19 June 2019

China New Energy Limited
("CNE" or "the Company")

Final Results for the Year Ended 31 December 2018

The Board of CNE (AIM: CNEL), the AIM quoted engineering and technology solutions provider to the bioenergy sector, presents its final results for the year ended 31 December 2018.

Highlights for the year include:

- Change of Auditor to PricewaterhouseCoopers LLP ("**PwC**")
- Announcement of Prior Year Adjustments on FY2017 audited figures made by PwC
- Slight decrease in revenue of 2.8% against FY2017 to RMB250.0 million (c. £28.1 million)
- Net profit remains stable at RMB45.8 million (£5.2 million)
- Order book and contract backlog increase by 207.8% to RMB329.6 million (c. £37.7 million)
- Continued positive market outlook with third consecutive year of profit

The full version of the report and accounts for the year ended 31 December 2018 will be available from the Company's website www.chinanewenergy.co.uk and notification of posting of the accounts, together with the Notice of AGM, will shortly be sent to all shareholders.

Mr. Yu commented, "I am very pleased that we have sustained our recovery and have recorded our third consecutive net profit. The 13th Five Year Plan for Renewable Energy Development clearly demonstrated the intention of the PRC government to develop the ethanol fuel industry. We believe that our advanced technologies and research and development capabilities have given us a competitive edge and allowed us to continue to secure contracts from customers through our provision of high-quality and innovative ethanol production system technology integrated services in the PRC. I am very confident about the outlook for 2019 and the investment value of our shares which is expected to be reflected in our medium to long term market valuation".

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

For further information, please visit www.chinanewenergy.co.uk or contact:

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CHAIRMAN'S STATEMENT

I am pleased to report that the Group recorded its third consecutive profit after tax ("net profit").

Our total revenue has slightly decreased from RMB257.1 million (c. £29.2 million) for the year ended 31 December 2017 to RMB250.0 million (c. £28.1 million) for the year ended 31 December 2018, representing a decrease of 2.8% which was due to the decrease in revenue generated from the provision of ethanol production system technology integrated services in the ethanol fuel industry although this was partially offset by the growth in revenue of RMB46.5 million and RMB13.5 million generated from projects in the alcoholic beverages and other industries respectively. Our net profit increased marginally from RMB45.7 million (c. £5.2 million) for the year ended 31 December 2017 to RMB45.8 million (c. £5.2 million) for the year ended 31 December 2018, representing an increase of 0.2%.

The significant growth in our revenue and net profit from 2016 to 2018 was primarily due to the increased market demand as well as the favourable policies introduced by the People's Republic of China ("PRC") government, such as: i.) The 13th Five Year Plan for Renewable Energy Development clearly demonstrated the intention of the PRC government to vigorously develop the ethanol fuel industry. In September 2017, the PRC government announced a new nationwide ethanol mandate (NEA) that was designated to expand the mandatory use of E10 fuel (gasoline containing 10 percent ethanol) from 12 trial provinces to the entire country by 2020. In addition, the State Council of the PRC executive meeting decided to promote the usage of ethanol fuel in another 14 provinces in addition to the original 12 trial provinces; and ii.) The building of "ecological civilization" is listed as one of the top ten goals of the 13th Five Year Plan. Driven by the policies mentioned by policies mentioned above, ethanol producers have to replace outdated equipment by investing in more advanced production systems that generate high production efficiency and low pollutant discharge. The necessity for upgrades of manufacturing facilities, replacement of production systems and mass-production trends drive demand for advanced ethanol production system in the alcoholic beverage industry in the PRC. We believe that, with our extensive experience and expertise in ethanol production system industry, we are well positioned to capture growth opportunities in the PRC. For the year ended 31 December 2018, the major ethanol production system technology integrated services projects for the ethanol fuel industry were with Heilongjiang Hongzhan Biotechnology Co., Ltd and for the alcoholic beverage industry were with Jilin Xintianlong Industries Co., Ltd, Mengzhou City Houyuan Biotechnology Co., Ltd, and Henan Xinheyang Alcohol Co., Ltd respectively.

The gross profit decreased by 6.1% to RMB72.6 million (c. £8.2 million) for the year ended 31 December 2018 from RMB77.3 million (c. £8.8 million) for the year ended 31 December 2017. Our overall gross profit margin decreased slightly from 30.1% for the year ended 31 December 2017 to 29.0% for the year ended 31 December 2018.

The net profit for the year increased by 0.2% to RMB45.8 million (£5.2 million) for the year ended 31 December 2018 from RMB45.7 million (£5.2 million) for the year ended 31 December 2017. Net profit margin remained relatively stable at 17.8% for the year ended 31 December 2017 and 18.3% for the year ended 31 December 2018.

Order Book and Contract Backlog

We entered 2019 with a strong order book of RMB329.6 million (c. £37.7 million). This number includes new contracts to be started and the proportion of anticipated revenue from contracts which have started but not yet completed. This represents an increase of 234.3% from RMB98.6 million (c. £11.2 million) for the year ended 31 December 2017.

The following table sets forth the movement of backlog of our projects during the years ended 31 December 2017 and 2018:

	For the year ended 31 December	
	2017	2018
	RMB'000	RMB'000
Contract value (exclusive of value-added tax) of the beginning of the year	138,142	98,565
Contract value (exclusive of value-added tax) of new contracts awarded during the year	217,532	480,990
Less:		
Revenue recognised during the year	(257,109)	(249,978)
Contract value (exclusive of value-added tax) at the end of year	98,565	329,577

Business

The Group is a leading ethanol production system technology integrated service provider in the PRC. The Group primarily provide integrated services including engineering design, equipment manufacturing, installation and commissioning and subsequent maintenance for the core system of ethanol production system in the ethanol fuel and alcoholic beverage industries in the PRC. In addition, the Group also provided its technology integrated services for other chemical production systems in Canada, Russia and other countries.

