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 2013

FINANCIAL HIGHLIGHTS

- Revenue for the Period was approximately RMB6,450.6 million, representing an increase of approximately 53.3% over the corresponding period last year.
- Gross profit for the Period was approximately RMB980.3 million, representing a decrease of approximately 2.5% over the corresponding period last year.
- Profit attributable to the owners of the Company for the Period was approximately RMB216.2 million, representing a decrease of approximately 32.9% over the corresponding period last year.
- Basic earnings per share for the Period amounted to RMB0.22 (the corresponding period of 2012: RMB0.32).
- 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 2013 (the "Period") together with the comparative figures for the corresponding period of 2012. These interim financial results have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu, Certified Public Accountants and the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2013

		Six months ended 30 June	
		2013	2012
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	*(unaudited/ restated)*
Revenue	*3*	**6,450,563**	4,208,613
Cost of sales		**(5,470,254)**	(3,203,261)
Gross profit		**980,309**	1,005,352
Other income		**46,214**	17,388
Distribution and selling expenses		**(210,396)**	(158,716)
Administrative expenses		**(197,570)**	(149,198)
Research and development expenses		**(180,150)**	(150,979)
Other expenses and other loss		**(16,239)**	(9,164)
Finance costs		**(83,947)**	(52,715)
Share of result of an associate		**(17,973)**	–
Profit before taxation	*4*	**320,248**	501,968
Income tax expense	*5*	**(68,159)**	(97,726)
Profit and total comprehensive income for the period		**252,089**	404,242
Profit and total comprehensive income attributable to:			
Owners of the Company		**216,151**	322,161
Non-controlling interests		**35,938**	82,081
		252,089	404,242
Earnings per share			
– Basic (RMB)	*6*	**0.22**	0.32
– Diluted (RMB)		**0.21**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2013

	Notes	**At 30 June 2013** ***RMB'000*** ***(unaudited)***	At 31 December 2012 *RMB'000* *(audited)*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,613,428**	2,274,743
Prepaid lease payments		**222,061**	193,207
Investment property		**7,372**	7,663
Deferred tax assets		**130,412**	123,568
Deposits paid for acquisition of property, plant and equipment		**82,055**	132,336
Goodwill		**49,447**	49,447
Interest in an associate		**20,407**	38,380
Loan receivable		**60,000**	60,000
		3,185,182	2,879,344
CURRENT ASSETS			
Inventories		**1,511,873**	1,392,875
Trade receivables	*8*	**733,100**	277,397
Bills receivable	*9*	**1,170,925**	1,001,359
Prepayments and other receivables		**611,125**	419,269
Amounts due from related parties		**29,973**	16,863
Loan receivables		**112,000**	–
Prepaid lease payments		**4,632**	4,114
Money market funds		**–**	20,000
Restricted bank deposits		**81,372**	201,289
Bank balances and cash		**617,531**	905,402
		4,872,531	4,238,568
CURRENT LIABILITIES			
Trade payables	*10*	**1,805,358**	1,271,724
Bills payable	*11*	**19,828**	8,460
Other payables		**504,083**	521,960
Amounts due to related parties	*12*	**29,169**	29,916
Income tax payable		**20,690**	32,679
Provision		**275,915**	246,356
Bank borrowings		**1,282,600**	1,512,135
Short term financing note		**400,000**	–
		4,337,643	3,623,230
NET CURRENT ASSETS		**534,888**	615,338
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,720,070**	3,494,682

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2013

	At 30 June 2013 *RMB'000* *(unaudited)*	At 31 December 2012 *RMB'000* *(audited)*
CAPITAL AND RESERVES		
Share capital	**68,140**	68,140
Reserves	**2,166,276**	2,098,908
Equity attributable to owners of the Company	**2,234,416**	2,167,048
Non-controlling interests	**470,078**	459,140
TOTAL EQUITY	**2,704,494**	2,626,188
NON-CURRENT LIABILITIES		
Deferred income	**88,523**	68,129
Deferred tax liabilities	**497**	565
Bank borrowings	**355,950**	236,000
Convertible bonds	**570,606**	563,800
	1,015,576	868,494
	3,720,070	3,494,682

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 Floor 4, Willow House, Cricket Square, P.O. Box 2804, 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 PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instrument which is measured at fair value.

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 2013 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2012.

