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Chaowei Power Holdings Limited

超威動力控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 951)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

- Revenue for the Period was approximately RMB12,959 million (the corresponding period of 2020: approximately RMB11,109 million).
- Gross profit for the Period was approximately RMB1,448 million (the corresponding period of 2020: approximately RMB1,403 million).
- Profit attributable to owners of the Company for the Period was approximately RMB300.5 million (the corresponding period of 2020: approximately RMB407.2 million).
- Basic earnings per share for the Period amounted to RMB0.27 (the corresponding period of 2020: RMB0.37).
- 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 2021 (the “Period”), together with the comparative figures for the corresponding period of 2020. 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 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Revenue	4	12,959,494	11,108,670
Cost of sales		(11,511,356)	(9,706,149)
Gross profit		1,448,138	1,402,521
Other income		288,487	216,413
Other gains and other losses		(29,505)	160,220
Impairment losses under expected credit loss model, net of reversal		(103,832)	(107,017)
Distribution and selling expenses		(367,351)	(301,406)
Administrative expenses		(250,850)	(285,891)
Research and development expenses		(383,450)	(370,431)
Finance costs		(180,355)	(171,914)
Share of result of associates		(1,093)	(1,554)
Share of result of joint ventures		936	(6,017)
Profit before tax	5	421,125	534,924
Income tax expense	6	(92,979)	(138,484)
Profit for the period		328,146	396,440
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		3,845	316
Fair value gain on receivables at fair value through other comprehensive income ("FVTOCI")		3,045	2,769
Other comprehensive income for the period, net of income tax		6,890	3,085
Total comprehensive income for the period		335,036	399,525
Profit (loss) for the period attributable to:			
Owners of the Company		300,520	407,152
Non-controlling interests		27,626	(10,712)
		328,146	396,440
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		307,410	410,237
Non-controlling interests		27,626	(10,712)
		335,036	399,525
Earnings per share			
— Basic and diluted (RMB)	7	0.27	0.37

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2021

		At 30 June 2021 <i>RMB'000</i> (unaudited)	At 31 December 2020 <i>RMB'000</i> (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		5,087,763	5,106,963
Right-of-use assets		492,423	500,194
Investment properties		1,972	40,058
Goodwill		49,447	49,447
Intangible assets		226,291	247,192
Interests in joint ventures		138,311	147,243
Interests in associates		56,416	57,260
Equity instruments at FVTOCI		5,300	5,300
Loan receivables		43,332	41,794
Amounts due from related parties		113,371	133,085
Deferred tax assets		544,437	513,895
Prepayments and other receivables		55,590	48,090
Deposits paid for acquisition of property, plant and equipment		303,085	158,429
		<u>7,117,738</u>	<u>7,048,950</u>
CURRENT ASSETS			
Inventories		4,068,127	3,425,070
Trade receivables	9	2,498,057	1,938,261
Receivables at FVTOCI	10	1,216,794	1,087,511
Prepayments and other receivables		1,615,412	1,302,702
Loan receivables		35,039	34,725
Amounts due from related parties		213,595	215,860
Financial assets at fair value through profit and loss (“FVTPL”)		197,623	275,123
Derivative financial assets		19,180	–
Restricted bank deposits		1,970,681	1,332,206
Bank balances and cash		1,749,113	2,552,548
		<u>13,583,621</u>	<u>12,164,006</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
AT 30 JUNE 2021

		At 30 June 2021 <i>RMB'000</i> (unaudited)	At 31 December 2020 <i>RMB'000</i> (audited)
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade payables	<i>11</i>	2,703,010	2,633,901
Bills payable	<i>12</i>	1,874,153	1,377,478
Other payables and accruals		1,323,563	1,516,464
Contract liabilities		338,747	182,463
Tax liabilities		201,925	392,338
Borrowings		5,661,441	4,907,346
Amounts due to related parties		73,132	21,168
Lease liabilities		2,775	4,118
Warranty provision		506,647	484,240
		<u>12,685,393</u>	<u>11,519,516</u>
NET CURRENT ASSETS		<u>898,228</u>	<u>644,490</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>8,015,966</u>	<u>7,693,440</u>
CAPITAL AND RESERVES			
Share capital		74,704	74,704
Reserves		5,308,296	5,117,385
Equity attributable to owners of the Company		5,383,000	5,192,089
Non-controlling interests		838,340	832,515
TOTAL EQUITY		<u>6,221,340</u>	<u>6,024,604</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		20,517	14,979
Deferred income		254,366	266,208
Borrowings		1,515,594	1,383,186
Lease liabilities		4,149	4,463
		<u>1,794,626</u>	<u>1,668,836</u>
		<u>8,015,966</u>	<u>7,693,440</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2021 (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 2020.

