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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

- Revenue for the Year was approximately RMB26,948 million (2017: approximately RMB24,654 million), representing an increase of approximately 9.3% over last year.
- Gross profit for the Year was approximately RMB3,235 million (2017: approximately RMB2,923 million), representing an increase of approximately 10.7% over last year.
- Profit attributable to the owners of the Company for the Year was approximately RMB413 million (2017: approximately RMB455 million).
- Basic earnings per share for the Year amounted to RMB0.37 (2017: RMB0.41).
- The Board proposed to declare a final dividend of HK$0.066 per share for the Year (2017: HK$0.074), which will be subject to shareholders' approval at the Annual General Meeting, representing a total distribution of approximately HK$73.1 million (2017: approximately HK$82.0 million) for the Year.

ANNUAL RESULTS

The board (the "Board") of directors (the "Directors" or each the "Director") of Chaowei Power Holdings Limited (the "Company") is pleased to announce the audited financial results and financial position of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 (the "Year") together with the comparative figures for the year ended 31 December 2017. These financial results have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants and reviewed by the audit committee of the Company (the "Audit Committee").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	3	**26,948,237**	24,654,011
Cost of sales		**(23,712,969)**	(21,731,378)
Gross profit		**3,235,268**	2,922,633
Other income and other gains		**274,231**	324,982
Distribution and selling expenses		**(917,817)**	(884,310)
Administrative expenses		**(630,693)**	(546,778)
Research and development expenses		**(884,914)**	(775,849)
Other expenses and other losses		**(45,865)**	(65,290)
Impairment losses recognised, net of reversal		**(88,126)**	(83,567)
Finance costs	4	**(336,478)**	(250,636)
Share of result of joint ventures		**(12,132)**	(767)
Share of result of associates		**(15,765)**	(4,779)
Profit before tax	5	**577,709**	635,639
Income tax expense	6	**(200,202)**	(163,755)
Profit for the year		**377,507**	471,884
Other comprehensive income (expense):			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(1,690)**	(1,267)
Fair value gain on receivables measured at fair value through other comprehensive income ("FVTOCI")		**9,051**	–
Other comprehensive income (expense) for the year, net of income tax		**7,361**	(1,267)
Total comprehensive income for the year		**384,868**	470,617
Profit for the year attributable to:			
Owners of the Company		**412,714**	454,816
Non-controlling interests		**(35,207)**	17,068
		377,507	471,884
Total comprehensive income for the year attributable to:			
Owners of the Company		**420,075**	453,549
Non-controlling interests		**(35,207)**	17,068
		384,868	470,617
Earnings per share	7		
— Basic and diluted *(RMB)*		**0.37**	0.41

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**4,991,790**	4,540,191
Prepaid lease payments		**458,976**	350,804
Investment properties		**42,327**	42,720
Deferred tax assets		**477,286**	395,507
Goodwill		**49,447**	49,447
Intangible assets		**294,149**	327,066
Interests in joint ventures		**191,080**	195,652
Interests in associates		**131,160**	119,905
Available-for-sale investments		**–**	14,694
Equity instruments at FVTOCI		**10,722**	–
Loan receivables		**78,949**	204,449
Amounts due from related parties		**173,085**	49,095
Prepayments and other receivables		**47,433**	11,893
Deposits paid for acquisition of land use rights		**–**	16,000
Deposits paid for acquisition of property, plant and equipment		**140,609**	131,652
		7,087,013	6,449,075
CURRENT ASSETS			
Prepaid lease payments		**9,367**	7,883
Inventories		**2,163,059**	2,308,702
Trade receivables	*9*	**2,024,755**	1,941,109
Bills receivable	*10*	**–**	1,977,677
Receivables at FVTOCI	*10*	**634,864**	–
Prepayments and other receivables		**1,226,497**	1,540,253
Loan receivables		**143,659**	12,876
Amounts due from related parties		**212,406**	211,788
Derivative financial instrument		**–**	391
Financial assets at fair value through profit and loss ("FVTPL")		**66,427**	2,321
Restricted bank deposits		**1,159,844**	1,052,383
Bank balances and cash		**2,975,507**	1,501,319
		10,616,385	10,556,702

