



## Rebuttal to Tianneng Power’s Clarification Announcement

On May 27, 2020, we published our investment opinion (the “Report”) on Tianneng Power International Limited (“Tianneng Power” or the “Company”) detailing our comprehensive due diligence that suggested massive fraudulent activities going on in the Company. On May 29, 2020, the Company issued a clarification announcement (the “Response”) which failed to address various key arguments in our Report in any meaningful way. We highlight the following for the attention of both investors and regulators.

### ***Our Distributor Survey of 40 Tier-1 Distributors of Tianneng Suggest that the Rebate Payment Cycle is Substantially Longer than Claimed by the Company***

The Company stated in the Response that, “[I]n 2019, basic rebates are generally settled at the following week after the distributor places the orders, and special rebates are generally settled at the following month after the distributor places the orders.”<sup>1</sup> It also claims that it has made no major adjustment to the rebate policy since 2017.

Our extensive due diligence indicates the Company’s statements to be untrue. We conducted a comprehensive distributor survey (“Distributor Survey”) through in-depth interviews with 40 distributors of Tianneng across the nation. Samples in our Distributor Survey included 13 small distributors, 12 mid-sized distributors and 15 large distributors from different provinces in China. **It is astonishing that every single one of these three groups’ data contradict with the Company’s disclosure, i.e., showing a much longer rebate payment cycle.**

According to the Distributor Survey, it takes approximately 2 to 6 weeks (average: 3 weeks) for distributors to receive basic rebates in 2018 and 2019. Special rebates were typically received in 4 to 7 weeks (average: 4.8 weeks) in 2018, and 5 to 7 weeks (average 5.6 weeks) in 2019. Besides basic rebates and special rebates, there are quarterly and annual rebates contingent on volume sales, which are typically paid to distributors 1-2 months post quarter or year end, which were obviously omitted in the Company’s Response. Further due diligence revealed that Tianneng has stretched its rebates payment schedule since 2017. This timing matched the establishment of Changxing Private Financing Service Center (长兴民间融资服务中心有限公司) (“CPFSC”) by Tianneng in 2017 to provide off-balance sheet loans to distributors.

返利结算周期变化					
	总体	小型经销商	中型经销商	大型经销商	
样本数	N=40	N=13	N=12	N=15	
基础返利结算周期, 周					
	2018	2.9	5.5	4.5	1.9
	2019	3.0	5.0	3.8	2.4
特殊返利结算周期, 周					
	2018	4.8	6.5	5.4	4.4
	2019	5.6	6.5	5.1	5.6

Source: Distributor Survey

This reminds us of the debacle of Luckin Coffee where management called comprehensive grassroots due diligence as “misleading and false allegations” and “unsubstantiated data”.<sup>2</sup>

<sup>1</sup> <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0529/2020052900279.pdf>

<sup>2</sup> [https://www.sec.gov/Archives/edgar/data/1767582/000110465920009486/a20-6511\\_1ex99d1.htm](https://www.sec.gov/Archives/edgar/data/1767582/000110465920009486/a20-6511_1ex99d1.htm)