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 2020.

Application of amendments to IFRSs

In the Period, the Group has applied the Amendments to IFRSs, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IFRS 16	Covid-19-Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2

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.

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Amortisation of intangible assets	20,901	20,805
Depreciation of property, plant and equipment	271,387	259,372
	<hr/>	<hr/>
Total depreciation and amortisation	292,288	280,177
Capitalised in inventories	(216,240)	(215,167)
	<hr/>	<hr/>
	76,048	65,010
	<hr/>	<hr/>
Depreciation of investment properties	323	1,375
Depreciation of right-of-use assets	7,771	7,627
Cost of inventory recognised as expense	11,311,439	9,494,619
Impairment losses recognised (reversed) on <i>(note iii)</i> :		
— trade receivables	114,662	65,567
— other receivables	(8,351)	23,395
— loan receivables	(361)	—
— amount due from related parties	(2,118)	18,055
	<hr/>	<hr/>
	103,832	107,017
	<hr/>	<hr/>
Gross rental income from investment properties	—	(2,533)
Less: direct operating expenses arising from investment properties generating rental income	—	869
	<hr/>	<hr/>
	—	(1,664)
	<hr/>	<hr/>
Loss on disposal of property, plant and equipment	8,067	2,199
Net foreign exchange (gains) losses	(219)	5,900
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Notes:

- (i) During the period ended 30 June 2020, 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 2021 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2020.

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
— PRC enterprise income tax	120,874	149,038
Under (over) provision in prior years		
— PRC enterprise income tax	2,919	(5,177)
Deferred tax credit	(30,814)	(5,377)
	<u>92,979</u>	<u>138,484</u>

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%.

Among of these subsidiaries, the High-tech Enterprise Certificate (the “Certificate”) of Anhui Chaowei Power Co., Ltd. was expired at the end of 2020. In the opinion of the management of the Group, Anhui Chaowei Power Co., Ltd. fulfilled the renewal requirements and is in the process to renew the Certificate. Accordingly, the management continues to use the tax rate of 15% to calculate the amount of current tax for the six months ended 30 June 2021 and 2020.

Other subsidiaries established in the PRC were subject to income tax rate of 25% for the Period (six months ended 30 June 2020: 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 2020: 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 RMB10,872,000 (six months ended 30 June 2020: RMB8,308,000) 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 RMB4,981,105,000 as at 30 June 2021 (31 December 2020: RMB4,614,102,000). 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	
	2021	2020
	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)	<u>300,520</u>	<u>407,152</u>

Six months ended 30 June	
2021	2020
'000	'000
(unaudited)	(unaudited)

Number of shares

Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share

1,104,127	<u>1,104,127</u>
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The outstanding share options of the Company did not have dilutive effect to the Company's earnings per share during the six months ended 30 June 2021 and 2020 because the exercise prices of these options were higher than the average market prices of the Company's shares for both years.

8. DIVIDENDS

During the Period, a final dividend of HKD0.117 (equivalent to RMB0.098) per share in respect of the year ended 31 December 2020 (six months ended 30 June 2020: HKD0.084 (equivalent to RMB0.075) per share in respect of the year ended 31 December 2019) was declared to the owners of the Company. The aggregate amount of the final dividend declared in the Period amounted to HKD129,183,000 (equivalent to RMB108,725,000) (six months ended 30 June 2020: HKD92,747,000 (equivalent to RMB83,083,000)). The final dividend in respect of the year ended 31 December 2020 has been paid in July 2021.

The Board of Directors of the Company resolved not to pay dividend in respect of the Period (six months ended 30 June 2020: nil).

