

**Company Registration No. 93306 (Jersey)**

**CHINA NEW ENERGY LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

## COMPANY INFORMATION

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<b>Directors</b>	Yu Weijun Tang Zhaoxing Richard Bennett	Executive Chairman Chief Executive Officer Non-Executive Director
<b>Company secretary</b>	Computershare Company Secretarial Services (Jersey) Limited	
<b>Registered office</b>	Queensway House Hilgrove Street St Helier Jersey JE1 1ES	
<b>Business address</b>	8 Floor, Zone B Energy Saving and Environmental Protection Building of GIEC No 2, Nengyuan Road Tianhe District Guangzhou P.R. China	
<b>Registered number</b>	93306 (Jersey)	
<b>Auditors</b>	PricewaterhouseCoopers Certified Public Accountants 22/F Prince's Building Central Hong Kong	
<b>Nominated adviser</b>	Cairn Financial Advisers LLP Cheyne House Crown Court 62-63 Cheapside London EC2V 6AX United Kingdom	
<b>Broker</b>	Cairn Financial Advisers LLP Cheyne House Crown Court 62-63 Cheapside London EC2V 6AX United Kingdom	
<b>Registrar</b>	Computershare Investor Services (Jersey) Limited Queensway House Hilgrove Street St. Helier Jersey JE1 1ES	
<b>Website</b>	<a href="http://www.chinanewenergy.co.uk/">http://www.chinanewenergy.co.uk/</a>	

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## **CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019**

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### **Financial review**

I am pleased to report that the Group recorded its best ever financial performance and 4th consecutive year of generating profit after tax ("net profit").

Our total revenue has substantially increased from RMB250.0 million (c. £28.4 million) for the year ended 31 December 2018 to RMB398.6 million (c. £45.9 million) for the year ended 31 December 2019, representing an increase of 59.4% which was due to completing projects in our order book for the provision of ethanol production system technology integrated services in the ethanol fuel, alcoholic beverages and other industries respectively.

Our net profit substantially increased from RMB45.8 million (c. £5.2 million) for the year ended 31 December 2018 to RMB59.2 million (c. £6.8 million) for the year ended 31 December 2019, representing an increase of 29.3%. This would have been higher, if not for exceptional expenses such as fees relating to the proposed re-listing of the Company on the Main Board of the Hong Kong Stock Exchange ("HKSE").

The significant growth in our revenue and net profit from 2017 to 2019 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 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 systems in the alcoholic beverage industry in the PRC. We believe that, with our extensive experience and expertise in the ethanol production system industry, we are well positioned to capture growth opportunities in the PRC. For the year ended 31 December 2019, ethanol production system technology integrated services projects for the ethanol fuel industry included Inner Mongolia Zhongneng Biological Technology Co., Ltd, Heilongjiang Province Wanlirunda Biotechnology Co., Ltd and for the alcoholic beverage industry included Fuyu Huihai Wine Industry Co., Ltd.

The gross profit increased by 50.7% to RMB109.4 million (c. £12.6 million) for the year ended 31 December 2019 from RMB72.6 million (c. £8.2 million) for the year ended 31 December 2018. Our overall gross profit margin decreased slightly from 29.0% for the year ended 31 December 2018 to 27.4% for the year ended 31 December 2019.

The net profit for the year increased by 29.3% to RMB59.2 million (c. £6.8 million) for the year ended 31 December 2019 from RMB45.8 million (c. £5.2 million) for the year ended 31 December 2018.

Net profit margin decreased from 18.3% for the year ended 31 December 2018 and 14.9% for the year ended 31 December 2019.

### **Order Book and Contract Backlog**

We entered 2020 with a strong order book of RMB584.9 million (c. £67.4 million) for the year ended 31 December 2019. 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 77.5% from RMB329.6 million (c. £37.4 million) for the year ended 31 December 2018.

