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Chaowei Power Holdings Limited
超威動力控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 951)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

FINANCIAL HIGHLIGHTS

- Revenue for the Period was approximately RMB4,208.6 million, representing an increase of approximately 117.0% over the corresponding period last year.
- Gross profit for the Period was approximately RMB1,141.3 million, representing an increase of approximately 94.9% over the corresponding period last year.
- Profit attributable to the owners of the Company for the Period was approximately RMB322.2 million, representing an increase of approximately 127.1% over the corresponding period last year.
- Basic earnings per share for the Period amounted to RMB0.32 (six months ended 30 June 2011: RMB0.14).
- The Board does not recommend the payment of an interim dividend for the Period.

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Chaowei Power Holdings Limited (the "Company" or "Chaowei Power") is pleased to announce the unaudited interim financial results and financial position of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2012 (the "Period") together with the comparative figures for the corresponding period of 2011. These interim financial results have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu, Certified Public Accountants and reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

		Six months ended 30 June	
		2012	2011
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	*(unaudited)*
Revenue	*3*	**4,208,613**	1,939,172
Cost of sales		**(3,067,317)**	(1,353,601)
Gross profit		**1,141,296**	585,571
Other income		**17,388**	11,316
Distribution and selling expenses		**(294,660)**	(195,020)
Administrative expenses		**(149,198)**	(78,858)
Research and development expenses		**(150,979)**	(62,437)
Other expenses		**(9,164)**	(15,717)
Finance costs		**(52,715)**	(12,015)
Profit before taxation	*4*	**501,968**	232,840
Income tax expense	*5*	**(97,726)**	(50,032)
Profit and total comprehensive income for the period		**404,242**	182,808
Profit and total comprehensive income attributable to:			
Owners of the Company		**322,161**	141,877
Non-controlling interests		**82,081**	40,931
		404,242	182,808
Earnings per share			
– Basic (RMB)	*6*	**0.32**	0.14

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2012

	Notes	**At 30 June 2012 *RMB'000* *(unaudited)***	At 31 December 2011 *RMB'000* *(audited)*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,612,972**	1,145,711
Prepaid lease payments		**149,313**	126,207
Investment property		**8,119**	8,410
Deferred tax assets		**119,270**	78,450
Deposits paid for acquisition of property, plant and equipment		**202,890**	108,424
Deposits paid for acquisition of equity investments		**83,300**	–
Goodwill		**49,152**	25,628
Available-for-sale investment		**–**	4,000
Other receivable		**–**	28,300
		2,225,016	1,525,130
CURRENT ASSETS			
Inventories		**1,326,338**	895,919
Trade receivables	*8*	**169,493**	237,038
Bills receivable	*9*	**1,259,190**	736,614
Prepayments and other receivables		**275,886**	127,950
Amounts due from related parties	*12*	**6,669**	198
Prepaid lease payments		**3,172**	2,671
Restricted bank deposits		**348,948**	150,926
Bank balances and cash		**550,169**	844,750
		3,939,865	2,996,066
CURRENT LIABILITIES			
Trade payables	*10*	**1,042,177**	587,964
Bills payable	*11*	**33,500**	37,640
Other payables		**553,236**	413,459
Amounts due to related parties	*12*	**4,750**	8,976
Income tax payable		**40,440**	37,522
Provision		**189,705**	125,111
Bank borrowings		**1,940,516**	1,094,000
		3,804,324	2,304,672
NET CURRENT ASSETS		**135,541**	691,394
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,360,557**	2,216,524

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2012

	Notes	**At 30 June 2012** ***RMB'000*** ***(unaudited)***	At 31 December 2011 *RMB'000* *(audited)*
CAPITAL AND RESERVES			
Share capital		**68,140**	68,140
Reserves		**1,865,098**	1,679,656
Equity attributable to owners of the Company		**1,933,238**	1,747,796
Non-controlling interests		**373,335**	253,657
TOTAL EQUITY		**2,306,573**	2,001,453
NON-CURRENT LIABILITIES			
Deferred income		**53,329**	51,069
Deferred tax liabilities		**655**	8,002
Bank borrowings		**–**	156,000
		53,984	215,071
		2,360,557	2,216,524

Notes:

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 18 January 2010 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 7 July 2010. The registered office of the Company is located at Scotia Centre, 4th floor, P.O. Box 2804, George Town, Grand Cayman, KY1-1112, Cayman Islands, and its principal place of business in the PRC is located at No. 12, Zhizhou Road, Xinxing Industrial Park Zhicheng, Changxing, Zhejiang Province, PRC.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs").

- amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets; and

- amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets.

The application of the above amendments to IFRSs in current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

In addition, the Group provided guarantee to a related party, the accounting policy on financial guarantee is as follows:

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of motive batteries. The Group's revenue represents the amount received and receivable for sale of motive batteries during the period.

The information reported to the executive directors of the Company, who is the Group's chief operating decision maker for the purpose of resource allocation and assessment of performance, does not contain profit or loss information of each product line and the executive directors reviewed the gross profit of the Group as a whole reported under the relevant accounting policies and financial regulations in the PRC (the "PRC GAAP"), which has no any significant differences as compared with gross profit reported under IFRSs. Therefore, the operation of the Group constitutes one single operating segment. Accordingly, no segment information is presented.

An analysis of revenue by products is as follows:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Lead-acid motive batteries		
Electric bikes battery	**3,838,316**	1,895,782
Storage battery	**11,067**	4,738
Electric cars battery and special-purpose electric cars battery	**310,491**	6,775
Li-ion batteries	**1,195**	–
Materials include lead and active additives	**47,544**	31,877
	4,208,613	1,939,172

4. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Wages and salaries	**154,143**	43,802
Retirement benefits scheme contributions	**7,367**	2,102
Labour cost *(Note)*	**115,582**	81,621
Total staff costs	**277,092**	127,525
Cost of inventory recognised as expense	**3,032,015**	1,338,220
Prepaid lease payments released to profit or loss	**1,425**	800
Depreciation of property, plant and equipment	**48,005**	26,901
Depreciation of investment property	**291**	291
Interest income	**(5,665)**	(2,111)
Government grants	**(8,786)**	(8,019)

Note: The Group has entered into labor dispatch agreements with several service organisations which have provided labor service to the Group.

5. INCOME TAX EXPENSES

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
The charge comprises:		
PRC current income tax	**144,134**	54,981
Deferred tax	**(46,408)**	(4,949)
	97,726	50,032

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 tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. On 26 December 2007, the EIT Law's Detailed Implementation Rules and the details of the transitional arrangement were promulgated, respectively. They contemplate various transition periods and measures for previous preferential tax policies, including a grace period of a maximum of 5 years until 2012 for the enterprises which were entitled to a lower income tax rate under the previous tax law and continued implementation of preferential tax treatment with a fixed term until the expiration of such fixed term. In addition, the EIT Law provides that qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% to 10% withholding tax under the tax treaty or the domestic law. During the current interim period, withholding tax on intra-group dividend amounting to RMB20,444,000 (six months ended 30 June 2011: RMB2,722,000) was paid by the Group to relevant tax authorities.

As at 30 June 2012, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was RMB1,304,528,000 (31 December 2011: RMB1,048,650,000). No deferred tax liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

6. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Profit for the period attributable to owners of the Company	**322,161**	141,877

	Six months ended 30 June	
	2012	2011
	'000	*'000*
	(unaudited)	*(unaudited)*
Number of shares	**1,005,290**	1,005,290

No diluted earnings per share is presented as the Company did not have potential ordinary shares outstanding during both periods.

7. DIVIDENDS

During the current interim period, a final dividend of RMB0.136 per share in respect of the year ended 31 December 2011 (six months ended 30 June 2011: RMB0.080 per share in respect of the year ended 31 December 2010) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the current interim period amounted to RMB136,719,440 (six months ended 30 June 2011: RMB80,423,200).

The Directors have determined that no interim dividend will be paid in respect of the Period (six months ended 30 June 2011: Nil).

