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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 2016

FINANCIAL HIGHLIGHTS

- Revenue for the Period was approximately RMB9,463 million, representing an increase of approximately 12.8% over the corresponding period last year.
- Net profit for the Period was approximately RMB363.7 million, representing an increase of approximately 77.2% over the corresponding period last year.
- Profit attributable to owners of the Company for the Period was approximately RMB310.8 million, representing an increase of approximately 126.3% over the corresponding period last year.
- Basic earnings per share for the Period amounted to RMB0.30 (the corresponding period of 2015: RMB0.14).
- The Board resolved not to declare an interim dividend for the Period.

INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of Chaowei Power Holdings Limited (the “Company” or “Chaowei Power”) is pleased to announce the unaudited interim financial results and financial position of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2016 (the “Period”) together with the comparative figures for the corresponding period of 2015. These interim financial results have been reviewed by the Company’s auditors, Deloitte Touche Tohmatsu, Certified Public Accountants and the audit committee of the Company.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 JUNE 2016

		Six months ended 30 June	
	<i>Notes</i>	2016	2015
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	4	9,462,858	8,390,977
Cost of sales		(8,051,858)	(7,230,666)
Gross profit		1,411,000	1,160,311
Other income		88,236	58,640
Distribution and selling expenses		(368,195)	(361,469)
Administrative expenses		(310,595)	(283,122)
Research and development expenses		(223,032)	(202,141)
Other gains and losses		(57,653)	16,420
Finance costs		(108,668)	(127,922)
Share of results of an associate		(2,470)	(593)
Share of results of joint ventures		(600)	86
Profit before taxation	5	428,023	260,210
Income tax expense	6	(64,356)	(54,953)
Profit for the Period		363,667	205,257
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		(91)	(61)
Profit and total comprehensive income for the Period		363,576	205,196
Profit attributable to:			
Owners of the Company		310,756	137,293
Non-controlling interests		52,911	67,964
		363,667	205,257
Profit and total comprehensive income attributable to:			
Owners of the Company		310,665	137,232
Non-controlling interests		52,911	67,964
		363,576	205,196
Earnings per share			
— Basic (RMB)	7	0.30	0.14
— Diluted (RMB)	7	0.29	0.14

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2016

	<i>Notes</i>	At 30 June 2016 RMB'000 (unaudited)	At 31 December 2015 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		3,828,593	3,728,701
Prepaid lease payments		251,795	253,345
Investment properties		38,223	36,868
Deferred tax assets		301,283	266,848
Deposits paid for acquisition of property, plant and equipment		117,143	55,207
Goodwill		49,447	49,447
Intangible assets		19,006	20,194
Interests in an associate		46,580	48,491
Interests in joint ventures		107,046	57,646
Loan receivables		262,770	266,710
Prepayments and other receivables		30,084	44,808
		<hr/> 5,051,970	<hr/> 4,828,265
CURRENT ASSETS			
Inventories		1,521,507	2,066,792
Trade receivables	9	1,605,151	1,128,623
Bills receivable	10	747,372	540,268
Prepayments and other receivables		667,133	666,600
Income tax recoverable		63,991	75,511
Amounts due from related parties		47,682	43,742
Loan receivables		82,532	46,000
Prepaid lease payments		5,659	5,636
Restricted bank deposits		456,919	404,723
Bank balances and cash		1,092,697	960,960
		<hr/> 6,290,643	<hr/> 5,938,855