**CHAIRMAN'S STATEMENT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**


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**Order Book and Contract Backlog (cont'd)**

The following table sets forth the movement of backlog of our projects during the years ended 31 December 2017, 2018 and 2019:

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Contract value (exclusive of value-added tax) of the beginning of the year	138,142	98,565	329,577
Contract value (exclusive of value-added tax) of new contracts awarded during the year	217,532	480,990	653,882
Less:			
Revenue recognised during the year	(257,109)	(249,978)	(398,558)
Contract value (exclusive of value-added tax) at the end of year	98,565	329,577	584,901

**Business**

The Group is a leading ethanol production system technology integrated service provider in the PRC. The Group primarily provided 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 has gained substantial experience and established a solid reputation in terms of advanced technology skills and proven track records in the 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 the first in terms of revenue with a market share of 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 32 patented technologies, which we have incorporated into our production procedures. In addition, as at the date of this report, the Group has submitted 14 patent registrations in the PRC and 1 in Brazil and are engaging in 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.

**CHAIRMAN'S STATEMENT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**COVID-19 and Business Continuity**

Recently, there has been an outbreak of COVID-19 within the PRC and globally. Although a majority of our income during the year ended 31 December 2019 and 2018 was generated in the PRC and our customers are mainly based in the PRC, our Directors, after careful and due consideration, confirm that the business, financial conditions and result of operations of our Group would not be materially affected by the outbreak of COVID-19 for the following reasons:

- i. As at the date of the report, we had been able to honour all of our obligations under the existing contracts with our customers, and we did not have loss of existing contracts due to the outbreak of COVID-19;
- ii. all of our principal business operations and major customers during the year ended 31 December 2019 and 2018 were not located in Wuhan city or Hubei province. As at date of this report, we did not have any customer based in Wuhan city or Hubei province; and
- iii. we have not encountered and do not expect to encounter any disruption of our supplies of raw materials and equipment in light of the outbreak of COVID-19 and we do not have reliance on any particular suppliers in Wuhan city or Hubei province for the above raw materials and equipment.

In line with our continuing efforts to provide a safe and healthy working environment to our own employees, we have prepared an internal manual on prevention of spread of COVID-19 and have implemented epidemic prevention measures in response to the outbreak of COVID-19:

- i. we have set up an epidemic prevention group led by our general manager, Mr. Jiang Xinchun, to coordinate the implementation of epidemic prevention measures in accordance with the requirements of the PRC government;
- ii. before an employee returns to work, we will obtain information and keep record on his/her travelling history in the past 14 days, health conditions and whether he/she has close contact with persons with symptoms of respiratory diseases; and
- iii. we will carry out disinfection of our office area on a daily basis.

We believe such measures are effective in reducing the risk of spreading of COVID-19 among our employees. As at the date of this report, none of our employees had been suspected or confirmed to have contracted COVID-19.

We are confident and are of the view that the potential impact on our Group's business operations and financial conditions caused by the outbreak of COVID-19 will only be temporary and short-term. We will continue to assess the impact of COVID-19 on our Group's operation and financial performance and closely monitor our Group's exposure to the risks and uncertainties in connection with the epidemic. We will take appropriate measures as necessary and inform our Shareholders and potential investors as and where necessary.

We have confirmed that, since 31 December 2019 and up to the date of this report, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially and adversely affect subsequent to the reporting period.

**CHAIRMAN'S STATEMENT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Preparation for Submission of an Application for Listing on the Main Board of the Hong Kong Stock Exchange**

The Company continues to make good progress with its application to re-list on the HKSE, which is being undertaken to improve shareholder value and to raise additional capital to expand the business. The Company intends to immediately resubmit the application to list on the HKSE with the inclusion of the 2019 financial results which should substantially support our application. Subject to acceptance of the application by the HKSE listing committee, Admission to HKSE is now expected to be in the first half of 2020.

The Company expects to imminently convene an AGM or extraordinary general meeting to re-seek shareholder approval for resolutions in relation to its proposed listing on the Main Board of HKSE which will include shareholders approving the cancellation of trading of the Company's shares on AIM simultaneous with admission to HKSE.

