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 2020

FINANCIAL HIGHLIGHTS

- Revenue for the Period was approximately RMB11,109 million (the corresponding period of 2019: approximately RMB11,711 million).
- Profit attributable to owners of the Company for the Period was approximately RMB407.2 million (the corresponding period of 2019: approximately RMB286.0 million).
- Basic earnings per share for the Period amounted to RMB0.37 (the corresponding period of 2019: RMB0.26).
- The Board resolved not to declare an interim dividend for the Period.

INTERIM 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 unaudited interim financial results and financial position of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2020 (the "Period") together with the comparative figures for the corresponding period of 2019. These interim financial results have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, Certified Public Accountants and the audit committee (the "Audit Committee") of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*4*	**11,108,670**	11,711,083
Cost of sales		**(9,706,149)**	(10,199,449)
Gross profit		**1,402,521**	1,511,634
Other income and other gains		**402,271**	185,812
Other expenses and losses		**(25,638)**	(17,501)
Impairment losses under expected credit loss model, net of reversal		**(107,017)**	(100,499)
Distribution and selling expenses		**(301,406)**	(352,641)
Administrative expenses		**(285,891)**	(284,530)
Research and development expenses		**(370,431)**	(365,642)
Finance costs		**(171,914)**	(204,896)
Share of result of associates		**(1,554)**	762
Share of result of joint ventures		**(6,017)**	(10,601)
Profit before tax	*5*	**534,924**	361,898
Income tax expense	*6*	**(138,484)**	(125,826)
Profit for the period		**396,440**	236,072
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**316**	2,359
Fair value gain on receivables at fair value through other comprehensive income ("FVTOCI")		**2,769**	3,822
Other comprehensive income for the period, net of income tax		**3,085**	6,181
Total comprehensive income for the period		**399,525**	242,253
Profit (loss) for the period attributable to:			
Owners of the Company		**407,152**	285,974
Non-controlling interests		**(10,712)**	(49,902)
		396,440	236,072
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**410,237**	292,155
Non-controlling interests		**(10,712)**	(49,902)
		399,525	242,253
Earnings per share			
— Basic and diluted (RMB)	*7*	**0.37**	0.26

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	Notes	**At 30 June 2020** *RMB'000* **(unaudited)**	At 31 December 2019 *RMB'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**5,110,792**	4,991,116
Right-of-use assets		**505,041**	494,736
Investment properties		**41,923**	42,318
Goodwill		**49,447**	49,447
Intangible assets		**267,998**	288,803
Interests in joint ventures		**166,146**	172,163
Interests in associates		**91,273**	91,127
Equity instruments at FVTOCI		**5,300**	3,500
Loan receivables		**–**	4,608
Amounts due from related parties		**134,130**	133,085
Deferred tax assets		**572,990**	569,022
Prepayments and other receivables		**38,392**	65,795
Deposits paid for acquisition of property, plant and equipment		**174,993**	200,678
		7,158,425	7,106,398
CURRENT ASSETS			
Inventories		**2,976,641**	2,659,852
Trade receivables	*9*	**2,002,641**	1,820,586
Receivables at FVTOCI	*10*	**942,650**	1,401,425
Prepayments and other receivables		**1,234,885**	1,355,026
Loan receivables		**134,111**	129,873
Amounts due from related parties		**146,184**	191,638
Financial assets at fair value through profit and loss ("FVTPL")		**277,274**	151,779
Restricted bank deposits		**1,790,144**	633,339
Bank balances and cash		**2,442,457**	1,958,428
		11,946,987	10,301,946

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
AT 30 JUNE 2020

	Notes	**At 30 June 2020** *RMB'000* **(unaudited)**	At 31 December 2019 *RMB'000* (audited)
CURRENT LIABILITIES			
Trade payables	*11*	**2,376,498**	2,346,796
Bills payable	*12*	**1,749,015**	1,427,557
Other payables and accruals		**1,466,634**	1,310,359
Contract liabilities		**992,143**	680,331
Tax liabilities		**315,309**	242,795
Borrowings		**3,277,672**	2,571,185
Amounts due to related parties		**36,079**	26,270
Lease liabilities		**5,833**	5,991
Warranty provision		**487,501**	494,402
Medium-term note		**649,382**	648,365
Corporate bond		**417,641**	416,991
		11,773,707	10,171,042
NET CURRENT ASSETS		**173,280**	130,904
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,331,705**	7,237,302
CAPITAL AND RESERVES			
Share capital		**74,704**	74,704
Reserves		**4,805,118**	4,460,483
Equity attributable to owners of the Company		**4,879,822**	4,535,187
Non-controlling interests		**869,097**	880,803
TOTAL EQUITY		**5,748,919**	5,415,990
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**12,224**	12,660
Deferred income		**272,941**	279,497
Borrowings		**1,291,071**	1,519,415
Lease liabilities		**6,550**	9,740
		1,582,786	1,821,312
		7,331,705	7,237,302