9. TRADE RECEIVABLES

	At 30 June 2021 RMB'000 (unaudited)	At 31 December 2020 RMB'000 (audited)
Trade receivables — contracts with customers	3,108,312	2,433,854
Less: allowance for credit losses	(610,255)	(495,593)
	<u>2,498,057</u>	<u>1,938,261</u>

The Group normally allows a credit period of 45 to 90 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 2021 and 31 December 2020:

	At 30 June 2021 RMB'000 (unaudited)	At 31 December 2020 RMB'000 (audited)
0–45 days	1,099,690	1,196,660
46–90 days	526,665	290,088
91–180 days	480,994	185,085
181–365 days	265,006	195,380
Over 365 days	125,702	71,048
	<u>2,498,057</u>	<u>1,938,261</u>

10. RECEIVABLES AT FVTOCI

The balance as at 30 June 2021 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 2021, bills receivables of the Group amounting to RMB1,093,320,000 (31 December 2020: RMB631,655,000) 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 2021, 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 RMB878,103,000 and RMB177,103,000 (31 December 2020: RMB723,271,000 and RMB194,690,000), 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 2021 and 31 December 2020:

	At 30 June 2021 <i>RMB'000</i> (unaudited)	At 31 December 2020 <i>RMB'000</i> (audited)
0–30 days	1,366,705	1,400,763
31–90 days	885,608	779,650
91–180 days	117,290	148,183
181–365 days	115,217	79,844
1–2 years	104,644	119,168
Over 2 years	113,546	106,293
	<u>2,703,010</u>	<u>2,633,901</u>

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 is principally engaged 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.

The Group continued to fuel its future development through innovation by developing more environmentally-friendly and energy-efficient battery products with better performance and longer life spans and building the “Chaowei” brand, so as to consolidate the Group’s core competitiveness and leading market position, while developing its business steadily.

The Group’s total revenue for the Period amounted to approximately RMB12,959 million (corresponding period in 2020: approximately RMB 11,109 million). The gross profit was approximately RMB1,448 million (corresponding period in 2020: approximately RMB1,403 million). Overall gross profit margin was approximately 11.2% (corresponding period in 2020: 12.6%). Profit attributable to owners of the Company was approximately RMB300.5 million (corresponding period in 2020: approximately RMB407.2 million). The decrease was primarily due to the decrease recorded in other gains and other losses caused by losses on fair value of financial assets. Basic and diluted earnings per share was RMB0.27 (corresponding period in 2020: RMB0.37).

Industry Overview

Ownership of electric bikes continues to grow

Given the lightweight, energy-efficient and economical features of electric bikes, coupled with the People’s Republic of China’s (the “PRC”) strong advocacy for low-carbon initiatives and environmental protection, as well as the increasingly congested traffic conditions in recent years, the public’s demand for electric bikes has increased, and electric bikes have maintained a very high industry penetration and coverage rate in areas such as courier services and food delivery. During the Period, with the newly amended “Safety Technical Specification for Electric Bicycles” 《電動自行車安全技術規範》) (the “New National Standard”) of the PRC for electric bikes gradually coming into effect, the replacement demand for electric bikes and expansion of the electric bikes sharing industry further fuelled the production of electric bikes. According to the Ministry of Industry and Information Technology of the PRC (the “MIIT”), the PRC’s annual output of electric bikes in 2020 reached approximately 30 million and the number of electric bike ownership in the PRC reached over 300 million.

Continued improvement of the electric tricycles and special-purpose electric vehicles market

In recent years, the tightening of environmental protection policies, closure of polluting enterprises, phasing out of non-compliant electric tricycle companies and the ongoing standardisation of tricycle regulations in the PRC have facilitated the upgrade and integration of the electric tricycle industry. Electric tricycles have strong applicability in the PRC and are widely used in households, urban and rural areas, factories and mining areas, environmental sanitation and community cleaning, as well as other areas that use short-haul transportation. In addition, during the outbreak of COVID-19 pandemic (the “Pandemic”), sectors such as e-commerce, courier services, storage and logistics continue to flourish, supporting demand for electric tricycles and special-purpose electric vehicles used in daily commute and large electric tricycles used in short-haul transportation of goods.

Lead-acid motive batteries maintain a majority of the market share

Lead-acid motive battery products provide stable and reliable functions, wide range of applications, excellent safety levels and high recycling rate. Furthermore, lead-acid motive batteries are cost-effective. Consumer groups that purchase electric bikes, electric tricycles, and electric four-wheelers for the elderly tend to be more price-sensitive, causing lead-acid motive batteries to account for most of the market share in these sectors. In addition, as lead-acid motive batteries require regular replacement and given the large size of the replacement market, demand will remain steady.