With 13 years of operating history, the company have gained substantial experience and established a solid reputation in terms of advanced technology skills and proven track records in ethanol production system industry in the PRC .According to a recently commissioned report from the China Insights Consultancy Limited, an independent market research and consulting company, we ranked second in terms of revenue with a market share of approximately 8.4%, in the ethanol production system industry in the PRC in 2017.

Research and Development

We have established a solid reputation in terms of advanced technology skills and proven track records in the ethanol production system industry in the PRC. Over the years, we have been devoted to research and development to drive improvement and innovation in technologies to be applied to the core system of the ethanol production system, we intend to continue to invest in our research and development efforts.

As at the date of this report, we had 31 patented technologies, which we have incorporated into our production procedures. In addition, as at the date of this report, the Group have submitted nine patent registrations in the PRC and two ongoing research and development projects. We believe our advanced technologies and research and development capabilities have given us a competitive edge and allowed us to continue in securing contracts from customers through our provision of high-quality and innovative ethanol production system technology integrated services.

Business Strategies

Our goal is to continue to enhance our overall competitiveness and to capture greater market share in the ethanol production system industry and expand our presence to solidify our position as a leading ethanol production system technology integrated service provider in the PRC. To achieve this goal, we intend to pursue the following strategies:

- Continue to maintain our leading market position by undertaking more projects in the PRC; and
- Continue to focus on research and development to strengthen our design and engineering capability.

Whilst the business fundamentals and outlook have substantially grown over the last three years, we are not seeing the value reflected in the Company's share price. This is both causing frustration amongst the board and investors, as well as making it unattractive for the Company to raise additional capital to expand the business. Our Directors are of the view that we will be better served by listing our shares on a stock exchange in Asia, a larger and more liquid stock market with investors who can more readily understand our business operations and the industry and market we are in. We believe this will better accommodate our growth and, at the same time, increase the investment value of our shares which is expected to be reflected in our medium to long term market valuation.

As a result, the Company is actively seeking a listing in Asia where there is a greater understanding of our primary market in the PRC, which we believe will lead to an increased share price and offer more opportunity to us to raise capital. I am pleased to report that the Company is now in late stage preparation of submitting an application for listing on a stock market in Asia for improving shareholder value, but there is no certainty when the submission will be lodged. We continue to stress that we are committed to remaining public and for our shares to be traded on an internationally recognised stock exchange.

Outlook

The board and I are very optimistic about 2019 and the long-term future of CNE. The continuous favourable changes in the PRC ethanol production policies in recent year such as the 13th Five Year Plan for Renewable Energy Development clearly demonstrated the intention of the PRC government to develop the ethanol fuel industry. We believe that, our advanced technologies and research and development capabilities have given us a competitive edge and allowed us to continue in securing contracts from customers through our provision of high-quality and innovative ethanol production system technology integrated services in the PRC. .

I am very confident about the immediate outlook for 2019 and the investment value of our shares which is expected to be reflected in our medium to long term market valuation.

On behalf of the board, I would like to extend my appreciation to our valued shareholders, supportive business partners and associates, insightful management and dedicated staff for all their contribution and commitment towards the Company. I would also like to thank the board for their invaluable counsel in steering the Group through this exciting time.

Yu Weijun
Chairman

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2018

	Note	Group			Company	
		As at 31 December 2018	As at 31 December 2017	As at 1 January 2017	As at 31 December 2018	As at 31 December 2017
		RMB'000	RMB'000 (Restated See note 2.2)	RMB'000 (Restated See note 2.2)	RMB'000	RMB'000 (Restated See note 2.2)
Non-current assets						
Property, plant and equipment	4	6,457	7,887	9,465	-	-
Land use rights	5	2,608	2,691	2,771	-	-
Intangible assets	6	12,782	5,989	5,905	-	-
Investments in subsidiaries	7	-	-	-	9,548	9,203
Deferred tax assets	8	5,752	-	-	-	-
		27,599	16,567	18,141	9,548	9,203
Current assets						
Inventories	9	3,661	13,742	5,619	-	-
Contract assets	10	88,465	60,658	7,170	-	-
Trade and other receivables	11	121,609	82,546	52,387	6,582	8,620
Cash and cash equivalents	12	7,588	19,368	13,854	22	240
		221,323	176,314	79,030	6,604	8,860
Current liabilities						
Short-term borrowings	13	6,540	10,107	-	-	-
Trade and other payables	14	128,605	97,136	67,472	8,247	6,327
Contract liabilities	10	21,028	33,234	36,244	-	-
Provision for liabilities	15	-	4,636	6,612	-	-
Income tax payable		21,723	18,118	9,057	316	-
		177,896	163,231	119,385	8,563	6,327
Net current assets/(liabilities)		43,427	13,083	(40,355)	(1,959)	2,533
Net assets/(liabilities)		71,026	29,650	(22,214)	7,589	11,736
Equity						
Share capital	16	1,541	1,541	1,441	1,541	1,541
Share premium	16	68,830	68,830	62,905	68,830	68,830
Combination reserve	17	(33,156)	(33,156)	(33,156)	-	-
Other reserves		32,154	36,599	36,419	(11,803)	(7,244)
Retained earnings/ (accumulated losses)		1,657	(44,164)	(89,823)	(50,979)	(51,391)
		71,026	29,650	(22,214)	7,589	11,736