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

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle, except for the Amendments to IAS 1
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IAS 19 (Revised 2011)	Employee Benefits
IAS 27 (Revised 2011)	Separate Financial Statements
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

The directors of the Company anticipate that the application of the above new or revised IFRSs in the 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.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of motive batteries in the People's Republic of China (the "PRC"). 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 resources 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 does not have 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	
	2013	2012
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Lead-acid motive batteries		
Electric bikes battery	**5,235,866**	3,838,316
Storage battery	**14,246**	11,067
Electric cars battery and special-purpose electric cars battery	**800,770**	310,491
Li-ion batteries	**30,853**	1,195
Materials include lead and active additives	**368,828**	47,544
	6,450,563	4,208,613

4. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Wages and salaries	**226,965**	154,143
Retirement benefits scheme contributions	**11,570**	7,367
Labour cost *(Note)*	**116,522**	115,582
Total staff costs	**355,057**	277,092
Cost of inventory recognised as expense	**5,317,026**	3,032,015
Allowance for bad and doubtful debts of trade receivables	**3,598**	–
Allowance for bad and doubtful debts of other receivables	**32**	457
Allowance for inventories (included in cost of sales)	**5,584**	8,723
Prepaid lease payments released to profit or loss	**1,816**	1,425
Depreciation of property, plant and equipment	**88,450**	48,005
Depreciation of investment property	**291**	291
Loss on disposal/write-off of property, plant and equipment	**7,419**	1,990
Exchange loss	**2,086**	1,016
Interest income	**(9,593)**	(5,665)
Entrusted loan interest income	**(6,030)**	–
Government grants	**(28,275)**	(8,786)

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	
	2013	2012
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
The charge comprises:		
PRC current income tax	**75,071**	144,134
Deferred tax	**(6,912)**	(46,408)
	68,159	97,726

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. Certain subsidiaries of the Group were entitled to a reduced tax rate of 15% under the preferential treatment policy of the EIT Law. 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.

The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB2,012,929,000 as at 30 June 2013 (31 December 2012: RMB1,718,063,000). 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 and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Earnings		
Earnings for the purpose of basic earnings of per share	**216,151**	322,161
Effect of dilutive potential ordinary shares:		
Interest on the Convertible Bonds	**29,752**	N/A
Earnings for the purpose of diluted earnings per share	**245,903**	N/A

	Six months ended 30 June	
	2013	2012
	'000	*'000*
	(unaudited)	*(unaudited)*
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	**1,005,290**	1,005,290
Effect of dilutive potential ordinary shares:		
Convertible Bonds	**153,509**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,158,799**	N/A

7. DIVIDENDS

During the current interim period, a final dividend of RMB0.148 per share in respect of the year ended 31 December 2012 (six months ended 30 June 2012: RMB0.136 per share in respect of the year ended 31 December 2011) 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 RMB148,783,000 (six months ended 30 June 2012: RMB136,719,000).

The directors have determined that no dividend will be paid in respect of the current interim period (six months ended 30 June 2012: 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 2013 and 31 December 2012:

	At 30 June 2013 *RMB'000* ***(unaudited)***	At 31 December 2012 *RMB'000* *(audited)*
0 – 15 days	**324,134**	106,578
16 – 90 days	**367,476**	130,966
91 – 180 days	**22,944**	24,101
181 – 365 days	**18,546**	15,752
	733,100	277,397

9. BILLS RECEIVABLE

The aging analysis of bills receivable presented based on issue date at 30 June 2013 and 31 December 2012 is as follows:

	At 30 June 2013 *RMB'000* ***(unaudited)***	At 31 December 2012 *RMB'000* *(audited)*
0 – 90 days	**869,843**	387,335
91 – 180 days	**301,082**	614,024
	1,170,925	1,001,359

Bills receivable of approximately RMB918,879,000 as at 30 June 2013 (31 December 2012: RMB620,376,000) were endorsed with full recourse to third party suppliers for purchase of raw materials and the corresponding trade payables of RMB918,879,000 as at 30 June 2013 (31 December 2012: RMB620,376,000) were included in the condensed consolidated statement of financial position accordingly.