Industry policies bode well for leading enterprises

After the New National Standard officially came into effect on 15 April 2019, electric bikes are generally subject to more stringent safety performance requirements. 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. This bodes well for the development of leading manufacturers who offer premium quality and high specific energy lead-acid motive batteries for electric bikes.

Since the transition periods prescribed for the New National Standard vary in length across the PRC, the transition periods for non-standard electric vehicles in various regions, such as Beijing, Shanghai, Zhejiang, will expire in 2021, whereas those in other regions, such as Shandong, Jiangxi and Guangxi, will expire from 2022 to 2024, respectively. Upon expiry of the transition periods, non-standard electric vehicles will not be permitted to travel on the road, thus further stimulating the demand for replacement of electric bicycles.

The PRC government continued to improve the industry standards for electric bicycles and storage batteries to promote the generational upgrade of electric bicycles and the healthy development of the industry, and which is expected to continue to benefit the sales of such batteries. In September 2020, the MIIT promulgated a number of industry standards, three of which are related to the electric bike sector, including “Electric Bike Motors and Controllers” (《電動自行車用電動機及控制器》), “Rules for Coding Identity Information with Two-dimensional Barcode for Lead Storage Battery” (《鉛蓄電池二維碼身份信息編碼規則》) and “Lithium Battery Charger for Electric Bike” (《電動自行車鋰電池充電器》), which came into effect on 1 January 2021.

In September 2020, the China Bicycle Association gained government approval to formulate the “Standard for Vehicles Specific for Takeaway Delivery Purpose” (《外賣專用車團體標準》), and subsequently on 31 March 2021, issued the Consultation Paper for Collective Standard Regarding Food Delivery Vehicles Part 1: Food Delivery Electric Bicycles (《外賣專用車第1部分：外賣電動自行車》團體標準徵求意見稿). This directive imposes strict limits on the speed, recharge mileage and intelligentisation of food delivery electric vehicles. It is expected that the implementation of such standards will promote the replacement of food delivery electric bicycles.

In addition, the “Technical Specification for the Recycling of Waste Lead-Acid Rechargeable Batteries” (《廢鉛酸蓄電池回收技術規範》), drafted with contributions from the Group and issued by the State Administration for Market Regulation and the Standardisation Administration of the PRC, came into effect on 1 October 2019. This policy has promoted the standardised development of the PRC’s waste lead-acid battery recycling industry, raised the barriers to entry and further increased the concentration of the industry.

Policies benefit the development of new energy storage

On 15 July 2021, the National Development and Reform Commission (the “NDRC”) and the National Energy Administration issued the “Guiding Opinions on Accelerating the Development of New Energy Storage” (《關於加快推動新型儲能發展的指導意見》), which will study and formulate new energy storage plans, further clarify the 14th Five-Year Plan and the medium and long-term goals and key tasks of new energy storage development, and vigorously promote the construction of energy storage projects on the power supply side, actively promote the rational deployment of energy storage on the grid side and actively support the diversified development of energy storage on the user side. The goal is to realise the transformation of new energy storage from the initial stage of commercialisation to large-scale development by 2025, with the installed capacity of new energy storage reaching more than 30 million kilowatts. By 2030, the overall market-oriented development of new energy storage will be realised, and the installed capacity of new energy storage will basically meet the corresponding needs of new power systems. The NDRC also issued the “Notice on Further Perfecting the Time-of-Use Electricity Fee Mechanism” (《關於進一步完善分時電價機制的通知》) on 26 July 2021, which will optimise the peak-valley electricity fee mechanism and widen the peak-valley electricity fee difference. The economy of the energy storage system on the user side with the arbitrage of peak-valley price difference as the main benefit is expected to be significantly improved. In the future, the business model of new energy storage is expected to be gradually built and matured, and the market space of new energy storage will be greatly increased.

Business Review

Steady development of the battery business

Lead-acid motive batteries are the Group’s core products. Our continuous R&D and innovation, as well as improvements in product quality and performance, have earned us the trust and appreciation of consumers, which gives us a firm leading position in the lead-acid battery industry, facilitating the steady development of the business. Revenue from sales of lead-acid motive batteries for the Period amounted to approximately RMB11,106 million, accounting for approximately 85.7% of the Group’s total revenue, among which revenue from sales of electric bike batteries amounted to approximately RMB7,313 million, accounting for approximately 56.4% of the Group’s total revenue, while revenue from sales of electric tricycle batteries and special-purpose electric vehicle batteries amounted to approximately RMB3,793 million, accounting for approximately 29.3% of the Group’s total revenue.

