policy on inventory based on aging given the nature of inventories that are not subject to frequent wear and tear and frequent technological changes. However, operational procedures have been in place to monitor this risk as majority of working capital is devoted to inventories. Procedurewise, the sales and the marketing managers review the inventory aging listing on a periodical basis to identify any aged inventories. The carrying value of the aged inventory items is then compared to the respective net realisable value in order to ascertain whether allowance is required to be made for any obsolete and slow-moving items.

In addition, physical count on all inventories are carried out on a periodical basis in order to determine whether allowance need to be made in respect of any obsolete and defective inventories identified. In this regard, the directors of the Company are satisfied that valuation risk is minimal and adequate allowance for obsolete and slow-moving inventories has been made in the consolidated financial statements. The management estimates the net realisable value for finished goods based primarily on the latest market prices and current market conditions. The net realisable value for finished goods will be affected if the actual market prices and market conditions are less than expected.

### (c) Provision of expected credit losses for trade receivables

The Group uses provision matrix to calculate expected credit losses for certain trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

# 4. Critical Judgements and Key Estimates (Continued)

## Key sources of estimation uncertainty (Continued)

### (d) Fair value of investment

In the absence of quoted market prices in an active market, the directors estimate the fair value of the Group's Debt instruments at FVTOCI and financial assets at FVTPL, details of which are set out in note 6 to the consolidated financial statements.

### (e) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

# 5. Financial Risk Management

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### (a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities which is RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

### (b) Price risk

The Group is exposed to equity price risk through its investments in listed equity securities measured at FVTPL and FVTOCI. For equity securities measured at FVTPL quoted in the Stock Exchange, the management manages this exposure by maintaining a portfolio of investments with different risks. In addition, the Group also invested in certain quoted equity securities for investees operating in battery industry sector for long term strategic purposes which had been designed as FVTOCI. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise. The Group mitigates its price risk by performing detailed due diligence analysis of the investment.

# 5. Financial Risk Management (Continued)

## (b) Price risk (Continued)

### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. For sensitivity analysis purpose, the sensitivity rate is 10% (2019: 10%) in current year as a result of the volatile financial market.

If the prices of the respective equity investments had been 10% (2019: 10%) higher/lower:

- post-tax profit for the year ended 31 December 2020 would increase/decrease by RMB7,856,000 (2019: RMB4,025,000) as a result of the changes in fair value of financial assets at FVTPL; and

- investment revaluation reserve would increase/decrease by RMB30,555,000 (2019: RMB28,404,000) for the Group as a result of the changes in fair value of equity investments at FVTOCI.

## (c) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to debt instruments at FVTOCI, pledged bank deposits, bank balances, borrowings and long-term loan note (see notes 31, 34 and 38 for details of these pledged bank deposits, bank balances, borrowings and long-term loan note, respectively). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 31 for details), variable-rate bank borrowings (see note 34 for details). The directors of the Company monitor interest rate exposures and will consider hedging significant interest rate risk should the need arise.

In the opinion of the management of the Group, the expected change in interest rate will not have significant impact on the interest income on bank balances and interest expenses on bank and other borrowings, hence sensitivity analysis is not presented.

## (d) Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group is arising from the amount of each class of financial assets as disclosed in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

### Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade balances based on provision matrix for other debtors. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

# 5. Financial Risk Management (Continued)

## (d) Credit risk (Continued)

### Trade receivables arising from contracts with customers (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Trade receivables and trade-related amounts due from related parties | Other financial assets |
|---|---|---|---|
| Grade A | The counterparty has a low risk of default and does not have any pastdue amounts or the counterparty is a new customer as a large producer with good reputation and credit rating based on internal assessment | Lifetime ECL – not credit-impaired | 12-month ECL |
| Grade B | Debtor frequently repays after due dates but usually settle after due date or the counterparty is a new customer other than those grouped in grade A counterparties | Lifetime ECL – not credit-impaired | 12-month ECL |
| Grade C | The counterparty delays its payment after due dates with no settlement yet or there have been significant increases in credit risk since initial recognition through information developed internally or external resources | Lifetime ECL – not credit-impaired | Lifetime ECL – not credit-impaired |
| Grade D | The counterparty has been charged by the Group or could not settle the receivables according to the contracts or there is other evidence indicating the asset is credit-impaired | Lifetime ECL – credit-impaired | Lifetime ECL – credit-impaired |
| Grade E | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off | Amount is written off |

# 5. Financial Risk Management (Continued)

## (d) Credit risk (Continued)

### Trade receivables arising from contracts with customers (Continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

| Financial assets | Internal credit rating | Gross carrying amount 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Trade receivables | Note i | | |
| – Lifetime ECL (provision matrix) | | **962,465** | 658,584 |
| – Credit impaired | | **182,155** | 202,506 |
| | | **1,144,620** | 861,090 |
| Other receivables | Note ii | | |
| – 12-month ECL | | **156,753** | 129,420 |
| – Lifetime ECL (not credit impaired) | | **37,823** | 16,085 |
| – Credit impaired | | **35,212** | 37,790 |
| | | **229,788** | 183,295 |
| Loan receivables | Note ii | | |
| – 12-month ECL | | **224,757** | – |
| Trade-related amounts due from related parties | Note i | | |
| – Lifetime ECL (not credit impaired) | | **13,475** | 3,709 |
| Debt instruments at FVTOCI | Note iii | | |
| – 12-month ECL | | **2,069,365** | 1,207,570 |
| Pledged bank deposits | Note iii | | |
| – 12-month ECL | | **1,303,060** | 1,291,326 |
| Bank balances | Note iii | | |
| – 12-month ECL | | **4,456,305** | 4,154,191 |
| | | **9,441,370** | 7,701,181 |

Notes:

(i) For trade receivables and trade-related amounts due from related parties, the Group has applied the simplified approach in accordance with HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these receivables by using a provision matrix, grouped by internal credit rating.

(ii) For other and loan receivables, the Group has applied 12-month ECL assessment in accordance with HKFRS 9 to measure the loss allowance except for those balances that the management considered the credit risk has increased significantly and/or those balances that are considered to be credit impaired. The ECL on other receivables are assessed individually based on historical settlement records, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the end of reporting period.

# 5. Financial Risk Management (Continued)

## (d) Credit risk (Continued)

### Trade receivables arising from contracts with customers (Continued)

Notes: (Continued)

(iii) For bank balances and pledged bank deposits, the management considered the credit risk has not increased significantly since the initial recognition. According to the historical observed default rates of these debtors, the average loss rate is immaterial.

For debt instruments at FVTOCI, since they are all issued by reputable banks of good credit quality, the management of the Group considered the credit risk of these bank issued bills is insignificant and no impairment was provided on these receivables at the year end.

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk and loss allowance for trade receivables which are assessed collectively based on provision matrix within lifetime ECL (not credit impaired). As at 31 December 2020, the credit impaired debtors with gross carrying amounts of RMB182,155,000 (2019: RMB202,506,000) were assessed individually.

| Internal credit rating | Average loss rate | Gross carrying amount RMB'000 | Impairment loss allowance RMB'000 |
|---|---|---|---|
| As at 31 December 2020 | | | |
| Grade A | 0.5% | **157,773** | **789** |
| Grade B | 5% | **736,853** | **36,843** |
| Grade C | 20% | **67,839** | **13,568** |
| | | **962,465** | **51,200** |
| As at 31 December 2019 | | | |
| Grade A | 0.5% | 157,068 | 785 |
| Grade B | 5% | 469,018 | 23,451 |
| Grade C | 20% | 32,498 | 6,500 |
| | | 658,584 | 30,736 |

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2020, the Group provided RMB51,200,000 (2019: RMB30,736,000) impairment allowance for trade receivables, based on the provision matrix. Impairment allowance of RMB176,172,000 (2019: RMB188,485,000) were made on credit impaired debtors, which have been charged by the Group or have been included in the name list of entities, which could not pay back money according to their contracts, published on the website of the Supreme People's Court of the PRC.

# 5. Financial Risk Management (Continued)

## (d) Credit risk (Continued)

### Trade receivables arising from contracts with customers (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

| | Lifetime ECL (not credit impaired) RMB'000 | Lifetime ECL (credit impaired) RMB'000 | Total RMB'000 |
|---|---|---|---|
| As at 1 January 2019 | 19,734 | 185,766 | 205,500 |
| – Impairment losses recognised, net of reversal | 11,002 | 2,719 | 13,721 |
| As at 31 December 2019 and 1 January 2020 | 30,736 | 188,485 | 219,221 |
| – Impairment losses recognised, net of reversal | 20,487 | (11,943) | 8,544 |
| – Written off | (23) | (370) | (393) |
| As at 31 December 2020 | 51,200 | 176,172 | 227,372 |

The following tables show reconciliation of loss allowances that has been recognised for other receivables.

| | Lifetime ECL (not credit impaired) RMB'000 | Lifetime ECL (credit impaired) RMB'000 | Total RMB'000 |
|---|---|---|---|
| As at 1 January 2019 | 4,361 | 14,849 | 19,210 |
| – Impairment losses recognised | (4,116) | 22,941 | 18,825 |
| As at 31 December 2019 and 1 January 2020 | 245 | 37,790 | 38,035 |
| – Impairment losses recognised, net of reversal | 232 | (552) | (320) |
| – Written off | (1) | (2,025) | (2,026) |
| As at 31 December 2020 | 476 | 35,213 | 35,689 |

# 5. Financial Risk Management (Continued)

## (e) Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank and other borrowings. In addition, banking facilities have been put in place for contingency purposes.