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2016

	<i>Notes</i>	At 30 June 2016 <i>RMB'000</i> (unaudited)	At 31 December 2015 <i>RMB'000</i> (audited)
CURRENT LIABILITIES			
Trade payables	<i>11</i>	1,529,155	1,821,875
Bills payable	<i>12</i>	648,538	641,916
Other payables and accruals		1,024,800	972,488
Amounts due to related parties		6,777	201
Income tax payable		126,486	78,186
Obligations under finance leases		50,685	51,555
Provision		472,996	462,890
Bank and other borrowings		1,293,757	1,389,729
		<u>5,153,194</u>	<u>5,418,840</u>
NET CURRENT ASSETS		<u>1,137,449</u>	<u>520,015</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,189,419</u>	<u>5,348,280</u>
CAPITAL AND RESERVES			
Share capital		69,320	69,320
Reserves		2,725,951	2,515,320
Equity attributable to owners of the Company		2,795,271	2,584,640
Non-controlling interests		745,924	730,892
TOTAL EQUITY		<u>3,541,195</u>	<u>3,315,532</u>
NON-CURRENT LIABILITIES			
Deferred income		221,881	183,011
Deferred tax liabilities		1,937	5,614
Obligations under finance leases		149,315	174,353
Bank and other borrowings		1,371,967	771,938
Convertible bonds		308,487	303,845
Corporate bonds		594,637	593,987
		<u>2,648,224</u>	<u>2,032,748</u>
		<u>6,189,419</u>	<u>5,348,280</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 18 January 2010 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 7 July 2010.

The principal activities of the Group are manufacture and sale of motive batteries.

2. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* 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 2015.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2015.

The adoption of amendments to standards and annual improvements effective for the Period commenced from 1 January 2016 does not have any material impact on the accounting policies adopted, interim financial position or performance of the Group.

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of motive batteries and other related products in the People’s Republic of China (the “PRC”). The Group’s revenue primarily represents the amount received and receivable for sale of motive batteries during the Period.

The information reported to the executive directors of the Company, who is the Group’s chief operating decision maker for the purpose of resources allocation and assessment of performance, does not contain profit or loss information of each product line and the executive directors reviewed the gross profit of the Group as a whole reported under the relevant accounting policies and financial regulations in the PRC, which does not have any significant differences as compared with gross profit reported under International Financial Reporting Standards (“IFRSs”). Therefore, the operation of the Group constitutes one single operating segment. Accordingly, no segment information is presented.

An analysis of revenue by products is as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Lead-acid motive batteries		
Electric bikes battery	6,735,693	6,883,297
Electric cars battery and special-purpose electric cars battery	2,179,735	1,403,501
Li-ion batteries	143,627	38,367
Materials include lead and active additives	403,803	65,812
	9,462,858	8,390,977

5. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Wages and salaries	367,995	319,423
Retirement benefits scheme contributions	16,185	14,248
Labour cost (<i>Note</i>)	100,152	110,207
Total staff costs	484,332	443,878
Interest income on bank deposits	(12,103)	(14,049)
Interest income on loan receivables	(8,852)	(7,439)
Government grants	(56,455)	(30,768)
Allowance for bad and doubtful debts of trade receivables	42,916	14,092
Allowance for bad and doubtful debts of other receivables	9,246	4,808
Depreciation of investment property	1,045	867
Loss/(gain) on disposal of property, plant and equipment	1,327	(145)
Exchange (gain)/loss	(1,743)	4,303
Cost of inventory recognised as expense	7,747,068	6,984,008
Allowance for inventories (included in cost of sales)	8,623	7,995
Prepaid lease payments released to profit or loss	2,752	2,695
Amortisation of intangible assets	1,188	1,188
Amortisation of unrealised loss of sale and leaseback transaction	2,230	372
Depreciation of property, plant and equipment	208,069	158,595

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

6. INCOME TAX EXPENSES

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
The charge comprises:		
PRC current income tax	102,467	57,450
Deferred tax	(38,111)	(2,497)
	<u>64,356</u>	<u>54,953</u>

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Certain subsidiaries of the Group were entitled to reduced tax rate of 15% under the preferential treatment policy of the EIT Law. In addition, the EIT Law provides that qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% to 10% withholding tax under the tax treaty or the domestic law.