We continue to stress that should application to the HKSE not be successful, we are committed to remaining public and for our shares to be traded on an internationally recognised stock exchange.

**Outlook**

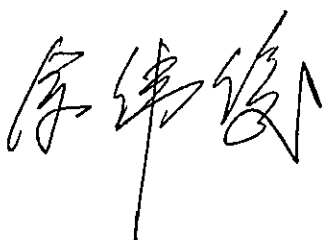
The board and I are very optimistic about 2020 and the long-term future of CNE. The continuous favourable changes in the PRC ethanol production policies in recent year such as the 13th Five Year Plan for Renewable Energy Development clearly demonstrated the intention of the PRC government to develop 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 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

26 March 2020



**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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The Directors present their report, together with the audited financial statements for China New Energy Limited ('the Company') and its subsidiary undertakings (together 'the Group') for the year ended 31 December 2019.

**Principal activities**

The principal activity of the Company is an investment holding company. The Group is a leading ethanol production system technology integrated service provider in the PRC. The services of the Group include i) ethanol production system integrated services; and ii) system upgrade. The Group's primary focus is on the ethanol fuel and alcoholic beverages industry in the PRC.

**Business review**

The Group recorded an increase of 59.4% in revenue to RMB398.6 million for the financial year 2019 ("FY2019"). This was due to the increase 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 decrease in revenue of RMB43.6 million and RMB9.7 million generated from projects in the alcoholic beverages industry and other industries respectively.

The gross profit increased by 50.7% to RMB109.4 million (c. £12.6 million) for the year ended 31 December 2019 from RMB72.6 million (c. £8.2 million) for the year ended 31 December 2018. Our overall gross profit margin decreased slightly from 29.0% for the year ended 31 December 2018 to 27.4% for the year ended 31 December 2019.

The net profit for the year increased by 29.3% to RMB59.2 million (c. £6.8 million) for the year ended 31 December 2019 from RMB45.8 million (c. £5.2 million) for the year ended 31 December 2018. Net profit margin decreased from 18.3% for the year ended 31 December 2018 to 14.9% for the year ended 31 December 2019.

**Risks and uncertainties**

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results. The Board monitors risks on an ongoing basis and implements appropriate procedures and processes to try and mitigate the adverse consequences of such risks, facing the following principal risks:

**Uncertainties in the promotion of ethanol fuel**

The main sales driver for new projects continues to be the 13th Five Year Plan for Renewable Energy Development, and the policy related to the new nationwide ethanol mandate (NEA) announced in September 2017, the mandatory use of ethanol fuel will be promoted to the entire country by 2020, which demonstrated the intention of the PRC government to develop the ethanol fuel industry by significantly expanding the ethanol fuel production capacity. The nationwide usage of ethanol usage of ethanol fuel might increase the feedstock price in the future, which could cause changes in government's policy. It is generally very difficult to predict whether or when we will secure new contracts, as it may depend on a number of factors, such as the actual business needs of the potential customers, market conditions, financing arrangements and government policy.



**DIRECTORS' REPORT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Risks and uncertainties (cont'd)**

**Order Book and Contract Backlog**

Whilst the Group has a strong order book and contract backlog, the projected revenue amounts reported could fail to result in actual revenue or translate into profits and, therefore are not indicative of our future results of operations. Contract backlog figures represent our estimate of the total contract value of work which remained to be completed pursuant to the terms of the ethanol production system technology integrated service contracts which have become effective. The contract value of a project or other transaction represents the amount as of the relevant date we expect to receive assuming our performance is in accordance with the terms of the contract. However, such backlog figure is based on the assumption that the relevant contracts will be performed in full in accordance with their terms and schedule. Our service contract may be subject to projection cancellations or change of order or schedule by the counterparty or other force majeure which may affect the project progress, any one or more sizeable contracts could have substantial and immediate effect on our backlog, and could reduce the amount of backlog and revenue and profit that we can actually generate and pose pressure on our working capital.