The following table details the remaining contractual maturity for the Group's financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

| **31 December 2020** | **Less than 1 year RMB'000** | **Between 1 and 2 years RMB'000** | **Between 2 and 5 years RMB'000** | **Over 5 years RMB'000** | **Total RMB'000** |
|---|---|---|---|---|---|
| Bills, trade and other payables | **7,328,643** | **–** | **–** | **–** | **7,328,643** |
| Amounts due to related parties | **142,308** | **–** | **–** | **–** | **142,308** |
| Borrowings | **971,770** | **341,695** | **392,635** | **19,600** | **1,725,700** |
| | **8,442,721** | **341,695** | **392,635** | **19,600** | **9,196,651** |

| 31 December 2019 | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Bills, trade and other payables | 6,722,843 | – | – | – | 6,722,843 |
| Amounts due to related parties | 20,024 | – | – | – | 20,024 |
| Borrowings | 1,296,521 | 184,811 | 80,172 | – | 1,561,504 |
| Long-term loan notes | 431,633 | – | – | – | 431,633 |
| Derivative financial instruments | 104 | – | – | – | 104 |
| | 8,471,125 | 184,811 | 80,172 | – | 8,736,108 |

## (f) Categories of financial instruments

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Financial assets: | | |
| Financial assets at FVTPL: | | |
| Mandatorily measured | **572,591** | 854,102 |
| Equity investments at FVTOCI | **327,101** | 284,036 |
| Debt instruments at FVTOCI | **2,069,365** | 1,207,570 |
| Financial assets at amortised cost (including cash and cash equivalents) | **7,115,864** | 6,223,721 |
| Financial liabilities: | | |
| Financial liabilities at fair value through profit or loss: | | |
| Derivative financial instruments | **–** | 104 |
| Financial liabilities at amortised cost | **9,108,990** | 8,654,881 |

## (g) Fair values

The carrying amounts of the Group's financial assets and financial liabilities at amortised cost as reflected in the consolidated statement of financial position approximate their respective fair values.

## 6. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

**(a)** Disclosures of level in fair value hierarchy at 31 December 2020:

| | **Fair value measurements using** | | | |
|---|---|---|---|---|
| | **Level 1: RMB'000** | **Level 2: RMB'000** | **Level 3: RMB'000** | **Total RMB'000** |
| **Recurring fair value measurements:** | | | | |
| Assets: | | | | |
| Equity investments at FVTOCI | **305,549** | **–** | **–** | **305,549** |
| Debt instruments at FVTOCI | **–** | **2,069,365** | **–** | **2,069,365** |
| Financial assets at FVTPL | **87,806** | **1,685** | **483,100** | **572,591** |
| **Total recurring fair value measurements** | **393,355** | **2,071,050** | **483,100** | **2,947,505** |

Disclosures of level in fair value hierarchy at 31 December 2019:

| | Fair value measurements using | | | |
|---|---|---|---|---|
| | Level 1: RMB'000 | Level 2: RMB'000 | Level 3: RMB'000 | Total RMB'000 |
| **Recurring fair value measurements:** | | | | |
| Assets: | | | | |
| Equity investments at FVTOCI | 284,036 | – | – | 284,036 |
| Debt instruments at FVTOCI | – | 1,207,570 | – | 1,207,570 |
| Financial assets at FVTPL | 49,470 | 32 | 804,600 | 854,102 |
| Liabilities: | | | | |
| Derivative financial instruments | – | (104) | – | (104) |
| **Total recurring fair value measurements** | 333,506 | 1,207,498 | 804,600 | 2,345,604 |

# 6. Fair Value Measurements (Continued)

**(b)** Reconciliation of assets measured at fair value based on level 3:

| | Financial assets at FVTPL RMB'000 |
|---|---|
| At 1 January 2019 | 1,074,380 |
| Addition | 9,310,730 |
| Settlement | (9,656,637) |
| Fair value gain recognised in profit or loss (#) | 76,127 |
| At 31 December 2019 and 1 January 2020 | 804,600 |
| Addition | 9,439,420 |
| Settlement | (9,815,134) |
| Fair value gain recognised in profit or loss (#) | 54,214 |
| At 31 December 2020 | 483,100 |
| (#) Include gains or losses for assets held at 2020 | – |
| (#) Include gains or losses for assets held at 2019 | – |

There were no transfers among level 1, level 2 and level 3 during both years.

**(c)** Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

### Level 2 fair value measurements

| Description | Valuation technique/inputs | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Debt instruments at FVTOCI | Discounted cash flow method | **2,069,365** | 1,207,570 |
| Commodity derivative contracts (assets) | Reference to the quoted bid prices of similar standardised commodity derivative contracts | **1,685** | **32** |
| Commodity derivative contracts (liabilities) | Reference to the quoted bid prices of similar standardised commodity derivative contracts | **–** | **104** |

### Level 3 fair value measurements

| Description | Valuation technique | Unobservable inputs | Range | Effect on fair value for increase of inputs | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|---|---|---|
| Structured bank deposits at FVTPL | Discounted cash flow method | Estimated return | 1.65%-4.3% | increase | **483,100** | 804,600 |

## 7. Revenue

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

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

Note:

i. It includes battery products mainly for electrical bicycle and electrical tricycle.

ii. It includes battery products mainly for tubular battery, lead-acid starter battery, energy storage battery and standby battery.

# 7. Revenue (Continued)

## Disaggregation of revenue from contracts with customers:

| For the year ended 31 December 2020 | Sales of batteries and battery related accessories RMB'000 | Trading of new energy materials RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Geographical markets** | | | |
| PRC | **31,778,649** | **21,613,693** | **53,392,342** |
| Others | **132,697** | **–** | **132,697** |
| | **31,911,346** | **21,613,693** | **53,525,039** |

| For the year ended 31 December 2019 | Sales of batteries and battery related accessories RMB'000 | Trading of new energy materials RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Geographical markets** | | | |
| PRC | 30,502,601 | 10,007,703 | 40,510,304 |
| Others | 103,251 | – | 103,251 |
| | 30,605,852 | 10,007,703 | 40,613,555 |

For the years ended 31 December 2020 and 2019, all revenues were recognised at a point in time.

## Sales of batteries and battery related accessories

The Group sells lead-acid battery products, recycled lead products, lithium battery products and other products to the wholesale market. Fixed price contracts are entered into between the Group and customers. The expected duration of the contracts are less than one year. Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the wholesaler's specific location for most of the customers. For the remaining, control of the goods has transferred when the goods have been loaded into shipper's trucks (delivery). Following delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. For sales to distributors, they are normally required to make full prepayment before goods delivery. The normal credit term for customers other than distributors is normally 45 days upon delivery.

Sales-related warranties associated with lead-acid battery products and lithium battery products cannot be purchased separately and they serve as an assurance type of warranty that the products sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with its previous accounting treatment.

## Trading of new energy materials

The Group recognises revenue from trading of new energy materials when the control of new energy materials has transferred, being when customers collect the new energy materials at the warehouse. The Group has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. Customers are normally required to make full prepayment before goods delivery. Fixed price contracts are entered into between the Group and customers. The expected duration of the contracts are less than one year.

## 8. Segment Information

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

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

The CODM makes decisions according to operating result of each segment. No analysis of segment assets and segment liabilities presented is as the CODM does not regularly review such information for the purpose of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented. The accounting policies of the operating and reportable segment are the same as the Group's accounting policies described in note 3. Segment results represent the profits earned by each segment and exclude certain other gains and losses, corporate administrative expenses and finance costs. Intersegment sales are charged at cost plus profit approach.

### Segment revenue and results

### For the year ended 31 December 2020

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

# 8. Segment Information (Continued)

## Segment revenue and results (Continued)

### For the year ended 31 December 2019

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

## Other segment information

| **For the year ended 31 December 2020** | **Sales of batteries and battery related accessories RMB'000** | **Trading of new energy materials RMB'000** | **Unallocated RMB'000** | **Total RMB'000** |
|---|---|---|---|---|
| Depreciation of property, plant and equipment | **510,116** | **112** | **–** | **510,228** |
| Amortisation of right-of-used assets | **19,011** | **–** | **–** | **19,011** |
| Loss on disposal/written off of property, plant and equipment | **51,234** | **–** | **–** | **51,234** |
| Interest revenue | **122,831** | **14,931** | **168** | **137,930** |
| Income tax expense | **433,279** | **11,874** | **–** | **445,153** |
| Write-down of inventories | **4,831** | **–** | **–** | **4,831** |

| For the year ended 31 December 2019 | Sales of batteries and battery related accessories RMB'000 | Trading of new energy materials RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Depreciation of property, plant and equipment | 460,256 | 157 | – | 460,413 |
| Amortisation of prepaid lease payments | 20,728 | – | – | 20,728 |
| Loss on disposal/written off of property, plant and equipment | 84,814 | – | – | 84,814 |
| Interest revenue | 80,264 | 12,822 | 5 | 93,091 |
| Income tax expense | 388,007 | 12,084 | – | 400,091 |
| Write-down of inventories | 23,082 | – | – | 23,082 |

## 8. Segment Information (Continued)

### Information about major customers

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

## 9. Other Income

| | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|
| Government grants (note) | **405,728** | 285,461 |
| Sales of scrapped materials | **21,986** | 28,093 |
| Dividend income | **10,007** | 13,705 |
| Others | **92,770** | 41,906 |
| | **530,491** | 369,165 |

Note: The government grants mainly represent unconditional subsidies from the relevant development zone administrative committees and the local governments of the PRC to encourage the operations of certain subsidiaries. The government grants are accounted for as immediate financial support with no future related costs expected to be incurred and are not related to any assets.

## 10. Other Gains and Losses

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

Notes:

i) Net gains on held-for-trading investments included gains arising on changes in fair value of RMB32,664,000 (2019: RMB12,735,000), which were earned on these investments in listed equity securities during the year ended 31 December 2020. Such gains (2019: gains) included unrealised gains of RMB32,664,000 (2019: RMB12,735,000) and no realised gains (2019: no realised gains).

ii) Net losses on commodity derivative contracts represented realised losses of RMB28,057,000 (2019: RMB2,081,000) and unrealised gains of RMB1,757,000 (2019: losses of RMB223,000) arising on changes in fair value of commodity derivative contracts.