The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB2,789,167,000 as at 30 June 2016 (31 December 2015: RMB2,369,534,000). 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	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Earnings		
Earnings for the purpose of basic earnings per share	310,756	137,293
Effect of dilutive potential ordinary shares:		
Interest on the convertible bonds	16,061	N/A
Earnings for the purpose of diluted earnings per share	<u>326,817</u>	<u>137,293</u>

	Six months ended 30 June	
	2016	2015
	'000	'000
	(unaudited)	(unaudited)
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	1,024,587	1,008,821
Effect of dilutive potential ordinary shares:		
Convertible bonds	<u>83,325</u>	<u>N/A</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,107,912</u>	<u>1,008,821</u>

The computation of diluted earnings per share for the last interim period did not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

8. DIVIDENDS

During the Period, a final dividend of RMB0.097 per share in respect of the year ended 31 December 2015 (six months ended 30 June 2015: Nil) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the Period amounted to RMB99,385,000 (six months ended 30 June 2015: Nil).

The directors have determined that no dividend will be paid in respect of the Period (six months ended 30 June 2015: Nil).

9. TRADE RECEIVABLES

The Group normally allows a credit period of 15 days to its trade customers with trading history, or otherwise sales on cash terms are required. The following is an analysis of trade receivables by age, presented based on the goods delivery date which is the same as sales recognition date, net of allowance for doubtful debts as at 30 June 2016 and 31 December 2015:

	At	At
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(audited)
0–15 days	658,158	498,475
16–90 days	612,873	474,440
91–180 days	143,315	74,360
181–365 days	<u>190,805</u>	<u>81,348</u>
	<u>1,605,151</u>	<u>1,128,623</u>

10. BILLS RECEIVABLE

The aging analysis of bills receivable presented based on issue date at 30 June 2016 and 31 December 2015 is as follows:

	At 30 June 2016 <i>RMB'000</i> (unaudited)	At 31 December 2015 <i>RMB'000</i> (audited)
0–90 days	425,774	320,705
91–180 days	321,598	219,563
	<u>747,372</u>	<u>540,268</u>

Bills receivable of approximately RMB162,691,000 as at 30 June 2016 (31 December 2015: RMB130,912,000) were endorsed with full recourse to third party suppliers for purchase of raw materials and the corresponding trade payables of RMB162,691,000 as at 30 June 2016 (31 December 2015: RMB130,912,000) were included in the condensed consolidated statement of financial position accordingly.

Included in the bills receivable as at 30 June 2016 was an amount of approximately RMB13,350,000 (31 December 2015: RMB4,911,000) which was endorsed with full recourse to third party suppliers for purchase of machinery and payments for construction in progress.

11. TRADE PAYABLES

The following is an analysis of trade payables by age, presented based on the material receiving date, at 30 June 2016 and 31 December 2015:

	At 30 June 2016 <i>RMB'000</i> (unaudited)	At 31 December 2015 <i>RMB'000</i> (audited)
0–30 days	910,257	1,059,253
31–90 days	276,540	484,761
91–180 days	179,064	147,150
181–365 days	86,543	46,752
1–2 years	28,090	67,846
Over 2 years	48,661	16,113
	<u>1,529,155</u>	<u>1,821,875</u>

12. BILLS PAYABLE

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

MANAGEMENT DISCUSSION & ANALYSIS

The Group is principally engaged in the manufacturing and sale of lead-acid motive batteries, lithium-ion batteries and other related products, which are widely used in electric bikes, electric vehicles and special-purpose electric vehicles, etc. Leveraging its advanced technologies and research and development (“R&D”) prowess, the Group plans to manufacture and sell other products, including start-and-stop battery for automobiles in the future. During the Period, the Group’s profit attributable to owners of the Company amounted to approximately RMB310.8 million and total revenue reached approximately RMB9,463 million. The Group performed favorably in terms of market share, production capacity, production volume and sales revenue, further consolidating its leading position in the industry.