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

	Note	Group Year ended 31 December		Company Year ended 31 December	
		2018 RMB'000	2017 RMB'000 (Restated See note 2.2)	2018 RMB'000	2017 RMB'000 (Restated See note 2.2)
Revenue	33	249,978	257,109	-	-
Cost of sales	25	(177,374)	(179,788)	-	-
Gross profit		72,604	77,321	-	-
Selling and distribution expenses	25	(5,801)	(5,573)	-	-
Administrative expenses	25	(19,758)	(14,334)	(2,668)	(2,314)
Share-based payments	25	(460)	(96)	-	-
Other income	22	1,685	1,061	-	-
Other gains	23	263	2,937	233	-
Net impairment losses on financial assets and contract assets		(362)	(6,193)	-	-
Investment income		-	-	3,163	-
Operating profit/(loss)		48,171	55,123	728	(2,314)
Finance income	24	22	87	-	80
Finance costs	24	(1,094)	(747)	-	-
Finance costs – net	24	(1,072)	(660)	-	-
Profit/(loss) before tax		47,099	54,463	728	(2,234)
Income tax expense	27	(1,278)	(8,804)	(316)	-
Profit/(loss) for the year attributable to owners of the Group/Company		45,821	45,659	412	(2,234)
Other comprehensive (expense)/income					
Exchange difference on translating foreign operations		(224)	84	(338)	340
Total comprehensive income/(expense) for the year attributable to owners of the Group/Company		45,597	45,743	74	(1,894)
Earnings per share (RMB)		2018 (RMB)	2017 (RMB)		
Basic	28	0.10	0.09		
Diluted	28	0.10	0.09		

Note: The exchange rate used in 2018 is £1:RMB 8.8178 (2017: £1:RMB 8.7348).

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

Group	Share Capital				Other reserves					
	RMB'000	Share premium RMB'000	Combination reserve RMB'000	Statutory reserve RMB'000	Share based payment reserve RMB'000	Foreign currency translation reserve RMB'000	Treasury shares RMB'000	Total RMB'000	Retained earnings /(Accumulated loss) RMB '000	Total equity RMB'000
	Note 16	Note 16	Note 17	Note 18	Note 19	Note 20	Note 21			
Balance at 31 December 2016 as originally presented	1,441	62,905	(33,156)	12,328	-	24,091	-	36,419	(63,039)	4,570
Correction of prior year errors, net of tax (note 2.2)	-	-	-	-	-	-	-	-	(24,357)	(24,357)
Adjustment on full retrospective application of IFRS 9, net of tax (note 2.3)	-	-	-	-	-	-	-	-	(2,427)	(2,427)
Balance at 1 January 2017, as restated	**1,441**	**62,905**	**(33,156)**	**12,328**	**-**	**24,091**	**-**	**36,419**	**(89,823)**	**(22,214)**
Profit for the year, as restated	-	-	-	-	-	-	-	-	45,659	45,659
Other comprehensive income	-	-	-	-	-	84	-	84	-	84
Total comprehensive income for the year, as restated	-	-	-	-	-	84	-	84	45,659	45,743
Transactions with owners, recognised directly in equity										
Share-based payment expenses	-	-	-	-	96	-	-	96	-	96
Issue of shares, net of share issue cost	100	5,925	-	-	-	-	-	-	-	6,025
Balance at 31 December 2017, as restated	**1,541**	**68,830**	**(33,156)**	**12,328**	**96**	**24,175**	-	**36,599**	**(44,164)**	**29,650**
Balance at 31 December 2017 as originally presented	**1,541**	**68,830**	**(33,156)**	**12,328**	**528**	**24,175**	**-**	**37,031**	**(32,954)**	**41,292**
Correction of prior year errors, net of tax (note 2.2)	-	-	-	-	(432)	-	-	(432)	(6,025)	(6,457)
Adjustment on full retrospective application of IFRS 9, net of tax (note 2.3)	-	-	-	-	-	-	-	-	(5,185)	(5,185)
Balance at 31 December 2017 as restated	**1,541**	**68,830**	**(33,156)**	**12,328**	**96**	**24,175**	-	**36,599**	**(44,164)**	**29,650**
Profit for the year	-	-	-	-	-	-	-	-	45,821	45,821
Other comprehensive expense	-	-	-	-	-	(224)	-	(224)	-	(224)
Total comprehensive income for the year	-	-	-	-	-	(224)	-	(224)	45,821	45,597
Transactions with owners, recognised directly in equity										
Share-based payment expenses	-	-	-	-	460	-	-	460	-	460
Buy-back of shares	-	-	-	-	-	-	(4,681)	(4,681)	-	(4,681)
Balance at 31 December 2018	**1,541**	**68,830**	**(33,156)**	**12,328**	**556**	**23,951**	**(4,681)**	**32,154**	**1,657**	**71,026**

Company	Share capital RMB'000	Share premium RMB'000	Share-based payment reserve RMB'000	Treasury shares RMB'000	Foreign currency translation reserve RMB'000	Subtotal of other reserve RMB'000	Accumulated loss RMB'000	Total equity RMB'000
Balance at 1 January 2017	1,441	62,905	-	-	(7,680)	(7,680)	(49,157)	7,509
Loss for the year, as restated	-	-	-	-	-	-	(2,234)	(2,234)
Other comprehensive income	-	-	-	-	340	340	-	340
Total comprehensive income for the year, as restated	-	-	-	-	340	340	(2,234)	(1,894)
Transactions with owners, recognised directly in equity								
Share-based payment expenses	-	-	96	-	-	96	-	96
Issue of shares, net of share issue cost	100	5,925	-	-	-	-	-	6,025
Balance at 31 December 2017	1,541	68,830	96	-	(7,340)	(7,244)	(51,391)	11,736
Balance at 31 December 2017 as originally presented	1,541	68,830	528	-	(7,340)	(6,812)	(51,919)	11,640
Correction of prior year errors, net of tax (note 2.2)	-	-	(432)	-	-	(432)	528	96
Balance at 31 December 2017 as restated	1,541	68,830	96	-	(7,340)	(7,244)	(51,391)	11,736
Profit for the year	-	-	-	-	-	-	412	412
Other comprehensive expense					(338)	(338)	-	(338)
Total comprehensive income for the year	-	-	-	-	(338)	(338)	412	74
Transactions with owners, recognised directly in equity								
Share-based payment expenses	-	-	460	-	-	460	-	460
Buy-back of shares	-	-	-	(4,681)	-	(4,681)	-	(4,681)
Balance at 31 December 2018	1,541	68,830	556	(4,681)	(7,678)	(11,803)	(50,979)	7,589