## 11. Impairment Losses, Net of Reversal

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Impairment losses, net of reversal, recognised on | | |
| – Trade receivables | **8,544** | 13,721 |
| – Other receivables | **(320)** | 18,825 |
| – Loan receivables | **1,124** | – |
| | **9,348** | 32,546 |

## 12. Finance Costs

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

## 13. Taxation

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Hong Kong Profits Tax: | | |
| – Current tax | **–** | – |
| PRC Enterprise Income Tax ("EIT"): | | |
| – Current tax | **479,880** | 428,438 |
| – (Over) underprovision in prior years | **(25,076)** | 4,594 |
| Deferred tax (note 23): | **(9,651)** | (32,941) |
| | **445,153** | 400,091 |

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

## 13. Taxation (Continued)

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

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

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

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

## 14. Profit for the Year

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

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Auditor's remuneration | **1,720** | 1,470 |
| Cost of inventories sold | **48,032,934** | 35,925,798 |
| Write-down of inventories (included in cost of sales) | **4,831** | 23,082 |
| Depreciation of property, plant and equipment | **510,228** | 460,413 |
| Amortisation of right-of-use assets | **19,011** | 20,728 |
| Expenses related to short-term lease | **10,548** | 10,500 |
| Expenses related to variable lease payments not included in lease liabilities | **9,140** | 6,505 |
| Directors' remuneration (note 15) | **4,489** | 4,310 |
| Other staff costs | **2,111,060** | 1,845,090 |
| Retirement benefits scheme contributions, excluding directors | **134,577** | 97,325 |
| Share-based payments | **13,084** | 7,590 |
| Total staff costs | **2,263,210** | 1,954,315 |

## 15. Directors' and Chief Executive's Emoluments

| **For the year ended 31 December 2020** | **Fees<br>RMB'000** | **Salaries and other benefits<br>RMB'000** | **Contributions to retirement benefit schemes<br>RMB'000** | **Total<br>RMB'000** |
|---|---|---|---|---|
| **Executive Director** | | | | |
| Zhang Tianren (i) | **–** | **1,514** | **43** | **1,557** |
| Zhang Aogen | **–** | **690** | **–** | **690** |
| Zhang Kaihong | **–** | **667** | **–** | **667** |
| Shi Borong | **–** | **226** | **–** | **226** |
| Zhou Jianzhong | **–** | **735** | **14** | **749** |
| **Independent Non-Executive Director** | | | | |
| Huang Dongliang | **200** | **–** | **–** | **200** |
| Wu Feng | **200** | **–** | **–** | **200** |
| Zhang Yong | **200** | **–** | **–** | **200** |
| **Total** | **600** | **3,832** | **57** | **4,489** |

## 15. Directors' and Chief Executive's Emoluments (Continued)

| For the year ended 31 December 2019 | Fees RMB'000 | Salaries and other benefits RMB'000 | Contributions to retirement benefit schemes RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Executive Director** | | | | |
| Zhang Tianren (i) | – | 1,540 | 14 | 1,554 |
| Zhang Aogen | – | 532 | – | 532 |
| Zhang Kaihong | – | 520 | – | 520 |
| Shi Borong | – | 524 | – | 524 |
| Zhou Jianzhong | – | 577 | 3 | 580 |
| **Independent Non-Executive Director** | | | | |
| Huang Dongliang | 200 | – | – | 200 |
| Wu Feng | 200 | – | – | 200 |
| Zhang Yong | 200 | – | – | 200 |
| **Total** | 600 | 3,693 | 17 | 4,310 |

Notes:

(i) Mr. Zhang Tianren is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

For the year ended 31 December 2020, no director included in the five highest paid employees and the remaining five non-directors.

For the year ended 31 December 2019, the five highest paid employees included one director and the remaining four non-directors.

The highest paid directors are set out the above table and employees for the year are as follows:

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Basic salaries and allowances | **12,420** | 12,871 |
| Retirement benefits scheme contributions | **39** | 10 |
| | **12,459** | 12,881 |

## 15. Directors' and Chief Executive's Emoluments (Continued)

The emoluments of the five highest individuals (including directors) whose remuneration fell within following bands is as follows:

| | Number of employees | |
|---|---|---|
| | **2020** | 2019 |
| HK$1,000,001 to HK$1,500,000 | **–** | 1 |
| HK$1,500,001 to HK$2,000,000 | **1** | 1 |
| HK$2,000,001 to HK$2,500,000 | **2** | – |
| HK$3,500,001 to HK$4,000,000 | **1** | 1 |
| HK$4,000,001 to HK$4,500,000 | **1** | – |
| HK$4,500,001 to HK$5,000,000 | **–** | 2 |

During the year, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments during both years.

## 16. Dividends

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

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

## 17. Earnings Per Share

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| Earnings for the purposes of calculating basic and diluted earnings per share<br>– Profit for the year attributable to the owners of the Company | **2,476,921** | 1,681,827 |

| | **2020** | 2019 |
|---|---|---|
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **1,126,376,156** | 1,126,726,500 |
| Effect of dilutive potential ordinary shares – share options | **27,420,469** | 21,086,923 |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | **1,153,796,625** | 1,147,813,423 |

## 18. Property, Plant and Equipment

| | Buildings RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Furniture, fixtures and equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| At 1 January 2019 | 2,613,523 | 3,159,680 | 72,939 | 212,474 | 157,976 | 6,216,592 |
| Additions | 27,334 | 378,498 | 17,163 | 37,037 | 592,966 | 1,052,998 |
| Transfer | 235,884 | 216,197 | – | 14,992 | (467,073) | – |
| Disposal/write-off | (34,680) | (145,945) | (7,989) | (5,973) | – | (194,587) |
| At 31 December 2019 and 1 January 2020 | 2,842,061 | 3,608,430 | 82,113 | 258,530 | 283,869 | 7,075,003 |
| Additions | 26,474 | 345,208 | 14,079 | 35,418 | 719,335 | 1,140,514 |
| Acquisition of subsidiaries | 33,850 | 27,146 | 178 | 612 | 62,436 | 124,222 |
| Transfer | 297,397 | 180,100 | 1,672 | 2,200 | (481,369) | – |
| Disposal/write-off | (62,493) | (112,356) | (6,094) | (20,144) | – | (201,087) |
| At 31 December 2020 | 3,137,289 | 4,048,528 | 91,948 | 276,616 | 584,271 | 8,138,652 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | | | |
| At 1 January 2019 | 697,954 | 1,030,169 | 48,048 | 145,477 | – | 1,921,648 |
| Provided for the year | 131,182 | 294,181 | 9,405 | 25,645 | – | 460,413 |
| Eliminated on disposal/write-off | (5,127) | (73,300) | (6,700) | (5,228) | – | (90,355) |
| At 31 December 2019 and 1 January 2020 | 824,009 | 1,251,050 | 50,753 | 165,894 | – | 2,291,706 |
| Provided for the year | 138,705 | 334,755 | 11,544 | 25,224 | – | 510,228 |
| Eliminated on disposal/write-off | (30,375) | (71,423) | (5,460) | (11,049) | – | (118,307) |
| At 31 December 2020 | 932,339 | 1,514,382 | 56,837 | 180,069 | – | 2,683,627 |
| **CARRYING VALUES** | | | | | | |
| At 31 December 2020 | 2,204,950 | 2,534,146 | 35,111 | 96,547 | 584,271 | 5,455,025 |
| At 31 December 2019 | 2,018,052 | 2,357,380 | 31,360 | 92,636 | 283,869 | 4,783,297 |

As at 31 December 2020, included in buildings held for own use are buildings with aggregate carrying amount of approximately RMB222,448,000 (2019: RMB83,609,000) whose property certificates are in the process of obtaining.

## 19. Right-of-Use Assets

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| At 31 December: | | |
| Right-of-use assets | | |
| – Land use rights | **769,904** | 572,534 |
| – Land and buildings | **24,052** | 21,186 |
| | **793,956** | 593,720 |
| Lease commitments of short-term leases | **474** | 1,872 |
| The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows: | | |
| – Less than 1 year | **9,676** | 7,975 |
| – Between 1 and 2 years | **7,196** | 7,312 |
| – Between 2 and 5 years | **6,537** | 9,160 |
| – Over 5 years | **4,566** | – |
| | **27,975** | 24,447 |
| Year ended 31 December: | | |
| Depreciation charge of right-of-use assets | | |
| – Land lease payments | **11,097** | 13,372 |
| – Land and buildings | **7,914** | 7,356 |
| | **19,011** | 20,728 |
| Lease interests | **1,358** | 1,231 |
| Expenses related to short-term leases | **10,548** | 10,500 |
| Expenses related to variable lease payments not included in lease liabilities | **9,140** | 6,505 |
| Total cash outflow for leases | **30,793** | 25,456 |
| Additions to right-of-use assets | **219,247** | 73,400 |

The Group leases various (i) land and buildings lease agreements are typically made for fixed periods of 1 to 10 years and; (ii) land use rights lease agreements are typically made for fixed periods of 48 to 70 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and the leased assets may not be used as security for borrowing purposes.

Some of the Group's plant and machinery leases contain variable lease payment terms that are linked to production generated from the Group's factory. There is a wide range of sales percentages applied. Variable lease payment terms are used to minimise the capital investments for the production. Variable lease payments that depend on production are produced in the year in which the condition that triggers those payments occurs.

# 20. Goodwill

| | RMB'000 |
|---|---|
| **COST** | |
| At 1 January 2019, 31 December 2019 and 1 January 2020 | 8,715 |
| Arising on acquisition of subsidiaries | 22,806 |
| At 31 December 2020 | 31,521 |
| **ACCUMULATED IMPAIRMENT LOSSES** | |
| At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 | 8,216 |
| **CARRYING AMOUNT** | |
| At 31 December 2020 | 23,305 |
| At 31 December 2019 | 499 |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated to the cash generating unit of sales of batteries and battery related accessories.

# 21. Interest in Associates

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Share of net assets | **20,670** | 1,446 |

The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial associates that are accounted for using the equity method.

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| At 31 December: | | |
| Carrying amounts of interests | **20,670** | 1,446 |
| Year ended 31 December: | | |
| Loss from continuing operations | **(776)** | (254) |
| Profit after tax from discontinued operations | **–** | – |
| Other comprehensive income | **–** | – |
| Total comprehensive expense | **(776)** | (254) |

## 22. Equity Investments at Fair Value Through other Comprehensive Income

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| Equity securities listed on the Hong Kong Stock Exchange | **305,549** | 284,036 |
| Unlisted equity securities in PRC | **21,552** | – |
| | **327,101** | 284,036 |

These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments as equity investments at FVTOCI as they believe that recognising short term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

The cost of the unlisted equity securities in PRC approximated to their fair value. The cost of the unlisted equity securities in PRC approximate its fair value and is an appropriate estimate of fair value since there is insufficient more recent information available to measure fair value.