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 condensed consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company and most of its subsidiaries. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are manufacturing and sales of lead-acid motive batteries, lithium-ion batteries and other related products.

2. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2020 (the “Period”) have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2019.

2A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE PERIOD

The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions have presented short-term challenges to the domestic economy as well as the market environment, and directly and indirectly affect the operations of the Group.

The Group has been closely monitoring the pandemic and implementing contingency measures to minimize the impacts of the pandemic on the business operation of the Group. The production plant of the Group has resumed its production since middle February 2020 after the Chinese New Year holidays, and the Group has already been operating at full capacity since early March 2020. There was only limited impact on the operation of the Group, which mainly affected logistics arrangements and resulted in a slower ramp up in production capacity after the Chinese New Year holidays. On the other hand, the local governments in different provinces in the People’s Republic of China (the “PRC”) have announced some financial measures and supports for corporates to overcome the negative impact arising from the pandemic.

The Directors consider that the outbreak of COVID-19 has had no material impact on the Group’s financial positions and performance for the Period.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the Period are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

Application of amendments to IFRSs

In the Period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the Period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. REVENUE

(i) Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Lead-acid motive batteries		
Electric bikes battery	**7,206,342**	8,005,891
Electric cars battery and special-purpose electric cars battery	**3,165,468**	3,332,352
Li-ion batteries	**55,905**	137,986
Materials include lead and active additives	**680,955**	234,854
	11,108,670	11,711,083

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Timing of revenue recognition		
A point in time	**11,108,670**	11,711,083

(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 bear the risks of obsolescence and loss in relation to the goods. The Group generally allows a credit period of 45 days to its trade customers with good trading history, or otherwise sales on cash terms are required.

5. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Wages and salaries	**568,819**	570,642
Retirement benefits scheme contributions *(note i)*	**10,480**	22,687
Labour cost *(note ii)*	**82,396**	83,158
Share-based payments	**17,481**	29,046
Total staff costs	**679,176**	705,533
Capitalised in inventories	**(507,698)**	(504,236)
	171,478	201,297
Amortisation of intangible assets	**20,805**	19,607
Depreciation of property, plant and equipment	**259,372**	227,849
Total depreciation and amortisation	**280,177**	247,456
Capitalised in inventories	**(215,167)**	(207,670)
	65,010	39,786
Depreciation of investment properties	**1,375**	1,457
Depreciation of right-of-use assets	**7,627**	8,945
Cost of inventory recognised as expense	**9,494,619**	9,922,876
Impairment losses recognised (reversed) on *(note iii):*		
— trade receivables	**65,567**	61,441
— other receivables	**23,395**	35,295
— loan receivables	**–**	3,763
— amount due from related parties	**18,055**	–
	107,017	100,499
Gross rental income from investment properties	**(2,533)**	(2,216)
Less: direct operating expenses arising from investment properties generating rental income	**869**	769
	(1,664)	(1,447)
Loss on disposal of property, plant and equipment	**2,199**	1,498
Net foreign exchange losses	**5,900**	3,447

Notes:

(i) During the Period, pursuant to the notice released by the relevant PRC authority, certain subsidiaries of the Company have been fully or partially waived to undertake a number of social securities totaling approximately RMB7,486,000.

(ii) The Group has entered into labor dispatch agreements with several service organisations which have provided labor service to the Group.

(iii) The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

6. INCOME TAX EXPENSES

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax:		
— PRC enterprise income tax	**149,038**	164,325
(Over) under provision in prior years		
— PRC enterprise income tax	**(5,177)**	18,300
Deferred tax credit	**(5,377)**	(56,799)
	138,484	125,826

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 qualified 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 Period (six months ended 30 June 2019: 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 Period (six months ended 30 June 2019: 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 Period, withholding tax on intra-group dividend amounting to RMB8,308,000 (six months ended 30 June 2019: RMB14,361,000) was paid by the Group to relevant tax authorities.