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated See note 2.2)		(Restated See note 2.2)
Cash flows from operating activities				
Cash generated from/(used in) operations	10,069	(13,135)	(895)	(7,673)
Income tax paid	(3,425)	(175)	-	-
Interest paid	(1,072)	(660)	-	-
Net cash generated from/(used in) operating activities	5,572	(13,970)	(895)	(7,673)
Cash flows from investing activities				
Purchases of property, plant and equipment	(889)	(687)	-	-
Purchase of other intangible assets	(5,954)	(595)	-	-
Proceeds from disposal of property, plant and equipment	3	-	-	-
Dividend received	-	-	444	-
Net cash used in investing activities	(6,840)	(1,282)	444	-
Cash flows from financing activities				
Proceeds from bank and other borrowings	6,800	10,257	-	-
Repayments of borrowings	(10,367)	(150)	-	-
Proceeds from shares issued	-	6,025	-	6,025
Repurchase of shares	-	(4,681)	-	-
Cash advance from related parties	15,404	52,410		
Repayment to related parties	(11,165)	(43,175)		
Restricted cash pledged for bank borrowings	(1,230)	-	-	-
Net cash (used in)/ generated from financing activities	(558)	20,686	-	6,025
Net (decrease)/increase in cash and cash equivalents	(1,826)	5,434	(451)	(1,648)
Cash and cash equivalents at beginning of year	8,180	2,666	240	1,808
Exchange gains on cash and cash equivalents	4	80	233	80
Cash and cash equivalents at end of year	6,358	8,180	22	240
Profit/(loss) before income tax	47,099	54,463	728	(2,234)
- Finance costs	1,072	660	-	(80)
- Depreciation	2,316	2,187	-	-
- Amortisation	618	591	-	-
- Net impairment losses on financial assets and contract assets	362	6,193	-	-
- Share-based employee expense	460	96	-	-
- Exchange gain	(4)	(80)	(233)	-
- Non cash item-Investments in subsidiaries	-	-	(3,163)	-
	51,923	64,110	(2,668)	(2,314)
Changes in working capital:				
- Contract assets	(27,807)	(53,488)	-	-
- Inventories	10,081	(8,123)	-	-
- Restricted cash	11,188	-	-	-
-Trade and other receivables	(49,185)	(39,623)	(147)	(4,819)
-Contract liabilities	(12,206)	(3,010)	-	-
- Trade and other payables	26,075	26,999	1,920	(540)
Cash generated from/(used in) operations	10,069	(13,135)	(895)	(7,673)

NOTES TO THE FINANCIAL STATEMENTS

The financial information above and the notes to the accounts have been extracted from the Annual Report and Financial Statements for the year ended 31 December 2018. As such, note references and page numbers may not appear correctly in this announcement. Shareholders are advised to read the Annual Report and Financial Statements for the year ended 31 December 2018 in full which will shortly be available from the Company's website, www.chinanewenergy.co.uk.

1. General information

The Company (or "CNE") with registration number 93306 was incorporated in Jersey on 2 May 2006 as an investment holding Company. The Company is domiciled in Jersey with its registered office at Queensway House, Hilgrove Street, St Helier, Jersey JE1 1ES.

The principal activities of its main subsidiary, Guangdong Zhongke Tianyuan New Energy Science and Technology Co Ltd. ("ZKTY") are providing turnkey technology solutions to manufacturers of ethanol, edible alcohol and acetic acid from a range of bio-resources including corn, sugarcane, cassava and other bio-resources.

The principal place of business is located at No 4, Nengyuan Road, Wushan, Tianhe District, Guangzhou, People's Republic of China ("PRC").

2. Summary of significant accounting policies

2.1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the EU ("IFRS") issued by the International Accounting Standards Board ("IASB"), including related Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements incorporate the financial information of the Company and the Group. The subsidiaries are entities (including special purposes entities) over which the Group has the power to govern the financial operating policies, generally accompanied by a shareholding giving rise to the majority of the voting rights, as to obtain benefits from their activities.

The consolidated financial statements of the Group are presented in Chinese Renminbi ("RMB"), which is the presentation currency of the Group financial statements as the Group mainly operates in the PRC. The individual financial statements of each group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency), with the exception of the parent entity whose functional currency is GBP but has a presentational currency of RMB. All financial information presented in RMB has been recorded to the nearest thousand.

The Group has adopted all relevant IFRS standards effective for accounting periods beginning on or after 1 January 2018.

As at end of the reporting year, the Group has not adopted the following IFRS standards as they are either not yet effective or not applicable to the Group's business.

