27 September 2019

China New Energy Limited ("China New Energy", "CNE", "the Company" or together with its subsidiaries "the Group")

Half-yearly report for the six months to 30 June 2019

The Board of CNE (AIM: CNEL), the AIM quoted engineering and technology solutions provider to the bioenergy sector, presents its unaudited interim results for the six months ended 30 June 2019.

Financial Highlights

- Revenue of RMB 163.9m (£18.5m) (H1 2018: RMB 69.1m (£7.8m)), which represents a 137.3% increase over the same period last year
- Gross profit of RMB 49.9m (£5.6m) (H1 2018: RMB 16.1m (£1.8m))
- Net profit of RMB 21.4m (£2.4m) (H1 2018: RMB 13.5m (£1.5m))
- Basic earnings per share of RMB 0.048 (0.54p) (H1 2018 RMB 0.030 (0.34p))

RMB 8.8692: GBP £1 used as an indicative exchange rate on 20 Sept 2019.

Yu Weijun, Chairman, commented: "I am very pleased to report the Company's remarkably strong interim results, which are a result of completing contracts in the existing order book rolled over from 2018 and new contracts won from companies such as Heilongjiang Hongzhan Bioenergy Co., Ltd and Inner Mongolia Zhongneng Biotechnology Company Limited.

The implementation of the People's Republic of China ("PRC") 13th Five Year Plan for Renewable Energy Development continues to drive 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 ethanol production system technology integrated services in the PRC.

I am very confident about the outlook for the remainder of 2019 and into 2020. During the period, a listing application of the Company, including an application proof of the prospectus (the "Application Proof") of the Company, has been submitted to the Main Board of the Hong Kong Stock Exchange (the "HKEx") on 21 June 2019. The Company's fundamentals and outlook have substantially grown over the last three years, but this is not reflected in the Company's share price on AIM. It is expected that the proposed listing on the HKEx will deliver a better valuation for shareholders and provide the Company with the ability to gain more opportunity to raise capital to expand the business."

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

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Chairman's Statement

I am pleased to report that the Group recorded remarkably strong interim results for the six months ended 30 June 2019 and is on track to record its fourth annual consecutive profit after tax ("net profit").

Financial Review

Revenue for the first six months of the year has substantially grown to RMB 163.9 million (H1 2018: RMB 69.1 million), an increase of approximately 137.3% which was due to fulfilling orders rolled over from 2018 and new contracts won during the period mainly due to the continuous growth in demand for ethanol production systems and the ability in securing ethanol fuel projects and alcoholic beverage upgrade projects.

Our net profit increased from RMB 13.5 million (c. £1.6 million) for the period H1 2018 to RMB 21.4 million (c. £2.4 million) for the period H1 2019, representing an increase of 58.5%.

We have achieved a stable and steady performance in our business operations which was primarily due to the increased market demand as well as the favourable policies introduced by the PRC government, such as: i.) The 13^{th} 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 13^{th} Five Year Plan. Driven by the 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 period ended H1 2019, the major ethanol production system technology integrated services projects for the ethanol fuel industry were with Heilongjiang Hongzhan Bioenergy Co., Ltd, Inner Mongolia Zhongneng Biotechnology Co., Ltd, Heilongjiang Wanlirunda Bioenergy Co., Ltd and for the alcoholic beverage industry were with Fuyu Huihai Wine Industry Co., Ltd, Jilin Xintianlong Industries Co., Ltd, Henan Xinheyang Alcohol Co., Ltd respectively.

The gross profit increased by 209.7% to RMB 49.9 million (c. £5.6 million) for the H1 2019 period from RMB 16.1 million (c. £1.8 million) for H1 2018. Our overall gross profit margin increased to 30.4% for the H1 2019 period from 23.4% for H1 2018.

Order Book and Contract Backlog

We commenced H1 2019 with a strong order book of RMB 768.1 million (c. £86 million). This number includes new contracts to be started and the proportion of anticipated revenue from contracts which have started but not yet completed.

