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 2014

FINANCIAL HIGHLIGHTS

- Revenue for the Period was approximately RMB8,307.6 million, representing an increase of approximately 28.8% over the corresponding period last year.
- Gross profit for the Period was approximately RMB1,191.7 million, representing an increase of approximately 21.6% over the corresponding period last year.
- Profit attributable to the owners of the Company for the Period was approximately RMB125.1 million, representing a decrease of approximately 42.1% over the corresponding period last year.
- Basic earnings per share for the Period amounted to RMB0.12 (the corresponding period of 2013: RMB0.22).
- The Board resolved not to declare 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 2014 (the "Period") together with the comparative figures for the corresponding period of 2013. 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 2014

		Six months ended 30 June	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**8,307,577**	6,450,563
Cost of sales		**(7,115,834)**	(5,470,254)
Gross profit		**1,191,743**	980,309
Other income		**42,464**	46,214
Distribution and selling expenses		**(453,999)**	(210,396)
Administrative expenses		**(257,679)**	(197,570)
Research and development expenses		**(203,366)**	(180,150)
Other expenses and other losses		**(13,659)**	(16,239)
Finance costs		**(93,991)**	(83,947)
Share of results of associates		**(449)**	(17,973)
Profit before tax	*4*	**211,064**	320,248
Income tax expense	*5*	**(42,475)**	(68,159)
Profit and total comprehensive income for the period		**168,589**	252,089
Profit and total comprehensive income attributable to:			
Owners of the Company		**125,130**	216,151
Non-controlling interests		**43,459**	35,938
		168,589	252,089
Earnings per share	*6*		
– Basic (RMB)		**0.12**	0.22
– Diluted (RMB)		**0.12**	0.21

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

	Notes	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**3,196,010**	2,947,130
Prepaid lease payments		**212,403**	204,452
Investment property		**6,625**	6,916
Deferred tax assets		**219,013**	182,365
Deposits paid for acquisition of property, plant and equipment		**117,352**	122,450
Goodwill		**49,447**	49,447
Intangible assets		**23,758**	–
Interest in associates		**43,238**	12,185
Loan to an associate		**16,789**	–
Loan receivables		**143,000**	74,000
		4,027,635	3,598,945
CURRENT ASSETS			
Inventories		**1,841,718**	1,461,626
Trade receivables	*8*	**600,845**	464,939
Bills receivable	*9*	**930,197**	762,022
Prepayments and other receivables		**528,422**	411,996
Amounts due from related parties		**25,321**	14,637
Loan receivables		**112,000**	112,000
Prepaid lease payments		**4,626**	4,425
Held-for-trading investments		**7,199**	3,182
Restricted bank deposits		**438,794**	70,087
Bank balances and cash		**901,552**	1,120,630
		5,390,674	4,425,544
CURRENT LIABILITIES			
Trade payables	*10*	**1,115,931**	760,058
Bills payable	*11*	**295,920**	91,170
Other payables		**866,105**	879,152
Amounts due to related parties		**2,904**	6,466
Income tax payable		**33,718**	36,798
Provision		**397,992**	361,245
Bank borrowings		**2,227,450**	1,300,644
Short term financing note		**200,000**	400,000
		5,140,020	3,835,533
NET CURRENT ASSETS		**250,654**	590,011
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,278,289**	4,188,956

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2014

	Notes	**At 30 June 2014** *RMB'000* **(unaudited)**	At 31 December 2013 *RMB'000* (audited)
CAPITAL AND RESERVES			
Share capital		**68,140**	68,140
Reserves		**2,291,672**	2,260,034
Equity attributable to owners of the Company		**2,359,812**	2,328,174
Non-controlling interests		**560,937**	519,239
TOTAL EQUITY		**2,920,749**	2,847,413
NON-CURRENT LIABILITIES			
Deferred income		**135,220**	121,149
Deferred tax liabilities		**20,582**	16,665
Bank borrowings		**616,400**	625,950
Convertible bonds		**585,338**	577,779
		1,357,540	1,341,543
		4,278,289	4,188,956

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. PRINCIPAL 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 2014 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013.