## 23. Deferred Taxation

| | Asset-related government grants<br>RMB'000 | Withholding tax on undistributed profits<br>RMB'000 | Fair adjustment on property, plant and equipment and prepaid lease payments arising from acquisition of subsidiaries<br>RMB'000 | Interest capitalisation<br>RMB'000 | Provision for inventories, trade and other receivables<br>RMB'000 | Fair value change of debt instruments at FVTOCI<br>RMB'000 | Accrued warranty<br>RMB'000 | Accrued expenses<br>RMB'000 | Impairment loss on property, plant and equipment<br>RMB'000 | Tax losses<br>RMB'000 | Others<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2019 | 72,521 | (52,810) | (14,768) | (13,135) | 41,565 | 1,327 | 88,376 | 124,644 | 2,566 | 47,435 | (4,654) | 293,067 |
| Credit/(charge) to profit or loss | 14,225 | (45,419) | 1,885 | 1,322 | 16,387 | – | 33,240 | (43,352) | (73) | 52,629 | 2,097 | 32,941 |
| Credit to other comprehensive income | – | – | – | – | – | 264 | – | – | – | – | – | 264 |
| Reversal on payment of withholding tax on distribution of earnings from PRC subsidiaries | – | 47,384 | – | – | – | – | – | – | – | – | – | 47,384 |
| At 31 December 2019 and 1 January 2020 | 86,746 | (50,845) | (12,883) | (11,813) | 57,952 | 1,591 | 121,616 | 81,292 | 2,493 | 100,064 | (2,557) | 373,656 |
| Credit/(charge) to profit or loss | (262) | 2,935 | – | 1,098 | 4,813 | – | 13,618 | (34,355) | (29) | 21,602 | 231 | 9,651 |
| Credit to other comprehensive income | – | – | – | – | – | 2,456 | – | – | – | – | – | 2,456 |
| Reversal on payment of withholding tax on distribution of earnings from PRC subsidiaries | – | 10,000 | – | – | – | – | – | – | – | – | – | 10,000 |
| At 31 December 2020 | 86,484 | (37,910) | (12,883) | (10,715) | 62,765 | 4,047 | 135,234 | 46,937 | 2,464 | 121,666 | (2,326) | 395,763 |

The following is the analysis of the deferred tax balance for financial report presentation purposes.

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| Deferred tax assets | **459,597** | 451,754 |
| Deferred tax liabilities | **(63,834)** | (78,098) |
| | **395,763** | 373,656 |

At the end of the year ended 31 December 2020, the Group had unused tax losses of approximately RMB99,736,000 (2019: RMB45,453,000) available to offset against future profits, in respect of which no deferred tax assets been recognised, due to the unpredictability of future profit streams. Such unrecognised losses will expire at various dates up to and including 2025 (2019: 2024).

## 23. Deferred Taxation (Continued)

Under the EIT Law, starting from 1 January 2008, 10% withholding income tax is imposed on dividends declared in respect of profits earned in year 2008 onwards and distributed to foreign investors for companies established in the PRC. For investors incorporated in Hong Kong, a preferential rate of 5% will be applied where appropriate. Other than the PRC withholding income tax provided in respect of undistributed profits of PRC subsidiaries as above, no deferred taxation has been provided for the remaining accumulated profits of approximately RMB7,084 million as at 31 December 2020 (2019: RMB5,619 million), which was derived from the PRC subsidiaries since 1 January 2008 as the Group has set aside such sum for non-distributable purpose, and is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 24. Inventories

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Raw materials | **1,139,174** | 932,438 |
| Work in progress | **2,846,635** | 2,373,219 |
| Finished goods | **500,091** | 434,562 |
| | **4,485,900** | 3,740,219 |

## 25. Properties for Sale Under Development

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Properties for sale under development | **389,696** | – |

All the properties for sale under development were located in Huzhou, the PRC.

## 26. Trade and Other Receivables

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

## 26. Trade and Other Receivables (Continued)

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

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

## 27. Loan Receivables

Carrying amount of loan receivables based on maturity set out in the loan agreements:

| | Note | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Carrying amount of loan receivables based on maturity set out in the loan agreements: | | | |
| Non-current: | | | |
| Receivables from sale-leaseback transaction within one year | | **189,757** | – |
| Less: Provision for impairment losses | | **(949)** | – |
| | (i) | **188,808** | – |
| Current: | | | |
| Other loan receivable | | **35,000** | – |
| Less: Provision for impairment losses | | **(175)** | – |
| | (ii) | **34,825** | – |
| | | **223,633** | – |

Note:

(i) During the year ended 31 December 2020, the Group entered into a sale-leaseback transaction agreement with five independent borrowers. The sale-leaseback transaction of RMB189,757,000 were guaranteed by independent third parties with interest bearing at effective interest rate ranging from 6.35% - 8.08% per annum and repayable in 2023.

(ii) Other loan receivables of RMB35,000,000 (2019: RMB Nil) to independent third party which was secured by the trade receivable and repayable within 1 year.

## 28. Debt Instruments at Fair Value Through Other Comprehensive Income

As part of the Group's cash flow management, the Group will discount some of the bills to financial institutions and endorse some of them to suppliers before the bills are due for payment, and derecognise the bills discounted and endorsed on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Thus, the bills receivables held by the Group are managed within a business model whose objective is both to collect the contractual cash flows and to sell. Therefore, these bills receivables were subsequently classified as debt instruments at FVTOCI upon adoption of HKFRS 9.

The following is an aged analysis of debt instruments at FVTOCI, net of fair value remeasurement under the requirement of HKFRS 9, at the end of the reporting period:

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| 0 to 180 days | **2,010,928** | 1,207,570 |
| 181 to 365 days | **58,437** | – |
| | **2,069,365** | 1,207,570 |

The debt instruments at FVTOCI are all issued by reputable banks of good credit quality. The management of the Group considered the credit risk of these bank issued bills is insignificant and no impairment was provided on them at the year end.

## 29. Transfers of Financial Assets

At 31 December 2020 and 2019, the Group has discounted bank issued bills receivables to banks and transferred bank issued bills receivables to its suppliers to settle its payables through endorsing the bank issued bills to its suppliers. The Group has limited exposure in respect of the settlement obligation of these bank issued bills receivable under relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant. In the opinion of the directors of the Company, the Group transferred and did not retain substantially all the risks and rewards of ownership of these bank issued bills. Accordingly, the Group has derecognised these bank issued bills receivables and the payables to suppliers in their entirety.

As at 31 December 2020, the Group's maximum exposure to loss, which is the same as the amount payable by the Group to banks or the suppliers in respect of the discounted bank issued bills and endorsed bank issued bills, should the issuing banks fail to settle the bills on maturity, amounted to RMB3,529,243,000 (2019: RMB2,426,695,000) and RMB1,070,248,000 (2019: RMB1,061,915,000), respectively.

All the bank issued bills receivables discounted to banks or endorsed to suppliers of the Group have a maturity date of less than one year from the end of the reporting period.

## 30. Financial Assets at Fair Value Through Profit or Loss

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| Financial assets mandatorily measured at FVTPL: | | |
| Structured bank deposits | **483,100** | 804,600 |
| Equity securities listed in PRC | **34,365** | 35,480 |
| Equity securities listed in Hong Kong | **53,441** | 13,990 |
| Commodity derivative contracts | **1,685** | 32 |
| | **572,591** | 854,102 |

## 31. Pledged Bank Deposit/Bank Balances and Cash

Pledged bank deposits represented bank deposits pledged to banks to secure short-term banking facilities granted to the Group. The pledged deposits at 31 December 2020 carried an interest rate which ranged from 0.3% to 3.99% (2019: 0.35% to 3.5%) per annum.

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with banks and carry interest at prevailing market rate. At 31 December 2020, bank balances carry interest at market rates which ranged from 0.01% to 0.35% (2019: 0.01% to 0.35%) per annum.

## 32. Bills, Trade and Other Payables

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

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

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

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

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| 0 to 180 days | **2,329,841** | 2,556,387 |
| 181 to 365 days | **97,080** | 215,137 |
| | **2,426,921** | 2,771,524 |

## 33. Amounts Due From (To) Related Parties

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Details of the amounts due to related parties are as follows: | | |
| **Name of related parties** | | |
| 浙江暢通科技有限公司 Zhejiang Changtong Technology Company Limited ("Changtong Technology") (note i) | **96,372** | – |
| 長興遠鴻機械有限公司 ("遠鴻機械") (note ii) | **1,202** | – |
| 濟源市萬洋冶煉(集團)有限公司 Jiyuan City Wangyang Smelting (Group) Co., Ltd. ("Wanyang Group") (note iii) | **43,789** | 20,024 |
| 浙江長興欣欣包裝有限公司 Zhejiang Changxing Xin Xin Packaging Co., Ltd ("Xin Xin Packaging") (note iv) | **945** | – |
| | **142,308** | 20,024 |

Details of the amounts due from related parties are as follows:

| **Name of related parties** | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Changtong Technology | **138** | – |
| Wanyang Group | **13,337** | 3,709 |
| | **13,475** | 3,709 |

Notes:

i) Changtong Technology is beneficially owned by Ms. Zhang Mei'e who are the sister of Mr. Zhang Tianren ("Mr. Zhang") and her spouse, Mr. Ni Danqing.

ii) 遠鴻機械 is beneficially owned by Mr. Zhang Kaihong's son.

iii) Wanyang Group is a party which holds 49% interest of Jiyuan Wanyang Green Energy Co., Ltd., a 51% owned subsidiary of the Company.

iv) Xin Xin Packaging is beneficially owned by Ms. Chen Pingping and Ms. She Fangli, who are the cousin and niece respectively of Zhang Tianren.

The amounts due to/from Changtong Technology, 遠鴻機械, Wanyang Group and Xin Xin Packaging are trade nature and have no fixed repayment terms.