The following table sets forth the movement of backlog of our projects during the year ended 31 December 2018 and for the six months end 2019:

	Year to 31 December 2018 RMB'000	**Six months to 30 June 2019 RMB'000**
Contract value (exclusive of value-added tax) of the beginning of the year/period	98,565	329,577
Contract value (exclusive of value-added tax) of new contracts awarded during the year/period	480,990	602,378
Less:		
Revenue recognised during the year/period.	(249,978)	(163,897)
Total	329,577	768,058

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, Thailand and other countries.

With thirteen years of operating history, the Company has 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 first in terms of revenue with a market share of approximately 7.2%, in the ethanol production system industry in the PRC in 2018.

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 has submitted 13 patent registrations in the PRC, one patent application in Brazil 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 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 the Main Board of the HKEx, conditional upon which we would seek to withdraw our shares from AIM, and we have submitted an application to list the Company's shares on the Main Board of HKEx on 21 June 2019. The Listing Application is currently being vetted by the HKEx.

The HKEx is 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. This is expected to lead to an increased share price and offer more opportunity to raise capital. There is no certainty when or if our application will be approved by the listing committee of the board of directors of HKEx. As such, there can be no certainty at this stage that the application to HKEx will be successful. We will continue to stress that we are committed to remaining public and for our shares to be traded on an internationally recognised stock exchange. The Company will keep the market appraised of developments with the application process and the intended withdrawal from AIM during the course of the application process.

Download link for the Listing Application:
https://www1.hkexnews.hk/app/sehk/2019/2019062106/documents/sehk201906240017.pdf

Outlook

The Board and I are very optimistic about the remainder of 2019 and the long-term future of CNE. The continuous favourable changes in the PRC ethanol production policies in recent year such as the implementation of 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 outlook for 2020 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 Income Statements

	Unaudited Six months to 30 June 2019 RMB'000	Unaudited Six months to 30 June 2018 RMB'000	Audited Year to 31 December 2018 RMB'000
Revenue	163,897	69,065	249,978
Cost of sales	(114,034)	(52,922)	(177,374)
Gross profit	49,863	16,143	72,604
Selling and marketing expenses	(3,477)	(2,882)	(5,801)
Administrative expenses	(14,897)	(6,617)	(20,218)
(Impairment losses)/ net reversal of impairment losses on financial assets and contract assets	(1,871)	2,179	(362)
Other income	791	50	1,685
Other (losses)/gains – net	(2,730)	(54)	263
Operating profit	27,679	8,819	48,171
Finance income	20	16	22
Finance costs	(635)	(702)	(1,094)
Finance costs-net	(615)	(686)	(1,072)
Profit before income tax	27,064	8,133	47,099
Income tax (expenses)/credits	(5,713)	5,372	(1,278)
Profit for the period/year	21,351	13,505	45,821
Profit attributable to Owners of the Company	21,351	13,505	45,821
Earnings per share for profit attributable to Owners of the Company (expressed in RMB per share)			
Basic	0.048	0.030	0.102
Diluted	0.046	0.030	0.102

Consolidated Statement of Comprehensive Income

	Unaudited Six months to 30 June 2019 RMB'000	Unaudited Six months to 30 June 2018 RMB'000	Audited Year to 31 December 2018 RMB'000
Profit for the period/year	21,351	13,505	45,821
Other comprehensive income			
Items that may be reclassified to profit or loss			
– Exchange differences on translation of foreign operations	(169)	(210)	(224)
Other comprehensive income for the period/year, net of tax	(169)	(210)	(224)
Total comprehensive income for the period/year	21,182	13,295	45,597
Total comprehensive income attributable to Owners of the Company	21,182	13,295	45,597