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)
AT 31 DECEMBER 2018

	Notes	**2018** **RMB'000**	2017 *RMB'000*
CURRENT LIABILITIES			
Trade payables	*11*	**2,057,807**	2,293,315
Bills payable	*12*	**1,145,288**	1,041,371
Other payables and accruals		**1,473,255**	1,698,552
Amounts due to related parties		**29,232**	13,748
Tax liabilities		**151,545**	175,733
Warranty provision		**535,253**	483,167
Contract liabilities		**578,037**	–
Bank borrowings		**3,761,691**	3,193,586
Obligations under finance leases		**–**	75,000
Short-term note		**299,930**	–
		10,032,038	8,974,472
NET CURRENT ASSETS		**584,347**	1,582,230
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,671,360**	8,031,305
CAPITAL AND RESERVES			
Share capital		**74,961**	74,961
Reserves		**3,927,707**	3,597,653
Equity attributable to owners of the Company		**4,002,668**	3,672,614
Non-controlling interests		**926,162**	1,014,826
TOTAL EQUITY		**4,928,830**	4,687,440
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**3,529**	1,848
Deferred income		**284,224**	275,050
Bank borrowings		**1,392,754**	2,008,277
Medium-term note		**646,331**	644,298
Corporate bond		**415,692**	414,392
		2,742,530	3,343,865
		7,671,360	8,031,305

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL 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 address of the registered office of the Company is P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands, and the address of its principal place of business in the People's Republic of China (the "PRC") is No.18, Chengnan Road, Huaxi Industrial Function Area, Changxing County, Zhejiang Province, the PRC.

The consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the Company and its subsidiaries (collectively referred to as the "Group") operate (the functional currency of the Company and most of its subsidiaries). The Company is an investment holding company.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time in the current year:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) *RMB'000*	IFRS 15 *RMB'000*	IFRS 9 *RMB'000*	1 January 2018 (Restated) *RMB'000*
Non-current assets				
Available-for-sale investments	14,694	–	(14,694)	–
Equity instruments at FVTOCI	–	–	14,694	14,694
Deferred tax assets	395,507	–	13,181	408,688
Current assets				
Trade receivables	1,941,109	–	(30,687)	1,910,422
Bills receivable	1,977,677	–	(1,977,677)	–
Receivables at FVTOCI	–	–	1,955,640	1,955,640
Current liabilities				
Other payables and accruals	1,698,552	(707,518)	–	991,034
Contract liabilities	–	707,518	–	707,518
Capital and reserve				
Reserves	3,597,653	–	(39,543)	3,558,110

The net effects arising from the initial application of IFRS 15 and IFRS 9 on the carrying amount of interests in associates and joint ventures on the opening consolidated financial statements and the consolidated financial statements for the Year was insignificant in the opinion of the Directors.

2.1 New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new and amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

3. SEGMENT INFORMATION AND REVENUE

Information reported to the chief executive officer, being the chief operating decision maker (CODM), for the purposes of resource allocation and assessment focuses on revenue analysis by products. No other discrete financial information is provided other than the Group's results and financial position as a whole. Accordingly, only entity-wide disclosures, major customers and geographic information are presented. No segment assets and liabilities, and related other segment information were presented as no such discrete financial information is provided to the CODM.

Most of the external revenues of the Group during the year are from customers established in the PRC, the place of domicile of the Group's operating entities. Most of the Group's non-current assets are located in the PRC.

No single customer contributed 10% or more of the total revenue of the Group during the both years.

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

	2018
	RMB'000
Types of goods	
Lead-acid motive batteries	
Electric bike battery	**19,417,251**
Electric vehicle battery and special-purpose electric vehicle battery	**5,199,516**
Li-ion batteries	**790,840**
Materials include lead and active additives	**1,540,630**
Total	**26,948,237**

	2018
	RMB'000
Timing of revenue recognition	
A point in time	**26,948,237**

(ii) Performance obligations for contracts with customers

The Group sells lead-acid motive batteries, lithium-ion batteries and other related products to customers. Revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customers' specific locations (delivery). Following the delivery, the customers have full discretion over the manner of distribution and price to sell the goods, have the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The Group generally allows a credit period of 15 days to its trade customers with good trading history, or otherwise sales on cash terms are required.

B. For the year ended 31 December 2017

An analysis of the Group's revenue for the year is as follows:

	2017 *RMB'000*
Lead-acid motive batteries	
Electric bike battery	18,100,485
Electric vehicle battery and special-purpose electric vehicle battery	4,491,602
Li-ion batteries	231,763
Materials include lead and active additives	1,830,161
Total	24,654,011

4. FINANCE COSTS

	2018 ***RMB'000***	2017 *RMB'000*
Interest expenses on:		
Bank borrowings	**253,291**	179,036
Short term note	**15,483**	28,146
Corporate bond	**34,923**	42,087
Medium-term note	**51,033**	10,577
Finance lease	**1,791**	10,275
Total borrowing costs	**356,521**	270,121
Less: amounts capitalised in construction in progress	**(20,043)**	(19,485)
	336,478	250,636

Borrowing costs capitalised during the year ended 31 December 2018 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.22% per annum (2017: 4.66% per annum) to expenditure on qualifying assets.