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 IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC-Int 21	Levies

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 and other related products in the People's Republic of China (the "PRC"). The Group's revenue primarily 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	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Lead-acid motive batteries		
Electric bikes battery	**6,923,335**	5,235,866
Storage battery	**26,378**	14,246
Electric cars battery and special-purpose electric cars battery	**1,081,523**	800,770
Li-ion batteries	**43,552**	30,853
Materials include lead and active additives	**232,789**	368,828
	8,307,577	6,450,563

4. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Wages and salaries	**314,353**	226,965
Retirement benefits scheme contributions	**14,219**	11,570
Labour cost *(Note)*	**128,960**	116,522
Total staff costs	**457,532**	355,057
Interest income	**(3,618)**	(9,593)
Entrusted loan interest income	**(8,383)**	(6,030)
Government grants	**(25,647)**	(28,275)
Allowance for bad and doubtful debts of trade receivables	**7,562**	3,598
Allowance for bad and doubtful debts of other receivables	**–**	32
Depreciation of investment property	**291**	291
Loss on disposal/write-off of property, plant and equipment	**3,953**	7,419
Exchange (gain)/loss	**(1,649)**	2,086
Cost of inventory recognised as expense	**6,832,545**	5,317,026
Allowance for inventories (included in cost of sales)	**2,838**	5,584
Prepaid lease payments released to profit or loss	**1,930**	1,816
Depreciation of property, plant and equipment	**116,712**	88,450

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	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
The charge comprises:		
PRC current income tax	**68,319**	75,071
Deferred tax	**(25,844)**	(6,912)
	42,475	68,159

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 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 RMB1,864,331,000 as at 30 June 2014 (31 December 2013: 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	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings		
Earnings for the purpose of basic earnings of per share	**125,130**	216,151
Effect of dilutive potential ordinary shares:		
Interest on the convertible bonds	**–**	29,752
Earnings for the purpose of diluted earnings per share	**125,130**	245,903

	Six months ended 30 June	
	2014	2013
	’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
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,005,290**	1,158,799

The computation of diluted earnings per share for the six months ended 30 June 2014 does not assume the conversion of the Company’s outstanding convertible bonds since their exercise would result in an increase in earnings per share.

7. DIVIDENDS

During the current interim period, a final dividend of RMB0.093 per share in respect of the year ended 31 December 2013 (six months ended 30 June 2013: RMB0.148 per share in respect of the year ended 31 December 2012) 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 RMB93,492,000 (six months ended 30 June 2013: RMB148,783,000).

The directors have determined that no dividend will be paid in respect of the current interim period (six months ended 30 June 2013: 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 2014 and 31 December 2013:

	At 30 June 2014	At 31 December 2013
	RMB’000	*RMB’000*
	(unaudited)	(audited)
0–15 days	**191,658**	167,736
16–90 days	**315,570**	227,946
91–180 days	**70,571**	42,297
181–365 days	**23,046**	26,960
	600,845	464,939

9. BILLS RECEIVABLE

The aging analysis of bills receivable presented based on issue date at 30 June 2014 and 31 December 2013 is as follows:

	At 30 June 2014 *RMB'000* **(unaudited)**	At 31 December 2013 *RMB'000* (audited)
0–90 days	**678,543**	385,112
91–180 days	**251,654**	376,910
	930,197	762,022

10. TRADE PAYABLES

The following is an analysis of trade payables by age, presented based on the material receiving date, at 30 June 2014 and 31 December 2013:

	At 30 June 2014 *RMB'000* **(unaudited)**	At 31 December 2013 *RMB'000* (audited)
0–30 days	**590,361**	391,823
31–90 days	**233,282**	130,585
91–180 days	**187,264**	145,788
181–365 days	**54,440**	59,707
1–2 years	**45,121**	29,135
Over 2 years	**5,463**	3,020
	1,115,931	760,058