INDUSTRY OVERVIEW

Electric vehicle market sustains rapid development

With the acceleration of urbanization and the implementation of the “Intervillage Road Network Construction Project” among the road networks between the urban and rural areas in the PRC, electric bikes have been popularized rapidly for its advantages of practicality, convenience and economic efficiency. Besides, the PRC government’s introduction of a series of energy-saving and environmental protection policies in recent years has also led to increased demand for environmental-friendly electric bikes, thereby boosting development of the electric bike industry in the PRC even further. Electric bikes have now become one of the most essential modes of transportation in the country. According to a survey by market researcher Frost & Sullivan, the sales volume of electric bikes in the PRC is expected to exceed 41.8 million units in 2016, with ownership accounting for approximately 227 million units. Furthermore, the aging population together with the accelerating development of the delivery and logistics industries in the PRC have also driven growth in demand for electric tricycles as a mode of transportation for the elderly and for short-distance delivery, as well as low-speed electric vehicles.

The state continues to introduce various policies and favorable measures targeting new-energy vehicle development and usage, thus further raising confidence in the development prospects of the industry. The strategic directive “Industry Development Planning for Energy-saving and New-energy Vehicles (2012-2020)” (《節能與新能源汽車產業發展規劃 (2012–2020年)》) released by the State Council of the PRC (“State Council”) in June 2012 highlighted the focus and target of development of new-energy vehicles in the PRC, with a plan to increase their accumulated production and sales volume to more than 5 million units by 2020. In April 2015, the Ministry of Finance, the Ministry of Science and Technology, the Ministry of Industry and Information Technology (“MIIT”) and the National Development and Reform Commission of the PRC issued the “Circular on Financial Support Policies on the Promotion and Application of New-energy Vehicles (2016–2020)” (《關於2016–2020年新能源汽車推廣應用財政支持政策的通知》), specifying the subsidy policies for new-energy vehicles during the national plan, “13th Five-Year Plan (2016–2020)” period. In May 2015, the “Made in China 2025” (《中國製造2025》) notice was published, also by the State Council, which expressly stated that support will be given to the development of the new-energy vehicle industries. With favorable policies for the new energy vehicles, as well as the enormous market size of electric bikes, the PRC’s demand for battery products is set to grow further.

Battery market maintains steady growth

As a type of chemical battery with matured technology, lead-acid motive batteries have been widely adopted for its high energy efficiency, high safety level and low cost, occupying a strong position in a majority of traditional sectors and some emerging application sectors as well. On the other hand, given the lifespan of lead-acid motive batteries, the continuous development of the electric bike industry and the constant rise in ownership, the market demand for lead-acid motive battery replacement will continue to increase. Therefore, there remains vast room for market growth. According to the Frost & Sullivan's survey, the sales volume of lead-acid batteries for electric bikes in the PRC are expected to reach 497 million units in 2016 and by further increase of 11.4% in 2017.

Furthermore, the demand for lithium-ion batteries also shows rapid development, which can be attributed to functional advantages and favorable market policies for new-energy vehicles in the PRC where the market share of lithium-ion batteries is gradually expanding. In addition, with energy-saving and emission reduction becoming the major priorities in the global automobile industry, and given the state's newly-issued standards for fuel consumption as well as the common problem of traffic congestion in the PRC, the start-and-stop battery system will become a preferable energy-saving and emission reduction solution. According to an estimate by GBII (高工鋰電產業研究所), 2015 to 2018 will be the prime growth period for the start-and-stop battery in the PRC, with a projected compound annual growth rate (CAGR) of as high as 83%.

Intensifying consolidation and continuous structural optimization

At the end of 2015, MIIT promulgated the “Regulatory Standards of Lead-acid Battery Industry (2015 Edition)” (《鉛蓄電池行業規範條件(2015年本)》) to replace “Entry Requirements of the Lead-acid Battery Industry” (《鉛蓄電池行業准入條件》), which coincided with the introduction of “Interim Administrative Measures for the Regulatory Circular of the Lead-acid Battery Industry (2015 Edition)” (《鉛蓄電池行業規範公告管理暫行辦法(2015年本)》). MIIT further enhanced the environmental assessment procedures for the national lead-acid battery industry. While overhauling the battery industry, the government established stricter standards which facilitated industry consolidation. With the elimination of weaker players, further standardization of the industry can be achieved. Leading enterprises with advantages in such areas as environmental protection, costs and scale will benefit from structural reforms and increased industry focus. They will also be able to capture the market shares of exiting players by making adjustments to capacity and boosting production.