8. TRADE RECEIVABLES

The Group normally allows a credit period of 15 days to its trade customers with trading history, or otherwise sales on cash terms are required. The following is an analysis of trade receivables by age, presented based on the goods delivery date which is the same as sales recognition date, net of allowance for doubtful debts as at 30 June 2012 and 31 December 2011:

	At 30 June 2012 *RMB'000* *(unaudited)*	At 31 December 2011 *RMB'000* *(audited)*
0 – 15 days	**110,903**	129,884
16 – 90 days	**51,118**	87,598
91 – 180 days	**4,680**	14,981
181 – 365 days	**2,792**	4,575
	169,493	237,038

9. BILLS RECEIVABLE

The aging analysis of bills receivable presented based on issue date at 30 June 2012 and 31 December 2011 is as follows:

	At 30 June 2012 *RMB'000* *(unaudited)*	At 31 December 2011 *RMB'000* *(audited)*
0 – 90 days	**833,682**	565,378
91 – 180 days	**425,508**	171,236
	1,259,190	736,614

As at 30 June 2012, the Group has discounted bills receivable of RMB219,106,000 (31 December 2011: Nil) to banks with full recourse. Accordingly, the Group continues to recognise the full carrying amount of the bills receivable and recognised the cash received on the discounting as bank borrowings.

Bills receivable of approximately RMB438,238,000 as at 30 June 2012 (31 December 2011: RMB263,926,000) were endorsed with full recourse to third party suppliers for purchase of raw materials and the corresponding trade payables of RMB438,238,000 as at 30 June 2012 (31 December 2011: RMB263,926,000) were included in the condensed consolidated statement of financial position accordingly.

Included in the bills receivable as at 30 June 2012 was an amount of approximately RMB140,480,000 (31 December 2011: RMB123,782,000) which was endorsed with full recourse to third party suppliers for purchase of machinery and payments for construction in progress.

10. TRADE PAYABLES

The following is an analysis of trade payables by age, presented based on the material receiving date, at 30 June 2012 and 31 December 2011:

	At 30 June 2012 *RMB'000* *(unaudited)*	At 31 December 2011 *RMB'000* *(audited)*
0 – 30 days	**375,647**	196,981
31 – 90 days	**349,001**	124,903
91 – 180 days	**269,031**	220,417
181 – 365 days	**18,720**	15,666
1 – 2 years	**29,119**	29,859
Over 2 years	**659**	138
	1,042,177	587,964

11. BILLS PAYABLE

All the bills payable are of trading nature and will mature within six months from issue date.

12. BALANCE WITH RELATED PARTIES

	At 30 June 2012 *RMB'000* *(unaudited)*	At 31 December 2011 *RMB'000* *(audited)*
Amounts due from related parties:		
Trade nature		
– Henan Yifeng Electric Bikes Manufacturing Co., Ltd. (河南屹峰電動車製造有限公司) ("Henan Yifeng") *(note i)*	**–**	198
– Henan Yilin Commerce & Trade Co., Ltd (河南省屹林商貿有限公司) ("Henan Yilin") *(note ii)*	**722**	–
– Zhejiang Yongda Industry Group Co., Ltd. (浙江永達實業集團有限公司) ("Zhejiang Yongda") *(note iii)*	**5,947**	–
Total	**6,669**	198

The amounts due from related parties were denominated in RMB, unsecured, interest free and repayable on demand.

	At 30 June 2012 *RMB'000* *(unaudited)*	At 31 December 2011 *RMB'000* *(audited)*
Amounts due to related parties:		
Trade nature		
– Henan Yifeng	**1,628**	–
– Henan Yilin	**–**	776
Non-trade nature		
– Wu Rongliang (吳榮良) *(note iv)*	**3,122**	8,200
Total	**4,750**	8,976

The amounts due to the related parties were denominated in RMB, unsecured, interest free and to be settled either on demand or within one year.

Notes:

(i) Henan Yifeng is controlled by non-controlling shareholder of Henan Chaowei Power Co., Ltd.（河南超威電源有限公司）(“Henan Chaowei”).

(ii) Henan Yilin is controlled by Henan Yifeng.

(iii) Zhejiang Yongda is a non-controlling shareholder of Jiangsu Yongda Power Co., Ltd.（江蘇永達電源股份有限公司）(“Jiangsu Yongda”).