**Accounts receivable and progress payment from customers**

We may experience delays or defaults in recognising trade receivables and progress payments from our customers. For our ethanol production system technology integrated service projects, project owners typically make progress payments to us with reference to the percentage of work completed at specific milestone dates. In accordance with the contracts entered into between us and our customers, once the service project reaches a certain stage as specified in the relevant contract, we will be paid a portion of the contract value on a progressive basis. The milestone stage on which our customers pay us generally include (i) the signing of the contract, (ii) before delivery of the equipment to the project site of our customer, (iii) after completion of installation of the equipment and issuance of project completion report and (iv) the expiry of the defect liability period, which is generally 12 months from the date of project completion report issued by our customer. From time to time, we may be required to commit cash and other resources to the projects prior to receiving payments from each payment stage from project owners to cover certain expenditures on the projects as they incur. There is a risk that our customers will not perform their contractual obligations pursuant to the terms and conditions of the contracts and make full and timely payments for our services rendered to them. Delays in progress payments by our customers may significantly increase our working capital needs. In view of this, our liquidity maybe constrained, our level of bad debts may soar, thereby adversely our financial condition, and results of operations.

**Working Capital and Cashflow from Operating Activities**

We recorded a net cash inflow from our operating activities of RMB23 million for the year ended 31 December 2019. We cannot assure you that we will always be able to generate net cash from operating activities. Net operating cash outflow could impair our ability to make necessary capital expenditures and constrain our operational flexibility as well as adversely affect our ability to meet our liquidity requirements. If we fail to maintain effective working capital and cash flow management, we may face financial difficulties and our business and financial condition could be materially and adversely affected, or it may be necessary to raise additional funds from the market or other investors.

**Research and Development**

As part of our business strategies, we continue to focus on research and development to strengthen our design and engineering capability. Advanced biofuels using cellulose as feedstock have been touted as the next step beyond the corn-based ethanol. But cellulosic is harder to make than grain ethanol because it uses the inedible and irregular parts of the plants. The difficulties in cellulosic ethanol production technology from a challenge faced by us, as the ethanol production system suppliers. We may be unsuccessful in researching and developing new technologies. We maintain our in-house research and development team to develop new technologies or new features of current technologies. The success of our business to a certain extent is dependent upon our ability to continuously develop, in a timely manner, new technological applications through research and development and introduce new solution designs to cater our customers' requirements. We may be required to invest extra time and resources to develop new technological applications for solution design in order to satisfy changing requirements of our customers.

**DIRECTORS' REPORT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**


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**Risks and uncertainties (cont'd)**
**Competition**

We operate in a competitive industry and we may not be able to maintain an edge over our competitors. There are other providers of ethanol production systems operating in the market whom may possess more in-depth experience, expertise, technical knowhow and financial ability to capitalise on pricing strategies and other services to gain an edge over competition. There can be no guarantee that the competitiveness of our competitors will not improve or that we will be successful in expanding our market share against our competitors or expanding into new markets. Hence this could adversely affect our business, financial condition and operating results.

The Group's financial instruments and financial risk management objectives, policies and strategies and risk profile are set out in notes 11 and 35 to the financial statements.

Note: The exchange rate used in 2019 is £1:RMB 8.6842 (2018: £1:RMB 8.8178).

**Results and dividends**

The financial results of the Group are set out in the consolidated statement of profit or loss and other comprehensive income on page 25. The directors do not recommend a dividend payment for the year.

**Directors' interests**

The following directors have held office during the period under review and their interests as at 31 December 2019, all of which are beneficial unless otherwise stated, whether direct or indirect, of the Directors and their families in the issued share capital of the Company and options over ordinary shares which had been granted, are as follows:

<b>Name of Directors</b>	<b>Number of shares</b>	<b>% of issued share capital</b>
Yu Weijun *	99,012,168	22.28%
Tang Zhaoxing **	48,000,000	10.80%
Richard Bennett	837,747	0.19%

\* Held through Tewin Capital Holding Limited

\*\* Held through Tonzest Capital Holding Limited

<b>Name of Directors</b>	<b>Number of share options</b>	<b>Expiry date</b>
Yu Weijun	3,070,352	17/10/2020
Tang Zhaoxing	3,070,352	17/10/2020
Richard Bennett	3,070,352	17/10/2020

In accordance with Article 19.6 of the Articles of Association of the Company, at each annual general meeting, directors shall not remain in office for longer than 3 years since their last election or re-election without submitting themselves for re-election.