List of Samples in the Distribution Survey

大型经销商 Large Distributors (2019年铅酸电池提货额>1,000万元, 样本数15) (Annual battery procurement in 2019 >RMB10 million, N=15)	中型经销商 Mid-Sized Distributors (2019年铅酸电池提货额<=1,000万元, >500万元, 样本数12) (Annual battery procurement in 2019 RMB5-10 million, N=12)	小型经销商 Small Distributors (2019年铅酸电池提货额<=500万元, 样本数13) (Annual battery procurement in 2019 <RMB5 million, N=13)
浙江省xx市天能一级经销商 x先生	山东省xx市天能一级经销商 x先生	xx直辖市天能一级经销商 x女士
山西省xx市天能一级经销商 x先生	湖北省xx市天能一级经销商 x先生	山东省xx市天能一级经销商 x先生
江苏省xx市天能一级经销商 x先生	安徽省xx市天能一级经销商 x先生	山东省xx市天能一级经销商 x先生
江苏省xx市天能一级经销商 x先生	江苏省xx市天能一级经销商 x先生	xx直辖市天能一级经销商 x先生
广东省xx市天能一级经销商 x先生	山东省xx市天能一级经销商 x先生	湖南省xx市天能一级经销商 x先生
山东省xx市天能一级经销商 x先生	陕西省xx市天能一级经销商 x先生	xx直辖市天能一级经销商 x先生
广东省xx市天能一级经销商 x先生	河北省xx市天能一级经销商 x女士	河南省xx市天能一级经销商 x先生
山东省xx市天能一级经销商 x先生	浙江省xx市天能一级经销商 x女士	河北省xx市天能一级经销商 x先生
河北省xx市天能一级经销商 x先生	四川省xx市天能一级经销商 x先生	湖北省xx市天能一级经销商 x先生
xx直辖市天能一级经销商 x先生	四川省xx市天能一级经销商 x先生	xx直辖市天能一级经销商 x先生
浙江省xx市天能一级经销商 x先生	广东省xx市天能一级经销商 x先生	山东省xx市天能一级经销商 x先生
福建省xx市天能一级经销商 x先生	广东省xx市天能一级经销商 x先生	湖北省xx市天能一级经销商 x先生
江苏省xx市天能一级经销商 x先生	广东省xx市天能一级经销商 x先生	江苏省xx市天能一级经销商 x先生
河北省xx市天能一级经销商 x先生		

Source: Distributor Survey

According to Tianneng’s Response, the Company “recognizes sales based on the final actual settlement price”, which is the ex-factory price (打款价) minus rebates. That is to say, for every unit of battery sold in the Distribution Sales, when the Company recognizes net revenue, it should also recognize the amount of rebate per unit of battery as accrued rebates. When the Company actually settles the rebate with its distributors, the amount will be deducted from the accrued rebates.

The Company disclosed its average ex-factory price, average rebate and actual settlement price per unit of battery from 2016 to 2019 in the Response to SSE Comments. According to the disclosure below, in 2017, the Company received RMB140 as average ex-factory price for a unit of battery. It recognized RMB120 as net revenue, and booked RMB20 in accrued rebates. In 2019, the Company received RMB139 as average ex-factory price for a unit of battery. It recognized RMB110 as net revenue, and booked RMB30 in accrued rebates.

Average Rebates

年度	平均出厂价格	平均返利	最终销售价格	最终销售价格波动	铅平均采购价格	铅价波动
2019年度	139	30	110	-8.96%	14.58	-11.10%
2018年度	140	20	120	0.39%	16.40	3.86%
2017年度	140	20	120	17.09%	15.79	25.82%
2016年度	120	18	102		12.55	

注：平均返利为平均基础返利与平均特殊返利的合计。

Source: Response to SSE Comments – p.297

Therefore, for every unit of battery sold in Distribution Sales, the Company should recognize 50% more in rebate per unit of sales in 2019 compared to 2017 (from RMB20 in 2017 to RMB30 in 2019). According to the Company, its Distribution Sales volume was 36% higher in 2019 than 2017. **Even without any lengthening of the rebate cycle, we calculate that the Company’s accrued rebates by end of 2019 should double that of 2017.**

Average rebate per unit in 2017 (RMB)	20	a
Average rebate per unit in 2019 (RMB)	30	b
Average rebate 2019/2017	1.50	c=b/a
Distribution sales volume in 2017 (million units)	158	d
Distribution sales volume in 2019 (million units)	216	e
Distribution sales volume 2019/2017	1.36	f=e/d
Estimated accrued rebate 2019/2017	2.05	g=c*f

However, Tianneng’s accrued rebates unexplainably decreased from RMB453 million to RMB429 million from FYE2017 to FYE2019. We stand by our opinion that **Tianneng understated its accrued rebates to inflate its revenue and profits.**

Accrued Rebates Balance Disclosed by Tianneng Battery			
RMB' 000	FYE2017	FYE2018	FYE2019
Accrued Rebates	452, 586	202, 117	428, 568

Source: Draft A Share Prospectus – p.340, Tianneng Battery 2019 Audited Financial Statements

### Off-Balance Sheet Lending to Distributors through CPFSC

The Company failed to address its off-balance sheet lending to distributors through CPFSC.