5. PROFIT BEFORE TAXATION

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

	2018	2017
	RMB'000	*RMB'000*
Salaries and other benefits costs	**1,152,299**	964,647
Retirement benefits scheme contributions	**42,863**	39,007
Labour cost *(Note)*	**209,791**	198,965
Share-based payments	**21,247**	–
Total staff costs (including directors' emoluments)	**1,426,200**	1,202,619
Less: amounts capitalised in inventories	**(989,865)**	(801,147)
	436,335	401,472
Amortisation of intangible assets	**32,917**	17,162
Depreciation of property, plant and equipment	**405,921**	386,330
Total depreciation and amortisation	**438,838**	403,492
Less: amounts capitalised in inventories	**(279,188)**	(283,148)
	159,650	120,344
Depreciation of investment properties	**2,832**	2,815
Prepaid lease payments released to profit or loss	**8,558**	6,928
Cost of inventories recognised as expense	**23,217,375**	21,491,406
Auditors' remuneration	**7,655**	7,153
Research and development costs recognised as an expense	**884,914**	775,849
Gross rental income from investment properties	**(4,253)**	(4,403)
Less:		
Direct operating expenses arising from investment properties generate income	**1,863**	2,080
Direct operating expenses arising from investment properties not generate income	**9**	14
	(2,381)	(2,309)

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

6. INCOME TAX EXPENSE

	2018 *RMB'000*	2017 *RMB'000*
Current tax:		
— PRC enterprise income tax	**259,562**	200,025
Under provision in prior years		
— PRC enterprise income tax	**10,574**	6,129
Deferred tax	**(69,934)**	(42,399)
	200,202	163,755

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. In accordance with the "Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Preferential Treatment Policies on Enterprise Income Tax", New and High Technical Enterprise is subject to income tax at a preferential tax rate of 15%. Certain subsidiaries of the Company were recognised as New and High Technical Enterprises in accordance with the applicable EIT Law of the PRC and are subject to income tax at a preferential tax rate of 15%.

Other subsidiaries established in the PRC were subject to income tax rate of 25% for the year ended 31 December 2018 (2017: 25%). The Company and its subsidiaries incorporated in the British Virgin Islands (the "BVI"), Germany, Hong Kong and other countries had no assessable profits during the year (2017: nil).

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 Group is currently subject to withholding tax at 10%. During the year ended 31 December 2018, withholding tax on intra-group dividend amounting to RMB37,346,129 (2017: RMB18,280,702) was paid by the Group to relevant tax authorities.

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

	2018 *RMB'000*	2017 *RMB'000*
Profit before tax	**577,709**	635,639
Tax at the applicable income tax rate of 25%	**144,427**	158,910
Tax effect of income tax deduction granted to subsidiaries in research and development expenditure	**(90,040)**	(94,811)
Tax effect of expenses not deductible	**3,634**	1,838
Effect of preferential tax rates on income of certain subsidiaries	**15,779**	(19,957)
Tax effect of tax losses not recognised	**76,006**	91,978
Utilisation of tax losses previously not recognised	**(4,498)**	–
Tax effect of share of result of associates	**3,941**	1,195
Tax effect of share of result of joint ventures	**3,033**	192
Withholding tax on undistributed profits of PRC subsidiaries	**37,346**	18,281
Under provision in prior years	**10,574**	6,129
Income tax expense for the year	**200,202**	163,755

7. 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:

	2018	2017
	RMB'000	*RMB'000*
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**412,714**	454,816
	'000	*'000*
Number of ordinary shares for the purpose of basic earnings per share	**1,107,912**	1,107,912

The computation of diluted earnings per share for the current year does not assume the exercise of the Company's outstanding share options as the exercise price of these options was higher than the average market price for the shares during the outstanding period. The Group did not have any other dilutive potential ordinary shares in issue during the current year.

The Group did not have dilutive potential ordinary shares in issue during the prior year.