## 34. Borrowings

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Bank borrowings | **1,455,842** | 1,323,314 |
| Other borrowings | **182,198** | 189,847 |
| | **1,638,040** | 1,513,161 |
| Secured | **125,907** | 230,214 |
| Unsecured | **1,512,133** | 1,282,947 |
| | **1,638,040** | 1,513,161 |
| Carrying amount are repayable, based on scheduled repayment dates set out in the loan agreements, as follows: | | |
| Within one year | **919,123** | 1,260,415 |
| Within a period of more than one year but not exceeding two years | **317,169** | 174,601 |
| Within a period of more than two years but not exceeding five years | **386,161** | 78,145 |
| Over five years | **15,587** | – |
| | **1,638,040** | 1,513,161 |
| Less: Amount due and repayable within one year shown under current liabilities | **(919,123)** | (1,260,415) |
| Amount shown under non-current liabilities | **718,917** | 252,746 |

Notes:

At 31 December 2020, the bank borrowings of RMB1,455,842,000 (2019: RMB1,323,314,000) carry fixed and variable interest rates ranging from 1.90% to 6.50% (2019: 4.07% to 4.75%) per annum.

At 31 December 2020, other borrowings amounted to RMB182,198,000 (2019: RMB189,847,000) carry fixed and variable interest rates ranging from 4.74% to 9.05% (2019: 4.71% to 9.05%) per annum.

Details of assets pledged by the Group at the end of the reporting period are set out in note 45.

## 35. Deferred Government Grants

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| To be released: | | |
| – Within one year | **38,699** | 33,859 |
| – After one year | **509,833** | 425,150 |
| | **548,532** | 459,009 |

Deferred capital grants relate to the acquisition of the property, plant and equipment and land use right. The grant has been treated as a deferred grant and is being amortised in line with the depreciable assets to which it relates.

## 36. Provision

| | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|
| At 1 January | **650,728** | 631,454 |
| Provision in the year | **618,485** | 738,569 |
| Utilisation of provision | **(646,904)** | (719,295) |
| At 31 December | **622,309** | 650,728 |

The Group provided a warranty of up to fifteen months on all lead-acid motive battery products. For lead-acid motive battery products found to be defective under the terms of the warranty, the Group undertakes to replace the battery free of charge for products returned within eight months from the date of sale, and to repair the battery free of charge for products returned between the ninth month and the fifteenth month after the date of sale. A warranty provision is estimated and accrued at the time of sale and is based upon various factors including the actual warranty claims, unit sales history, the estimated replacement cost and repair cost for returned products, predicted future warranty claim rate with reference to prior experiences and volumes of products sold. The amount of accrued warranty is adjusted as required to reflect the actual costs incurred when information becomes available.

## 37. Contract Liabilities

Disclosures of revenue-related items:

| | **31 December** | 31 December | 1 January |
|---|---|---|---|
| | **2020** **RMB'000** | 2019 RMB'000 | 2019 RMB'000 |
| Contract liabilities | **2,941,370** | 1,749,311 | 1,647,223 |
| Revenue recognised in the year that was included in contract liabilities at beginning of the year | **1,749,311** | 1,647,223 | 1,547,950 |

Transaction prices allocated to performance obligations unsatisfied at end of the year and expected to be recognised as revenue in:

| | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|
| –2020 | **–** | 1,749,311 |
| –2021 | **2,941,370** | – |
| | **2,941,370** | 1,749,311 |

A contract liability represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

## 38. Long-Term Loan Notes

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Guaranteed loan notes | – | 398,853 |
| Carrying amounts repayable: | | |
| Within one year | – | 398,853 |
| Within a period of more than one year but not exceeding two years | – | – |
| | – | 398,853 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | – | (398,853) |
| Amount due for settlement after 12 months | – | – |

## 39. Lease Liabilities

| | Lease payments | | Present value of lease payments | |
|---|---|---|---|---|
| | 2020 RMB'000 | 2019 RMB'000 | 2020 RMB'000 | 2019 RMB'000 |
| Within one year | 9,676 | 7,975 | 8,689 | 7,076 |
| In the second to fifth years, inclusive | 13,733 | 7,312 | 12,228 | 6,747 |
| After five years | 4,566 | 9,160 | 4,046 | 8,750 |
| | 27,975 | 24,447 | 24,963 | 22,573 |
| Less: Future finance charges | (3,012) | (1,874) | N/A | N/A |
| Present value of lease liabilities | 24,963 | 22,573 | | |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | | (8,689) | (7,076) |
| Amount due for settlement after 12 months | | | 16,274 | 15,497 |

At 31 December 2020, the effective borrowing rate ranging from 4.9% (2019: 4.9%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

# 40. Share Capital

| | Number of shares | Amount equivalent to RMB'000 |
|---|---|---|
| Authorised: | | |
| Shares of the Company with nominal value of HK$0.1 each | | |
| At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 | **2,000,000,000** | 212,780 |
| Issued and fully paid: | | |
| At 1 January 2019, 31 December 2019 and 1 January 2020 | **1,126,726,500** | 109,905 |
| Repurchase and cancellation of shares | **(602,000)** | (55) |
| At 31 December 2020 | **1,126,124,500** | 109,850 |

On 1 June 2020, the Company repurchased 602,000 shares and on 30 June 2020 cancelled 602,000 shares of its own shares through purchases on the Stock Exchange. The total amount paid to acquire the shares was approximately HK$5,300,000 (equivalent to RMB4,891,000) and has been deducted from the share capital and share premium account.

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which includes borrowings and loan notes as disclosed in notes 34 and 38, net of bank balances and cash, and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profits.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

# 41. Reserves

## Special reserve

The special reserve of the Group represents the difference between the nominal amount of the shares issued by Tianneng International Investment Holdings Limited ("Tianneng BVI") and the aggregate amount of paid-in capital of the subsidiaries acquired by Tianneng BVI pursuant to the group reorganisation which took place in 2004 as more fully explained in the prospectus of the Company dated 29 May 2007.

## Capital reserve

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Share-based payment (note i) | **57,010** | 57,010 |
| 30% interest in Anhui Zhongneng (note ii) | **4,194** | 4,194 |
| Acquisition of additional interests in subsidiaries (note iii) | **12,460** | 12,460 |
| Reduction of equity interest in Zhejiang Tianneng Energy (note iv) | **64,600** | 64,600 |
| Acquisition of additional interests in Zhejiang Tianneng Energy (note v) | **(112,237)** | (112,237) |
| Reduction of equity interest in Zhejiang Tianneng Energy (note vi) | **131,620** | 131,620 |
| Reduction of equity interest in Tianneng Battery (note vii) | **93,823** | 93,823 |
| Others (note viii) | **88** | 88 |
| | **251,558** | 251,558 |

Notes:

(i) The capital reserve of the Group of RMB57,010,000 arose in June 2003 when the substantial shareholder and Executive Director, Mr. Zhang transferred 26.3% of his shares in Tianneng Battery to the key management personnel of the Group. The Group recognised the share-based payment expenses of approximately RMB57,010,000 on 15 June 2003 which represented the difference between the fair value of those shares of approximately RMB71,388,000 and the consideration received by Mr. Zhang from the key management personnel of approximately RMB14,378,000.

(ii) The increase of RMB4,194,000 was related to the acquisition of the remaining 30% interest in Anhui Zhongneng in 2013.

(iii) The capital reserve of the Group of RMB12,460,000 arose from the difference between the consideration paid for acquisitions of additional interests in subsidiaries from non-controlling shareholders who are associates of Mr. Zhang and the non-controlling interests' share of net assets of the subsidiaries at the date of the acquisition.

(iv) As set out in the Company's announcement dated 23 November 2015, the Group is considering and exploring the possibility of a possible spin-off and quotation of the shares of a subsidiary, Zhejiang Tianneng Energy, on the 全國中小企業股份轉讓系統 National Equities Exchange and Quotation System ("NEEQ", commonly known as the New Third Board 新三板) in the PRC (the "Proposed NEEQ Quotation"). A subscription agreement was entered into on 18 January 2016, pursuant to which a group comprising, among others, Mr. Zhang and other management and employees of the Group (the "Management Group") agreed to subscribe 40% of the enlarged total equity interests of Zhejiang Tianneng Energy at a total consideration of RMB114,241,000. The Group's interests in Zhejiang Tianneng Energy is accordingly reduced from 100% to 60% upon the completion of the subscription by the Management Group. Details of the subscription by the Management Group is set out in the Company's announcement dated 18 January 2016. The reduction of the Group's equity interests from 100% to 60% is treated as a deemed disposal. The changes in the Group's equity interests in Zhejiang Tianneng Energy do not result in the Group losing control over Zhejiang Tianneng Energy and are accordingly accounted for as equity transactions. The surplus of RMB64,600,000, representing the difference between the consideration of RMB114,241,000 and the amount of non-controlling interests approximately RMB49,641,000, is credited to the capital reserve. As set out in the Company's announcement dated 17 August 2016, having considered the recent capital market situation, Zhejiang Tianneng Energy and the Company have decided to postpone the application for the Proposed NEEQ Quotation to a later stage.

## 41. Reserves (Continued)

### Capital reserve (Continued)

Notes: (Continued)

(v) As set out in the Company's announcement dated 10 August 2018, the equity transfer agreements were entered into, pursuant to which Tianneng Battery agrees to acquire additional 40% of the equity interest in a subsidiary, Zhejiang Tianneng Energy from the non-controlling shareholders, a group comprising, among others, Mr. Zhang and other management and employees of the Group, at considerations of approximately RMB74,864,000, RMB7,719,000 and RMB43,977,000, representing 24%, 2% and 14% of the equity interest, respectively. The Group's interests in Zhejiang Tianneng Energy is accordingly increased from 60% to 100% upon the completion of the transaction. Details of the transaction is set out in the Company's announcement dated 10 August 2018. The increase of the Group's equity interests in Zhejiang Tianneng Energy from 60% to 100% do not result in any changes of the Group's control over Zhejiang Tianneng Energy and is accordingly accounted for as equity transaction. The surplus of approximately RMB112,237,000, representing the difference between the consideration of RMB126,560,000 and the amount of non-controlling interests approximately RMB14,323,000, is debited to the capital reserve.