The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB4,135,814,000 as at 30 June 2020 (31 December 2019: RMB3,548,544,000). 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.

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:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to the owners of the Company)	**407,152**	285,974

	Six months ended 30 June	
	2020	2019
	'000	*'000*
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,104,127**	1,107,386
Effect of dilutive potential ordinary shares relating to:		
— outstanding share options	**–**	95
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,104,127**	1,107,481

Certain outstanding share options of the Company have not been included in the computation of diluted earnings per share as they did not have a dilutive effect to the Company's earnings per share during the six months ended 30 June 2020 and 2019 because the exercise prices of these share options were higher than the average market prices of the Company's shares during both periods.

8. DIVIDENDS

During the Period, a final dividend of HKD0.084 (equivalent to RMB0.075) per share in respect of the year ended 31 December 2019 (six months ended 30 June 2019: HKD0.066 (equivalent to RMB0.056) per share in respect of the year ended 31 December 2018) was declared to the owners of the Company. The aggregate amount of the final dividend declared in the Period amounted to HKD92,747,000 (equivalent to RMB83,083,000) (six months ended 30 June 2019: HKD72,872,000 (equivalent to RMB62,388,000)). The final dividend in respect of the year ended 31 December 2019 has been paid in July 2020.

The Board of Directors of the Company resolved not to declare an interim dividend for the Period (six months ended 30 June 2019: nil).

9. TRADE RECEIVABLES

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables — contracts with customers	**2,499,854**	2,253,395
Less: allowance for credit losses	**(497,213)**	(432,809)
	2,002,641	1,820,586

The Group normally allows a credit period of 45 days to its trade customers with good trading history, or otherwise sales on cash terms are required. The following is an analysis of trade receivables by age, presented based on the revenue recognition date, net of allowance for doubtful debts as at 30 June 2020 and 31 December 2019:

	At 30 June 2020 RMB'000 (unaudited)	At 31 December 2019 RMB'000 (audited)
0–45 days	**1,026,244**	745,712
46–90 days	**310,383**	423,196
91–180 days	**243,808**	216,261
181–365 days	**330,306**	344,693
Over 365 days	**91,900**	90,724
	2,002,641	1,820,586

10. RECEIVABLES AT FVTOCI

The balance as at 30 June 2020 represents bills receivables held by the Group which is measured at FVTOCI 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. At 30 June 2020, bills receivables of the Group amounting to RMB237,925,000 (31 December 2019: RMB1,049,328,000) had been pledged as securities for obtaining the bank borrowings.

In addition, the Group has discounted certain bills receivables to banks and transferred certain bills receivables to its suppliers to settle its payables through endorsing the bills to its suppliers. These bills are issued or guaranteed by reputable PRC banks with high credit ratings, therefore the Directors consider the substantial risks in relation to these bills is interest risk as the credit risk arising from these bills is minimal. Upon the discount/endorsement of these bills, the Group has transferred substantially all the risks (i.e. interest risks) of these bills to relevant banks/suppliers, therefore Group has derecognised these bills receivables.

As at 30 June 2020, the Group's maximum exposure to loss and cash outflow, which is same as the amount payable by the Group to collecting banks or the suppliers in respect of the bank issued bills discounted and bank issued bills endorsed, should the issuing banks fail to settle the bills on maturity date, of which amounted to RMB451,000,000 and RMB545,677,000 (31 December 2019: RMB719,120,000 and RMB191,727,000), respectively. All the bills receivables discounted to banks or endorsed to suppliers of the Group have a maturity date of less than one year from the end of the reporting period.

11. TRADE PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date, at 30 June 2020 and 31 December 2019:

	At 30 June 2020 *RMB'000* **(unaudited)**	At 31 December 2019 *RMB'000* (audited)
0–30 days	**1,289,504**	1,324,838
31–90 days	**541,267**	432,133
91–180 days	**165,616**	246,518
181–365 days	**163,806**	151,117
1–2 years	**159,027**	166,620
Over 2 years	**57,278**	25,570
	2,376,498	2,346,796

12. BILLS PAYABLE

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

MANAGEMENT DISCUSSION & ANALYSIS

The Group engages principally in the 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.