In addition, the Group is also engaged in the sales of lithium-ion battery products. These products has 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). Revenue from sales of lithium-ion battery products for the Period amounted to approximately RMB88 million. The Group will continue to proactively invest in the R&D of lithium-ion battery products in an effort to manufacture lithium-ion batteries with better quality and higher energy efficiency.

Active participation in the energy storage business

The Group’s long-life lead-acid batteries can be used by the energy storage market, while the lithium-ion batteries and the sodium-nickel-chloride batteries of the Group are at the development and sampling stages.

The Group continues to develop other new products to promote the high-quality development of the battery industry. In addition, the Group, as a leading enterprise in the battery industry, also participated in the formulation of a number of industry standards, making outstanding contribution to the development of the industry.

Refining networks and after-sales services to boost business expansion

The Group continues to adopt a deployment strategy which involves manufacturing near its target markets, and has, therefore, 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, in order to reduce storage and logistics costs and enhance operational efficiency.

The Group has built 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 maintained long-term cooperation with a number of top manufacturers of electric bikes and provided major customers with comprehensive sales services through its dedicated department. For the secondary market, the Group operates an extensive distribution network spanning across various provinces and regions across the country. With a nationwide service hotline, the Group possesses a comprehensive sales and service system which covers from online to offline, delivery to installation, and pre-sales to after-sales services.

In terms of marketing efforts, the Group has retained renowned movie star Mr. Donnie Yen for the 17th consecutive year as its brand ambassador to reinforce its brand influence. In addition, the Group also organised product launches with live streaming during the Period, to promote the Group’s brand and products.

Brand value reached record high with extraordinary market recognition

Brand value is a clear indicator of a corporation’s strength and brand influence. During the Period, according to a survey conducted by the China Council for Brand Development, the Group’s brand value reached a record high and ranked on the 2021 “China Brand Value List”.

Relying on its excellent technological innovation capability, brand influence and market competitiveness, the Group has been enjoying strong recognition 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 honored with a spot among the “Top 500 Chinese Private-owned Enterprises” (中國民營企業500強). The Group also continued to rank among the “Top 100 Enterprises of China’s Light Industry” (中國輕工業百強企業) and the “Top 100 Science & Technology Enterprises in China’s Light Industry” (中國輕工科技百強企業), while topping the list of the “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 ninth year in a row.

Industrial development driven by innovation

The Group has always adhered to its business strategy of “innovation-driven development”. Its strong talent pool and accumulated technology have provided solid support for the quality of Chaowei products. During the Period, the Group’s R&D expenditure amounted to approximately RMB383 million, representing approximately 3.0% of the total revenue.

As at 30 June 2021, the Group employed over 15 renowned domestic and foreign experts and established R&D platforms, including the national recognised enterprise technology center, the national accredited laboratory, the national environmental protection engineering technology center, the provincial key enterprise research institute, the academician workstation, the national post-doctoral research work station, and the National Environmental Protection and Engineering Technology Center for the Prevention of Lead-Acid Battery Production and Recycling Pollution, as well as R&D centers established overseas. With continuous investment in R&D, the Group has pioneered technologies in a number of fields and became a National Model Enterprise of Intellectual Property (國家知識產權示範企業), a National Model Enterprise of Technology Innovation (國家技術創新示範企業) and a National Model Enterprise of Green Supply Chain Management (國家級綠色供應鏈管理示範企業).

Future development strategy

The Group will continue to closely monitor the Pandemic situation and its market developments while actively adjusting its marketing and production strategies accordingly. The market environment of the lead-acid battery industry is expected to maintain a steady growth in the second half of this year.

In the future, the Group will continue to uphold its reputable brand name, enhance its brand power through accumulated strength, ensure cutting-edge quality through innovation, enhance customer experience through added high-quality services, and continue to develop new technologies, materials, products and business models to lead the development of the industry.

Financial Review

Revenue

The Group's revenue for the Period amounted to approximately RMB12,959,494,000, representing an increase of approximately 16.7% compared to approximately RMB11,108,670,000 for the same period in 2020. The increase in revenue was mainly due to the increase in sales volume of lead-acid batteries and renewable materials.