8. DIVIDEND

	2018	2017
	RMB'000	*RMB'000*
Dividends declared for distribution during the Year:		
2017 final dividend — RMB0.062 per share	**68,691**	–
2016 final dividend — RMB0.068 per share	**–**	75,338

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of HK$0.066 per share (2017: final dividend in respect of the year ended 31 December 2017 of RMB0.062) per ordinary share, in an aggregate amount of HK$73,122,000 (2017: RMB68,691,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

9. TRADE RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**2,310,537**	2,146,801
Less: allowance for doubtful debts	**(285,782)**	(205,692)
	2,024,755	1,941,109

The Group generally allows a credit period of 15 days (2017: 15 days) to its trade customers with good trading history, or otherwise sales on cash terms are required. The credit period provided to customers may vary based on a number of factors, including the Group's relationship with the customer, the customer's credit profile and payment history, total contract value and market conditions.

The aged analysis of trade receivables net of allowance for doubtful debts presented based on the goods delivery date, which is the same as revenue recognition date, at the end of the reporting period is as follows:

	2018 *RMB'000*	2017 *RMB'000*
0–15 days	**422,162**	670,034
16–90 days	**896,668**	442,068
91–180 days	**409,937**	385,734
181–365 days	**240,876**	425,831
Over 1 year	**55,112**	17,442
	2,024,755	1,941,109

Before accepting any new customer, the Group internally assesses the credit quality of the potential customer and define appropriate credit limits. Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

10. BILLS RECEIVABLE AND RECEIVABLES AT FVTOCI

10.1 Bills Receivable

The aged analysis of bills receivable presented based on the issue date at the end of the reporting period is as follows:

	2017 *RMB'000*
0–90 days	1,009,560
91–180 days	968,117
	1,977,677

10.2 Receivables at FVTOCI

The balance represents bills receivables held by the Group which is measured at FVTOCI since initial adoption of IFRS 9 on 1 January 2018, since the bills are held within the business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, and the contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

11. TRADE PAYABLES

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The Group normally settles its trade payables within 30 days (2017: 30 days) from the goods receipt date.

The aged analysis of trade payables presented based on the goods receipt date at the end of the reporting period is as follows:

	2018	2017
	RMB'000	*RMB'000*
0–30 days	**979,624**	1,119,268
31–90 days	**591,483**	512,613
91–180 days	**317,701**	533,133
181–365 days	**116,996**	56,913
1–2 years	**21,172**	57,400
Over 2 years	**30,831**	13,988
	2,057,807	2,293,315

12. BILLS PAYABLE

The aged analysis of bills payable presented based on the issue date at the end of the reporting period is as follows:

	2018	2017
	RMB'000	*RMB'000*
0–90 days	**98,370**	426,474
91–180 days	**1,046,918**	614,897
	1,145,288	1,041,371

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

CHAIRMAN'S STATEMENT

On behalf of the Board of the Company, I am pleased to present to shareholders the annual results of the Group for the Year.

The business of the Group continued to see healthy growth during the Year, achieving in particular:

- Steady growth with revenue reaching approximately RMB26,948 million, representing an increase of 9.3% as compared with the year ended 31 December 2017.

- Maintained leadership in the industry and continued to be included on a number of the domestic and international esteemed lists of best Chinese enterprises and ranked first on several lists of Chinese battery enterprises.

- Maintained leadership in technology and received honors and awards including being recognized as one of the "Global Top 500 New Energy Enterprises" (全球新能源企業500強) jointly named by *China Energy News* and the China Institute of Energy Economics Research and also the "2018 Contribution Award of New Energy Technology" (2018新能源技術創新突出貢獻獎) from the National Lead-acid Battery Standardization Technology Committee.

The Group made such achievements due to the stable development of the Chinese economy during the Year. The country's gross domestic product (GDP) increased by 6.6% in 2018, urbanization continued in steady strides and per capita consumption expenditure also grew, all bracing stable growth in demand for electric bikes, electric tricycles, special-purpose electric vehicles and in turn demand for related lead-acid motive batteries. Additionally, the Chinese government gradually tightens specification requirements of the aforementioned types of vehicle in terms of safety and environmental protection, which drives upgrade and emergence of new generation of these electric vehicles and leads to an increase in market demand for related battery products.

As for the Group, with production facilities strategically and extensively deployed in regions with higher demand for lead-acid motive batteries and a nationwide sales and distribution network covering all primary and secondary markets, the Group has strived to maintain a flat structure in management of distributors and implemented delicacy management, as a result, it has strengthened its sales channels as well as profitability. Such efforts have also helped boost the reputation and influence of the "CHILWEE" brand and enabled the Group to maintain competitiveness in the market.

The Group has remained steadfast in implementing its technology-driven development strategy. During the Year, its top-notch research and development ("R&D") team kept exerting on developing technologies to the ends of improving product performance and production technologies, enhancing the core competitiveness of the Group and facilitating quality business development.