Chairman Zhang's private business, Tianchang Holding Co., Ltd. (天畅控股有限公司), holds 40% equity interest in Changxing Private Financing Service Center (长兴民间融资服务中心有限公司) ("CPFSC"). Zhejiang Changtong Technology Co., Ltd. (浙江畅通科技有限公司) which is controlled by Chairman Zhang's family members, holds another 11% equity interests in CPFSC. In other words, Chairman Zhang and his family members control 51% equity interests in CPFSC. In addition, Mr. Zhang Renzhu (张仁竹), a senior management in Tianneng's Finance Business Unit,<sup>3</sup> was the legal representative, chairman and executive director of CPFSC until March 2020. His predecessor Chen Minru (陈敏如) was a former director of Tianneng.

In its Response to SSE Comments, Tianneng Battery advised SSE that it "did not involve in CPFSC's operation or selection of borrowers... the lending decision was independently made by CPFSC and the lending amount is not tied to the distributors procurement amount from Tianneng".

有资金提供融资服务。2017年、2018年及2019年，长兴民融以自有资金向公司经销商出借的金额分别为180万元、9,963万元和15,221万元；2018年及2019年，长兴民融撮合第三方向公司经销商出借的金额分别为4,185万元和9,690万元。在长兴民融以自有资金或撮合第三方资金向公司经销商提供借贷服务的过程中，公司未参与长兴民融的业务过程，未参与经销商的选择；长兴民融向经销商提供资金系其自身在经批准的业务范围内，独立自主开展的业务行为，且该等经销商收到贷款资金额度不与公司向其销售的情况挂钩。

经对比，2017年至2019年，该等经销商通过长兴民融获得的贷款金额不到公司向其销售金额的6%，占比较低且不存在与销售挂钩的情形，合计贷款金额不到公司主营业务收入1%。

The Company was not involved in CPFSC's operation or selection of borrowing distributors. The lending decision was independently made by CPFSC and the loan amount was not tied to the distributors procurement amount from the Company.

Source: Response to SSE Comments – p.91

This is another blatant lie. We interviewed two loan managers at CPFSC. They both referred to Tianneng as their "parent company", and their operation priority is to meet the business need of "parent company". According to the loan managers at CPFSC, the "parent company" provides guarantee to these loans, and is heavily involved in the lending business to its distributors. They have clear criterion related to procurement amount from Tianneng as pre-conditions for distributors to qualify for their loans. According to these loan managers, in 2019, the total lending amount to Tianneng's distributors with CPFSC's own balance sheet exceeded RMB200 million. CPFSC also facilitated more than RMB200 million to Tianneng's distributors through loan assistance to other financial institutions.

To refresh, Tianneng squeezed capital from distributors by increasing the transfer price (打款价) and rebates amount, and holding to their rebates. It then lent to distributors off-balance sheet through CPFSC and other micro-loan companies. Cash is recycled with leverage when distributors take these loans and place orders at Tianneng. This practice post significant question on the soundness of Tianneng's financial position and real leverage level. In our opinion, this is an intentional misrepresentation to regulators and investors on the Company's potential liabilities.