Since the beginning of 2020, the outbreak of the COVID-19 pandemic has brought challenges to the domestic and overseas economy as well as the overall market environment. Thanks to its excellent management and flexible contingency measures, the Group managed to minimise the impacts of the pandemic on its business operations, with the resumption of production and full operation in February and early March, respectively. In addition, the Group continued to focus on addressing technological bottlenecks in the industry, improving the quality and production technology of battery products. Aided by the cutting-edge technology of the domestic research and development ("R&D") teams as well as communications and cooperation with international R&D institutions, the Group continued to develop battery products with superior performance, higher energy efficiency, longer lifespan and greater environmental friendliness, thus consolidating its core competitiveness and maintaining the leading market position.

The Group's total revenue for the Period amounted to approximately RMB11,109 million. Overall gross profit margin decreased slightly by 0.3 percentage points year-on-year to approximately 12.6% (corresponding period in 2019: 12.9%). Profit attributable to owners of the Company was approximately RMB407.2 million (corresponding period in 2019: RMB286.0 million), representing a significant year-on-year increase of 42.4%. The increase was primarily due to the increase recorded in other income and other gains caused by gain on fair value of financial assets and the reduction of operating expenses caused by enhancement of the Company's operational efficiency. Basic earnings per share was RMB0.37 (corresponding period in 2019: RMB0.26).

Industry Overview

Steady and upward trend of electric bike and other electric vehicles market

The People's Republic of China (the "PRC") is a major player in the global electric bike market. By virtue of its convenience and energy-saving features, electric bike has been a popular means of transportation in the PRC, especially for residents in the second and third-tier cities. According to the statistics, the ownership of electric bikes in the PRC has almost reached 300 million, while the annual production of electric bikes has remained at a level of over 30 million units in recent years. Owing to the impacts of the pandemic on supply chains and plant operations, the production of electric bikes in the PRC experienced a slight decline during the first four months of the year, whilst a more significant impact on offline sales was recorded in the first quarter. However, given the gradual easing of the pandemic, the production of electric bikes has been steadily resumed in the second quarter. Since April, the sales of electric bikes in the PRC have also picked up, while the popularity of online sales will further boost the sales of electric bikes. As people focus on social distancing during the pandemic, more and more people have purchased electric bikes for daily travel, which has increased the demand for electric bikes. Sales outlook for electric bikes remains optimistic in the second half of this year. The market is anticipating a compound annual growth rate (CAGR) of around 7% between 2019 and 2023 for the PRC electric bike market.

In addition, since the beginning of the year, people have become less inclined to go outside due to the pandemic, conducive to further development of e-commerce in the PRC. Courier services and storage and logistics business have further expanded, thus stimulating the demand for large-scale electric tricycles and electric forklifts used for short-haul transportation of goods.

Lead-acid motive batteries maintain dominant position in the industry

After years of development, the technology of lead-acid motive battery industry has matured. Its products have the merits of stable and reliable functions, extensive applications, excellent safety and high recycling rate. Moreover, lead-acid motive batteries are excellent in terms of cost-performance ratio. Its consumer groups mainly consist of low-and middle-income customers, who are more sensitive to prices. Therefore, lead-acid motive batteries still command a majority share of the markets of electric bikes, electric tricycles, and small electric tricycles for seniors. Furthermore, as normal lead-acid motive batteries have a warranty period of 15 months and require regular replacement from then on, the replacement market is enormous and the demand will remain steady.

Industry policies bode well for the leading enterprises

The newly amended "Safety Technical Specification for Electric Bicycle" (《電動自行車安全技術規範》) (the "New National Standard") of the PRC officially came into effect on 15 April 2019. The New National Standard has generally introduced more stringent safety performance requirements for electric bikes, since a full mandatory compliance is now required as opposed to the previous version only requiring mandatory compliance with selected clauses. The New National Standard imposes strict nationwide regulations over the production specifications and the riding of electric bikes, advocating the generational upgrade of electric bikes, which bodes well for the development of leading manufacturers of lead-acid motive batteries for electric bikes with premium quality and high specific energy. This year, the Chinese government introduced a series of new regulations on electric bikes in different parts of the country, including the prohibition on unlicensed electric bikes on the road, which prevent the use of non-standard vehicles, thus facilitating more regulated and healthy development of the entire electric bike industry.