While the lead-acid battery industry has been undergoing environmental protection upgrades to eliminate obsolete capacity, the Group has always performed well in terms of associated inspections and examinations. On 17 June 2016, MIIT announced the fourth batch of enterprises to be listed in the catalogue of “Standardized Requirements for the Automobile Power Storage Battery Industry” (《汽車動力蓄電池行業規範條件》企業目錄). Among those to make the list included Zhejiang Chaowei Chuangyuan Industrial Co., Ltd. (浙江超威創元實業有限公司), a subsidiary of the Group. This further recognized the Group's leading position in the industry.

A number of regulatory measures have been promoted and implemented, leading to higher entry barriers and more concentrated development, new development opportunities have resulted as well.

BUSINESS DEVELOPMENT

Industry leader with the highest market share

The Group has continued to vigorously push forward its development strategy; respond timely to any fluctuations in market demand; and substantially enhance the performance of its existing products through technological innovations, while concurrently developing new products for launch. Through its unremitting efforts, the Group recorded growth in both production and sales volumes during the Period. In the first half of 2016, revenue of the Group reached another record high, amounting to approximately RMB9,463 million, thus maintaining its top position in the industry in terms of production capacity, production volume and sales volume. The Group's major product, lead-acid motive batteries, maintained its industry-leading position with the highest market share.

Enriching product mix to create multiple sources of growth

As a direct consequence of the rapid development of society and increasing environmental protection awareness, more stringent technical requirements have been expected for and imposed on battery manufacturers. In view of the overall development trend of this market under the current climate, the Group has taken initiatives that to seize the emerging opportunities. It has been focusing on new technical processes and technology inputs as well as engaging in research, development and production of new products, without overlooking the importance of quality control. In this way is the Group striving to meet market demands by offering products with greater value.

On 29 February 2016, the CHILWEE Black Gold Series High-energy value-regulated lead-acid (VRLA) Battery ("CHILWEE BG Battery") was officially launched by the Group after a full four years of meticulous research and development. This product marked the industry's first successful attempt at applying Graphene technology into a commercially viable, mass produced rechargeable lead-acid battery. The CHILWEE BG Battery features specific energy that is approximately 15% higher than a normal motive power lead-acid battery; delivering excellent performance in terms of driving range and climbing capability. Market response to the CHILWEE BG Battery has been favorable since its launch, and even experienced a temporary period when demand exceeded supply. The Group will therefore gradually increase production capacity to fully capitalize on demand.

With regards to the development of start-and-stop battery products and lithium battery products, both are progressing steadily. Since 2014, the Group has been cooperating with the German battery manufacturer Akkumulatorenfabrik MOLL GmbH & Co. KG in the development of a start-and-stop battery. Production is expected to commence in the fourth quarter of 2016. With strong market demand for energy-saving products, the Group envisages a time of rapid growth in the start-and-stop battery market. In addition, with the absence of a benchmark enterprise in the domestic start-and-stop battery segment, the Group will be presented with enormous growth opportunities as well.

In respect of its interest in lithium-ion battery, the Group commenced R&D and mass production of such products in 2007 and 2010 respectively. The product is now fully mature and enjoying strong market demand. The Group's lithium-ion battery products adopt a pouch-type technique and feature excellent safety-in-use, size flexibility and specific energy, which will lead towards a predecessor that is smaller, lighter and offer greater driving range. In the first half of 2016, sales volume of lithium-ion battery products amounted to approximately RMB143.6 million.

Fortifying the talent pool to propel scientific advancement

The Group has been endeavoring to attract professionals and facilitate scientific innovation in order to maintain its leading position in an industry that demands great technical competence. Over the years, the Group has been actively recruiting elites from around the world, and has thus far engaged over 20 top domestic and foreign experts, including Dr. Hisaki Tarui (樽井久樹博士), an authority in the industry, and Dr. Junji Nakashima (中島潤二博士), a Japanese expert in lithium-ion battery. Their expertise spans basic theory, materials and industrial batteries to motive batteries and lithium-ion batteries. It is worth noting as well that Dr. Ke Ke (柯克博士), deputy head of the Group's research institute, has earned inclusion in the 10th national "Program of One Thousand Talents" (千人計劃). Moreover, Institute of Lithium-ion Motive Battery and Storage Battery, established by the Group, has been recognized as a provincial level institute of Zhejiang Province during the Period — a testament to the Group's pioneering efforts in research and innovation.