(iv) Wu Rongliang is a non-controlling shareholder of Anhui Yongheng Power Technology Co., Ltd.（安徽永恒動力科技有限公司）(“Anhui Yongheng”).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is mainly engaged in the manufacturing and sale of lead-acid motive batteries and other related products under the "Chaowei (ChilWee)" trademark, a renowned brand name in China. In addition to lead-acid motive batteries, the Group also produces lead-acid storage batteries, as well as lithium-ion power and storage batteries. Chaowei Power leads its peers in the large-scale application of the technology of multi-stage enclosed battery formation process which yields cadmium-free lead-acid batteries in the production process. Chaowei Power is also the market leader in terms of sales volume and revenue.

Benefiting from the industry consolidation policy implemented by the PRC government as well as the sustained strong market demand for lead-acid batteries, the Group recorded a strong year-on-year growth of more than 100% for the first six months of this year in our sales volume, revenue and net profit.

Market Overview and Business Review

Industry consolidation and introduction of national policies

In 2012, the PRC government continues to intensify its efforts to facilitate consolidating the lead-acid battery industry which started in 2011. In order to reduce the environmental pollution caused in the production of lead-acid batteries, the MIIT and the MEP brought into effect the "Entry Requirements of the Lead-acid Battery Industry" (《鉛蓄電池行業准入條件》) (the "Entry Requirements") on 1 July 2012, aiming at consolidation of the industry by increasing the entry requirements for the battery industry and eliminating those companies running outdated production capacity. The Entry Requirements clearly stipulate that operations engaged in the production of lead-acid batteries and lead-based components with cadmium content higher than 0.002% or arsenic content higher than 0.1% must be suspended by the end of 2013. In addition, the application of traditional battery formation process is forbidden in projects established, converted and expanded subsequent to 31 December 2012. Currently only approximately 20% of the production capacity in the industry can engage in enclosed battery formation procedures to meet the emission requirement of the Entry Requirements.

Leader in use of new production process complying with the Entry Requirements

As the leading industry player, Chaowei Power is the only lead-acid battery manufacturer who has successfully applied the process of multi-stage enclosed battery formation for lead-acid cadmium-free batteries in large scale production. As at 30 June 2012, the Group has applied this process in approximately 67% of its production and has realised a decrease of more than 20% and 80% in energy and water consumption, respectively. Its environmental protection philosophy is in line with the national development strategy of clean production and energy conservation. The Group plans to complete transformation of its entire production to utilise the cadmium-free enclosed battery formation process by the end of 2013.

Leading position in electric bike motive battery market

Thanks to enhancement of the Company's distribution network and operational efficiency, an increase in sales of the Company's products caused by an expansion of the Group's production capacity and increase of the Company's market share, the Group has become the market leader in electric bike motive battery market in terms of revenue and sales volume. The Group's revenue for the Period increased by 117.0% from RMB1,939,172,000 for six months ended 30 June 2011 to RMB4,208,613,000 for the Period.

Sales growth in primary and secondary market

With the increased demand for electric bikes driven by people's improved living standard and the concern for protecting the environment, the growth potential for the electric bike industry is huge. To realise such potential, the Group has continued to develop the primary market by supplying batteries to leading electric bike manufacturers. Our customers include the market leaders, namely Yadea, Byvin and Lima and our customer base is constantly expanding. The Group as the leading manufacturer is set to benefit from the situation of tight supply in the market and vigorous consolidation in the industry. In the first half of 2012, the Group's sales revenue from the primary market grew by 87.5% to RMB1,894.5 million as compared to the corresponding period in 2011.

The total ownership of electric bikes was approximately 130 million units in 2011, and is expected to grow to 200 million units by the end of 2015, bringing about a battery replacement need on the secondary market. In order to seize a bigger secondary market share, the Group adopted a thorough management approach by restructuring the national distribution network into 21 areas to improve the overall management and terminal sales capability. As at 30 June 2012, the Group had 892 independent distributors and sales revenue from the secondary market was approximately RMB2,266.6 million, representing an increase of 160.7% compared to the same period last year. The Group is committed to increasing brand awareness through a series of measures such as the introduction of various products under different brands, establishment of Chaowei retail and service outlets across China, and offering verifications of product authenticity. Moreover, the Group has continued to expand its sales network in an effort to win over more secondary market customers.