In addition, the "Technical Specification for Recycling Waste Lead-acid Battery" (《廢鉛酸蓄電池回收技術規範》), drafted with contributions from the Group and officially announced by the State Administration for Market Regulation and Standardization Administration of the PRC, officially came into effect on 1 October 2019. The standards require enterprises to establish a recycling system for "recycling every battery sold", under which manufacturers shall set up a network to collect used batteries at the consumer-end through either its own sales channel or professional recycling operators. Furthermore, the "Notice on the Commencement of Inspection and Remediation of Hazardous Waste" (《關於開展危險廢物專項整治工作的通知》) issued by the Ministry of Ecology and Environment of the PRC stipulated that chemical industrial parks, key units generating industrial hazardous waste and all units engaged in operations involving hazardous waste across the country shall be inspected by the end of 2019 for environmental risks concerning hazardous waste. These policies enhance the development of the nation's waste lead-acid battery recycling industry in a more regulated manner. It will also be conducive to further industry consolidation and the optimisation of industry structure, favourable to the lead-acid battery enterprises comprehensive recycling system.

Business Review

Battery business development in steady progress

Lead-acid motive batteries are the main products of the Group. Given its mature production experience, good battery quality and sound reputation, the Group has gained wide recognition from distributors and consumers, and its business managed to sustain a steadily progressing development. Revenue from sales of lead-acid motive batteries for the Period amounted to approximately RMB10,372 million, accounting for approximately 93.4% of the Group's total revenue, among which revenue from sales of electric bike batteries amounted to approximately RMB7,206 million, accounting for approximately 64.9% of the Group's total revenue. Revenue from sales of electric tricycle batteries and specialised electric vehicle batteries amounted to RMB3,165 million, accounting for 28.5% of the Group's total revenue.

In addition, the Group is also engaged in the sales of lithium-ion battery products in light of the demand for market development. The products are manufactured using pouch-type technique which secured specialised accreditations such as the "National Torch Plan Industrialization Demonstration Project Certificate" (國家火炬計劃產業化示範項目證書). The product delivers excellent performance and a high level of safety-in-use and specific energy, which are conducive to lightweight development and prolonging battery life. Revenue from sales of the lithium-ion battery products for the Period amounted to approximately RMB56 million. The Group will continue to invest in the R&D of lithium-ion battery products in an effort to manufacture lithium-ion batteries with higher quality and advanced international standards. During the Period, the Group also made strategic investments in enterprises that manufacture new models of lithium-ion battery, aiming to introduce more advanced lithium-ion battery products to the market.

Strategic distribution and marketing efforts

The Group understands the importance of a strategic production layout with market proximity. As such, it has established production facilities in regions with greater demand for lead-acid motive batteries, such as Shandong, Jiangsu, Henan, Zhejiang, Anhui, Jiangxi and Hebei provinces in the PRC, so as to keep abreast of the market trends, reduce the costs of storage and logistics and improve the operational efficiency.

The Group has established a nationwide sales and distribution network in the PRC with full coverage of both the primary and secondary markets. For the primary market, the Group has established a major customer service department to provide comprehensive services to the leading electric bike manufacturers such as Yadea and Aima. Moreover, the Group operates an extensive distribution network spanning across various provinces in the country. As of 30 June 2020, the Group had 1,964 independent distributors serving the secondary market.

The Group has also continued to hire the renowned movie star Mr. Donnie Yen as its brand ambassador to reinforce its brand influence.

Widely recognised as an industry leader

Building on its excellent technological innovation capability, brand influence and market competitiveness in the field of energy storage, the Group's industry position continued to be highly recognised by the PRC government and the industry. During the Period, the Group retained its place among the "Top 500 Chinese Enterprises" (中國企業500強), "Top 500 Enterprises of China's Manufacturing Industry" (中國製造業企業500強) and "Fortune Top 500 Chinese Companies" (《財富》中國500強), while being honoured with a spot among the "Top 100 Chinese Private-Owned Enterprises" (中國民營企業100強). The Group also continued to rank among the lists of "Top 100 Enterprises of China's Light Industry"(中國輕工業百強企業) and "Top 100 Science and Technology Enterprises in China's Light Industry" (中國輕工業科技百強), while topping the list of "Top 10 Enterprises of New Energy Battery Industry in China's Light Industry" (中國輕工業新能源電池行業十強企業) for the eighth year in a row.

Dedicated to R&D and striving to become industry benchmark

The Group has always adhered to the corporate development strategy of "technology-leading" by continuously stepping up investments in R&D and introducing new technologies, products and concepts to the industry. During the Period, the Group's R&D expenses reached approximately RMB370 million, accounting for approximately 3.3% of total revenue.