11. BILLS PAYABLE

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

MANAGEMENT DISCUSSION AND ANALYSIS

Chaowei Power is principally engaged in the manufacturing and sale of lead-acid motive batteries and other related products widely used in electric bikes, electric vehicles and special-purpose electric vehicles. In addition, the Group manufactures and sells lithium-ion batteries. During 2013, the Group was an industry leader in terms of production capacity, production volume, sales volume, sales revenue and market share. Testimony to its mastery of advanced production techniques and technology, Chaowei Power is one of only a few enterprises which has successfully applied the Enclosed Battery Formation Process to large scale production, and is the only lead-acid motive battery manufacturer which has comprehensively adopted gel battery technology. The Group has also implemented total cadmium-free production in compliance with the Entry Requirements of the Lead-acid Battery Industry ("Entry Requirements"), in fulfillment of its corporate social responsibility as a green enterprise.

INDUSTRY OVERVIEW

Steady increase in market demand

In view of the unhealthy levels of environmental pollution and traffic congestion, electric bikes offering environmentally-friendly, energy-saving, safety and convenience features, which not only address the needs of the market but also provide an effective solution to these serious issues. Beyond this, electric bike is also an ideal vehicle which complements the "Inter-village Road Network Construction Project" introduced by the Chinese government. According to Frost and Sullivan, sales volume of electric bikes in China increased from 20.5 million units in 2008 to 32.0 million units in 2013, representing a compound annual growth rate of 9.3%, while ownership of electric bikes in China numbered approximately 170 million units in 2013. All of the above-mentioned factors have propelled a steady growth in the demand and popularity of electric bikes.

In addition, with a rapidly aging population combined with the continually increasing need for transportation of agricultural products, the demand for electric tricycles as transportation by the elderly and for short-distance cargo transport has surged. Keen demand for electric vehicles is also anticipated to support China's burgeoning logistics industry. The rising market demand for electric bikes and special-purpose vehicles will support the continuous growth of the primary market for lead-acid motive batteries. Furthermore, the periodic need for battery replacement makes the vast base of electric vehicles as the foundation for the secondary market of lead-acid motive batteries. According to Frost and Sullivan, sales volume of electric bike lead-acid batteries in 2013 reached 361 million units, a strong indicator not only of the considerable demand for battery replacement but also for the continuous development of the secondary market.

Further advance through industry consolidation

The Chinese government has implemented administrative and regulatory measures most notably the Entry Requirements, the "12th Five-Year Plan on Comprehensive Prevention of Heavy Metals Pollution" and the "Opinions on Promoting the Regular Development of the Lead-acid Battery and Recycled Lead Industries" ("Regular Development Opinions"). A direct result of these measures is that a large number of substandard enterprises had been shut down or their production had been halted, further accelerating the industry consolidation. According to the Ministry of Industry and Information Technology ("MIIT"), the number of enterprises in the lead-acid battery industry in the PRC decreased substantially from approximately 1,930 in 2011 to around 400 enterprises as at the beginning of 2013, and the trend continued during the Period.

The Regular Development Opinions required substandard enterprises not passing the environmental inspections and the Entry Requirements to be eliminated by the end of 2015. To enforce the requirements, the Ministry of Environmental Protection ("MEP") has inspected all recycled lead and lead-acid batteries manufacturers starting in 2013. The inspections were a clear signal that the government had raised the entry thresholds of existing and new lead-acid battery projects. The MEP also announced three lists of "Enterprises Engaging in Lead-acid Batteries Production and Recycling Operations in Compliance with Environmental Protection Laws and Regulations" in April, December 2013 and August 2014, with 10, 14 and 26 companies approved respectively including six subsidiaries of the Group, namely 河南超威電源有限公司 (Henan Chaowei Power Co., Ltd.), 江西新威動力能源科技有限公司 (Jiangxi Xinwei Power Technology Co., Ltd.), 江蘇永達電源股份有限公司 (Jiangsu Yongda Power Co., Ltd.) , 山東超威電源有限公司 (Shandong Chaowei Power Technology Co., Ltd.) , 安徽超威電源有限公司 (Anhui Chaowei Power Co., Ltd.) and 山東超威電源有限公司磁窑分公司 (Ciyao Branch of Shandong Chaowei Power Co., Ltd.), among which 江西新威動力能源科技有限公司 (Jiangxi Xinwei Power Technology Co., Ltd.) was also selected by MEP and MIIT as one of the first group of enterprises that fulfills the Entry Requirements.