Expansion of production capacity

As the PRC government has been implementing more stringent environmental protection measures, the lead-acid battery industry, affected by the rectification policies and the increased consolidation within the industry, has seen a decline in the supply of lead-acid batteries while the market demand for lead-acid batteries remained strong. In response to the strong market demand, the Group has constructed new production lines and upgraded its production facilities in order to expand its production capacity and further increase its market share.

As at 30 June 2012, the Group's annual production capacity for lead-acid motive batteries reached 75 million units. Subsequent to commencement of production in 2011, production capacity of the new production facilities in Ningyang County, Shandong Province and Shanggao County, Jiangxi Province continued to increase in 2012. In January 2012, the Group commenced investment and construction of new production facilities in Changxing County, Zhejiang Province, which are expected to have an annual capacity of 12 million units upon completion. In addition, in April 2012, the Group commenced investment and the construction of a new production facility in Xinhe County, Hebei Province. The annual production capacity of lead-acid motive batteries of the Group is expected to increase by 12 million units upon completion of the first phase of the project.

The Group has also identified and evaluated appropriate enterprises for strategic acquisition. Upon the successful acquisition of an 85% equity interest in Qinyang Libiao Plate Co., Ltd. (沁陽市立標隔板有限公司) ("Qinyang Liao") from Henan Yifeng Industry Group Co., Ltd. (河南屹峰實業集團有限公司) by Henan Chaowei Power Co., Ltd.（河南超威電源有限公司）("Henan Chaowei"), an indirect non-wholly owned subsidiary of the Group, Qinyang Libiao became an indirect non-wholly owned subsidiary of the Group which will be engaged in supplying quality electrode plate dividing paper to the Group. This acquisition is expected to benefit the Group in enhancing battery quality, and facilitating business development while reducing production costs.

Development of the new-energy automobile industry

The industrialisation of new-energy automobiles has been consistently and proactively supported by national policies, and has promising prospects in the market. The "Twelfth Five-year Plan for Technological Development of Electric Vehicles (《電動汽車科技發展"十二五"規劃》)" states that the batteries used in electric vehicles have become the main focus of development. In July 2012, the State Council issued the "2020 Development Plan of Energy-saving and New-energy Automotive Industry (《2020年節能與新能源汽車產業發展規劃》)," with an aim to reach an output and sale of 5,000,000 units of new-energy vehicles by the year 2020. This development will stimulate further development of the battery industry. To capitalise on this business opportunity, the Group has initiated business cooperation with major manufacturers of electric vehicles, such as Dongfeng Xiaokang Motor, Wuling Automobile and Geely Automobile, and plans new collaborative research and development ("R&D") projects in order to further develop the business of batteries for new-energy electric vehicles. In the first half of 2012, the Group's sales revenue from motive batteries for new-energy vehicles (including electric cars and other special purpose vehicles, such as electric tourist coaches, electric golf carts, electric forklifts and electric tricycles) increased significantly by 45.8 times to RMB310 million as compared with the corresponding period of 2011.

Expansion of research and development capacity

Strong R&D capability has always been the engine which powers the Group's leading position in the industry. Chaowei Research Institute has been upgraded to a provincial-level corporate research institute in Zhejiang Province. Following completion of the first-phase fundamental research on plastic batteries by the Group's post-doctorate science research workshop, applications of the new technology have been developed and production has successfully commenced. The second-phase research focusing on a long-life high-capacity battery, is currently underway. The Group will continue to invest in R&D and also to set the benchmark for the industry. For the Period, the Group's R&D expenses have increased by 142% to RMB150,979,000. As at 30 June 2012, the Group had a total of 244 registered patents (invention patents: 14), an increase of 52 patents from 31 December 2011. Among the three newly acquired invention patents, two are industry's significant inventions.