On behalf of the Group, I would like to express my gratitude to our shareholders, customers and business partners for their long-time support and faith in the Group. I would also like to thank the Board, the management team and our staff for their remarkable contribution to the Group. With the care and support of our stakeholders, and at the concerted effort of the management team and all staff members, in 2019, the Group will continue to put its full effort into enhancing its integrated strength, and with a market-oriented approach, strive to steadily develop its existing core business and also explore new business opportunities so as to lay a solid foundation for sustainable development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group engages principally in manufacturing and sales of lead-acid motive batteries, lithium-ion batteries and other related products, which are primarily used in electric bikes, electric tricycles and special purpose electric vehicles.

With advanced production processing and technologies, a strong brand recognition and an efficient distribution network, the Group has maintained leadership in the industry. The Group is committed to upgrading its production technologies for battery products, and through technological exchange and cooperation with world-leading companies to develop superior battery products, the Group keeps an ongoing effort to enhance the Group's core competitiveness in meeting ever-changing requirements of the developing market.

INDUSTRY REVIEW

Stable demand for electric bikes

Electric bikes have the advantages of being inexpensive, small in size, convenient and energy efficient, hence, together with electric tricycles and mini electric vehicles, they are important daily means of transportation in third-tier and fourth-tier cities, towns and rural areas. Alongside continuous development of the society, stable progress of urbanisation, the improving transportation network and increasing per capita consumption in the PRC, market demands for all types of electric vehicles have been growing steadily. According to reports of the market research company Frost & Sullivan ("F&S"), the sales volume and ownership of electric bikes in the PRC are expected to grow at a compound annual growth rate (CAGR) of approximately 5.2% and 4.0% between 2016 and 2021, respectively.

Demand for electric tricycles growing consistently

The aging of the population is an irreversible trend in the PRC, a trend that will brace the demand for small electric tricycles as a preferred transportation means for the elderly, and rapid development of the courier and logistics industries is pushing up demand for large electric tricycles used for short-haul goods transportation. Furthermore, development of the storage and logistics industries has been driving continuous growth in demand for electric forklifts. And, according to the "Action Plan for Comprehensive Treatment of Air Pollution in Autumn and Winter 2018–2019 in Beijing-Tianjin-Hebei Region and Surrounding Areas" (京津冀及周邊地區2018–2019年秋冬季大氣污染綜合治理攻堅行動方案), effective from 1 October 2018, additional or replacement working vehicles for new and upgraded public transportation facilities, environmental hygiene facilities, postal vehicles, ports, airports and railway freight areas should primarily be new-energy or clean-energy vehicles. This new policy is expected to stimulate sales of special-purpose electric vehicles and related batteries.

Stable demand for lead-acid batteries

Given its merits including cryotolerance, safety, cost-efficiency and recyclability, as well as extensive applications, the lead-acid battery is well ahead of other battery types in market penetration and applicability. Currently, the majority of electric bikes in the PRC are powered by lead-acid batteries. With the market demand for electric bikes and special-purpose vehicles, stable and lead-acid motive batteries have a certain lifespan and need to be replaced after exhaustion, the demand for lead-acid motive batteries has remained stable. According to the F&S report, the sales volume of lead-acid batteries for electric bikes in the PRC is expected to grow at a CAGR of 5.4% between 2016 and 2021.

Policy-driven business opportunities for lithium-ion battery

In May 2018, the amended "Safety Technical Specification for Electric Bicycle" (電動自行車安全技術規範) of the PRC were published. The new standards, more stringent on the safety performance of electric bikes and require full mandatory compliance, as opposed to mandatory compliance only with selected clauses in the previous version, will officially take effect on 15 April 2019. In Zhejiang Province, the PRC, a transitional period for adoption of the new national standards for electric bikes began on 1 November 2018 and will end on 31 December 2021, which gives a three-year transitional period to those who had bought or have been using non-compliant electric bikes. The new standards impose strict regulations over production specifications and the riding of electric bikes nationwide. As a result, non-compliant products will be eliminated, thereby will drive the upgrade and emergence of new generation electric bikes. As such, market demand for lithium-ion batteries will increase in the long run.

BUSINESS REVIEW

Battery sales kept growing

Lead-acid motive batteries are the principal products of the Group. As one of the benchmark enterprises in the industry of lead-acid motive batteries, the Group has focused consistently on enhancing product quality and specifications to maintain its industry leadership, hence its revenue from the sales of lead-acid motive batteries has kept growing. For the Year, revenue from sales of lead-acid motive batteries amounted to approximately RMB24,617 million, representing growth of approximately 9.0% year-on-year. Revenue from sales of electric bike batteries amounted to approximately RMB19,417 million, representing growth of approximately 7.3% year-on-year. Revenue from sales of electric tricycle batteries and special-purpose electric vehicle batteries amounted to approximately RMB5,200 million, representing growth of approximately 15.8% year-on-year.