The Group places significant emphasis on R&D. During the Period, R&D expense amounted to approximately RMB223 million, accounting for about 2.4% of total revenue. As at 30 June 2016, the Group possessed a total of 1,226 patents and 255 patents under application. The Group has garnered various provincial awards and even from further afield, including the "National Torch Program — Certificate for Exemplary Project for Commercialization" (國家火炬計劃產業化示範項目證書). In addition, the Group is actively seeking patent applications to protect core technologies associated with the CHILWEE BG Battery, and has received two patent certificates so far. Five other patent applications are being processed.

Strategic production and sales plans for enhancing brand value

The Group adopted a strategic production plan in which production facilities are located in regions with higher demand for lead-acid motive batteries, including Zhejiang, Henan, Jiangsu, Anhui, Shandong, Jiangxi and Hebei provinces. This strategy has given the Group much greater flexibility to seize developing opportunities, as well as raise efficiency by reducing costs in respect of storage and logistics, which in turn helps enhance profitability.

The Group has a nationwide sales and distribution network covering all primary and secondary markets. For the primary markets, the Group has maintained cooperation with a number of top electric bike manufacturers in the PRC, including such respected brands as Yadea, Lima, Evermaster, Bidewen and Luyuan. For the secondary markets, the number of independent distributors of CHILWEE brand products totaled 2,116 as at 30 June 2016.

The Group has continued to bolster its competitiveness in reference to sales channels and branding by adopting a refined approach to manage its distributors, with the objective of minimizing the intervening layers within sales channels and enhancing customer loyalty. In addition, the Group provides technical training and consultancy services to its independent distributors to bolster their sales capability. At the same time, the Group has fully optimized its marketing strategies in order to facilitate brand building while strengthening customer services. Also, the Group continues to have the renowned action movie star Mr. Donnie Yen as its brand ambassador, thereby raising brand awareness and reinforcing the “CHILWEE” brand reputation for strength and quality still further.

FUTURE DEVELOPMENT

In 2016, the industry is expected to continue eliminating substandard production. As a leading enterprise in the battery industry, the Group is well positioned to maintain steady growth and achieve satisfactory performance by strategically devising production plans and actively capturing the market share of companies vacating the industry. Correspondingly, the Group will thereby further expand capacity and market share. Looking towards the second half of 2016, the Group will continue to focus on the following:

1. Strengthening its leading market position

The Group will seek to capitalize on opportunities arising from market consolidation — driven by favorable government policies — by maintaining its focus on enhancing the competitiveness of its products, as well as strengthening its leading market position by improving production processes and gradually optimizing the product mix with the goal of achieving greater product differentiation. The Group will also adjust production and sales strategies as and when necessary according to market conditions. With a view towards enhancing returns for investors, the Group will actively pursue more opportunities for cooperation as well as consider mergers and acquisitions.

2. Spurring innovation and taking up its responsibility for environmental protection

The Group will continue to collaborate with various leading domestic R&D and professional institutes to bolster its R&D capability so as to develop more patented technologies and breakthroughs that provide the catalyst for growth. In line with the government policies, the Group will also attach great importance to green production and fulfill its corporate social responsibility with the objective of advancing the Group’s sustainable development.

3. Improving sales network to boost the brand value of “CHILWEE”

The Group will adhere to its strategic production master plan and expand its sales network coverage. It will take advantage of changing market dynamics by employing measures that complement such forces and which are able to capture the Group’s target consumers. At the same time, the Group’s marketing strategy will be broadened from channel expansion to brand building, with the goal of promulgating the virtues of “CHILWEE”, a renowned battery brand with high added-value.