<sup>3</sup> <http://www.rhd361.com/special/news?id=d3076557d38e4584a0fed2e1150492ca>

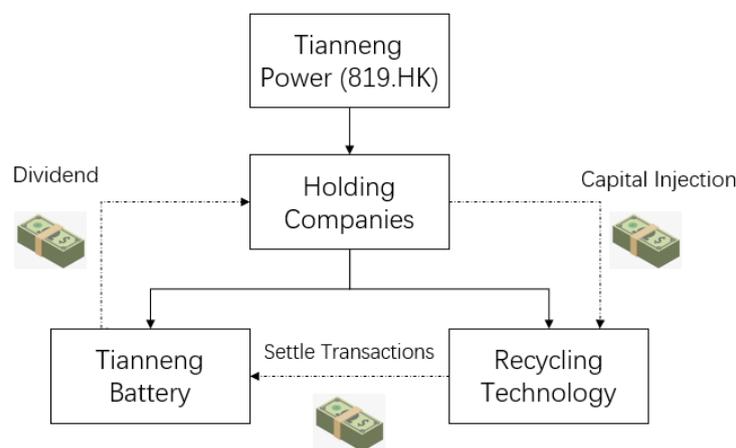
**Potential Wash of Fake Cash for A Share Applicant Tianneng Battery**

In the Response, the Company admitted that RMB535 million of dividends paid out by Tianneng Battery were recycled back to Tianneng Battery, i.e., used by Power Materials and Puyang Renewable to settle their debts to Tianneng Battery.

We obtained credit reports of Power Materials and Puyang Renewable and they each reported short-term loan of RMB40 million and nil as of December 31, 2017, respectively. That is to say, the RMB535 million debts owed by Power Materials and Puyang Renewable were created in 2018 before the Reorganization in August 2018. According to credit reports, fixed assets of Power Materials and Puyang Renewable together increased only by approximately RMB20 million in 2018. Working capital of these two companies also seem to be self-sufficient. Why did Power Materials and Puyang Renewable needed RMB535 million loans from Tianneng Battery in 2018 prior to the Reorganization? We suspect the so-called loan from Tianneng Battery to the two recycling entities was simply an excuse for Tianneng to recycle its dividend paid out to Holding Companies.

Tianneng Battery also claimed to have paid out a fat dividend of over RMB1.0 billion to the Holding Companies in 2019. Given Tianneng re-collected almost all of dividends that were supposed to be retained by its Holding Companies and the extensive related party transactions between Tianneng Battery and the Remaining Business, we think it is important that the regulators figure out the existence and utilization of the fat dividends paid out by Tianneng Battery. **We urge regulators to expand its review to include the accounts of Tianneng Power's Remaining Business so as to ascertain the reliability of Tianneng Battery's historical financial statements.**

The Company in its Response stated that the source of credit reports is "dubious". This is untrue. We obtained credit reports from credit investigation service provider registered with the People's Bank of China. We understand the financials contained in these reports are the financials of the subject company filed with local authorities. We believe regulators should cross-check these filings to ascertain the merits of our findings.



Source: Cloudy Thunder

**Fabricated Prepayment**

In its Response, Tianneng claimed that its prepayment to Luoyang Yongning included newly-added blockchain receivables of approximately RMB135 million. While the term "blockchain" is eye-catching, the underlying concept is confusing. Is this RMB135 million a prepayment from Tianneng or a receivable of Luoyang Yongning? It is very important to clarify this basic concept because the settlement of trade payables to suppliers is reflected in the COGS of the reporting period, while prepayment is not. If the RMB135 million was actually a settlement of trade payables to Luoyang Yongning, then the COGS of Tianneng in 2019 was understated by the same amount.