Lithium-ion battery products generated sales revenue of approximately RMB791 million for the Group during the Year, representing growth of approximately 241.2% year-on-year. The Group has adopted a pouch-type technique in manufacturing lithium-ion batteries, giving the products excellent performance, a high level of safety-in-use and specific energy, conducive to lightweight development and prolonging battery mileage. The Group will persist in upgrading its research technologies and focus on production quality in its bid to become a manufacturer armed with sophisticated technologies and craftsmanship for producing lithium-ion batteries.

Cemented industry leadership

Boasting excellent technological innovation capability, brand influence and market competitiveness in the energy storage sector, the Group's industry position has been highly recognised by the PRC government and the industry. In addition to continuing to be included on the lists of "Top 500 Chinese Enterprises" (中國企業500強), "Top 500 Chinese Private Owned Enterprises" (中國民營企業500強) and "Top 500 Enterprises of China's Manufacturing Industry" (中國製造業企業500強), the Group also made it among the "Fortune Top 500 Chinese Companies" (《財富》中國500強) in the Year. Furthermore, the Group was named as "Top 100 Enterprises of China Light Industry" (中國輕工業百強企業) and was the top enterprise in the battery sector in the PRC and was named as "Top 100 Enterprises of China Light Industry in R&D capability" and, for the sixth consecutive year, the Group placed first among the "Top 10 Enterprises of New Energy Battery Industry in China Light Industries" (中國輕工業新能源電池行業十強企業). Moreover, as a forerunner in the new energy sector, the Group was named among the "Global Top 500 New Energy Enterprises" (全球新能源企業500強) for the Year by *China Energy News* and the China Institute of Energy Economics. It also received the "Outstanding Contribution Award for Innovation in New Energy 2018" (2018新能源技術創新突出貢獻獎) from the All-China Lead-acid Battery Standardisation Technology Committee, another testament to its industry leadership underpinned by the "leading technological strength of Chaowei".

Brand influence enhanced through excellent sales management

The Group has a nationwide sales and distribution network covering all primary and secondary markets in the PRC. For the primary market, it has established a premier customer service department to serve major electric bike manufacturers. Comprehensive services are provided, such as regular visits with the management of these manufacturers, assignment of dedicated sales representatives and provision of technical support and upgrades. The Group's major customers in the primary market included Yadea, Luyuan and Evermaster. In addition, the Group has an extensive distribution network allowing it to sell the products to different provinces across the PRC. As at 31 December 2018, it had a total of 2,558 independent distributors in the secondary market.

The production facilities of the Group are strategically placed close to its markets with strong demand for lead-acid motive batteries, including Shandong, Jiangsu, Henan, Zhejiang, Anhui, Jiangxi and Hebei Provinces in the PRC. This strategy allows the Group to save storage and logistics costs and enhance efficiency and profitability, while seizing market opportunities with greater flexibility.

The Group has continued to adopt a market-driven agency mechanism, allowing it to remove sales channel intermediaries and implement delicacy management to enhance its sales channel and increase profitability. It is also able to improve customer service by continuously enhancing the technical training and consultation services it offers to distributors. The Group has continued to engage renowned movie star Mr. Donnie Yen as the brand ambassador to help strengthen the reputation and influence of the "CHILWEE" brand to earn the trust of customers and consumers.

Investing in technology R&D to maintain technical edge

The Group's core competitive strength is innovation, thus it is committed to the pursuit of technology R&D and technological upgrades. The Group's R&D expenses for the Year amounted to approximately RMB885 million, equivalent to approximately 3.3% of the Group's total revenue. As at 31 December 2018, the Group owned 1,708 patents and had submitted application for 398 patents.

The Group is determined to build a top-notch R&D team thus has been actively recruiting world-class professionals for the team. As at 31 December 2018, the Group had on the team more than 20 reputed local and foreign experts, 5 of whom were brought in via the "Program of One Thousand Talent (千人計劃)". In addition, the Group was named as National Model Enterprise of Technology Innovation (國家技術創新示範企業) and National Model Enterprise of Intellectual Property (國家知識產權示範企業). It has established a number of platforms for technological innovation, such as a nationally-recognized enterprise technology centre, a nationally-accredited laboratory, a national environmental protection engineering technology centre, a provincial key research institute, an academician work station and a post-doctoral research work station, among others. It has also established overseas research institutes in the United States, Russia and Germany.