IFRS standards, amendments and interpretations

Up to the date of issuance of this report, the IASB has issued the following new standards, amendments and interpretations which are not yet effective and have not been early adopted:

		Effective for annual periods beginning on or after
IFRS 16 (i)	Leases	1 January 2019
Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019
IAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRS 9 (Amendment)	Prepayment features with negative compensation	1 January 2019

IAS 19 (Amendment)	Plan amendment, curtailment or settlement	1 January 2019
Annual Improvements to IFRSs 2015-2017 cycle	Clarifying previously held interest in a joint operation under IFRS3 Business Combinations and IFRS 11 Joint Arrangements Clarifying income tax consequences of payments on financial instruments classified as equity under IAS 12 Income Taxes Clarifying borrowing costs eligible for capitalisation under IAS 23 Borrowing Costs	1 January 2019
IFRS 3 (Amendment)	Definition of a Business	1 January 2020
Conceptual framework for financial reporting 2018	Revised conceptual framework for financial reporting	1 January 2020
IAS 1 and IAS 8	Disclosure initiative-Definition of method	1 January 2020
IFRS 17	Insurance contracts	1 January 2021
IFRS 10 and IAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

(i): IFRS 16 *leases*

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB6,019,000. Of these commitments, approximately RMB222,000 relate to short-term leases which will be recognized on a straight-line basis as expense in profit or loss. For the remaining lease commitments, the Group expects to recognize right-of-use assets of approximately RMB4,625,000 on 1 January 2019, lease liabilities of RMB4,625,000 (after adjustments for prepayments and accrued lease payments recognized as at 31 December 2018) and deferred tax assets of RMB26,000.

The Group expects that net profit after tax will decrease by approximately RMB146,000 in the year ending December 31, 2019 as a result of adopting the new rules.

2.2. Correction of prior year errors

During the year ended 31 December 2018, management revisited the accounting treatments for certain transactions entered into by the Group in previous years and concluded that adjustments are required to be made to the comparative information presented so as to ensure that the consolidated financial statements presented are in compliance with IFRS. Certain reclassification have also been made to the prior year's consolidated financial statements to enhance the comparability with the current year's results. The comparative figures that show the impact of prior year adjustments ("PYA") and the adoption of IFRS9 are shown in the table below:

Consolidated statement of financial position (extract)	Original stated 31 December 2017	PYA 1- Revenue Recognition	PYA 2 - Litigation	PYA 3- Research and Development	PYA 4 - Receivables	PYA 5 - Tax	PYA Subtotal	Other prior year errors	Adoption of IFRS9	Restated 1 January 2018
		Note 2.2 (a)	Note 2.2 (b)	Note 2.2 (c)	Note 2.2 (d)	Note 2.2 (e)		Note 2.2 (f)	Note 2.3	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets										
Property, plant and equipment	3,854	-	-	4,033	-	-	4,033	-	-	7,887
Land Use Rights	-	-	-	-	-	-	-	2,691	-	2,691
Intangible assets	15,814	-	-	(7,134)	-	-	(7,134)	(2,691)	-	5,989
Total non-current assets	19,668	-	-	(3,101)	-	-	(3,101)	-	-	16,567
Current assets										
Inventories	18,745	-	(5,003)	-	-	-	(5,003)	-	-	13,742
Contract assets	55,866	7,526	(8)	-	342	-	7,860	(2,540)	(528)	60,658
Trade and other receivables	92,791	1,656	-	-	(5,970)	-	(4,314)	(1,274)	(4,657)	82,546
Total current assets	186,770	9,182	(5,011)	-	(5,628)	-	(1,457)	(3,814)	(5,185)	176,314
Current liabilities										
Short-term borrowings	7,447	-	-	-	-	-	-	2,660	-	10,107
Trade and other payables	96,632	(2,080)	-	-	-	-	(2,080)	2,584	-	97,136
Contract liabilities	31,055	-	11,237	-	-	-	11,237	(9,058)	-	33,234
Provision for liabilities	15,873	-	(11,237)	-	-	-	(11,237)	-	-	4,636
Income tax payable	12,014	1,397	(751)	(612)	(844)	4,789	3,979	2,125	-	18,118
Total current liabilities	163,021	(683)	(751)	(612)	(844)	4,789	1,899	(1,689)	-	163,231
Non-current liability										
Deferred tax liability	2,125	-	-	-	-	-	-	(2,125)	-	-
Equity										
Share based payment reserve	528	-	-	-	-	-	-	(432)	-	96
Accumulated losses	(32,954)	9,865	(4,260)	(2,489)	(4,784)	(4,789)	(6,457)	432	(5,185)	(44,164)
Total equity	41,292	9,865	(4,260)	(2,489)	(4,784)	(4,789)	(6,457)	-	(5,185)	29,650

Consolidated statement of financial position (extract)	Original stated	PYA 1	PYA 2	PYA 3	PYA 4	PYA 5	PYA Subtotal	Other prior year errors	Adoption of IFRS9	Restated
	31 December 2016	Note 2.2 (a)	Note 2.2 (b)	Note 2.2 (c)	Note 2.2 (d)	Note 2.2 (e)		Note 2.2 (f)	Note 2.3	1 January 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets										
Property, plant and equipment	4,774	-	-	4,691	-	-	4,691	-	-	9,465
Land use rights	-	-	-	-	-	-	-	2,771	-	2,771
Intangible assets	14,541	-	-	(5,865)	-	-	(5,865)	(2,771)	-	5,905
Total non-current assets	19,315	-	-	(1,174)	-	-	(1,174)	-	-	18,141
Current assets										-
Inventories	3,438	-	2,181	-	-	-	2,181	-	-	5,619
Contract assets	35,713	361	(8)	-	(5,521)	-	(5,168)	(23,155)	(220)	7,170
Trade and other receivables	73,217	(260)	-	-	(16,719)	-	(16,979)	(1,644)	(2,207)	52,387
Total current assets	126,222	101	2,173	-	(22,240)	-	(19,966)	(24,799)	(2,427)	79,030
Current liabilities										
Short-term borrowings	-	-	-	-	-	-	-	-	-	-
Trade and other payables	91,976	(4,913)	-	-	-	-	(4,913)	(19,591)	-	67,472
Contract liabilities	30,215	-	11,237	-	-	-	11,237	(5,208)	-	36,244
Provision for liabilities	10,000	-	(3,388)	-	-	-	(3,388)	-	-	6,612
Income tax payable	8,776	29	(851)	(248)	(3,336)	4,687	281	-	-	9,057
Total current liabilities	140,967	(4,884)	6,998	(248)	(3,336)	4,687	3,217	(24,799)	-	119,385
Equity										
Accumulated losses	(63,039)	4,985	(4,825)	(926)	(18,904)	(4,687)	(24,357)	-	(2,427)	(89,823)
Total equity	4,570	4,985	(4,825)	(926)	(18,904)	(4,687)	(24,357)	-	(2,427)	(22,214)