### 3. The annual increase of Luoyang Yongning's prepayment is reasonable

Luoyang Yongning's prepayment increased each year because (1) Tianneng Battery's amount of procurement from Luoyang Yongning increased each year. In 2018, 2019 and January to April 2020, Tianneng Battery's procurement from Luoyang Yongning amounted to approximately RMB225 million, RMB697 million and RMB266 million respectively; and (2) In 2019, Tianneng Battery's prepayment to Luoyang Yongning included newly-added blockchain receivables of approximately RMB135 million. Blockchain receivables are based on actual and legal transactions of a company. Blockchain technology is used to record and confirm information including the payee, payer, amount, date of payment and interest of a debt formed by a contract, supporting electronic settlement and financing instruments. The Company cooperated with China Zheshang Bank, employing its receivable chain platform to handle the issuance, acceptance, confirmation, payment, transfer, pledge, and encashment of blockchain receivables.

Source: Tianneng's Response dated May 29, 2020

In the Response to SSE, the Company provided further information on the block chain receivables of Luoyang Yongning. We understand from the disclosure below that the block-chain financing is underlying Luoyang Yongning's receivables from Tianneng, instead of Tianneng's prepayment. Tianneng Battery clearly stated in its Response to SSE that such blockchain financing is recorded as **bills payable**.

24.3 根据申报材料, 公司 2019 年 6 月末货币资金中存在区块链保证金 525 万元。请发行人说明上述区块链保证金的具体情况。

回复:

公司 2019 年 6 月末的区块链保证金系公司签发的区块链应收款的保证金, 保证金比例为 15%。2019 年 6 月末, 公司签发的区块链应收款余额 3,500 万元, 报表列报为应付票据科目, 对应保证金余额为 525 万元。区块链应收款指的是以企业真实、合法的交易背景为基础, 采用区块链技术对基于交易合同形成的债权债务关系的收款人、付款人、金额、付款日期、附带利息等信息进行记载确认, 支持债权流转的电子支付结算和融资工具。报告期内, 公司与浙商银行开展合作, 通过其应收款区块链平台办理区块链应收款的签发、承兑、保兑、支付、转让、质押、兑付等业务。

As of the end of June 2019, the Company had blockchain receivables of RMB35 million, recorded as bills payables

公司截至 2019 年 6 月末签发的区块链应收款余额明细及保证金金额对应情况如下表所示:

单位: 万元						
签发单位	收款人	签发金额	签发日期	到期日	保兑人	保证金
天能电源	洛阳永宁有色金属有限公司	3,500.00	2019-6-12	2020-6-11	浙商银行	525.00

Source: Response to SSE Comments – p.300

As described by Zheshang Bank on its website<sup>4</sup>, its block chain business is based on receivables – that is, the transactions that have already happened with the products and goods transferred. There is no block-chain business to be based on prepayment.

We also talked to an expert in supply chain financing from Ping An Bank who is very familiar with the block chain receivable business, which is a form of supply chain financing. According to this expert, the block-chain receivables held by a supplier (i.e. Luoyang Yongning) should be recorded as a payable on the balance sheet of the core

<sup>4</sup> [http://www.czbank.com/cn/corporate/corporate\\_banking/investment\\_service/qklysk1/201812/t20181210\\_15853.shtml](http://www.czbank.com/cn/corporate/corporate_banking/investment_service/qklysk1/201812/t20181210_15853.shtml)

customer (i.e. Tianneng). Moreover, there is no block chain business to be based on prepayment to suppliers currently, as core customers tend not to pay large prepayment given their bargaining power. **It appears that behind the fancy term of “blockchain”, Tianneng recorded bills payable as prepayment – turning a liability item into an asset item, and therefore inflated its 2019 profits.**

#### Interview Notes with Supply Chain Financing Manager at Ping An Bank

“区块链应收款是供应链金融的一种，就是底层加了区块链技术，本质类似于传统保理业务…区块链应收账款的债务人永远是核心企业，对于核心企业的报表始终有应付账款…应收款是指供应商基于和核心企业的贸易背景合同已经履行了服务约定，核心企业也已经确认供应商已经完成了服务或商品交接，并确认比如在三个月或六个月以后会把这笔款给到供应商。”