Included in the bills receivable as at 30 June 2013 was an amount of approximately RMB116,714,000 (31 December 2012: RMB180,139,000) 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 2013 and 31 December 2012:

	At 30 June 2013 ***RMB'000*** ***(unaudited)***	At 31 December 2012 *RMB'000* *(audited)*
0 – 30 days	**746,517**	357,119
31 – 90 days	**445,527**	341,856
91 – 180 days	**533,494**	482,012
181 – 365 days	**65,696**	53,900
1 – 2 years	**5,858**	34,753
Over 2 years	**8,266**	2,084
	1,805,358	1,271,724

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 2013 ***RMB'000*** ***(unaudited)***	At 31 December 2012 *RMB'000* *(audited)*
Amounts due from related parties:		
Trade nature		
– Henan Yifeng Electric Bikes Manufacturing Co., Ltd ("Henan Yifeng") (河南屹峰電動車製造有限公司) *(Note (ii))*	**315**	–
– Henan Yilin Commerce & Trade Co., Ltd ("Henan Yilin") (河南省屹林商貿有限公司)) *(Note (iii))*	**1,982**	503
– Zhejiang Yongda Industy Group Co., Ltd ("Zhejiang Yongda") (浙江永達實業集團有限公司)) *(Note (iv))*	**2,281**	5,632
– Xuzhou Zhenlong Power Co., Ltd ("Xuzhou Zhenlong") (徐州振龍電源有限公司) *(Note (v))*	**92**	700
– Zhejiang Zhenlong Power Co., Ltd ("Zhejiang Zhenlong") (浙江振龍電源股份有限公司) *(Note (vi))*	**25,203**	10,028
Non-trade nature		
– Wu Rongliang (吳榮良) *(Note (vii))*	**100**	–
Total	**29,973**	16,863

The amounts due from related parties were denominated in RMB, unsecured, interest free and repayable within one year.

	At **30 June 2013** ***RMB'000*** ***(unaudited)***	At 31 December 2012 *RMB'000* *(audited)*
Amounts due to related parties:		
Trade nature		
– Henan Yifeng	**–**	1,544
– Zhejiang Yongda	**12,271**	1,158
– Xuzhou Zhenlong	**–**	92
– Zhejiang Zhenlong	**16,898**	–
Non-trade nature		
– Wu Rongliang	**–**	3,122
– Xu Shenglong (徐勝龍) *(Note (viii))*	**–**	15,009
– Xu Zhiqiang (徐志强) *(Note (viii))*	**–**	3,683
– Zhou Xinfang (周新芳) *(Note (viii))*	**–**	3,350
– Wang Shuliang (王樹良) *(Note (viii))*	**–**	1,018
– Xu Zhongming (徐忠明) *(Note (viii))*	**–**	940
Total	**29,169**	29,916

Notes:

(i) 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.

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

(iii) Henan Yilin is controlled by Henan Yifeng

(iv) Zhejiang Yongda is a non-controlling shareholder of Jiangsu Yongda

(v) Xuzhou Zhenlong is a subsidiary of Zhejiang Zhenlong

(vi) Zhejiang Zhenlong is an associate

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

(viii) The amounts as at 31 December 2012 represented the outstanding consideration payable balance to former shareholders of Zhejiang Zhenlong with an aggregate amount of RMB24,000,000 arising from acquisition of Zhejiang Zhenlong in December 2012. The amounts have been fully settled by the end of 30 June 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is mainly engaged in the manufacturing and sales of lead-acid motive batteries and other related products. These batteries are widely used in electric bikes, electric vehicles and special-purpose electric vehicles, etc. The Group also manufactures and sells lithium-ion batteries. As one of the leading enterprises in the industry in the PRC, Chaowei Power is committed to promote green energy production. Towards that end, currently, over 80% of its production capacity has adopted the Enclosed Battery Formation Process, making the Group one of the few manufacturers in the PRC to have successfully adopted this process in large scale production. With the plan to complete cadmium-free production by the end of 2013, the Group will comply with the "Entry Requirements of the Lead-acid Battery Industry" (the "Entry Requirements") and act as an exemplary role model for the industry to follow.

Industry Review

Increasing market demand

The level of urbanisation in China has rapidly increased in recent years. Therefore, energy consumption and pollution brought by transportation have continued to climb. Compared with traditional public transportation, electric bikes are convenient and highly effective. As electric bikes could lower both carbon dioxide emissions and electricity consumption, their role has become more important in promoting "green transportation". According to the "Online Survey on Consumption of Electric Bikes" published by the China Consumers' Association in July 2013, approximately 40% of consumers interviewed believed that the use of electric bikes could reduce traffic congestion, and nearly 70% believed that they could promote energy saving and emissions reduction. In view of these advantages, electric bikes have been well-received by consumers and increasingly popular in China.