Consolidated statement of profit or loss (extract)	Original stated	PYA 1	PYA 2	PYA 3	PYA 4	PYA 5	PYA Subtotal	Other prior year errors	Adoption of IFRS9	Restated
	2017	Note 2.2 (a)	Note 2.2 (b)	Note 2.2 (c)	Note 2.2 (d)	Note 2.2 (e)		Note 2.2 (f)	Note 2.3	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	252,400	4,709	-	-	-	-	4,709	-	-	257,109
Cost of sales	(178,802)	1,539	(553)	(934)	-	-	52	(1,038)	-	(179,788)
Selling and distribution expenses	(5,890)	-	-	-	-	-	-	317	-	(5,573)
Administrative expenses	(5,044)	-	-	(993)	-	-	(993)	(8,297)	-	(14,334)
Share-based payment	(528)	-	-	-	-	-	-	432	-	(96)
Other income	7,642	-	(6,631)	-	-	-	(6,631)	50	-	1,061
Other gains/(expenses) – net	(7,150)	-	7,849	-	-	-	7,849	2,238	-	2,937
Net impairment losses on financial assets and contract assets	(26,828)	-	-	-	16,612	-	16,612	6,781	(2,758)	(6,193)
Finance income	57	-	-	-	-	-	-	30	-	87
Finance costs	(666)	-	-	-	-	-	-	(81)	-	(747)
Income tax expense	(5,106)	(1,368)	(100)	364	(2,492)	(102)	(3,698)	-	-	(8,804)
Profit for the year	30,085	4,880	565	(1,563)	14,120	(102)	17,900	432	(2,758)	45,659

2.2.a Adjustments in relation to revenue recognition from construction contracts

In prior years, the Group recognised revenue from construction contracts on the basis of actual services provided as a proportion of the expected total service to be provided, measured using costs as a percentage of total expected costs applied to expected revenue. On reviewing the estimates made and the information previously used to determine those estimates it has been determined that when actual costs were in excess of budget, but were recoverable due to associated increases in revenue, only a decline in margin had been recognised. It would have been more appropriate to reflect additional revenue at the actual margin that would still be achieved and the liabilities associated with the additional actual costs when these amounts were known or considered highly probable prior period ends. There was an accumulated impact identified across 2016 and 2017. The total impact for 2017 was that revenue in the year was understated by RMB4,709,000 and cost of sales were overstated by RMB1,539,000, leading to associated adjustments to contract assets, trade receivables and trade payables in line with the Group's accounting policies. The restated amounts better reflect management's best estimate of stage of completion and expected margin on construction contracts based on the information that was available at that time and the previous calculations are deemed to be in error. The increase in equity and net assets was RMB4,985,000 at 31 December 2016 and RMB9,865,000 at 31 December 2017 with an increase in profit for the year ended 31 December 2017 of RMB4,880,000.

2.2.b Adjustments related to litigation

In 2012, the Group was involved in a litigation with Tangshan Chenhong Industry Co. Ltd ("Tangshan Chenhong") as products sold under a contract failed to pass the trial test stated in the agreement signed by both parties. Therefore, the contract signed was terminated and the Group had to repay amounts that had already been recovered under the contract and also pay additional compensation to Tangshan Chenhong. The Group has re-assessed that the revenue earned under the contract of RMB11,237,000 should not have been recognised, and the need to repay this has been reflected in the balance sheet as a contract liability as at 1 January 2017 as the amount was repaid after this date. As part of agreeing to repay the revenue the Group still had the rights over the inventory associated with the contract, so this has been recognised as at 1 January 2017 at its recoverable amount whereas previously recovery of the inventory had been taken as a gain in the year to 31 December 2017 at its historic inventory value. The Group has then furthermore re-assessed the timings as to when it was probable compensation would be payable and the likely amounts. As at 1 January 2017 based on current court rulings this amount was deemed to be RMB6,612,000. Previously RMB10,000,000 was included in provisions as at 1 January 2017 to cover both repayments of revenue received and compensation, so the net adjustment of recognising the corrected liability to repay revenue, the associated inventory value and the appropriate level of provision reduced net assets as at 1 January 2017 by RMB4,825,000 after taxation.

Following a further court appeal and ruling in 2017 the compensation to Tangshan Chenhong was reduced to RMB4,636,000. Previously the original provision of RMB10,000,000 had been increased to the final known settlement amounts, where as now it is deemed more appropriate to recognise a reduction in the provision in the year, a reversal of the gain previously taken on recognising the inventory in 2017, and an adjustment to true up the actual recoverable value of the inventory as at 31 December 2017. Therefore as at 31 December 2017 net assets have been decreased by RMB4,260,000 as a net effect of the above, and net income for the year increased by RMB565,000.

2.2.c Adjustments in relation to research and development expenditure

The Group has re-reviewed certain costs that had been capitalised as research and development expenditure within intangible assets. Following this review it has been determined that a) certain items should have been more appropriately capitalised into property, plant and equipment in accordance with group accounting policies based on items being equipment purchased, or b) the amounts should not have been capitalised and should have been expensed as incurred for not meeting the required criteria under IAS 38 "Intangible Assets" for capitalisation of development costs. The decrease in equity and net assets was RMB926,000 at 31 December 2016 and RMB2,489,000 at 31 December 2017 with a decrease in profit for the year ended 31 December 2017 of RMB1,563,000.