Gross profit

The Group's gross profit for the Period amounted to approximately RMB1,448,138,000, representing an increase of approximately 3.3% compared to approximately RMB1,402,521,000 for the same period in 2020. The Group's gross profit margin for the Period was approximately 11.2% (the corresponding period of 2020: approximately 12.6%). The decrease in gross profit margin was primarily due to the increase in the proportion of sales of renewable materials which has a relatively lower gross profit margin.

Other gains and other losses

The Group's other gains and other losses for the Period was a loss of approximately RMB29,505,000, compared to a gain of approximately RMB160,220,000 for the same period in 2020. The loss was mainly due to the losses on fair value of financial assets, comprising equity securities listed in Hong Kong and Mainland China, of approximately RMB34,497,000 for the Period (the corresponding period of 2020: gains of RMB175,450,000).

Distribution and selling expenses

The Group's distribution and selling expenses for the Period amounted to approximately RMB367,351,000, representing an increase of approximately 21.9% compared to approximately RMB301,406,000 for the same period in 2020. The increase was mainly due to the increase in transportation expenses during the Period.

Administrative expenses

The Group's administrative expenses for the Period were approximately RMB250,850,000, representing a decrease of approximately 12.3% compared to approximately RMB285,891,000 for the same period in 2020. The decrease is primarily due to decrease in consulting expenses resulting from cost saving measures.

R&D expenses

The Group's R&D expenses for the Period amounted to approximately RMB383,450,000, representing an increase of approximately 3.5% compared to approximately RMB370,431,000 for the same period in 2020. 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 increased by approximately 4.9% from approximately RMB171,914,000 for the corresponding period of 2020 to approximately RMB180,355,000. The increase in finance costs was primarily due to an increase in amount of bank borrowings during the Period as compared with the corresponding period of 2020.

Profit before taxation

For the above reasons, the Group's profit before tax for the Period decreased by approximately 21.3% to approximately RMB421,125,000 (the corresponding period of 2020: approximately RMB534,924,000).

Taxation

The Group's income tax expenses for the Period decreased by approximately 32.9% to approximately RMB92,979,000 (the corresponding period of 2020: approximately RMB138,484,000). The effective tax rate for the Period was approximately 22.1% compared to approximately 25.9% for the same period in 2020. The higher in effective tax rate in 2020 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 RMB300,520,000, representing a decrease of approximately 26.2%, compared to approximately RMB407,152,000 for the corresponding period in 2020. The decrease was mainly due to the decrease in other gains and other losses caused by losses on fair value of financial assets during the Period.

Liquidity and financial resources

As at 30 June 2021, the Group had net current assets of approximately RMB898,228,000 (31 December 2020: approximately RMB644,490,000), of which cash and bank balances were approximately RMB1,749,113,000 (31 December 2020: approximately RMB2,552,548,000). Net debt, including borrowings, lease liabilities and deducting cash and bank deposits (including restricted deposits), were approximately RMB3,464,165,000 (31 December 2020: approximately RMB2,414,359,000). 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 RMB1,606,761,000 bore interests at fixed rates and approximately RMB5,661,441,000 were repayable within 1 year. The Group adopted centralised financing and treasury policies in order to ensure the Group's funding is utilised efficiently and it monitors its interest rate risks in a conservative manner.

As at 30 June 2021 the Group's current ratio (current assets/current liabilities) was approximately 1.07 (31 December 2020: approximately 1.06) and gearing ratio (net debt/total assets) was approximately 16.7% (31 December 2020: approximately 12.6%). 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 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.

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 2021 RMB'000 (unaudited)	At 31 December 2020 RMB'000 (audited)
Buildings	803,576	862,668
Right-of-use assets	119,080	119,629
Other receivable	69,590	79,986
Receivables at FVTOCI	1,093,320	631,655
Restricted bank deposits	1,970,681	1,332,206
	<hr/>	<hr/>
Total	4,056,247	3,026,144
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Contingent liabilities

The Group had no contingent liabilities as at 30 June 2021 (31 December 2020: Nil).

Human resources and employees' remuneration

As at 30 June 2021, the Group employed a total of 14,087 (30 June 2020: 15,975) staff members in the PRC and Hong Kong. During the Period, the total cost of employees amounted to approximately RMB775,290,000 (30 June 2020: approximately RMB679,176,000). 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

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 maximises 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 2021 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, 29 August 2021

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.