Taking advantage of both domestic and overseas high-end talents and the cutting-edge technologies, the Group has a leading R&D team for ensuring its pioneering position in various technological fields. As of 30 June 2020, the Group has recruited more than 10 renowned domestic and foreign experts, 5 of whom were national experts and 6 of whom were provincial experts. 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), with a number of platforms for technological innovation in place, such as the nationally-recognised enterprise technology centre, nationally-accredited laboratory, national environmental protection engineering technology centre, provincial key research institute, academician work station and post-doctoral research work station, among others. It has also established overseas R&D centres.

Pursuing green production to echo with national policies

The Group regards the green ideology as a fundamental consideration for its high-quality corporate development and insists on following the green, low-carbon, and recycling path of ecological development. It adopts the concept of "innovation, integration, green, open, and sharing" throughout the product life cycle. By combining the driving forces of ideology and technology, and leveraging the Internet+, big data, artificial intelligence, and other new technologies, the "Chaowei Model" of green development comes into being as the Group promotes green manufacturing and intelligent manufacturing.

The Group also took the initiative to set up the National Environmental Protection Engineering Technology Centre, establish the Green Recycling Development Alliance of China's Battery Industry (中國電池產業綠色循環發展聯盟), and organise the founding of the country's first dedicated fund for the prevention of and relief for battery pollution, in a bid to help steer the industry towards the path of healthy and orderly development by promoting industry cooperation and exchanges.

Last year, the Group was one of the few corporate representatives of the battery industry selected by the Ministry of Industry and Information Technology for inclusion in the first list of "Model Enterprise of Green Industrial Products Design" (工業產品綠色設計示範企業). As of 30 June 2020, the Group had 9 plants included in the green plant list; 2 plants included in the green supply chain list; and 14 products included in the green products design list. In terms of the total number of exemplary projects for national-grade green manufacturing development, the Group is an industry leader.

Future development strategy

Looking forward to the second half of 2020, notwithstanding the overall easing of the pandemic within the country, the outlook remains fraught with uncertainties as the economic and trade environment at home and abroad is still affected by various complicated factors. The Group will continue to keep a close watch on the pandemic situation and market development, actively adjusting the marketing and production strategies. It remains cautiously optimistic towards the market environment of the lead-acid motive battery industry.

In addition, the Group believes that competition in the lead-acid motive battery industry is still fierce, while further strengthening on the supervision of battery industry will be beneficial for the entire industry to achieve a high degree of consolidation and concentration. As one of the industry's benchmark corporations, the Group will rely on its comprehensive strength to focus on its main business and continuously improve its R&D capability and product quality. It will also remain steadfast on the innovation-driven development and industrial integration, so as to accelerate the process of internationalization and fully implement the strategy of integrating technology, green ideology and quality.

Financial Review

Revenue

The Group's revenue for the Period amounted to approximately RMB11,108,670,000, representing a decrease of approximately 5.1% compared to approximately RMB11,711,083,000 for the same period in 2019. The drop in revenue was mainly due to net effect of the followings: (1) increase in sales volume; and (2) drop in average selling price of lead-acid motive batteries caused by the decrease in price of lead which is the Group's main raw material.

Gross profit

The Group's gross profit for the Period amounted to approximately RMB1,402,521,000, representing a decrease of approximately 7.2% compared to approximately RMB1,511,634,000 for the same period in 2019. The Group's gross profit margin for the Period was approximately 12.6% (the corresponding period of 2019: approximately 12.9%). The slight decrease in gross profit margin was primarily due to the increase in the proportion of sales of material which has a relatively lower gross profit margin in product mix.

Other income and other gains

The Group's other income and other gains for the Period amounted to approximately RMB402,271,000, representing an increase of approximately 116.5% compared to approximately RMB185,812,000 for the same period in 2019. The increase was mainly due to the gain on fair value of financial assets, comprising equity securities listed in Hong Kong, of approximately RMB175,450,000 for the Period (the corresponding period of 2019: nil).

Distribution and selling expenses

The Group's distribution and selling expenses for the Period amounted to approximately RMB301,406,000, representing a decrease of approximately 14.5% compared to approximately RMB352,641,000 for the same period in 2019. The decrease was mainly due to the decrease in transportation expenses during the Period.