2.2.d Adjustments in relation to impairment loss on trade receivables and contract assets

In 2018, management undertook a detailed review of its trade receivables and contract assets and it has been determined that certain receivables were not being provided for in accordance with Group accounting policies as at 1 January 2017, some of which had then been impaired during the year to 31 December 2017. This exercise was completed as part of the impact assessment prior to the adoption of IFRS 9, however where certain trade receivables and contract assets should have been provided for under previous policies these have been separately identified as prior year errors. Based on information available at the end of 2017 and 2016 management should have provided for specific debtors which would have deemed to have been non recoverable based on information available at that time considering specific disputes, credit risk analysis and ageing. As a consequence, provisions for the impairment loss on trade receivables and contract assets have been increased by RMB22,240,000 at 31 December 2016 and

RMB5,628,000 at 31 December 2017 resulting in a decrease in equity and net assets of RMB18,904,000 at 31 December 2016 and RMB4,784,000 at 31 December 2017 together with an increase in profit for the year ended 31 December 2017 of RMB14,120,000.

2.2.e Adjustments in relation to income tax expenses

The Group has re-assessed the level of tax liability it should have recognised as at 31 December 2016 based on previous accounting for taxation and corrected the liability as certain deductions and timing differences had been accounted for in error. The correction increased the current tax liability and reduced net assets by RMB4,687,000 as at 1 January 2017, and increased the taxation charge by RMB102,000 in the year ended 31 December 2017 and increased the current taxation liability and reduced net assets by RMB4,789,000 as at 31 December 2017.

2.2.f Other prior year errors

In addition to the prior year adjustments referred to in 2.2a-2.2e certain comparative figures have been restated to show an appropriate presentation under IFRS. This does not have an impact on net assets, and the only item impacting net income is a share based payment adjustment which also has no impact on net assets. Details are as follows:

2.2.f.i) Intangible Assets and Land Use Rights
Land use rights have been disclosed as a separate asset on the face of the balance sheet rather than within intangible assets, as is permitted under IFRS, with this resulting in a reclassification of RMB2,691,000 at 31 December 2017 (2016: RMB2,771,000).

2.2.f.ii) Contract Assets
For 2017, a reclassification between contract assets and contract liabilities of RMB11,419,000 (2016: 24,222,000) was required which resulted in reducing both balances as amounts were being grossed up with certain customers which were entitled to be offset as they related to payments received in advance against levels of accrued income. In addition to this an RMB8,879,000 (2016: RMB 1,066,000) increase in contract assets was required as described in in 2.2 f v) below. This therefore has resulted in a decrease in contract assets RMB2,540,000 at 31 December 2017 (2016:RMB 23,155,000).

2.2.f.iii) Trade and other receivables
In 2016 and 2017 certain payments in advance had been included in other payables and contract liabilities whereas they should have been offset against applicable trade and other receivables. Therefore there is a reduction of RMB1,274,000 and RMB1,644,000 on trade and other receivables at 31 December 2017 and 31 December 2016 respectively.

2.2.f.iv) Short term-borrowings
In 2017 amounts borrowed by the Group from employees, under interest bearing loan arrangements were classified as other payables. However, on a review of these arrangements it has been determined that these ought to have been classified as short term borrowings and therefore a reclassification of RMB2,660,000 has been made at 31 December 2017 from other payables.

2.2.f.v) Trade and other payables
In 2017 an increase in other payables of RMB8,879,000 (2016: RMB1,066,000) was required to appropriately disclose VAT payable that had been incorrectly netted against contract assets, and a reduction of RMB2,660,000 resulted from 2.2f iv.

A further decrease of RMB3,635,000 (2016: RMB20,657,000) related to consideration received in advance which ought to have been reclassified to contract liabilities and trade and other receivables.

These resulted in a net increase of RMB2,584,000 in trade and other payables at 31 December 2017 (2016: decrease of RMB19,591,000)

2.2.f.vi) Contract liabilities
For 2017, there is a requirement to make an adjustment of RMB11,419,000 (2016: RMB24,222,000) to reduce contract liabilities as described in section ii) above. As a result of the adjustment referred to in section iii) and section v) relating to the amounts paid in advance by customers there was also a requirement to increase contract liabilities by RMB2,361,000.(2016: RMB19,014,000) Therefore at 31 December 2017

contract liabilities has been reduced by RMB9,058,000 (2016: RMB5,208,000).

2.2.f.vii) Income tax payable and deferred tax liability
In 2017 a deferred tax liability was recorded for RMB2,125,000 that has been reclassified as a current taxation liability.

2.2.f.viii) Selling and distribution expenses
Selling and distribution expenses have been decreased by RMB317,000 for the year ended 31 December 2017 as a result of certain expenses being more appropriately presented as an impairment loss on financial assets due to difficulty in recovering payment rather than as a sales expense.

2.2 f ix) Administrative expenses
Various costs and incomes within the 2017 income statement have been reanalysed as set out below with the corresponding adjustment being recognised in administration expenses. The net impact of these reclassifications was to increase administration expenses by RMB8,297,000.

2.2.f.x) Cost of sales
Included within administration expenses was RMB1,038,000 which related to operational and productions costs and has now been reclassified to cost of sales.

2.2.f.xi) Other income
Other income has been increased by RMB50,000 for the year ended 31 December 2017 with a corresponding increase in administrative expenses as a result of reclassifying the gain on disposals of vehicles as other income that was previously recognised within administrative expenses.