**DIRECTORS' REPORT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**
**Directors' remuneration**

	2019 RMB'000	2018 RMB'000
Yu Weijun	430	630
Tang Zhaoxing	460	705
Richard Bennett	230	177
<b>Total</b>	<b>1,120</b>	<b>1,512</b>

Included within the remuneration for each director is RMB51,000 (2018: RMB51,000) in respect of long term incentive schemes.

**Employment policies**

The Group pursues a policy of equal opportunities to all employees and potential employees. The Group has continued its policy of giving fair consideration to applications for employment made by disabled persons bearing in mind the requirements for skills and aptitude for the job. In the areas of planned employee training and career development, the Group strives to ensure that disabled employees receive equal treatment, including opportunities for promotion.

Every effort is made to ensure that continuing employment and opportunities are also provided for employees who become disabled. It is the Group's policy to take the views of employees into account in making decisions, and wherever possible to encourage the involvement of employees in the Group's performance.

**Payments to suppliers**

The Group's policy for the year ended 31 December 2019 is to settle the terms of payment with suppliers when agreeing the terms of the business transactions:

- To ensure that suppliers are aware of the terms of payments by the inclusion of the relevant terms in contracts; and
- To pay in accordance with the Company's contractual and other legal obligations.

The number of days of trade purchases outstanding for the Group as at 31 December 2019 was 116 days (2018: 125 days).

**Substantial shareholders**

The Group had been notified of the following beneficial interest of 5% or more in its shares as at 31 December 2019:

Name of shareholders	Number of shares	% of issued share capital
Tewin Capital Holding Limited (Yu Weijun)	99,012,168	22.28%
Tonzest Capital Holding Limited (Tang Zhaoxing)	48,000,000	10.80%
Best Full Investments Limited (Liang Hongtao)	48,000,000	10.80%
Kapok Capital Management Limited	44,652,107	10.05%
Vidacos Nominees Limited <BJB>	33,905,303	7.63%
Jojo Global Investment Limited (Jiang Xinchun)	32,100,000	7.22%

**DIRECTORS' REPORT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Going concern**

The financial statements have been prepared on the basis that the Group will continue as a going concern.

The Group has made a profit after tax of RMB59.2 million and has net current assets of RMB87.9 million, including RMB26.5 million of cash and cash equivalents.

The Group's forecasts show significant increases in revenue and profitability for 2020 and beyond. As indicated in the principles risks section of the directors' report, a key uncertainty in managing within our facilities and ensuring the liquidity of our business is the timing of when payments are received from customers. Due to the long term nature of our contracts, we rely on certain customer payments to be made in advance or at milestones in order that we can effectively manage our working capital within our facilities and fund the necessary outflows required for inventory and capital investment.

Based on the level of customer contracts in place, the contracted payment terms, and our ability to slow down expenditure to offset any deviations from cash inflows, the directors cannot see any outcome that is reasonable to consider in which the Group would not be able to operate as a going concern and meet its liabilities as they fall due.

We expect our liquidity to be further strengthened by an expected Initial Public Offering on a larger and more liquid stock market in Asia, and the potential to raise further borrowings if required to fund growth, however we have forecasted on the basis that shows we are not reliant on either of these events in order to manage within our current facilities.

**Events after the reporting period**

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

**DIRECTORS' REPORT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed for the financial statements, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm they have complied with all the above requirements in preparing the financial statements.

The directors are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group to enable them to ensure that the financial statements comply with the Companies (Jersey) Law, 1991.