Administrative expenses

The Group's administrative expenses for the Period were approximately RMB285,891,000, representing a slight increase of approximately 0.5% compared to approximately RMB284,530,000 for the same period in 2019. The increase was in line with the expansion of the business of the Group during the Period.

R&D expenses

The Group's R&D expenses for the Period amounted to approximately RMB370,431,000, representing an increase of approximately 1.3% compared to approximately RMB365,642,000 for the same period in 2019. The increase was primarily due to increase in R&D expenditure on lead-acid batteries and other new technology products during the Period.

Finance costs

The Group's finance costs for the Period decreased by approximately 16.1% from approximately RMB204,896,000 for the corresponding period of 2019 to approximately RMB171,914,000. The decrease in finance costs was primarily due to a decrease in amount of bank borrowings during the Period as compared with the corresponding period of 2019.

Profit before taxation

For the above reasons, the Group's profit before tax for the Period increased by approximately 47.8% to approximately RMB534,924,000 (the corresponding period of 2019: approximately RMB361,898,000).

Taxation

The Group's income tax expenses for the Period increased by approximately 10.1% to approximately RMB138,484,000 (the corresponding period of 2019: approximately RMB125,826,000). The effective tax rate for the Period was approximately 25.9% compared to approximately 34.8% for the same period in 2019. The higher in effective tax rate in 2019 was mainly due to losses incurred by certain subsidiaries.

Profit attributable to owners of the Company

Profit attributable to owners of the Company for the Period amounted to approximately RMB407,152,000, representing an increase of approximately 42.4%, compared to approximately RMB285,974,000 for the corresponding period in 2019. The increase was mainly due to the increase in other income and other gains caused by gain on fair value of financial assets and the reduction of operating expenses caused by enhancement of the Company's operational efficiency during the Period.

Liquidity and financial resources

As at 30 June 2020, the Group had net current assets of approximately RMB173,280,000 (31 December 2019: approximately RMB130,904,000), of which cash and bank balances were approximately RMB2,442,457,000 (31 December 2019: approximately RMB1,958,428,000). Net debt, including bank borrowings, corporate bonds, medium-term notes, lease liabilities and deducting cash and bank deposits, were approximately RMB1,415,548,000 (31 December 2019: approximately RMB2,579,920,000). The borrowings were mainly used to finance capital expenditure, the purchases of raw materials and operations of the Group. They were denominated in RMB, USD or HKD, of which approximately RMB3,109,653,000 bore interests at fixed rates and approximately RMB3,277,672,000 were repayable within 1 year. The Group adopted centralised financing and treasury policies in order to ensure the funding is utilized efficiently.

As at 30 June 2020, the Group's current ratio (current assets/current liabilities) was approximately 1.01 (31 December 2019: approximately 1.01) and gearing ratio (net debt/total assets) was approximately 7.4% (31 December 2019: approximately 14.8%). 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 the PRC.

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 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.

Pledge of assets

At the end of the reporting period, 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 reporting periods is as follows:

	At 30 June 2020 *RMB'000* **(unaudited)**	At 31 December 2019 *RMB'000* (audited)
Buildings	**997,047**	1,058,086
Right-of-use assets	**224,769**	181,318
Plant and machinery	**55,602**	–
Other receivable	**29,698**	55,962
Receivables at FVTOCI	**237,925**	1,049,328
Restricted bank deposits	**1,790,144**	633,339
Total	**3,335,185**	2,978,033

Contingent liabilities

The Group had no contingent liabilities as at 30 June 2020 (31 December 2019: Nil).

Human resources and employees' remuneration

As at 30 June 2020, the Group employed a total of 15,975 (30 June 2019: 16,124) staff members in the PRC and Hong Kong. During the Period, the total cost of employees amounted to approximately RMB679,176,000 (30 June 2019: approximately RMB705,533,000). 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

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 Period.

CORPORATE GOVERNANCE

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 (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the Period, except for deviation as stated below.

Code provision A.2.1 of the CG 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 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 of the Listing Rules. Having made specific enquiry to 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 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, 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 Period. The Audit Committee considered that the unaudited consolidated results of the Group for Period 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 condensed consolidated financial statements for the Period have been reviewed by the Company's auditor, 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 2020 interim report for the Period will be sent to the shareholders of the Company and posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chaowei.com.hk), respectively in due course.

APPRECIATION

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

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

Changxing, Zhejiang Province, the PRC, 28 August 2020

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.