Consolidated Statement of Financial Position

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
ASSETS		
Non-current assets		
Financial assets at fair value through other comprehensive income	5,000	-
Investment in an associate	-	-
Property, plant and equipment	8,262	6,457
Land use rights	-	2,608
Intangible assets	15,221	12,782
Right-of-use assets	6,846	-
Deferred tax assets	5,883	5,752
	41,212	27,599
Current assets		
Inventories	7,898	3,661
Contract assets	110,308	88,465
Trade and bills receivables	104,567	103,629
Other receivables and prepayment	60,472	17,980
Restricted cash	1,658	1,230
Cash and cash equivalents	3,140	6,358
	288,043	221,323
Total assets	329,255	248,922
EQUITY		
Equity attributable to Owners of the Company		
Share capital	1,541	1,541
Other reserves	67,890	67,828
Retained earnings	23,008	1,657
Total equity	92,439	71,026
LIABILITIES		
Non-current liabilities		
Lease liabilities	3,315	-
Current liabilities		
Contract and refund liabilities	10,203	21,028
Bank and other borrowings	15,000	6,540
Convertible notes	12,786	-
Trade payables	72,162	69,250
Other payables	94,818	59,355
Lease liabilities	1,082	-
Current income tax liabilities	27,450	21,723
	233,501	177,896
Total liabilities	236,816	177,896
Total equity and liabilities	329,255	248,922
Net current assets	54,542	43,427

Consolidated Statement of Changes in Equity

	Share capital RMB'000	Other reserves RMB'000	(Accumulated losses)/retained earnings RMB'000	Total RMB'000
Balance at 1 January 2018	1,541	72,273	(44,164)	29,650
Comprehensive income				
– Profit for the year	-	-	45,821	45,821
– Other comprehensive income	-	(224)	-	(224)
Total comprehensive income for the year	-	(224)	45,821	45,597
Transactions with owners, recognised directly in equity				
Share-based payment expenses	-	460	-	460
Buy-back of shares	-	(4,681)	-	(4,681)
Total transactions with owners	-	(4,221)	-	(4,221)
Balance at 31 December 2018	1,541	67,828	1,657	71,026
(Unaudited):				
Balance at 1 January 2018	1,541	72,273	(44,164)	29,650
Comprehensive income				
– Profit for the period	-	-	13,505	13,505
– Other comprehensive income	-	(210)	-	(210)
Total comprehensive income for the period	-	(210)	13,505	13,295
Transactions with owners, recognised directly in equity				
Share-based payment expenses	-	230	-	230
Buy-back of shares	-	(4,681)	-	(4,681)
Total transactions with owners	-	(4,451)	-	(4,451)
Balance at 30 June 2018	1,541	67,612	(30,659)	38,494
Balance at 1 January 2019	1,541	67,828	1,657	71,026
Comprehensive income				
– Profit for the period	-	-	21,351	21,351
– Other comprehensive income	-	(169)	-	(169)
Total comprehensive income for the period	-	(169)	21,351	21,182
Transactions with owners, recognised directly in equity				
Share-based payment expenses	-	231	-	231
Total transactions with owners	-	231	-	231
Balance at 30 June 2019	1,541	67,890	23,008	92,439

Consolidated Statement of Cash Flows

	Unaudited Six months to 30 June 2019	Unaudited Six months to 30 June 2018	Audited Year to 31 December 2018
	RMB'000	RMB'000	RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	(6,680)	22,790	10,069
Income tax paid	(116)	(2,910)	(3,425)
Interest paid	(615)	(686)	(1,072)
Net cash (used in)/generated from operating activities	(7,411)	19,194	5,572
Cash flows from investing activities			
Purchases of property, plant and equipment	(3,378)	(206)	(889)
Purchases of intangible assets	(2,800)	(2,572)	(5,954)
Proceeds from disposal of property, plant and equipment	230	3	3
Investment in financial assets at fair value through other comprehensive income	(5,000)	-	-
Net cash used in investing activities	(10,948)	(2,775)	(6,840)
Cash flows from financing activities			
Proceeds from bank and other borrowings	13,080	3,300	6,800
Proceeds from convertible notes	10,122	-	-
Repayments of bank and other borrowings	(4,620)	(1,649)	(10,367)
Principal elements of lease payments	(407)	-	-
Cash advance from related parties	1,972	4,740	15,404
Repayment to related parties	(1,597)	(7,133)	(11,165)
Payment for listing related expenses	(1,739)	-	-
Increase in guarantee deposits for borrowings	(1,658)	-	(1,230)
Net cash generated from/(used in) financing activities	15,153	(742)	(558)
Net (decrease)/increase in cash and cash equivalents	(3,206)	15,677	(1,826)
Cash and cash equivalents at beginning of period/year	6,358	8,180	8,180
Translation differences on cash and cash equivalents	(12)	(237)	4
Cash and cash equivalents at end of period/year	3,140	23,620	6,358