**Statement of disclosure to auditors**

The directors have confirmed that:

- so far as each director is aware, there is no relevant audit information of which the Group's auditors is unaware; and
- each director has taken all the necessary steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

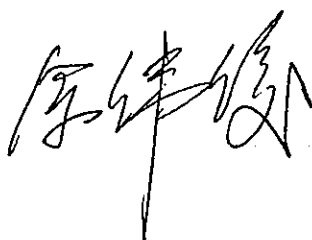
**Auditors**

In accordance with Article 109 of the Companies (Jersey) Law 1991, a resolution proposing that PricewaterhouseCoopers be re-appointed for the forthcoming year will be put to the Annual General Meeting.

By order of the Board

Yu Weijun  
Director

26 March 2020



## **CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019**

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### **Principles of Corporate Governance**

Following a change to the AIM rules in 2018, from 28 September 2018, the Company has now adopted the Quoted Companies Alliance's "Corporate Governance Guidelines for Smaller Quoted Companies" (the QCA Code) which the Board believes appropriate due to the size and complexity of the Company.

### **Chairman's Corporate Governance Statement**

The Board of Directors is committed, where practicable, to developing and applying high standards of corporate governance appropriate to the Company's size and stage of development. The Board of Directors seeks to apply where appropriate the QCA Code, revised in April 2018 as devised by the Quoted Companies Alliance.

The QCA Code is constructed around ten broad principles and a set of disclosures. The Code states what is considered to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. In the final section to this statement the Company sets out how each principle is applied, where the Company departs from these principles, with an explanation as to why. We have addressed how we comply with each of these on our website at the below link:

**[www.chinanewenergy.co.uk/investors/corporate\\_governance](http://www.chinanewenergy.co.uk/investors/corporate_governance)**

### **Board Structure**

The Board has 3 directors, one of whom is a non-executive. The Board is responsible for the management of the business of the Company, setting its strategic direction and establishing appropriate policies. It is the directors' responsibility to oversee the financial position of the Company and monitor its business and affairs, on behalf of the shareholders, to whom they are accountable. The primary duty of the Board is to act in the best interests of the Company at all times. The Board also addresses issues relating to internal controls and risk management. The non-executive directors bring a wide range of skills and experience to the Company, as well as independent judgment on strategy, risk and performance. The independence of each non-executive director is assessed at least annually, and all of the non-executive directors are considered to be independent at the date of this report.

It is the Group's policy that the roles of the Chairman and CEO are separate, with their roles and responsibilities clearly divided and recorded. A summary of their roles is as follows:

- The Chairman is responsible for leadership of the Board, ensuring its effectiveness and setting its agenda. The Chairman facilitates the effective contribution and performance of all Board members whilst identifying any development needs of the Board. He also ensures that there is sufficient and effective communication with shareholders to understand their issues and concerns.
- The CEO is responsible for executing the strategy agreed by the Board and developing the Group objectives through leadership of the senior executive team. He will recommend to the Board any investment or new business opportunities which meet this strategy. He also ensures that the Group's risks are adequately addressed and appropriate internal controls are in place. The CEO is responsible for meeting with shareholders and ensuring effective communication. The CEO is responsible for the day to day management of the Company, and for maintaining the highest ethical standards and integrity in the interest of the shareholders, employees, customers and the wider community.

The directors comply with Rule 21 of the AIM Rules relating to directors' dealings and take all reasonable steps to ensure compliance by the Group's applicable employees. The Group has adopted and operates a share dealing code for directors, and employees in accordance with the AIM Rules.

**CORPORATE GOVERNANCE STATEMENT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Attendance at meetings**

It is expected that all Directors attend Board and relevant Committee meetings, unless they are prevented from doing so by prior commitments, and that all Directors will attend the AGM. Where Directors are unable to attend meetings due to conflicts in their schedules, they will receive the papers scheduled for discussion in the relevant meetings, giving them the opportunity to relay any comments to the Chairman in advance of the meeting. Directors are required to leave the meeting where matters relating to them, or which may constitute a conflict of interest to them, are being discussed.