Future Development Strategy

Looking ahead, the Group will keep pushing forward with attaining the strategic goals of "claiming leadership in talent and technology, quality and cost, and market and brand" and become an industry leader capable of "guiding the direction of technological development in and creating benchmark production models for the industry". As regulation on the battery industry gets tighter, the industry will become more consolidated and have an optimised structure. With strong integrated strengths, the Group will continue to maintain the high quality and low price-performance ratio of its products, solidify the core competitiveness of its principal operations while seeking stable development of its other businesses. It will also continue to expand and optimize its sales network through the strategic deployment of production facilities, keep enhancing operational efficiency, spend more efforts in scientific and technological R&D and elevate its brand value, with the aim of grooming "CHILWEE" into a renowned battery brand.

FINANCIAL REVIEW

Revenue

The Group's revenue amounted to approximately RMB26,948,237,000 in 2018, increased by approximately 9.3% over approximately RMB24,654,011,000 in 2017, which was primarily attributable to the growth in sales amount of electric bike batteries, electric vehicle batteries and special-purpose electric cars batteries, and Li-ion batteries.

Gross profit

The Group's gross profit amounted to approximately RMB3,235,268,000 in 2018, representing an increase of approximately 10.7% over approximately RMB2,922,633,000 in 2017. The gross profit margin in 2018 was approximately 12.0% (2017: approximately 11.9%), which was primarily due to improvement in selling price of lead-acid batteries in the second half of 2018.

Other income and other gains

The Group's other income and other gains amounted to approximately RMB274,231,000 in 2018, representing a decrease of approximately 15.6% from approximately RMB324,982,000 in 2017, which was mainly due to decrease in government grants.

Distribution and selling expenses

The Group's distribution and selling expenses amounted to approximately RMB917,817,000 in 2018, representing an increase of approximately 3.8% from approximately RMB884,310,000 in 2017, which was primarily attributable to increase in after-sales service expenses and sales commission in 2018. For 2018, the distribution and selling expenses as a percentage of revenue were approximately 3.4% (2017: approximately 3.6%).

Administrative expenses

The Group's administrative expenses were approximately RMB630,693,000 in 2018, representing an increase of approximately 15.3% over approximately RMB546,778,000 in 2017, which was primarily attributable to increases in staff expenses and professional fees in 2018. The increase in administrative expenses was in line with the Group's business expansion.

Research and development expenses

R&D expenses amounted to approximately RMB884,914,000 in 2018, representing an increase of approximately 14.1% over approximately RMB775,849,000 in 2017, which was primarily attributable to increases in costs of research materials and R&D staff costs as a result of a greater number of R&D projects being undertaken, including R&D in new products.

Finance costs

The Group's finance costs increased by approximately 34.2% from approximately RMB250,636,000 in 2017 to approximately RMB336,478,000 in 2018. The increase in finance costs was primarily due to an increase in interest expenses on bank borrowings and medium-term note.

Profit before tax

For the above reasons, the Group's profit before tax decreased by approximately 9.1% to approximately RMB577,709,000 in 2018 (2017: approximately RMB635,639,000).

Taxation

The Group's income tax expenses increased by approximately 22.3% to approximately RMB200,202,000 in 2018 (2017: approximately RMB163,755,000). The effective tax rate was approximately 34.7% in 2018 (2017: approximately 25.8%) and the increase in the effective tax rate was mainly due to losses incurred by certain subsidiaries.

Profit attributable to owners of the Company

In 2018, profit attributable to owners of the Company amounted to approximately RMB412,714,000. Profit attributable to owners of the Company for 2017 was approximately RMB454,816,000.

Liquidity and financial resources

As at 31 December 2018, the Group had net current assets of approximately RMB584,347,000 (31 December 2017: net current assets of approximately RMB1,582,230,000). Cash and bank balances were approximately RMB2,975,507,000 (31 December 2017: approximately RMB1,501,319,000). Net debts, including bank borrowings, corporate bonds, obligation under finance leases, short-term note, medium-term note and deducting cash and bank deposits, were approximately RMB2,381,047,000 (31 December 2017: approximately RMB3,781,851,000), which were mainly used to finance the capital expenditure and daily working capital of the Group. They were denominated in RMB, EUR or HKD, of which approximately RMB3,753,253,000 bore interest at fixed rates and approximately RMB3,761,691,000 were repayable within one year. The Group adopts centralised financing and treasury policies in order to ensure that the Group's funding is utilised efficiently and it monitors its interest rate risks in a conservative manner.