“预付款是指上游还没有提供服务和劳务，要给一笔订金，和应付款是完全两个东西。现在没有给上游供应商的区块链金融业务的预付款融资。一般核心企业是强势的，怎么会给供应商预付款？”

*“Block chain receivable is a form of supply chain financing, with the support of block chain technology as basis. The core of the business is similar to traditional factoring…The debtor is always the buyer. There should always be a “payable” item on buyer’s balance sheet (before it got settled)…Receivables are created when the supplier has delivered goods or services under the underlying contract, which is also confirmed by the buyer. Buyer then promise to make the payment in say 3 or 6 months’ time to the supplier.”*

*“Prepayment is a deposit paid by buyer. This is completely different from receivables. There is no block chain financing to be based on prepayment. Moreover, given the strong bargaining power of buyer against supplier in normal cases, how can there be a prepayment?”*

#### **Non-Trade Dealings with Controlling Shareholder of Major Customer Jiangsu Xinri**

The Company completely avoided providing reasons behind the dubious Henan Jingneng acquisition.

In November 2017, Tianneng acquired 81.67% equity interest in Henan Jingneng Power Co., Ltd. (河南晶能电源有限公司) (“Henan Jingneng”) from Zhang Chongshun (张崇舜) for RMB34 million.<sup>5</sup> Zhang Chongshun (张崇舜) is the controlling shareholder of Jiangsu Xinri E-bike Corporation (江苏新日电动车股份有限公司) (“Jiangsu Xinri”), one of Tianneng’s top five customers in Direct Sales business. According to Tianneng Battery, Henan Jingneng is primarily engaged in the manufacturing of lead-acid battery.

PRC local credit report suggest that Henan Jingneng could be an accounting manipulation vehicle. First, Henan Jingneng reported its net assets as of FYE2017 as RMB26 million to local authorities, while the Huzhou-based transaction valuer valued Henan Jingneng’s net assets as of November 30, 2017 at RMB54 million! Secondly, according to credit report, as of FYE2017, Henan Jingneng had liabilities totaling RMB229 million, representing a 9x leverage ratio. Such liabilities primarily consist of other payables of RMB125 million and accounts payables of RMB94 million. Thirdly, it lost over RMB40 million on a revenue of RMB176 million in 2017.

<sup>5</sup> Source: Draft A Share Prospectus – p.44.

In other words, Tianneng bought a loss-making business at 60% premium to net assets value, consolidating a bunch of fixed assets from an old business (Henan Jingneng was incorporated in 2009) and RMB220 million in payables. Henan Jingneng failed to generate cash to settle its payables and had little cash on its balance sheet as of FYE2017. **Therefore, at the time of the acquisition, Tianneng must know that it will need to settle this RMB220 million of payables with its own cash.** We suspect that this already happened – in 2019, Tianneng Battery transferred RMB237 million to Henan Jingneng, which was recorded as other receivables on Tianneng Battery's balance sheet.

Top 5 other receivables as of the end of the reporting period

(6) 期末其他应收款金额前 5 名情况

单位名称	款项的性质或内容	期末余额	账龄	占其他应收款期末余额合计数的比例(%)
天能神福得	暂借款	487,108,024.40	6个月以内	22.84
动力能源	暂借款	431,172,808.09	6个月以内	20.21
天能贵州	暂借款	292,447,152.47	6个月以内	13.71
天能河南	暂借款	272,285,748.42	6个月以内	12.76
Henan Jingneng 河南晶能	暂借款	237,303,877.18	6个月以内	11.12
小计		1,720,317,610.56		80.64

Source: Tianneng Battery 2019 Audited Financial Report

**We believe regulators will share our curiosity as to who are creditors for these RMB220 million payables. We suspect that this could be another cash recycling practice to wash fake cash if insiders are sitting behind the creditors of Henan Jingneng.**

More suspiciously, in the Draft A Share Prospectus, Tianneng Battery tells investors that it was going to divest in Henan Jingneng to focus on its core business (“为聚焦主业，河南晶能正在分立”).<sup>6</sup> Isn't Henan Jingneng engaged in lead-acid battery business? Hasn't it just received RMB237 million from Tianneng Battery? In a corporate directory, Henan Jingneng told the public that it is Tianneng's 9<sup>th</sup> battery production base and it was further upgrading its technology and capacity at the end of 2019.<sup>7</sup> We are confused by these contradictory disclosures.