The following table shows the directors' attendance at scheduled Board meetings, which they were eligible to attend during the 2019 financial year:

<b>Director</b>	<b>Attendance of Board Meetings</b>
Yu Weijun	4/4
Tang Zhaoxing	4/4
Richard Bennett	4/4

**Board Committees**

The terms of reference of the board committees are reviewed regularly and are available upon request.

**Remuneration Committee**

The remuneration committee comprises Richard Bennett (Chairman) and Tang Zhaoxing. It is responsible for reviewing the performance of the senior executives, and for determining their levels of remuneration.

The Committee makes recommendations to the Board, within agreed terms of reference, which the Board review at least annually, regarding the levels of remuneration and benefits including participation in the Company's share plan.

**Audit Committee**

The audit committee comprises Richard Bennett (Chairman) and Yu Weijun. The Audit Committee meets at least twice a year to consider the annual and interim financial statements and the audit program. The terms of Reference of the Audit Committee are reviewed by the Board regularly and are available on request from the Company. The Audit Committee is responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported upon, reviewing accounting policies and for meeting the auditors and reviewing their reports relating to the accounts and internal control systems.

The report of the Audit Committee for the current year is available upon request.

**Nomination Committee**

The Nomination Committee meets as required to consider the composition of and succession planning for the Board, and to lead the process of appointments to the Board. The Committee Chairman is Yu Weijun. The other member of the Committee is Richard Bennett.

**CORPORATE GOVERNANCE STATEMENT (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Anti-Bribery Policy**

China New Energy and its senior management have a zero tolerance of bribery and corruption. This policy extends to all the company's business dealings and transactions in all countries in which it or its subsidiaries and associates operate. All directors and employees are required to comply with this policy.

The Group prohibits the offering, the giving, the solicitation or the acceptance of any bribe, whether cash or other inducement to or from any person or company, wherever they are situated and whether they are a public official or body or private person or company by any individual employee, agent or other person or body acting on the Group's behalf in order to gain any commercial, contractual or regulatory advantage for the Group in a way which is unethical or in order to gain any personal advantage, pecuniary or otherwise, for the individual or anyone connected with the individual.

Bribery and fraud may occur internally or externally and may be perpetrated by employees, clients, suppliers, contractors, service providers, agents or anyone else doing business with the Group. The Group will not, therefore, enter into any business relationship or engage in any activity if it knows or has reasonable grounds to suspect that a business relationship or activity is, in any way, connected with or facilitates bribery or fraud. We will actively cooperate with law enforcement authorities for the investigation and punishment of any act of bribery connected to any group company. Employees of group companies must also comply with local policies and procedures that apply to them as set out in any other individual group company compliance manual or procedures.

**Matters reserved for the Board**

1. Approval of the Group vision, values and overall governance framework;
2. Approval of the Company's Annual Report and Accounts and Half Yearly Financial Statements;
3. Approval of any interim dividend and recommendation of the final dividend;
4. Approval of Group financial policy;
5. Approval of budgeted capital projects;
6. Approval of the Company's long-term finance plan and annual capital and revenue budget;
7. Approval of any significant change in Group accounting policies or practices;
8. Approval of all circulars, listing particulars, resolutions and corresponding documentation sent to shareholders;
9. Approval of changes in the capital structure of the Company or its status as a plc and, in particular, the issue or allotment of shares in the Company otherwise than pursuant to Company approved employee share schemes;
10. Appointment, re-appointment and removal of the Chairman and Directors and the recommendation to shareholders of their election or re-election under the Articles of Association; the appointment and removal of the Company Secretary;
11. Approval of the division of responsibilities between the Chairman and Chief Executive;
12. Establishing committees of the Board, approving their terms of reference (including membership and financial authority), reviewing their activities and, where appropriate, ratifying their decisions;
13. Recommendation to shareholders for the appointment, re-appointment or removal of the auditors;
14. Approval of this schedule of Matters Reserved to the Board.