(vi) The changes in the Group's equity interests in Zhejiang Tianneng Energy do not result in the Group losing control over Zhejiang Tianneng Energy and are accordingly accounted for as equity transactions. The surplus of RMB131,620,000, representing the difference between the consideration of RMB276,900,000 and the amount of non-controlling interests approximately RMB145,280,000, is credited to the capital reserve.

(vii) The decrease of the Group's equity interests in Tianneng Battery of 1.67% do not result in any changes of the Group's control over Tianneng Battery and is accordingly accounted for as equity transaction. The surplus of approximately RMB93,823,000, representing the difference between the consideration of RMB183,040,000 and the amount of non-controlling interests approximately RMB89,217,000, is credited to the capital reserve.

(viii) The Group (i) transferred 21.67% equity interest of Henan Jingneng Energy Co., Ltd. to third party and (ii) acquired 20% equity interest of 浙江天暢供應鏈管理有限公司 and 24% equity interest of Tianneng Yinyue (Shanghai) New Energy Material Co., Ltd from third party during the year ended 31 December 2019.

### Statutory surplus reserve fund/Discretionary surplus reserve fund

As stipulated by the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are required to maintain two reserves, being a statutory surplus reserve fund and a discretionary surplus reserve fund which are non-distributable. Appropriations to such reserves are made out of profit after taxation of the statutory financial statements of the PRC subsidiaries while the amount and allocation basis are decided by their board of directors annually. Pursuant to the relevant laws and regulations in the PRC, it requires the appropriation to the statutory surplus reserve fund until the balance reaches 50% of the registered share capital. The statutory surplus reserve fund and the discretionary surplus reserve fund can be used to make up its prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

## 42. Share Option Schemes

The Company has a share option scheme (the "Scheme") for eligible directors of the Company, eligible employees of the Group and other selected participants. According to the terms of the Scheme, options granted must be taken up within 28 days from the date of grant, upon payment of HK$1.00. The options may be exercised in accordance with the terms of the Scheme at any time during the exercise period determined by the board of directors which shall in any event not be more than ten years from the date of grant. Share options are vested over a period up to a maximum of four years after the date of grant.

The total number of shares issued and which may fall to be issued upon exercise of the options granted pursuant to the Scheme to an eligible participant in any 12-month period shall not exceed 1% of the number of shares in issue unless approved by shareholders in a general meeting. The maximum number of shares in respect of which options may be granted under the Scheme shall not in aggregate exceed 10% of the shares in issue on the date on which dealings in the shares first commence on the Hong Kong Stock Exchange, i.e. a total of 100,000,000 shares (the "Option Limit"). Pursuant to an annual general meeting held on 16 May 2014, the Option Limit has been refreshed to 10% of the shares in issue on the date of the annual general meeting, i.e. a total of 111,190,800 shares.

All holders of options granted under the Scheme may only exercise their options in the following manner:

| **Maximum percentage of options exercisable** | **Vesting period** |
|---|---|
| 10% of the options | From the date of grant to the first anniversary of the date of grant |
| Additional 20% of the options | From the date of grant to the second anniversary of the date of grant |
| Additional 30% of the options | From the date of grant to the third anniversary of the date of grant |
| Additional 40% of the options | From the date of grant to the fourth anniversary of the date of grant |

No share option was granted during the year ended 31 December 2020 and 2019.

## 42. Share Option Schemes (Continued)

The following tables disclosed movements of the Company's options granted under the Scheme during the year ended 31 December 2020 and 2019:

| Option | Name of grantee | Date of grant | Exercisable period | Exercise price | Outstanding as at 1.1.2020 | Granted during the year | Exercised during the year | Lapsed during the year | Forfeited during the year | Outstanding as at 31.12.2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Directors** | | | | | | | | | |
| Option C | Huang Dongliang | 16.6.2014 | 16.6.2016 – 15.6.2024 | HK$2.9 | 20,000 | – | – | – | – | 20,000 |
| Option C | Huang Dongliang | 16.6.2014 | 16.6.2017 – 15.6.2024 | HK$2.9 | 30,000 | – | – | – | – | 30,000 |
| Option C | Huang Dongliang | 16.6.2014 | 16.6.2018 – 15.6.2024 | HK$2.9 | 40,000 | – | – | – | – | 40,000 |
| Option C | Ho Tso Hsiu | 16.6.2014 | 16.6.2016 – 15.6.2024 | HK$2.9 | 20,000 | – | – | – | – | 20,000 |
| Option C | Ho Tso Hsiu | 16.6.2014 | 16.6.2017 – 15.6.2024 | HK$2.9 | 30,000 | – | – | – | – | 30,000 |
| Option C | Ho Tso Hsiu | 16.6.2014 | 16.6.2018 – 15.6.2024 | HK$2.9 | 40,000 | – | – | – | – | 40,000 |
| Option C | Wang Jingzhong | 16.6.2014 | 16.6.2016 – 15.6.2024 | HK$2.9 | 20,000 | – | – | – | – | 20,000 |
| Option C | Wang Jingzhong | 16.6.2014 | 16.6.2017 – 15.6.2024 | HK$2.9 | 30,000 | – | – | – | – | 30,000 |
| Option C | Wang Jingzhong | 16.6.2014 | 16.6.2018 – 15.6.2024 | HK$2.9 | 40,000 | – | – | – | – | 40,000 |
| | **Employees** | | | | | | | | | |
| Option C | Employees | 16.6.2014 | 16.6.2015 – 15.6.2024 | HK$2.9 | 157,500 | – | – | – | – | 157,500 |
| Option C | Employees | 16.6.2014 | 16.6.2016 – 15.6.2024 | HK$2.9 | 8,162,000 | – | – | – | (388,000) | 7,774,000 |
| Option C | Employees | 16.6.2014 | 16.6.2017 – 15.6.2024 | HK$2.9 | 12,243,000 | – | – | – | (582,000) | 11,661,000 |
| Option C | Employees | 16.6.2014 | 16.6.2018 – 15.6.2024 | HK$2.9 | 16,324,000 | – | – | – | (776,000) | 15,548,000 |
| Option B | Employees | 22.11.2010 | 22.11.2011 – 21.11.2020 | HK$3.18 | 68,000 | – | – | (68,000) | – | – |
| Option B | Employees | 22.11.2010 | 22.11.2012 – 21.11.2020 | HK$3.18 | 136,000 | – | – | (136,000) | – | – |
| Option B | Employees | 22.11.2010 | 22.11.2013 – 21.11.2020 | HK$3.18 | 204,000 | – | – | (204,000) | – | – |
| Option B | Employees | 22.11.2010 | 22.11.2014 – 21.11.2020 | HK$3.18 | 272,000 | – | – | (272,000) | – | – |
| | | | | | 37,836,500 | – | – | (680,000) | (1,746,000) | 35,410,500 |
| | Exercisable at the end of the year | | | | | | | | | **35,410,500** |
| | Weighted average exercise price | | | | **HK$2.9** | | | **HK$3.18** | **HK$2.9** | **HK$2.9** |

| Option | Name of grantee | Date of grant | Exercisable period | Exercise price | Outstanding as at 1.1.2019 | Granted during the year | Exercised during the year | Lapsed during the year | Forfeited during the year | Outstanding as at 31.12.2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Directors** | | | | | | | | | |
| Option C | Huang Dongliang | 16.6.2014 | 16.6.2016 – 15.6.2024 | HK$2.9 | 20,000 | – | – | – | – | 20,000 |
| Option C | Huang Dongliang | 16.6.2014 | 16.6.2017 – 15.6.2024 | HK$2.9 | 30,000 | – | – | – | – | 30,000 |
| Option C | Huang Dongliang | 16.6.2014 | 16.6.2018 – 15.6.2024 | HK$2.9 | 40,000 | – | – | – | – | 40,000 |
| Option C | Ho Tso Hsiu | 16.6.2014 | 16.6.2016 – 15.6.2024 | HK$2.9 | 20,000 | – | – | – | – | 20,000 |
| Option C | Ho Tso Hsiu | 16.6.2014 | 16.6.2017 – 15.6.2024 | HK$2.9 | 30,000 | – | – | – | – | 30,000 |
| Option C | Ho Tso Hsiu | 16.6.2014 | 16.6.2018 – 15.6.2024 | HK$2.9 | 40,000 | – | – | – | – | 40,000 |
| Option C | Wang Jingzhong | 16.6.2014 | 16.6.2016 – 15.6.2024 | HK$2.9 | 20,000 | – | – | – | – | 20,000 |
| Option C | Wang Jingzhong | 16.6.2014 | 16.6.2017 – 15.6.2024 | HK$2.9 | 30,000 | – | – | – | – | 30,000 |
| Option C | Wang Jingzhong | 16.6.2014 | 16.6.2018 – 15.6.2024 | HK$2.9 | 40,000 | – | – | – | – | 40,000 |
| | **Employees** | | | | | | | | | |
| Option C | Employees | 16.6.2014 | 16.6.2015 – 15.6.2024 | HK$2.9 | 157,500 | – | – | – | – | 157,500 |
| Option C | Employees | 16.6.2014 | 16.6.2016 – 15.6.2024 | HK$2.9 | 8,566,000 | – | – | – | (404,000) | 8,162,000 |
| Option C | Employees | 16.6.2014 | 16.6.2017 – 15.6.2024 | HK$2.9 | 12,849,000 | – | – | – | (606,000) | 12,243,000 |
| Option C | Employees | 16.6.2014 | 16.6.2018 – 15.6.2024 | HK$2.9 | 17,132,000 | – | – | – | (808,000) | 16,324,000 |
| Option B | Employees | 22.11.2010 | 22.11.2011 – 21.11.2020 | HK$3.18 | 68,000 | – | – | – | – | 68,000 |
| Option B | Employees | 22.11.2010 | 22.11.2012 – 21.11.2020 | HK$3.18 | 136,000 | – | – | – | – | 136,000 |
| Option B | Employees | 22.11.2010 | 22.11.2013 – 21.11.2020 | HK$3.18 | 204,000 | – | – | – | – | 204,000 |
| Option B | Employees | 22.11.2010 | 22.11.2014 – 21.11.2020 | HK$3.18 | 272,000 | – | – | – | – | 272,000 |
| | | | | | 39,654,500 | – | – | – | (1,818,000) | 37,836,500 |
| | Exercisable at the end of the year | | | | | | | | | 37,836,500 |
| | Weighted average exercise price | | | | HK$2.9 | | | | HK$2.9 | HK$2.9 |

# 42. Share Option Schemes (Continued)

At 31 December 2020, the total number of shares in respect of which options under the Scheme had been granted and remained outstanding was 35,410,500 (2019: 37,836,500), representing 3.14% (2019: 3.36%) of the shares of the Company in issue at that date. The options outstanding at the end of year have a weight average remaining contractual life is 3.5 (2019: 4.4) years.