In May 2014, MIIT has also set a mission of eliminating unsatisfactory production capacity, stepping up its efforts in phasing out 23.6 million KVAH (electrode plates and assemblies) of obsolete capacity in lead-acid batteries production. Furthermore, the lead-acid battery industry is expected to further consolidate in the coming two years.

BUSINESS DEVELOPMENT

Leading-edge techniques for environmentally-friendly products

As a leading player in the industry, the Group has emphasized striking the right balance between commercial growth and environmental protection. It is committed to promoting green production by allocating more resources to the research and development of production techniques and construction of green facilities. It is one of the few companies in the PRC that have successfully applied the Enclosed Battery Formation Process to large scale production, and is the only lead-acid motive battery manufacturer which has comprehensively applied gel battery technology.

Chaowei Power's Enclosed Battery Formation Process is one of its core technology advantages over its peers. The Group has pioneered research and development of the Enclosed Battery Formation Process starting in 2004. Over the years, this production technique has become more widely applied. From 2011 to the first half of 2014, the utilisation rate of this technology in the Group rose from approximately 57% of the production capacity to more than 95%, representing the highest level within the industry. Additionally, the Group has also achieved total cadmium-free production, in compliance with the Entry Requirements in 2013. The Group has more fully implemented "green production" through installing advanced emissions control equipment in subsequently opened new plants.

As at 30 June 2014, more than 50% of the Group's production capacity has been approved by the MEP as compliant with environmental laws and regulations, while the remaining production capacity is also expected to pass the required inspections. Furthermore, Chaowei Power's environmental protection efforts have gained recognition from regulatory bodies and the general public. In May 2014, the Group was the first lead-acid battery enterprise to garner the "China Baosteel Environmental-friendly Prize," the highest recognition of environmental protection in the PRC.

Strategic production plan

Chaowei Power has formulated and managed a comprehensive production strategy and its major production facilities are located in close proximity to markets and regions in seven provinces with the strongest demand for lead-acid motive batteries namely in Shandong, Jiangsu, Henan, Zhejiang, Anhui, Jiangxi and Hebei provinces. This production strategy enables the Group to respond to market dynamics in a more timely manner, while reducing costs through effective storage and logistics arrangements.

The promotion of the Entry Requirements is in its final stage resulting in the less competent enterprises falling from the market. The trend provided a good opportunity for the Group to further expand its market share, affirming its position as a leading industry player and satisfying the growing market demand and competing for market share released by the companies thus eliminated. According to Frost & Sullivan, in terms of revenue, the Group has consistently led the market of lead-acid motive batteries for electric bikes in China, with its share soaring from approximately 24.5% in 2011 to 38.3% at the end of 2013. Meanwhile, the Group also actively optimised its existing production facilities and constructed new production lines to boost its annual capacity from 120 million battery units at the end of 2013 to the current output of 130 million units per year, thus topping the industry.

Nationwide sales network

Over the years, the Group has maintained good relationships with renowned Chinese electric bike manufacturers, including Yadea, EverMaster, Luyuan, Lima, Bidewen, etc.

The Group's extensive distribution network covers every province and region. The number of the Group's independent distributors (including the CHILWEE, JINCHAOWEI and CHANGWEI brands) in secondary markets has increased from 1,383 at the end of June 2013 to 1,783 at the end of June 2014, representing an increase by 28.9%. The Group is committed to reducing intermediaries within sales channels in a bid to increase the profitability of its sales outlets. Meanwhile, further training has been provided to distributors to enhance their management and to promote their loyalty to the CHILWEE brand, as well as to facilitate mutual communication and collaboration.