The Group will also persist with its strategic objective of “maintaining leadership in talent and technology, product quality and cost controls as well as branding”, and aspire to become an industry leader that “influences technical development and establishes the standard for production model”.

Financial Review

Revenue

The Group’s revenue for the Period amounted to RMB9,462,858,000, representing an increase of 12.8% compared to RMB8,390,977,000 for the same period in 2015. The increase was primarily attributable to the growth in sales amount of electric cars battery, special-purpose electric cars battery and Li-ion battery.

Gross profit

The Group’s gross profit for the Period amounted to RMB1,411,000,000, representing an increase of 21.6% compared to RMB1,160,311,000 for the same period in 2015. During the Period, gross profit margin increased from 13.8% to 14.9% primarily because of an increase in average selling price of batteries.

Other income

The Group’s other income for the Period amounted to RMB88,236,000, representing an increase of about 50.5% compared to RMB58,640,000 for the same period in 2015. The increase was mainly due to an increase in government grants received during the Period.

Distribution and selling expenses

The Group’s distribution and selling expenses for the Period amounted to RMB368,195,000, representing a slight increase of approximately 1.9% compared to RMB361,469,000 for the same period in 2015.

Administrative expenses

The Group's administrative expenses for the Period were RMB310,595,000, representing an increase of 9.7% compared to RMB283,122,000 for the same period in 2015. The increase was mainly attributable to an increase in depreciation and consulting fees which are in line with the Group's business expansion and increase in number of projects and production bases.

Research and development expenses

Research and development expenses for the Period amounted to RMB223,032,000, representing an increase of 10.3% compared to RMB202,141,000 for the same period in 2015. The increase was primarily due to an increase in project expenditure during the period compared to that of the same period last year.

Finance costs

The Group's finance costs for the Period decreased by 15.1% from RMB127,922,000 for the corresponding period of 2015 to RMB108,668,000. The decrease in finance costs was primarily due to a decrease in interest expenses on convertible bonds and bank borrowings.

Profit before taxation

For the above reasons, the Group's profit before tax for the Period increased by 64.5% to RMB428,023,000 (the corresponding period of 2015: RMB260,210,000).

Taxation

The Group's income tax expenses for the Period increased by 17.1% to RMB64,356,000 (the corresponding period of 2015: RMB54,953,000). The effective tax rate for the Period was 15.0% compared to 21.1% for the same period in 2015. The decrease was mainly due to a subsidiary's utilization of tax loss from last year.

Profit attributable to owners of the Company

Profit attributable to owners of the Company for the Period amounted to RMB310,756,000, representing an increase of 126.3%, compared to RMB137,293,000 for the same period in 2015.

Liquidity and financial resources

As at 30 June 2016, the Group had net current assets of RMB1,137,449,000 (31 December 2015: approximately RMB520,015,000), of which cash and bank deposits were RMB1,092,697,000 (31 December 2015: RMB960,960,000), total borrowings, including bank and other borrowings, corporate bonds, obligations under finance leases and convertible bonds, were approximately RMB3,768,848,000 (31 December 2015: approximately RMB3,285,407,000). The borrowings were mainly used to finance capital expenditure, the purchases of raw materials and operations of the Group. They were denominated in RMB or HKD, of which RMB2,361,975,000 bore interests at fixed rates and RMB1,344,442,000 were repayable within one year. The Group adopted centralised financing and treasury policies in order to ensure the funding is utilized efficiently.

As at 30 June 2016, the Group's current ratio (current assets/current liabilities) was 1.2 (31 December 2015: 1.1) and gearing ratio (total borrowings/total assets) was 33.2% (31 December 2015: 30.5%). The Group had sufficient cash and available banking facilities to meet its commitments and working capital requirements. The current cash position has enabled the Group to explore investment and business development opportunities to expand its market share in China.

Exchange rate fluctuation risk

As the Group's operations are mainly conducted in China and the majority of the sales and purchases are transacted in Renminbi, the Directors are of the view that the Group's operating cash flow and liquidity are not subject to significant foreign exchange rate risks.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2016 (31 December 2015: Nil).