Financial Review

Revenue

The Group's revenue for the Period amounted to RMB4,208,613,000, representing an increase of 117.0% compared to RMB1,939,172,000 for the same period in 2011. The increase was primarily attributable to the growth of sales volume of lead-acid motive batteries and an increase in the average selling price per unit of battery.

Gross profit

The Group's gross profit for the Period amounted to RMB1,141,296,000, representing an increase of 94.9% compared to RMB585,571,000 for the same period in 2011, primarily as a result of increased sales volume of lead-acid motive batteries. During the Period, gross profit margin decreased from 30.2% to 27.1% primarily because of the increase in OEM arrangement as compared to the same period in 2011.

Other income

The Group's other income for the Period amounted to RMB17,388,000, representing an increase of about 53.7% compared to RMB11,316,000 for the same period in 2011. The increase was mainly due to the increase in government grants received and interest income in the Period.

Distribution and selling expenses

The Group's distribution and selling expenses for the Period amounted to RMB294,660,000, representing an increase of approximately 51.1% compared to RMB195,020,000 for the same period in 2011. The increase was primarily due to the increase in commission expenses and transportation expenses as a result of the increase in sales.

Administrative expenses

The Group's administrative expenses for the Period were RMB149,198,000, representing an increase of 89.2% compared to RMB78,858,000 for the same period in 2011. The increase was mainly attributable to an increase in staff costs, depreciation, consulting fee and utilities which are in line with the Group's business expansion and increase in number of projects and production bases.

Research and development expenses

Research and development expenses for the Period amounted to RMB150,979,000, representing an increase of 141.8% compared to RMB62,437,000 for the same period in 2011. The increase was primarily due to the increase in the number of research projects during the Period compared to that of the same period last year.

Finance costs

The Group's finance costs for the Period increased by 338.7% from RMB12,015,000 for six months ended 30 June 2011 to RMB52,715,000. The increase was primarily due to an increase in interest expenses on our bank borrowings as a result of the increase in our average bank borrowing balances.

Profit before taxation

For the above reasons, our profit before tax for the Period increased by 115.6% to RMB501,968,000 (for the six months ended 30 June 2011: RMB232,840,000).

Taxation

The Group's income tax expenses for the Period increased by 95.3% to RMB97,726,000 (for the six months ended 30 June 2011: RMB50,032,000). The effective tax rate for the Period was 19.47%, representing a decrease of 2% compared to the same period last year. The decrease was primarily because the tax rate of Henan Chaowei decreased from 25% for the six months ended 30 June 2011 to 15% during the Period.

Profit attributable to owners of the Company

Profit attributable to owners of the Company for the Period amounted to RMB322,161,000, representing an increase of 127.1%, compared to RMB141,877,000 for the same period in 2011.

Liquidity and financial resources

As at 30 June 2012, the Group had net current assets of RMB135,541,000 (31 December 2011: RMB691,394,000), of which cash and bank deposits were RMB550,169,000 (31 December 2011: RMB844,750,000), total borrowings, including discounted bills, were RMB1,940,516,000 (31 December 2011: RMB1,250,000,000). The borrowings were mainly used to finance capital expenditure, the purchases of raw materials and operations of the Group. They were denominated in RMB, of which RMB1,328,016,000 bore interests at fixed rates and RMB1,940,516,000 were repayable within one year. The Group adopted centralised financing and treasury policies in order to ensure the funding is utilized efficiently. As at 30 June 2012, the Group's current ratio was 1.04 (31 December 2011: 1.30) and gearing ratio (total borrowings/total assets) was 0.31 (31 December 2011: 0.28). The Group had sufficient cash and available banking facilities to meet its commitments and working capital requirements. The current cash position has enabled the Group to explore investment and business development opportunities to expand its market share in China.

Exchange rate fluctuation risk

As the Group's operations are mainly conducted in China and the majority of the sales and purchases are transacted in Renminbi, the Directors are of the view that the Group's operating cash flow and liquidity are not subject to significant foreign exchange rate risks.

Contingent liabilities

As at 30 June 2012, the Group provided guarantees with a maximum amount of RMB46,000,000 (31 December 2011: Nil) to Huzhou Zhongyi Material Trading Co., Ltd. (湖州眾益物資貿易有限公司) ("Huzhou Zhongyi"), in which RMB40,000,000 was issued in respect of bank acceptance notes and RMB6,000,000 was issued in respect of bank borrowings.