According to the statistics of the China Bicycle Association, ownership of electric bikes in China amounted to approximately 150 million units (i.e., one electric bike for every 10 people) as at the end of 2012, with an annual growth rate of approximately 12%, and the output during 2012 exceeded 25 million units.

Compared with other motive battery products which are still at developing stage, lead-acid motive batteries are reasonably priced and offer a more reliable performance. Currently, more than 90% of electric bikes in China are running on lead-acid motive batteries. It is expected that the ownership of electric bikes in China will exceed 200 million units by the end of 2015. Given that the replacement period of each battery is around 2.5 years, the demand for replacement batteries in the secondary market will achieve a sustainable growth. Benefiting from an industry upgrade and an increase in downstream demand, the lead-acid motive battery industry is expected to enjoy considerable room for expansion.

Strict Enforcement of Entry Requirements

The Ministry of Industry and Information ("MIIT") and the Ministry of Environmental Protection ("MEP") have jointly promulgated the Entry Requirements which came into effect starting from 1 July 2012. Barriers to entry in the industry have subsequently been elevated. To conform to the latest Entry Requirements, production facilities established, upgraded or expanded subsequent to 2012 must adopt the Enclosed Battery Formation Process. The existing production capacities of lead-acid batteries and the related lead-based components with cadmium content above 0.002% or arsenic content above 0.1% shall be eliminated by 31 December 2013.

In addition, MIIT, MEP, Ministry of Commerce ("MOFCOM"), National Development and Reform Commission ("NDRC") and Ministry of Finance ("MOF") jointly issued the "Opinions on Promoting the Standard Development of Lead-acid Batteries and the Industry of Recycled Lead" in March 2013, with an aim to advance more comprehensive and stricter threshold requirements for industry entry and management of production permits. It also enhanced the review and approval processes, including imposing greater restrictions on the total discharge volume of lead pollutants. Meanwhile, stricter environmental regulatory enforcement and supervision, including specialised inspections are also to be carried out. A list of enterprises which have passed the inspections will be released to the public from time to time.

On 16 April 2013, MEP released its first list of 10 lead-acid battery and recycled lead production enterprises which have complied with the requirements of the environmental laws and regulations. Henan Chaowei Power Co., Ltd. (河南超威電源有限公司) and Jiangxi Xinwei Power Technology Co., Ltd. (江西新威動力能源科技有限公司), subsidiaries of the Group, were included in such list. On 17 July 2013, MEP issued an announcement (for consultation purpose) on the second batch of 27 lead-acid battery and recycled lead production enterprises meeting the environmental protection laws and regulations, which included Shandong Chaowei Power Co., Ltd ("Shangdong Chaowei") (山東超威電源有限公司), Ciyao Branch of Shandong Chaowei, Jiangsu Chaowei Power Co., Ltd ("Jiangsu Chaowei") (江蘇超威電源有限公司) and Jiangsu Yongda Power Co., Ltd. (江蘇永達電源股份有限公司). Other subsidiaries of the Group have also actively cooperated with relevant departments to carry out inspections on environmental protection within their operations.

On 31 July 2013, MEP also announced the investigation result of the major environmental pollution issues in the second quarter this year, which listed 34 incidents involving several manufacturing industries including battery production, in which none of the Group's production facilities were cited.

After several rounds of large-scale consolidation, the number of lead-acid battery enterprises in China decreased significantly starting from 2011. It is estimated that by the end of 2013, the number of qualified lead-acid battery enterprises will further decrease.

Price adjustments on products

In 2011, the PRC government promulgated and strictly enforced a series of industry regulations, resulting in closure or suspension of production of numerous sub-standard enterprises. In order to gain market share from enterprises eliminated by the Entry Requirements, major lead-acid motive battery producers have already started to offer higher rebates starting in the fourth quarter last year. During the period under review, the Group also strategically carried out short-term price adjustments which led to a decrease in the average selling price of its products. Nevertheless, the Group has therefore further consolidated its market-leading position and enhanced its future profitability through gaining market share while smaller-scale and sub-standard operators were weeded out. The Group considers that it is able to adjust prices on products in response to market environment and it is confident of maintaining a healthy gross profit level.