Human resources and employees' remuneration

As at 30 June 2016, the Group employed a total of 18,539 staff in the PRC and Hong Kong (30 June 2015: 19,139). During the Period, the total staff costs amounted to approximately RMB484,332,000 (30 June 2015: RMB443,878,000). The Group sought to further strengthen staff training by offering focused training programs and study tours to management and professional technical personnel, and disseminating the latest government policy information on the lead-acid motive battery industry to all staff within the Period. The Group continued to strive for the enhancement of professional standards and overall qualities of its staff. The Group also provided competitive salary packages to its staff, encouraging them to be fully dedicated in their work and to leverage their capabilities in serving its customers.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 7 June 2010 (the “Share Option Scheme”), which became effective on 7 July 2010, for the purpose of giving the eligible persons an opportunity to have a personal stake in the Group and motivating them to optimize their future performance and efficiency to the Group and/or to reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and in the case of executives, enabling the Group to attract and retain such individuals with experience and ability and/or to reward them for their past contributions. As at the date of this announcement, the Share Option Scheme has a remaining life of approximately 3 years and 11 months.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the total number of shares in issue as at 7 July 2010, being the listing date of the Shares of the Company on the Stock Exchange, being 100,000,000 shares, which represented about 9.76% of the total issued share capital of the Company as at the date of this announcement. No options may be granted to any participant of the Share Option Scheme such that the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company’s issued share capital from time to time.

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set those in the Share Option Scheme as the Board may think fit, including the time or period before the right to exercise the option in respect of all or any of the shares shall vest, provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant under the Share Option Scheme. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant on or before 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

- (a) the nominal value of a share;
- (b) the closing price of a share as stated in the Stock Exchange’s daily quotations sheets on the offer date; and
- (c) the average closing price of a share as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the adoption date, after which no further options will be granted or offered. No options have been granted under the Share Option Scheme since its adoption to 30 June 2016.

Apart from the foregoing, at no time during the six months ended 30 June 2016 was the Company, or any of its holding companies or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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 contained in Appendix 14 (the “Code”) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the Period, except for deviation as stated below.

Code Provision A.2.1 of the Code requires the roles of chairman and chief executive officer to be separated. Mr. Zhou Mingming is currently both the chairman of the Board and chief executive officer of the Company. The Board considers that the current arrangement facilitates the execution of the Group’s business strategies and maximizes efficiency of its operation and is therefore beneficial to the Company and its shareholders as a whole.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions of the Directors, senior management and relevant employees (who, because of their office in the Company, are likely to be in possession of inside information) of the Company on terms no less exacting than the required standard of dealings specified in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the required standard set out in the Model Code and the Company’s own code of conduct regarding directors’ securities transactions throughout the Period.

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”). Its primary duties include, among other things, the review and supervision of the Group’s financial reporting process and internal control system. The Audit Committee comprises all three independent non-executive Directors and one non-executive Director of the Company, namely Mr. Lee Conway Kong Wai (“Mr. Lee”), Mr. Wang Jiqiang, Prof. Ouyang Minggao and Mr. Ng Chi Kit. Mr. Lee is the chairman of the Audit Committee. Mr. Lee has professional qualification and experience in accounting and financial matters.

The Audit Committee has met and discussed with the external auditors of the Company, Deloitte Touche Tohmatsu, and has reviewed the accounting principles and practices adopted by the Group and the unaudited results of the Group for the six months ended 30 June 2016. The Audit Committee considered that the unaudited consolidated results of the Group for the six months ended 30 June 2016 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made in accordance with Appendix 16 of the Listing Rules in this announcement.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the Period.

GENERAL INFORMATION

The Group's unaudited consolidated financial statements for the Period have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

PUBLICATION OF INTERIM REPORT

The full text of the Company's 2016 interim report for the Period will be sent to the shareholders of the Company and posted on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.chaowei.com.hk), respectively, in due course.

APPRECIATION

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

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

Changxing, Zhejiang Province, the People's Republic of China, 27 August 2016

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