No option was exercised during the year ended 31 December 2020 and 2019.

During the year ended 31 December 2019 and 2020, no expenses was recognised in relation to share options.

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

| | Option C<br>16.6.2014 |
|---|---|
| Stock price as at grant date | HK$2.89 |
| Exercise price | HK$2.9 |
| Expected volatility | 55% |
| Expected life of options | 10 years |
| Risk free rate | 2.06% |
| Expected dividend yield | 4.26% |
| Sub-optimal exercise factor for directors/senior management/employees | 3.5/3.5/3.5 |

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

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

### Share award scheme of a subsidiary of the Company

Pursuant to the shareholders' resolution approved on 23 May 2019, Tianneng Battery adopted a share award scheme for eligible senior management and eligible employees of Tianneng Battery and its subsidiaries (the "Selected Employee") (the "Share Award Scheme"). The objective of the Share Award Scheme is to recognise the contribution by the Selected Employee and to provide them with incentives in order to retain them for the continuing operation and development of Tianneng Battery and its subsidiaries.

According to the Share Award Scheme, 41,200,000 shares of Tianneng Battery were granted to certain limited partnerships (the "Limited Partnership"), which were legally owned by Zhejiang Tianneng Commercial Management Co., Ltd. ("Tianneng Commercial"), a wholly owned subsidiary of the Group, and the Selected Employee and for the purpose of facilitating the purchasing, holding and selling of shares of Tianneng Battery for the benefit of the Selected Employee. The shares have been subscribed at a price of RMB7.69 per share.

These shares are restricted for sale until the fourth anniversary date after the initial public offering of Tianneng Battery in A-share market (the "Qualified IPO").

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

## 42. Share Option Schemes (Continued)

### Share award scheme of a subsidiary of the Company (Continued)

If the Qualified IPO does not incur by 31 December 2022, the Selected Employee have the right to ask Tianneng Commercial to repurchase back the awarded shares at a share price of RMB7.69 plus interest at 8% per annum. If the Selected Employee resigned, they are required to sell back the awarded shares at a share price of RMB7.69 plus interest at 115% of the benchmark lending rate of peer loan issued by the People's Bank of China.

The fair values of restricted shares granted to the Selected Employee amounted to approximately RMB178,767,000. For the year ended 31 December 2020, an expense of approximately RMB13,084,000 (2019: 7,590,000) was recognised by the Group in relation to restricted shares granted by Tianneng Battery under the Share Award Scheme.

As at 31 December 2020, financial liabilities of approximately RMB116,952,000 (2019: RMB109,960,000) was recognised according to the repurchase consideration to be paid under Share Award Scheme if the granted shares become unvested.

## 43. Acquisition of Subsidiaries

### (a) Accounted for as business combination

On 2 July 2020, the Group acquired 70% equity interest of 天能炭素(江蘇)有限公司 (the "天能炭素") at a cash consideration of RMB89,429,000. 天能炭素 was engaged in recycling industry during the year.

The fair value of the identifiable assets and liabilities of the above company acquired as at its date of acquisition is as follows:

| | 天能炭素<br>RMB'000 |
|---|---|
| Property, plant and equipment | 64,796 |
| Right-of-use assets | 8,149 |
| Inventories | 6,744 |
| Bills, trade and other receivables | 48,428 |
| Bank balances and cash | 1,008 |
| Bills, trade and other payables | (20,949) |
| Borrowings | (13,000) |
| Total identifiable net assets at fair value | 95,176 |
| Non-controlling interests | (28,553) |
| Goodwill | 22,806 |
| | 89,429 |
| Satisfied by: | |
| Cash | 89,429 |
| Net cash outflow arising on acquisition: | |
| Cash consideration paid | (89,429) |
| Cash and cash equivalents acquired | 1,008 |
| | (88,421) |

## 43. Acquisition of Subsidiaries (Continued)

### (a) Accounted for as business combination (Continued)

The fair value of the bills, trade and other receivables acquired is RMB48,428,000. The gross amount due under the contracts is RMB48,428,000.

The goodwill arising on the acquisition of 天能炭素 are attributable to the anticipated future operating synergies from the combination.

If the acquisition had been completed on 1 January 2020, total Group revenue for the year would have been approximately RMB53,526,093,000, and profit for the year would have been approximately RMB2,504,117,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2020, nor is intended to be a projection of future results.

天能炭素 contributed approximately RMB25,922,000 and RMB2,539,000 to the Group's revenue and profit for the year respectively for the period between the date of acquisition and the end of the reporting period.

### (b) Accounted for as asset acquisition

On 30 September 2020, the Group acquired 80% equity interest of 山東中清環保技術有限公司 (the "中清環保") at a cash consideration of RMB78,500,000. 中清環保 had the license of renewable resource disposal business.

The assets and liabilities of the above company acquired as at its date of acquisition is as follows:

| | 中清環保<br>RMB'000 |
|---|---|
| Property, plant and equipment | 59,426 |
| Right-of-use assets | 39,240 |
| Bills, trade and other receivables | 130 |
| Bank balances and cash | 10 |
| Bills, trade and other payables | (8,555) |
| Deferred government grants | (2,751) |
| Net assets | 87,500 |
| Non-controlling interests | (9,000) |
| | 78,500 |
| Satisfied by: | |
| Cash | 73,500 |
| Other payable | 5,000 |
| | 78,500 |
| Net cash outflow arising on acquisition: | |
| Cash consideration paid | (73,500) |
| Cash and cash equivalents acquired | 10 |
| | (73,490) |

## 44. Capital Commitments

The Group's capital commitments at the end of the reporting period are as follows:

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| Property, plant and equipment<br>– Contracted but not provided for | **1,337,707** | 852,123 |

## 45. Pledge Of Assets

At the end of the reporting period, the Group has pledged the following assets to secure the general banking facilities granted to the Group.

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| Bank deposits | **1,303,060** | 1,291,326 |
| Financial assets at FVTPL – Structured bank deposits | **69,600** | 804,600 |
| Debt instruments at FVTOCI | **1,294,686** | 722,204 |
| Property, plant and equipment | **116,342** | 72,892 |
| | **2,783,688** | 2,891,022 |

## 46. Retirement Benefit Schemes

The Group's full-time employees in the PRC are covered by a government-sponsored defined contribution pension scheme, and are entitled to a monthly penson from their retirment dates. The PRC Government is responsible for the pension liability to these retired empolyees. The Group's is required to make annual contributions to the retirement plan at an average rate of 20% of employees' salaries, which are charged as an expenses when the employees have rendered services entitling them to the contributions and the contributions are due.

The Group operates a Mandatory Provident Fund scheme for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of the trustee. The Group basically contributes 5% of the relevant payroll costs to the scheme.

As at 31 December 2020 and 2019, all of the contributions due in respect of the year had been paid over the plans.

## 47. Reconciliation of Liabilities Arising from Financing Activities

| | Borrowings RMB'000 | Long-term loan notes RMB'000 | Lease liabilities RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2019 | 1,925,450 | 777,096 | – | 2,702,546 |
| Financing cash flows | (415,143) | (380,000) | (7,220) | (802,363) |
| Non-cash changes | | | | |
| – Initial recognition of lease liabilities | – | – | 18,671 | 18,671 |
| – Addition | – | – | 9,891 | 9,891 |
| – Amortisation of unsettled financial charges | 2,854 | 1,757 | 1,231 | 5,842 |
| At 31 December 2019 and 1 January 2020 | 1,513,161 | 398,853 | 22,573 | 1,934,587 |
| Financing cash flows | 105,194 | (400,000) | (9,747) | (304,553) |
| Non-cash changes | | | | |
| – Addition | – | – | 10,779 | 10,779 |
| – Acquisition of subsidiaries | 13,000 | – | – | 13,000 |
| – Amortisation of unsettled financial charges | 6,685 | 1,147 | 1,358 | 9,190 |
| At 31 December 2020 | 1,638,040 | – | 24,963 | 1,663,003 |

## 48. Related Party Transactions

(a) Related party transactions

During the year, the Group had the following transactions with its related companies:

| | | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|---|
| Changtong Technology | Purchase of materials | **263,338** | – |
| Changtong Technology | Sales of materials | **1,204** | – |
| 遠鴻機械 | Purchase of materials | **1,577** | – |
| Changxing Jin Ling Hotel (note i) | Hotel expenses | **832** | 1,969 |
| Xin Xin Packaging | Purchase of consumables | **2,035** | 465 |
| Wanyang Group | Purchase of materials | **1,136,097** | 1,155,267 |
| Wanyang Group | Sales of materials | **165,588** | 91,217 |
| Wanyang Group | Rental paid | **2,069** | 3,556 |

Note:

(i) Changxing Jin Ling Hotel (長興金陵大酒店) is controlled by Mr. Zhang.

(b) Details of the remuneration of directors and other members of key management during the year are set out in note 15.