### Undisclosed Related Party Transactions

In our opinion, the purpose of historical shareholding structure changes in Shuyang Xintian, Zhejiang Changtong and Changxing Changshun was to conceal connected transactions under Hong Kong Listing Rules. We believe HKEX should look at who are the group of persons that had *de facto* control of these related parties over the past decade. We examined the SAIC filings of these related parties, and find these related parties have been continuously controlled and managed by Chairman Zhang's cohorts.

We also want to highlight that the SAIC filings of Zhejiang Changtong shows a person named Zhang Meier (张梅娥) holds 90% of equity interest in Zhejiang Changtong. Zhang Meier was disclosed in Tianneng Power's 2007 IPO prospectus as a sister of Chairman Zhang. This means that the transactions between Tianneng Power and Zhejiang Changtong falls into the definition of connected transactions under Hong Kong listing rules.

Tianneng Power told investors in its 2007 IPO prospectus that they were going to terminate the transactions with Changxing Changshun due to internal capacity growth. This is another blatant lie. These transactions kept going on at least for the past four years. What Tianneng Power did was re-structure the shareholding arrangements to avoid connected transactions disclosure.

<sup>6</sup> Source: Draft A Share Prospectus – p.55

<sup>7</sup> <https://www.11315.com/ac/bs/1318055833919>

Our Directors expect that the total purchase of products from Changxing Changshun will be reduced to approximately RMB3.7 million in the financial year ending 31 December 2007 and our Directors expect to terminate those transactions made between Changxing Changshun and our Company in the financial year ending 31 December 2008. Such estimate is based on the projected growth of our production capacity and the total expected amount of products required from Changxing Changshun. Our Directors expect that due to the expected increasing production capacity of our plastic production division and our increasing capability to produce plastic cases for more models of our battery products, less plastic cases would be needed to be purchased from our suppliers including Changxing Changshun.

Source: 2007 IPO Prospectus – p.136

Tianneng Battery applied for waivers to not disclose transaction terms with Shuyang Xintian, Zhejiang Changtong, Changxing Changshun and Mengzhou Plastic in its A-share application.

电池产品的塑壳也系公司向沭阳新天、畅通科技、长顺塑业、志兴塑业等关联方采购的主要品种。The company also procures plastic casing from Shuyang Xintian, Zhejiang Changtong, Changxing Changshun and Mengzhou Plastic

报告期内，公司向上述关联方采购的平均单价与向可比第三方主体采购同类产品的平均单价的比较情况已申请豁免披露。

The company has applied for waivers to not disclose the comparison between the average procurement price of these related parties and comparable third parties.

Source: Response to First Round of Comments dated April 15, 2020 – p.155

**Tianneng defends such waivers, absurdly suggesting that “it is hard to obtain pricing information from Shuyang Xintian, Zhejiang Changtong and Changxing Changshun for their plastic procurement”. We believe regulators should direct Chairman Zhang to divulge the truth behind these relationships.**

场公允价格由双方协商确定，定价公允。公司难以取得沭阳新天、畅通科技、长顺塑业等关联方向第三方采购塑料的价格等相关资料，且公司自身向第三方销售塑料的金额相对较小，销售塑料的品种、规格等也差异较大，无法直接将关联销售与第三方销售的价格进行对比。公司报告期内向关联方销售塑料的平均毛利率水平已申请豁免披露。It's hard for the company to obtain the pricing information for third-party procurements of Shuyang Xintian, Zhejiang Changtong and Changxing Changshun...the company has applied for a waiver...