In parallel with its business expansion, Chaowei Power's marketing strategy has evolved from just extending its distribution network to building its own brand. The Group has been promoting the brand awareness and reputation of CHILWEE through a variety of activities, including bolstering promotional efforts at the more than 50,000 CHILWEE brand outlets across the country and continued engagement with international movie star Mr. Donnie Yen as its spokesperson. In the meantime, it is also striving to gain the satisfaction and notability of users. Towards this end, it has set up a network of 4S services outlets for motive batteries for sales, including supplying components and accessories, as well as after-sales service and customer feedback, aiming to provide users with quality pre-sales and post-sales services.

The Group has also achieved satisfactory progress in expanding its scope of business to producing batteries for electric vehicles and special-purpose electric vehicles. In step with this progress, the marketing network of batteries for special-purpose electric vehicles has extended nation-wide to reach customers including China's electric tricycle manufacturers. Currently the Group's customers for lead-acid batteries powering electric vehicles number more than 100. According to the "Yearbook of Energy Saving and New Energy Vehicles 2013," more than half of the lead-acid motive battery vehicles listed use the Group's batteries.

Leading-edge research and development

The Group aims at steering its operations and products in an environmentally-friendly direction. To counter waste and pollution, it has successfully developed lead-acid motive batteries for smart electric vehicles, and has also launched JINCHAOWEI batteries with greater power, longer life expectancy and enhanced reliability features. To support innovative product development, as at 30 June 2014, Chaowei Power has engaged more than 280 talents possessing professional high-tech expertise including professors, doctoral and master degree holders into its research team. In addition, the Group has forged research and development ("R&D") partnerships with leading R&D organizations and professional institutions, of which include Tsinghua University, Fudan University, Zhejiang University, Xiamen University, Harbin Institute of Technology, Fuzhou University and Beijing University of Chemical Technology, in order to enhance its R&D capability. Underpinning its innovation, as at 30 June 2014, the Group had been awarded a total of 652 patents, consisting of 48 invention patents, 456 utility model patents and 148 design patents. The achievements to date have been encouraging. Underscoring its commitment to develop cutting-edge technology, during the Period, approximately RMB203,366,000 has been incurred on R&D by the Group, accounting for 2.4% of the total revenue.

Its R&D efforts to support new product development are complemented by the Group's strong emphasis on exploring new markets, in order to keep pace with the shifting market trends and maintain its competitiveness. In April 2014, the Group entered into a framework investment agreement with Akkumulatorenfabrik MOLL GmbH & Co.KG, a German lead-acid motive batteries manufacturer, to collaborate on the development of automotive start-stop batteries. The automotive start-stop system is a practical technology offering greater energy saving and emissions reduction for vehicles. When a vehicle stops, the start-stop system automatically stops the engine thereby reducing fuel consumption but continues to supply power, and when the vehicle restarts, it will instantly start the engine. This bilateral collaboration provides the Group with enhanced product technology and facilitates its future expansion into the production of automotive start-stop batteries, thus enriching its technologic expertise and adding long term strategic investment value.

Future development

To implement the Entry Requirements, during 2014, MIIT and MEP have commenced inspections of recycled lead and lead-acid battery enterprises. By the end of 2015, those who fail the environmental protection inspection and do not meet the Entry Requirements will be eliminated. This policy, therefore, should further consolidate the lead-acid motive battery industry in China benefitting leading players such as the Group which possess scalability and market share advantages. Driven by ongoing industry integration and rigid customer demand, both the electric bike and lead-acid motive battery industries are expected to experience steady development. Frost & Sullivan forecasts the compound annual growth rate of the sales volume for electric bikes and electric bike lead-acid batteries in China from 2014 to 2017 to reach 9.5% and 10.9% respectively.