Notes to the Interim Financial Information – Period ended 30 June 2019

1. General information

The Company was incorporated in Jersey on 2 May 2006 as a public company with limited liability under the Jersey Companies Law. The address of its registered office is at Queensway House, Hilgrove Street, St Helier, Jersey, Channel Islands, JE1 1ES.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of ethanol production system technology integrated service in the ethanol fuel and alcoholic beverage industries in the PRC.

The Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group has been prepared in accordance with International Financial Reporting Standards ("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 has been prepared under the historical cost convention, except for certain financial assets and liabilities measured at fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Except as described below, the accounting policies applied are consistent with those of the 2018 financial statements as described therein.

(a) IFRS 16

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated the comparative reporting periods, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(i) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.53%.

Operating lease commitments disclosed as at 31 December 2018	6,019
Less: short-term leases recognised on a straight-line basis as expense	(423)
	5,596
Discounted using the lessee's incremental borrowing rate of at the date of initial application	4,804
Lease liability recognised as at 1 January 2019	4,804
Of which are:	
Current lease liabilities	1,489
Non-current lease liabilities	3,315
	4,804

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to properties.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- land use rights – decreased by RMB 2,608,000
- right-of-use assets – increased by RMB 7,412,000
- lease liabilities – increased by RMB 4,804,000

(ii) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

(iii) The Group's leasing activities and how these are accounted for

The Group leases an office, the rental contract for which is made for a fixed period of 5 years. The lease agreement does not impose any covenants, but leased asset may not be used as security for borrowing purposes.

Until the 2018 financial year, payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

3. Earnings per share

Basic earnings per share	**Unaudited Six months to 30 June 2019 RMB'000**	**Unaudited Six months to 30 June 2018 RMB'000**	**Audited Year to 31 December 2018 RMB'000**
Profit attributable to Owners of the Company	21,351	13,505	45,821
Weighted average number of ordinary shares in issue (thousand shares)	444,448	449,077	449,319
Basic earnings per share	0.048	0.030	0.102

Diluted earnings per share	**Unaudited Six months to 30 June 2019 RMB'000**	**Unaudited Six months to 30 June 2018 RMB'000**	**Audited Year to 31 December 2018 RMB'000**
Profit attributable to Owners of the Company	21,351	13,505	45,821
Weighted average number of ordinary shares in issue (thousand shares)	462,325	449,077	449,319
Dilutive earnings per share	0.046	0.030	0.102

The Company has one category of dilutive potential ordinary shares: share options granted under the Pre-IPO Share Option Scheme for the year ended 31 December 2018 and six months ended 30 June 2018 and 2019. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year/period) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share. The Group has one additional category of dilutive potential ordinary shares for the six months ended 30 June 2019: convertible notes which could be converted into ordinary shares of the Company.

The share options granted under the Pre-IPO Share Option Scheme are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 31 December 2018 and six months ended 30 June 2018 and 2019. These options could potentially dilute basic earnings per share in the future.

Convertible notes are included in the determination of dilutive earnings per share from their date of issue.

4. Comparative figures

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 (i.e. consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six months period ended 30 June 2018). The nature of adjustments are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2018. In addition, certain reclassification and adjustment related to the adoption of IFRS9 are also made to ensure the comparability with the current period's results. Details of the adjustments are available on the Company’s website.