Source: Response to First Round of Comments dated April 15, 2020 – p.156

We obtained PRC credit reports for Shuyang Xintian, Zhejiang Changtong and Changxing Changshun. As expected, almost ALL revenue of these related parties was from Tianneng. Since 2018, Tianneng Battery has reported much higher payables to these related parties than the trade receivables disclosed in their respective credit reports. We suspect that the real transaction scale of these related party transactions are not disclosed to the public. To us, there are at least two sets of accounts to document these related party transactions, and Tianneng insiders could be taking out large amounts of cash out of the public company through these transactions.

#### Account Receivables of Zhejiang Changtong

RMB'000	2016	2017	2018
Account Receivables Disclosed in Credit Report	92,389	96,426	87,937
Tianneng's Payables to Zhejiang Changtong	105,444	86,977	163,981
% of Revenue from Tianneng Battery	114%	90%	186%

Source: Credit Report, Draft A Share Prospectus

**Account Receivables of Changxing Changshun**

RMB'000	2017	2018	2019
Account Receivables Disclosed in Credit Report	26,756	26,756	25,896
Tianneng's Payables to Changxing Changshun	29,213	41,592	38,991
% of Revenue from Tianneng Battery	109%	155%	151%

Source: Credit Report, Draft A Share Prospectus, Tianneng Battery 2019 Annual Report

**Dress-up of Inventory Turnover**

In the Company's Response, it claimed that "the Company uses the operating cost approach to calculate the inventory turnover rate and turnover days, which is in line with industry practice." In fact, the "operating cost" of Tianneng significantly exceeded the cost of production by 54% in 2020. The difference was mainly resulted from Tianneng's trading business. In other words, Tianneng significantly diluted its inventory turnover days with cost of its trading business.

RMB'000 人民币千元	2016	2017	2018	2020
(1) Cost of production 生产成本	15,636,383	19,644,099	24,252,095	23,625,119
(2) Operating cost 营业成本	18,083,533	22,948,355	29,902,369	36,465,400
Operatin cost % higher than cost of production	16%	17%	23%	54%
Difference between (1) and (2)	2,447,150	3,304,256	5,650,273	12,840,281
Other business revenue 其他业务收入	2,122,940	2,376,680	5,351,260	12,391,519

单位: 万元

项目	2019 年度		2018 年度		2017 年度		2016 年度	
	金额	比例	金额	比例	金额	比例	金额	比例
再生资源 业务	-	-	107,159.35	20.03%	161,355.96	67.89%	106,800.28	50.31%
贸易业务	1,002,628.56	80.91%	296,652.38	55.44%	15,417.93	6.49%	52,019.47	24.50%
废旧电池 等废料	154,215.24	12.45%	91,083.10	17.02%	27,797.39	11.70%	5,057.58	2.38%
其他	82,308.08	6.64%	40,230.75	7.52%	33,097.03	13.93%	48,417.04	22.81%
合计	1,239,151.88	100.00%	535,125.57	100.00%	237,668.31	100.00%	212,294.38	100.00%

Source: Response to SSE Comments, p. 189

We think the ultimate purpose was to conceal any red flags in these data. Based on our normalized calculations, the inventory turnover days of Tianneng Battery, excluding trading business, was 54 days in 2019, a significant increase from previous years and significantly exceeded its close competitor Chaowei.

The Company also suggested that its inventory increase was related to the battery sales volume growth of 11% in 2019. What the Company failed to mention was that lead price decreased by 11% yoy in 2019<sup>8</sup>. Therefore, the value of inventories per unit, both in finished and semi-finished products should also follow the decrease in lead price. However, although the Company's total cost of production decreased by 3%, its inventory balance increased by 26% as of FYE2019 as compared to that of FYE2018. We find it alarming.

**We remain short of Tianneng Power.**

<sup>8</sup> Response to SSE Comments, p. 297

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