Looking ahead, the Group will allocate greater resources to the development of technology and products as well as marketing activities. Meanwhile, it will maintain its focus on advancing its leading edge in product diversity and innovation through R&D of accessories, the ongoing research of its expert team and establishment of a research center. Technological innovation has become a strategic necessity for modern enterprises competing in the market. Currently, the Group is able to utilise mature manufacturing technology, excellent industrial facilities and proven processes, In the future, it will strive to achieve the reputation as the enterprise that sets the “green benchmark” in the industry by devoting further resources to R&D and the implementation of a green development strategy. With respect to products, currently, the Group’s self-developed lead-acid motive battery products are widely used in a broad range of electric bikes, special-purpose electric cars, electric cars, etc. The Group intends to ride on its current competitive advantages to pursue advances in new products, while closely monitoring market trends to develop diversified products. The Group will continue its research and production of storage batteries and lithium batteries on a small scale to prepare a solid technical base in order to seize future business opportunities in this segment. In addition, the start-stop battery is becoming one of the major areas for future development of the Group. With respect to its marketing efforts, the Group adheres to the philosophy of partnership and integration and is committed to brand building and cooperation with independent distributors, aiming to establish expansive marketing networks to fully exploit the vast potential in the market. Notwithstanding the fierce competition in the market, the Group firmly believes that it can achieve profit growth and further development from it foundation of production facilities and processes that meets the current standards through enhancing its R&D capability and stronger collaboration with its distributors.

Financial Review

Revenue

The Group’s revenue for the Period amounted to RMB8,307,577,000, representing an increase of 28.8% compared to RMB6,450,563,000 for the same period in 2013. 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 RMB1,191,743,000, representing an increase of 21.6% compared to RMB980,309,000 for the same period in 2013. However, during the Period, gross profit margin decreased from 15.2% to 14.3% primarily because of increase in sales rebates.

Other income

The Group's other income for the Period amounted to RMB42,464,000, representing a decrease of about 8.1% compared to RMB46,214,000 for the same period in 2013. The decrease was mainly due to the decrease 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 RMB453,999,000, representing an increase of approximately 115.8% compared to RMB210,396,000 for the same period in 2013. The increase was primarily due to the increase in advertising expenses and transportation expenses.

Administrative expenses

The Group's administrative expenses for the Period were RMB257,679,000, representing an increase of 30.4% compared to RMB197,570,000 for the same period in 2013. 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 RMB203,366,000, representing an increase of 12.9% compared to RMB180,150,000 for the same period in 2013. 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 12% from RMB83,947,000 for the corresponding period of 2013 to RMB93,991,000. The increase was primarily due to an increase in interest expenses on its bank borrowings as a result of the increase in its average bank borrowing balances.

Profit before taxation

For the above reasons, our profit before tax for the Period decreased by 34.1% to RMB211,064,000 (the corresponding period of 2013: RMB320,248,000).

Taxation

The Group's income tax expenses for the Period decreased by 37.7% to RMB42,475,000 (for the corresponding period of 2013: RMB68,159,000). The effective tax rate for the Period was 20.12%, 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 RMB125,130,000, representing a decrease of 42.1%, compared to RMB216,151,000 for the same period in 2013.

Liquidity and financial resources

As at 30 June 2014, the Group had net current assets of RMB250,654,000 (31 December 2013: RMB590,011,000), of which cash and bank deposits were RMB901,552,000 (31 December 2013: RMB1,120,630,000), total borrowings, including bank borrowings, short term financing notes and convertible bonds, were RMB3,629,188,000 (31 December 2013: RMB2,904,373,000). 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 RMB2,232,450,000 bore interests at fixed rates and RMB2,427,450,000 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 2014, the Group's current ratio (current assets/current liabilities) was 1.05 (31 December 2013: 1.15) and gearing ratio (total borrowings/total assets) was 0.39 (31 December 2013: 0.36). 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 2014, the Group employed a total of 20,636 staff in the PRC and Hong Kong (30 June 2013: 20,385). During the Period, the total staff costs amounted to approximately RMB457,532,000 (30 June 2013: RMB355,057,000). 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.

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 inside 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 2014. The Audit Committee considered that the unaudited consolidated results of the Group for the six months ended 30 June 2014 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 resolved not to declare 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 2014 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, 31 August 2014

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 Directors are Ms. FANG Jianjun and Mr. NG Chi Kit, the independent non-executive Directors are Mr. WANG Jiqiang, Prof. OUYANG Minggao and Mr. LEE Conway Kong Wai.