Business Development

Industry pioneer leading in cadmium-free Enclosed Battery Formation Process

Compared with the traditional battery production process commonly used by lead-acid motive battery enterprises, the Enclosed Battery Formation Process is an advancement in "green production". It is environmentally friendly and energy-saving since it reduces electricity consumption by approximately 20% and water used by more than 80%, and conforms to the cadmium-free production requirement specified in the Entry Requirements. The Enclosed Battery Formation Process requires a high standard of technology and experience. As a result, it has currently only been adopted by a few enterprises, including the Group, on large scale production.

Chaowei Power actually began to develop the Enclosed Battery Formation Process as early as 2004. By 2009, the Group comprehensively mastered the core technology involved and formally promoted the process internally. Further progress was marked in December 2010 when the Group's "Multi-stage Enclosed Battery Formation Process of Cadmium-free Lead-acid Batteries" successfully passed a technological inspection in Zhejiang Province, clearly demonstrating the Group's advancements in technology among its peers. In recent years, the utilisation of the Enclosed Battery Formation Process of the Group's production capacity increased significantly, which were approximately 57% and approximately 83% in 2011 and 2012 respectively. As at 30 June 2013, such technology has been adopted in over 80% of the production capacity.

As part of its research, development and promotion of the Enclosed Battery Formation Process, the Group has also developed an enclosed acid mist collector on its own. At present, the device is in its third generation and boasts the most advanced technology in the industry. Besides, a sewage filtration system has been deployed at each production plant, reusing the filtered sewage water in the production process after filtration, aiming at achieving zero emission and pollution.

The Group is continuing to adjust to the cadmium-free production technology and is expected to achieve 100% cadmium-free production by the end of 2013, fulfilling the Entry Requirements while pioneering the way forward for the industry.

Production facilities are strategically located

During the period under review, the Group proactively embarked on further expanding its production capacity through upgrading the existing production facilities and setting up new production facilities to meet market demand. In April 2013, the Group's first manufacturing facility in Hebei Province commenced production as scheduled and is expected to provide an annual production capacity of 12 million units of lead-acid motive batteries upon the completion of construction of the first phase of the project. In June 2013, the Group entered into an investment framework agreement with the committee of Jiangsu Binhai Economic Development Zone, Jiangsu Province for the proposed investment and construction of new production facilities in the Jiangsu Binhai Economic Development Zone, Jiangsu Province. The total investment earmarked for the project was approximately RMB500 million and the project is to be developed in stages. The total investment for the first stage of the project amounted to approximately RMB150 million, which is expected to add an annual production capacity of approximately 12 million units of electrode plates.

As at 30 June 2013, the Group has established production bases in seven provinces with larger demand for lead-acid motive batteries, namely Shandong, Jiangsu, Henan, Zhejiang, Anhui, Jiangxi and Hebei. The annual production capacity of lead-acid motive batteries surged from 90 million units as at the end of last year to 100 million units as at 30 June 2013, representing an increase by over 11%.

Active sales network expansion

Over the years, the Group has maintained a good relationship with major Chinese electric bike manufacturers, including Yadea, EverMaster, Luyuan, Lima, Bidewen, etc., through which it has provided the original batteries for their electric bikes. During the period under review, sales in the primary market was RMB1,692,678,000.

The Group's distribution network in the secondary market covers all provinces across the country. Through a comprehensive marketing strategy, the Group has actively expanded its sales network and enhanced the competitiveness of its brand. Adopting a sophisticated management approach, the nationwide distribution network has been organised into 27 separate districts in a bid to increase the overall management efficiency. As at 30 June 2013, the total number of independent distributors increased from 1,179 in the end of 2012 to 1,383. The winning combination of a strong sales network, quality products and good service solidified the loyalty of the Group's clients and boosted sales growth in the secondary market. During the period under review, its sales in the secondary market amounted to RMB4,389,057,000, with a year-on-year increase of 93.6%.

In order to improve the operations and field sales capability of its sales channels, the Group offered regular training to independent distributors in order to enhance their product knowledge and help them keep abreast of the latest industry trends. In May 2013, the "2013 Sales Summit" was concluded in Hangzhou, attracting over 1,500 representatives of independent distributors from all over China together with the management team of the Group's subsidiaries. The annual sales summit serves to increase the loyalty and motivation of independent distributors, enable the Group to receive useful feedback from the independent distributors and enhance the overall management level of the Group, which in turn will support the long term development and stability of the Group.