## 49. Statement of Financial Position and Reserves of the Company

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Non-current assets | | |
| Property, plant and equipment | **23** | 23 |
| Investments in and amounts due from subsidiaries | **1,047,707** | 960,475 |
| | **1,047,730** | 960,498 |
| Current assets | | |
| Other receivables | **143** | 6,809 |
| Bank balances and cash | **10,630** | 18,942 |
| | **10,773** | 25,751 |
| Current liabilities | | |
| Other payables | **37,927** | 14,900 |
| Borrowings | **94,758** | – |
| Amounts due to subsidiaries | **51,976** | 36,914 |
| | **184,661** | 51,814 |
| Net current liabilities | **(173,888)** | (26,063) |
| Net assets | **873,842** | 934,435 |
| Capital and reserves | | |
| Share capital | **109,850** | 109,905 |
| Reserves | **763,992** | 824,530 |
| Total equity | **873,842** | 934,435 |

| | **Share premium** RMB'000 | **Share options reserve** RMB'000 | **Accumulated profit (losses)** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|
| At 1 January 2019 | 783,403 | 41,647 | (3,136) | 821,914 |
| Profit for the year | – | – | 378,867 | 378,867 |
| Forfeiture of share options | – | (1,754) | 1,754 | – |
| Dividend recognised as distribution | – | – | (376,251) | (376,251) |
| At 31 December 2019 and 1 January 2020 | 783,403 | 39,893 | 1,234 | 824,530 |
| Profit for the year | – | – | 348,559 | 348,559 |
| Share repurchase | (4,836) | – | – | (4,836) |
| Forfeiture of share options | – | (2,909) | 2,909 | – |
| Dividend recognised as distribution | – | – | (404,261) | (404,261) |
| At 31 December 2020 | 778,567 | 36,984 | (51,559) | 763,992 |

## 50. Contingent Liabilities

At the end of the reporting period, the Group and the Company did not have any significant contingent liabilities (2019: nil).

## 51. Particulars of Principal Subsidiaries of the Company

| Name of subsidiary | Place/Country of incorporation/ establishment and operations | Issued and fully paid share/ registered capital | Effective proportion of nominal value of issued share/ registered capital held by the Company 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| Tianneng International Investment Holdings Limited | British Virgin Islands/ Hong Kong 15 November 2004 | US$1 | **100%** | 100% | Investment holding |
| 浙江省長興天能電源有限公司 Zhejiang Changxing Tianneng Power Supply Co., Ltd. | PRC – Limited liability company 11 March 1998 | Registered capital – RMB108,000,000 | **100%** | 100% | Manufacture and sales of lead-acid batteries |
| 天能電池集團有限公司 Tianneng Battery | PRC – Limited liability company 13 March 2003 | Registered capital – RMB855,500,000 | **97%** | 97% | Investment holding, research and development, manufacture and sales of lead-acid batteries and battery related accessories |
| 浙江天能能源科技股份有限公司 Zhejiang Tianneng Energy | PRC – Limited liability company 1 July 2004 | Registered capital – RMB226,666,000 | **60%** | 60% | Manufacture and sales of lithium batteries |
| 長興天能汽車運輸有限公司 Changxing Tianneng Vehicle Transport Co., Ltd. | PRC – Limited liability company 30 May 2005 | Registered capital – RMB450,000 | **100%** | 100% | Provision of transportation service to group companies |
| 天能電池(蕪湖)有限公司 Tianneng Battery Wuhu | PRC – Limited liability company 21 October 2005 | Registered capital – RMB230,000,000 | **100%** | 100% | Manufacture and sales of lead-acid batteries |
| 浙江天能電池(江蘇)有限公司 Zhejiang Tianneng Battery (Jiangsu) Co., Ltd. | PRC – Limited liability company 9 May 2005 | Registered capital – RMB200,000,000 | **100%** | 100% | Manufacture and sales of lead-acid batteries |
| 浙江天能電池(江蘇)新能源有限公司 Zhejiang Tianneng Battery (Jiangsu) New Energy Co., Ltd. | PRC – Limited liability company 8 January 2008 | Registered capital – RMB120,000,000 | **100%** | 100% | Manufacture and sales of lead-acid batteries |
| 浙江天能動力能源有限公司 Zhejiang Tianneng Power | PRC – Limited liability company 2 July 2009 | Registered capital – RMB300,000,000 | **100%** | 100% | Manufacture and sales of lead-acid batteries |
| 浙江天能電源材料有限公司 Zhejiang Tianneng Power Supply Material Co., Ltd. | PRC – Limited liability company 2 July 2009 | Registered capital – RMB300,000,000 | **100%** | 100% | Research and development of recycled batteries |
| 浙江天能物資貿易有限公司 Zhejiang Tianneng Material Trading Co., Ltd. | PRC – Limited liability company 25 March 2009 | Registered capital – RMB80,000,000 | **100%** | 100% | Sales of metal materials |
| 天能電池集團(安徽)有限公司 Tianneng Battery Anhui | PRC – Limited liability company 4 November 2010 | Registered capital – RMB200,000,000 | **100%** | 100% | Sales of metal materials |

## 51. Particulars of Principal Subsidiaries of the Company (Continued)

| Name of subsidiary | Place/Country of incorporation/ establishment and operations | Issued and fully paid share/ registered capital | Effective proportion of nominal value of issued share/ registered capital held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | **2020** | 2019 | |
| 長興新天物資經營有限公司 Changxing Xintian Material Trading Co., Ltd. | PRC – Limited liability company 27 July 2009 | Registered capital – RMB20,000,000 | **100%** | 100% | Sales of metal materials |
| 濟源市萬洋綠色能源有限公司 Jiyuan Wanyang | PRC – Limited liability company 27 October 2010 | Registered capital – RMB102,160,000 | **51%** | 51% | Manufacture and sales of lead-acid batteries |
| 安徽中能電源有限公司 Anhui Zhongneng | PRC – Limited liability company 17 April 2008 | Registered capital – RMB100,000,000 | **100%** | 100% | Manufacture and sale of electrode plates |
| 浙江赫克力能源有限公司 Zhejiang Hercules Energy Co., Ltd. | PRC – Limited liability company 10 November 2009 | Registered capital – RMB60,000,000 | **100%** | 100% | Manufacture and sales of lead-acid batteries and re-cycled batteries |
| 河南晶能電源有限公司 Henan Jingneng Energy Co., Ltd. | PRC – Limited liability company 13 March 2009 | Registered capital – RMB45,000,000 | **60%** | 60% | Manufacture and sales of lead-acid batteries |
| 安徽轟達電源有限公司 Anhui Hongda | PRC – Limited liability company 26 March 2010 | Registered capital – RMB50,000,000 | **100%** | 100% | Manufacture and sale of electrode plates |
| 安徽天暢金屬材料有限公司 Anhui Tianchang Metal Material Supply Co., Ltd. | PRC – Limited liability company 14 May 2018 | Registered capital – RMB200,000,000 | **51%** | 51% | Research and development of recycled batteries |
| 天能銀玥(上海)新能源材料有限公司 Tianneng Yinyue (Shanghai) New Energy Material Co., Ltd | PRC – Limited liability company 23 May 2016 | Registered capital – RMB60,000,000 | **75%** | 75% | Trading of new energy materials |
| 天能金玥(上海)新能源材料有限公司 | PRC – Limited liability company 28 November 2016 | Registered capital – RMB100,000,000 | **100%** | 100% | Trading of new energy materials |
| 浙江天暢供應鏈管理有限公司 | PRC – Limited liability company 26 April 2018 | Registered capital – RMB100,000,000 | **90%** | 90% | Provision of transportation service to group companies |
| 浙江天贏供應鏈管理有限公司 | PRC – Limited liability company 5 February 2020 | Registered capital – RMB100,000,000 | **100%** | N/A | Trading of new energy materials |

## 51. Particulars of Principal Subsidiaries of the Company (Continued)

| Name of subsidiary | Place/Country of incorporation/ establishment and operations | Issued and fully paid share/ registered capital | Effective proportion of nominal value of issued share/ registered capital held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | 2020 | 2019 | |
| 天能金玥(天津)有限公司 | PRC – Limited liability company 9 May 2020 | Registered capital – RMB60,000,000 | 100% | N/A | Trading of new energy materials |
| 天能融資租賃(天津)有限公司 | PRC – Limited liability company 17 January 2020 | Registered capital – RMB170,000,000 | 75% | N/A | Provision of finance lease |
| 天能炭素(江蘇)有限公司 | PRC – Limited liability company 27 March 2020 | Registered capital – RMB71,430,000 | 70% | N/A | Recycling industry |
| 山東中清環保技術有限公司 | PRC – Limited liability company 20 July 2018 | Registered capital – RMB200,000,000 | 80% | N/A | Recycling industry |

The above table lists the subsidiaries of the Group which, in the opinion of the Company's directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Company's directors, result in particulars of excessive length.

## 52. Events after the Reporting Period

### (a) Completion of the Proposed A Share Listing

The proposed listing of the securities of the 天能電池集團股份有限公司 (Tianneng Battery Group Co., Ltd.*) ("Spin- off Company") on the Sci-Tech Board have been completed and listing of ordinary shares commenced on 18 January 2021 ("A Share Offering").

Upon completion of the A Share Offering, the controlling interest of the Company in the Spin-off Company was reduced from approximately 98.33% to approximately 86.53%. The Spin-off Company remains to be a subsidiary of the Company and its results will continue to be consolidated into the consolidated financial statements of the Company. The details please refer to the annoucement dated 18 January 2021.

## 53. Approval of Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 March 2021.

# FINANCIAL SUMMARY

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2016<br>RMB'000 | 2017<br>RMB'000 | 2018<br>RMB'000 | 2019<br>RMB'000 | **2020<br>RMB'000** |
| **RESULTS** | | | | | |
| Revenue | 21,480,891 | 26,903,901 | 34,750,848 | 40,613,555 | **53,525,039** |
| Profit before taxation | 1,145,083 | 1,407,588 | 1,530,650 | 2,126,041 | **2,949,728** |
| Taxation | (239,561) | (227,356) | (295,474) | (400,091) | **(445,153)** |
| Profit for the year | 905,522 | 1,180,232 | 1,235,176 | 1,725,950 | **2,504,575** |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2016<br>RMB'000 | 2017<br>RMB'000 | 2018<br>RMB'000 | 2019<br>RMB'000 | **2020<br>RMB'000** |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 12,129,825 | 14,568,683 | 16,856,292 | 19,130,327 | **23,200,435** |
| Total liabilities | 8,023,225 | 9,837,668 | 11,467,094 | 11,843,811 | **13,741,146** |
| Net assets | 4,106,600 | 4,731,015 | 5,389,198 | 7,286,516 | **9,459,289** |