Based on management's expectations, it is more likely than not that no amount will be payable by the Group to indemnify the bank under these guarantee arrangements and the fair values of these guarantee arrangements are insignificant. Consequently, no provision for the guarantees has been recognised in the condensed consolidated statement of financial position of the Group as at 30 June 2012.

As of the date of issuance of this announcement, all the aforesaid guarantees have been released.

Human resources and employees' remuneration

As at 30 June 2012, the Group employed a total of about 17,789 staff in the PRC and Hong Kong (30 June 2011: 9,464). During the Period, the total staff costs amounted to approximately RMB277,092,000 (30 June 2011: RMB127,525,000). The Group sought to further strengthen staff training by offering focused training programs and study tours to management and professional technical personnel, and disseminating the latest government policy information on the lead-acid motive battery industry to all staff within the Period. The Group continued to strive for the enhancement of professional standards and overall qualities of our staff. The Group also provided competitive salary packages to our staff, encouraging them to be fully dedicated in their work and to leverage their capabilities in serving our customers.

FUTURE DEVELOPMENTS

Prospects and Development Strategy

Electric bikes are becoming increasingly popular in China. According to Frost & Sullivan, the total number of electric bike users as at 2011 is approximately 132.9 million in China and is expected to increase at a CAGR of 12.4% from 2011 to 2013, while the electric bike lead-acid battery market is expected to grow at a CAGR of 16.9% for the same period. In order to capitalise on the opportunities arising from both the industry reshuffle and the PRC government policies while maintaining its leading position in the industry, the Group has set the long-term goals:

- To become the world's largest motive and storage battery supplier;
- To continuously strengthen and lead the development of technologies in motive batteries and storage batteries; and
- To become the model enterprise among its domestic peers in production procedures.

To accomplish the above long-term goals, the Group will closely monitor the development and trends within the industry, periodically review and evaluate market conditions and its own development strategies, and consolidate and improve the Group's competitive strength in the industry by taking parallel measures of expanded production capacity, reinforced marketing efforts and intensified R&D. The Group will increase its investment and the resources it devotes to the R&D of long-life full-plastic batteries and continue its R&D on high-capacity batteries for new-energy vehicles. The Li-ion batteries developed by the Group for electric vehicles have already achieved fruitful scientific testing results, and have been progressively rolled out to the market. The Group aims to fully employ the environmentally friendly enclosed battery formation process in all of its production facilities by the end of 2013. Thanks to the introduction of stricter entry requirements and the Government's determination to bolster environmental protection efforts, a large number of enterprises with outdated production capacity have been phased out. The Group is confident that its leading competitive edge in the industry will become stronger in the coming years.

Strategic Expansion of Production Capacity

As the PRC government has placed more effort to make lead-acid battery manufacturers situate together, industry consolidation has brought lots of good merger opportunities to the Group. We will keep actively seeking targets for acquisitions to further increase our production capacity, and will strategically acquire enterprises that were being eliminated during industry consolidation but with good conditions, such as those with advanced production facilities, experienced management staff and those with technologies that can complement those of the Group, and to facilitate the Group's long term development through mergers and acquisitions. The Group is planning to construct new production facilities in second- and third-tier cities to further enlarge our market shares.

Strengthen Research and Development and Lead Technology Development for the Industry

To enhance product quality and to develop new products to meet market demand, the Group plans to enrich its product mix by developing various products, such as a full plastic storage plate battery (儲能板式全膠體電池), a high performance lead-acid storage battery for electric cars, a Lithium storage battery and Lithium battery for communication use. In addition to lead-acid motive batteries for electric bikes, the Group will continue the research and development of motive batteries for electric cars, and has been gradually introducing this product to the market. In order to further enhance our research and development capabilities and to continue achieving research results as well as to raise the Group's core competitiveness, the Group has constructed "Zhejiang Chaowei Research Institute (浙江省超威研究院)" in Zhejiang province and a 3,000 sq. m laboratory in the new production base. Besides, the Group will continue to expand the technology innovation team.