Strengthening research and development capabilities

The Group considers strong research and development ("R&D") capability and talent as the core competitive advantage to consolidate its industry-leading position. The Group constantly strives to attain the highest standards of new product development, technology upgrade, energy saving and emissions and pollution reduction. Meanwhile, the Group also actively works to keep abreast of the market trend by launching diversified products. During the period under review, the Group's various research and development projects on lead-acid motive batteries, lead-acid storage batteries and lithium-ion batteries have achieved considerable progress, with a number of products tested and evaluated and subsequently commencing production.

With respect to product upgrades, Chaowei Power has adopted a threefold approach including independent, collaborative, and cross-border R&D. The new model of modular lithium-ion batteries with ternary materials developed by the Group has been broadly applied in the fields of electric bikes, new-energy autos, solar energy and wind energy storage, mobile communications base stations, etc. The new environmentally-friendly battery that Chaowei Power has developed particularly for electric cars has also passed the strict preliminary environmental review.

With the development of the industry and the intensifying market competition, talent recruitment has been one of the crucial factors for an enterprise to ensure its continued growth. As at 30 June 2013, the Group has already recruited more than 20 technical professionals in the electrochemistry and the motive battery industries from China and overseas including Dr. Patrick T. Moseley from the United Kingdom, Dr. Robert F. Nelson from the United States, Professor JueRrgen Garche from Germany and Academician Detchko Pavlov from Bulgaria. These professionals are responsible for conducting regular training for the Group's technical staff or providing on-site consultancy for their R&D work, which has strengthened the Group's integrated R&D capability. Currently, the Chaowei Research Department, the post-doctoral mobile workstation and the technology research and development team have joined forces to develop a new generation of products, which feature larger size and greater volume, stronger electricity charging and discharging capabilities, better functioning at low temperatures, and longer life expectancy.

As at 30 June 2013, the Group has a total of 368 patents, including 31 invention patents. During the period under review, research and development expenses of the Group amounted to RMB180,150,000, representing 2.8% of its total revenue.

Outstanding results recognized by numerous awards

In the first half of 2013, the Group has been honoured with various accolades including recognition as "The World's No.1 Enterprise in Battery Sales Volume and Sales Amount in 2012" by Frost & Sullivan, an authoritative third-party research institute. In June 2013, the Group was included among the "2012 Top 100 Enterprises in China's Light Industry" by the China National Light Industry Council and China National Light Industry Information Center, and it ranked the 2nd, 13th and 15th in development, marketing and overall rankings respectively on the list. The Group was rated number one among all the nominated battery manufacturers, representing a clear acknowledgement of its strength within and beyond the industry.

Financial Review

Revenue

The Group's revenue for the Period amounted to RMB6,450,563,000, representing an increase of 53.3% compared to RMB4,208,613,000 for the same period in 2012. The increase was primarily attributable to the significant growth of sales volume of lead-acid motive batteries.

Gross profit

The Group's gross profit for the Period amounted to RMB980,309,000, representing a decrease of 2.5% compared to RMB1,005,352,000 for the same period in 2012. During the Period, gross profit margin decreased from 23.9% to 15.2% primarily because of increase in rebates as a result of price competition of the products starting in second half of 2012.

Other income

The Group's other income for the Period amounted to RMB46,214,000, representing an increase of about 165.8% compared to RMB17,388,000 for the same period in 2012. 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 RMB210,396,000, representing an increase of approximately 32.6% compared to RMB158,716,000 for the same period in 2012. The increase was primarily due to the increase in transportation expenses as a result of the increase in sales.

Administrative expenses

The Group's administrative expenses for the Period were RMB197,570,000, representing an increase of 32.4% compared to RMB149,198,000 for the same period in 2012. The increase was mainly attributable to an increase in staff costs, depreciation and consulting fees 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 RMB180,150,000, representing an increase of 19.3% compared to RMB150,979,000 for the same period in 2012. 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 59.2% from RMB52,715,000 for the corresponding period of 2012 to RMB83,947,000. The increase was primarily due to: (a) an increase in interest expenses on its bank borrowings as a result of the increase in its average bank borrowing balances; and (b) issue of convertible bond in second half of 2012.

Profit before taxation

For the above reasons, our profit before tax for the Period decreased by 36.2% to RMB320,248,000 (the corresponding period of 2012: RMB501,968,000).

Taxation

The Group's income tax expenses for the Period decreased by 30.3% to RMB68,159,000 (for the six months ended 30 June 2012: RMB97,726,000). The effective tax rate for the Period was 21.28%, which was generally in line with the level of that for the same period last year.