2.2.f.xii) Other gains and expenses
There has been an increase of RMB2,238,000 in other gains (previously shown as a net expense) as a result of reclassifying RMB1,248,000 R&D expenses as administrative expenses, RMB1,492,000 of bad debt expenses as impairment loss, offset by RMB502,000 relating to a release of a provision previously shown in administration expenses.

2.2.f.xiii) Impairment loss on financial assets and contract assets
There has been an increase of RMB317,000 as referred to in section viii) above and RMB1,492,000 in section xii) above. There has also been a reduction of RMB8,590,000 in the impairment loss with the amount reclassified against administrative expenses with the overall impact for the year ended 31 December 2017 being a decrease of RMB6,781,000 in impairment loss.

2.2.f.xiv) Finance income
Finance income has been increased by RMB30,000 for the year ended 31 December 2017 as a result of ensuring only interest income was included and no exchange gains or losses were included in the amount. The reclassification was made against administrative expenses.

2.2.f.xv) Finance costs
Finance costs have been increased by RMB81,000 for the year ended 31 December 2017 as a result of ensuring interest costs were included and no exchange gains or losses were included in the amount. The reclassification was made against administrative expenses.

2.2.f.xvi) Share based payments
In 2017 the charge for share options under IFRS2 was spread over an incorrect vesting period. Therefore this has been restated in the current year, with this having no impact on the Group's equity as at 31 December 2017 but has resulted in an increase in profit for the year ended 31 December 2017 of RMB432,000.

2.2.g Impact on cash flow statement

The prior year cash flow statement has been restated as a result of the prior year errors detailed in notes 2.2a to 2.2f. Furthermore the definition of cash and cash equivalents has been restated to exclude short term borrowings of RMB7,447,000 at 31 December 2017 as previously presented.

In addition the directors have reanalysed the nature of certain cash flows and represented these in more appropriate categories between operating, investing and financing activities.

As a result of the above:

(i) The net cash used in operating activities increased for the year ended 31 December 2017 by RMB8,800,000.
(ii) The net cash used in investing activities decreased for the year ended 31 December 2017 by RMB995,000.
(iii) The net cash generated from financing activities increased for the year ended 31 December 2017 by RMB15,172,000.

2.2.h Impact on Earnings Per Share (EPS)

	Profit	Weighted average number of shares	Earnings per share
2017 (as previously stated)	RMB'000	shares'000	RMB
Basic	30,085	449,012	0.07
Diluted	30,085	488,312	0.06
2017 (restated)			
Basic	45,659	480,997	0.09
Diluted	45,659	480,997	0.09

As a result of the full retrospective application of IFRS 9 and also the prior year errors in note 2.2a-f the earnings per share have been restated as above.

In addition, on considering the weighted average number of shares management has noted this was calculated incorrectly and so has revised this calculation appropriately, as well as noting there is no expected dilutive impact of share options, as disclosed in note 28.

2.2.i Company Level Adjustments

The adjustments in the earlier sections of note 2.2 all relate to the Group with none of these items impacting the Company other than the item detailed below.

In 2017 the Company classified the share based payment as an expense in the Company. However, as the charge reflects the fair value of employee services provided to the subsidiaries then to be appropriately following IFRS 2 the amount ought to be recognised as a capital contribution, and therefore an investment in the Company with the charge being recognised in the subsidiaries. Therefore, investments in subsidiaries at 31 December 2017 has increased by RMB96,000 (consistent with the restated charge for the Group in note 2.2f.xvi following the spreading of the value of the share options over the vesting period) with the same increase noted in non-current assets, total assets and equity. There is also an increase noted in profit for the year of RMB528,000 (through a reduction in share based payment expense) while the share based payment reserve within equity has been reduced by RMB432,000.

As the share options were only granted during the year ended 31 December 2017 there is no impact from this adjustment on the statement of financial position as at 31 December 2016 and therefore no third balance sheet has been presented.

2.3. Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

2.3.a IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 Financial Instruments ("IAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments — Disclosures.

The Group has adopted IFRS 9 from 1 January 2018 applying the fully retrospective approach, which has resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements.

Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed the classification of the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories, that is, financial assets at amortised cost. There are no changes in the measurement basis of financial assets that occur as a result of this.

Impairment of financial and contract assets

The following financial assets are subject to the revised expected credit loss model under IFRS 9:

• Trade and other receivables
• Contract assets
• Cash and cash equivalents
• Amounts owed by group undertakings/related parties

The Group was required to revise its impairment methodology under IFRS 9 for this class of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in note 2.2.

While restricted cash and cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

For trade receivables and contract assets, the Group applies the simplified approach prescribed by IFRS 9 to provide for expected credit losses, which uses lifetime expected loss provision for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and aging. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. See note 3c for the expected loss rates for trade receivables and the contract assets.

The table in note 2.2 shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

2.3.b IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 replaces the provisions of IAS 18 Revenue ("IAS 18") and IAS 11 Construction Contracts ("IAS 11") that relate to the recognition, classification and measurement of revenue and costs.
The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively but this has not caused the requirement to restate comparatives for the 2017 financial year as the impact was not material.

2.4. Principles of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. Earnings per share

The calculation of earnings per share is based on Group's profit for the year and the weighted average number of shares in issue after adjusting for movement in own shares during the financial year as disclosed in note 21. There are no potentially dilutive shares or share options outstanding and therefore, the diluted earnings per share is the same as basic earnings per share.

2018	Profit RMB'000	Weighted average number of shares shares'000	Earnings per share RMB
Basic/Diluted	45,821	449,319	0.10
2017			
Basic/Diluted (Restated)	45,659	480,997	0.09

The Company has one category of dilutive potential ordinary shares: share options granted under the Share Option Scheme. As at 31 December 2018 the exercise price of the share options in issue were in excess of the current market price and therefore there is no dilution to the earnings per share as presented.