As at 31 December 2018, the Group's current ratio (current assets/current liabilities) was 1.06 (31 December 2017: 1.18) and gearing ratio (net debts/total assets) was approximately 13.4% (31 December 2017: approximately 22.2%). The Group has sufficient cash and available banking facilities to meet its commitments and working capital requirements. This strong cash position enables the Group to explore potential investment and potential business development opportunities to expand its domestic market share.

Exchange rate fluctuation risk

As the Group's operations are mainly conducted in the PRC and the majority of the sales and purchases are transacted in RMB, 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

The Group had no contingent liabilities as at 31 December 2018 (31 December 2017: RMB8,000,000).

Pledge of assets

At the end of the Year, certain of the Group's assets were pledged to secure banking facilities granted to the Group. The aggregate carrying amount of the assets of the Group pledged at the end of each of the financial years is as follows:

	2018	2017
	RMB'000	*RMB'000*
Buildings	**765,414**	600,056
Land use rights	**336,094**	212,408
Plant and machinery	**–**	255,283
Construction in progress	**60,288**	–
Other receivables	**45,802**	–
Bills receivable	**–**	1,005,960
Receivables at FVTOCI	**288,365**	–
Restricted bank deposits	**1,159,844**	1,052,383

Capital commitments

	2018	2017
	RMB'000	*RMB'000*
Contracted but not provided for:		
— acquisition of property, plant and equipment	**62,516**	142,204
— acquisition of intangible asset	**8,212**	7,803
— capital contribution to associates	**42,625**	39,028
— capital contribution to a joint venture	**–**	12,800

Human resources and employees' remuneration

As at 31 December 2018, the Group employed a total of 16,353 (31 December 2017: 18,215) staff members in the PRC and Hong Kong.

During the Year, the total cost of employees amounted to approximately RMB1,426,200,000. The Group sought to further strengthen staff training by offering focused training programmes and study tours to management and professional technical personnel, and disseminating the latest information of government policy on the lead-acid motive battery industry to staff. 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.

Significant investment, material acquisition or disposal of subsidiaries, associates and joint ventures

There were no significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the Year, nor was there any plan authorized by the Board for other material investments or additions of capital assets at the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

On 20 February 2018, the Company entered into subscription agreements (the "Subscription Agreements") with six individual subscribers, pursuant to which the Company has conditionally agreed to allot and issue a total of 132,000,000 shares of the Company at a subscription price of HK$4.48 per share. The Subscription Agreements have lapsed and ceased to have further effect after 20 September 2018.

Please refer to the announcements of the Company dated 20 February 2018, 18 May 2018, 22 June 2018 and 20 September 2018 for further details.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the Year.

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 Listing Rules throughout the Year, except for the deviation as stated below.

Code Provision A.2.1 of the Code requires the roles of chairman of the Board 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 the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the 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 inside information) of the Company. 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 throughout the Year.

AUDIT COMMITTEE

The Company has established the Audit Committee. Its primary duties include, among other things, the review and supervision of the Group's financial reporting process, risk management and internal control system. The Audit Committee comprises all four independent non-executive Directors 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 audited results of the Group for the Year. The Audit Committee considered that the consolidated results of the Group for the Year 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.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Year as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PROPOSED FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company (the "Register of Members") will be closed from 6 June 2019 to 12 June 2019 (both days inclusive), for the purpose of determining shareholders' entitlement to attend the annual general meeting, during which period no transfer of shares of the Company will be registered. In order to qualify for attending the annual general meeting, the shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, No.183 Queen's Road East, Wanchai, Hong Kong for registration by no later than 4:30 p.m. on 5 June 2019.

The Board has resolved to recommend the payment of a final dividend of HK$0.066 per share for shareholders whose names appear on the Register of Members on 20 June 2019. The Register of Members will be closed from 18 June 2019 to 20 June 2019, both days inclusive, and the proposed final dividend is expected to be paid on or around 11 July 2019. The payment of dividends shall be subject to the approval of the shareholders at the annual general meeting of the Company expected to be held by 12 June 2019. In order to be qualified for the proposed final dividend, shareholders should deliver share certificates together with transfer documents to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 17 June 2019.

PUBLICATION OF ANNUAL REPORT

The full text of the Company's 2018 annual report 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 future robust development of the Group hinges on the full support of its shareholders, customers and business partners as well as the dedicated commitment and hard work of our staff. The Board would also like to take this opportunity to express its sincere gratitude to them. The Group intends to continue its concerted efforts to advance its business development to new heights while bringing lucrative returns to the supporters of the Group.

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

Hong Kong, 24 March 2019

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