Profit attributable to owners of the Company

Profit attributable to owners of the Company for the Period amounted to RMB216,151,000, representing a decrease of 32.9%, compared to RMB322,161,000 for the same period in 2012.

Liquidity and financial resources

As at 30 June 2013, the Group had net current assets of RMB534,888,000 (31 December 2012: RMB615,338,000), of which cash and bank deposits were RMB617,531,000 (31 December 2012: RMB905,402,000), total borrowings, including discounted bills, short term financing notes and convertible bonds, were RMB2,609,156,000 (31 December 2012: RMB2,311,935,000). 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 RMB1,368,450,000 bore interests at fixed rates and RMB1,682,600,000 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 2013, the Group's current ratio was 1.12 (31 December 2012: 1.17) and gearing ratio (total borrowings/total assets) was 0.32 (31 December 2012: 0.32). 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.

Human resources and employees' remuneration

As at 30 June 2013, the Group employed a total of 20,385 staff in the PRC and Hong Kong (30 June 2012: 17,789). During the Period, the total staff costs amounted to approximately RMB355,057,000 (30 June 2012: RMB277,092,000). 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 its staff. The Group also provided competitive salary packages to its staff, encouraging them to be fully dedicated in their work and to leverage their capabilities in serving its customers.

FUTURE DEVELOPMENTS

As urbanisation accelerates, road reconstruction in rural areas has been regarded as a primary objective, which will also create enormous demand for electric bikes. Furthermore, the new national standards for electric bikes are expected to be launched this year, which are expected to raise the maximum speed and weight of electric bikes. Its launch is expected to further stimulate electric bike sales and push forward the development of the industry chain, and, in turn further raise the demand for lead-acid motive batteries for electric bikes.

The PRC government is determined to strictly enforce the existing industry requirements and regulations. As the requirements on cadmium-free production of the Entry Requirements have entered the final enforcement stage, the consolidation of the lead-acid battery industry will further advance and more sub-standard manufacturers will be affected. MEP will continue to announce the lists of lead-acid battery and recycled lead production enterprises meeting the requirements of environmental laws and regulations and follow up with the sub-standard capacities. As a result, operations and procedures of the lead-acid battery industry will become more standardised, professional and concentrated. While posing challenges for the industry, consolidation will provide a very favourable development environment for the Group.

In order to capture the market share released by those eliminated sub-standard production capacities, the Group will continue to expand its production capacity through upgrading the existing production lines, building new production facilities and carrying out strategic acquisitions.

In both the primary and secondary markets, the Group will further strengthen its "CHILWEE" brand and other developing brands including "JINCHAOWEI" and "CHANGWEI", etc. The Group will continue to implement effective sales network extension strategies, which include (1) executing a multi-brand and multi-channel strategy to extend the coverage and penetration of the sales network as well as to raise pricing power, (2) streamlining the traditional three-level channel structure to a two-level channel structure in urban markets, while adopting a mixed two-level and three-level channel structure in rural markets to shorten the product delivery time to users and (3) providing training covering both marketing theories and practice to help enhance the management capability of the independent distributors and the communication and cooperation between the Group and the independent distributors.

With favourably aligned market trends such as the continuous growth of the electric bike market in China, the increasing demand for electric bike batteries replacement in the secondary market and the accelerated consolidation of the lead-acid battery industry resulting from the stricter Entry Requirements, the Group is optimistic about the prospect of the industry. The Group is confident that through continuously deepening cooperation, Chaowei Power and its independent distributors will jointly secure higher profit and greater scope for development against a backdrop of increasing market competition.

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 Company is committed to maintaining high standards of corporate governance in the interests of shareholders. The Company has complied with all code provisions of the Corporate Governance Code contained in Appendix 14 (the "Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the Period, except for deviation as stated below.

Code Provision A.2.1 of the Code 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 "Audit Committee"). Its primary duties include, among other things, the review and supervision of the Group's financial reporting process and internal control system. 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. Mr. Lee has professional qualification and experience in accounting and financial matters.

The Audit Committee 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 unaudited results of the Group for the six months ended 30 June 2013. The Audit Committee considered that the unaudited consolidated results of the Group for the six months ended 30 June 2013 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made in accordance with Appendix 16 of the Listing Rules in this announcement.

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 2013 interim report for the Period will be sent to the shareholders of the Company and posted on the websites of The Stock Exchange of Hong Kong Limited (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

Hangzhou, Zhejiang Province, the People's Republic of China, 26 August 2013

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