Expand Distribution Networks

According to market data, secondary market will undergo a fast growing period. The Group will continue to enhance the brand image of CHILWEE ("超威") to facilitate the expansion of sales network in the secondary market, to extend market coverage, and to deepen the cooperation relationship with powerful distributors, with an aim to grab the huge growth potential of the market.

Strategic Cooperation with Lead Suppliers to Maintain Stable Growth of Earnings through Cost Control

As lead is the major raw material for the Group's production, the ability to procure high quality lead at suitable price in a timely manner is paramount to our commercial success. To ensure a stable supply of lead, reduce the cost of raw materials and enhance the Group's competitiveness, the Group will continue to foster strategic cooperation with lead suppliers. In the meantime, the Group will adjust product prices according to market response to maintain high gross profits for the Group, and the Group will mitigate the adverse effect arising from the fluctuation of lead supply, quality and price through better inventory management.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

CORPORATE GOVERNANCE PRACTICES

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has made various amendments to the Code on Corporate Governance Practices (the "Old Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and renamed it the Corporate Governance Code (the "New Code"). The New Code took effect on 1 April 2012.

The Company is committed to maintaining high standards of corporate governance in the interests of shareholders. Except for the deviation from code provision A.2.1 of both the Old Code and the New Code as disclosed below, during the period from 1 January 2012 to 31 March 2012, the Company has complied with the Old Code and the New Code for the period from 1 April 2012 to 30 June 2012.

Code Provision A.2.1 requires the roles of chairman and chief executive officer to be separated. Mr. Zhou Mingming is currently both the chairman of the Board and chief executive officer of the Company. The Board considers that the current arrangement facilitates the execution of the Group's business strategies and maximizes efficiency of its operation and is therefore beneficial to the Company and its shareholders as a whole.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions of the Directors, senior management and relevant employees (who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information) of the Company on terms no less exacting than the required standard of dealings specified in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the required standard set out in the Model Code and the Company's own code of conduct regarding directors' securities transactions throughout the Period.

AUDIT COMMITTEE

The Company has established an audit committee. The primary duties include the review and supervision of the Group's financial reporting process and internal control measures. The audit committee comprises all three independent non-executive Directors and one non-executive Director of the Company, namely Mr. Lee Conway Kong Wai ("Mr. Lee"), Mr. Wang Jiqiang, Prof. Ouyang Minggao and Mr. Ng Chi Kit. Mr. Lee is the chairman of the audit committee of the Company. Mr. Lee has professional qualification and experience in financial matters. The audit committee of the Company has met and discussed with the external auditors of the Company, Deloitte Touche Tohmatsu, and has reviewed the accounting principles and practices adopted by the Group and the reviewed results of the Group for the six months ended 30 June 2012. The audit committee has adopted the terms of reference which are in line with the Old Code from 1 January 2012 to 31 March 2012, and the New Code from 1 April 2012 to 30 June 2012, as set out in Appendix 14 of the Listing Rules. The audit committee considered that the unaudited consolidated results of the Group for the six months ended 30 June 2012 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Period.

GENERAL INFORMATION

The Group's unaudited consolidated financial statements for the Period have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

PUBLICATION OF INTERIM REPORT

The full text of the Company's 2012 interim report for the Period will be sent to the shareholders of the Company and posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chaowei.com.hk), respectively in due course.

APPRECIATION

The Board would like to take this opportunity to express gratitude to our shareholders and the public for their continued support and to all staff for their hard work and commitment.

By Order of the Board
Chaowei Power Holdings Limited
Zhou Mingming
Chairman and Chief Executive Officer

Changxing, Zhejiang Province, the People's Republic of China, 27 August 2012

As at the date of this announcement, the Directors of the Company are Mr. ZHOU Mingming, Mr. ZHOU Longrui, Ms. YANG Yunfei and Mr. YANG Xinxin as executive Directors, Ms. DENG Xihong and Mr. NG Chi Kit as non-executive Directors and Mr. WANG Jiqiang, Prof. OUYANG Minggao and Mr. LEE Conway Kong Wai as independent non-executive Directors.