**Company culture and ethics**

The Board of Directors of China New Energy has adopted this code of ethics, to promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest; promote the full, fair, accurate, timely and understandable disclosure of the Company's financial results in accordance with applicable disclosure standards; promote compliance with applicable governmental laws, rules and regulations; and deter wrongdoing. A culture of ethics and compliance is at the core of our risk management program.



**CORPORATE GOVERNANCE STATEMENT (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Company culture and ethics (cont'd)**

The Board of Directors further seek to embody and promote a corporate culture that is based on sound ethical values of creativity, perfection and integrity(创新、至善、诚信), and seeks to promote a culture where its people can thrive:

- We are committed to innovation in what we do and how we do it, and to working smarter rather than harder to reduce costs, increase efficiency and make lives easier by being creative, pragmatic and different.
- We have an enduring positive attitude that stems from being self-motivated, adaptable and agile and feeling fully empowered to make a difference, speaking out with ideas and suggestions to make things better.
- We respect one another and are courteous, honest and straightforward in all our dealings, we honour diversity, individuality and personal differences, and are committed to conducting our business with the highest personal, professional and ethical standards.

The board believes that a culture that is based on three core values is a competitive advantage and consistent with fulfilment of the group's mission and execution of its strategy. The promotion of a corporate culture based on sound ethical values and behaviours is essential to maximize shareholder value. Adherence to these standards is a key factor in the evaluation of performance within the company, including during annual performance reviews.

The culture of the Group is characterized by these values which are communicated regularly to staff through internal communications and forums. A staff recognition programme operates on an ongoing basis by which any employee can nominate any of his/her colleagues for a contribution that is in keeping with the three core values. The core values are communicated to prospective employees in the group's recruitment programmes and are considered as part of the selection process.

The Company also runs a long-term incentive plan for employees and directors in order to align the long term success of the business with shareholder and employees and to promote a culture of, and reward, commitment to the Company.

**Internal controls**

The directors are responsible for the Group's system of internal controls and reviewing its effectiveness. The Board has designed the Group's system of internal controls in order to provide the directors with reasonable assurance that its assets are safeguarded, that transactions are authorised and properly recorded and that material errors and irregularities are either prevented or would be detected within a timely period. However, no system of internal controls can eliminate the risk of failure to achieve business objectives or provide absolute assurance against material misstatement or loss.

The key elements of the control systems in operation are:

- The Board meets regularly with a formal schedule of matters reserved to it for decision.
- It has put in place an organisational structure with clear lines of responsibility defined and with appropriate delegation of authority.
- Established procedures for the planning, approval and monitoring of capital expenditure and information systems for monitoring the Group's financial performance against approved budgets and forecasts.
- Departmental heads are required annually to undertake a full assessment process to identify and quantify the risks that face their businesses and functions and assess the adequacy of the prevention, monitoring and modification practices in place for those risks.
- Significant risks and associated controls and monitoring procedures are reported regularly to the Board to enable the Directors to review the effectiveness of the system of internal controls.

**CORPORATE GOVERNANCE STATEMENT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

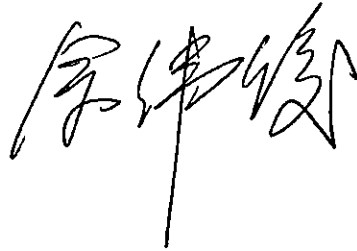
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**Relations with shareholders**

The Board attaches great importance to maintain a good relationship with shareholders. The Board regards the annual general meeting as a good opportunity to communicate directly with investors who are encouraged to make inquiries to officers of the Group.

Yu Weijun  
Director

26 March 2020

A handwritten signature in black ink, appearing to be '余伟俊' (Yu Weijun), written in a cursive style.

## Independent Auditor's Report

To the Shareholders of China New Energy Limited  
(incorporated in Jersey with limited liability)

### Opinion

#### *What we have audited*

The consolidated financial statements of China New Energy Limited (the "Company") and its subsidiaries (the "Group") set out on pages 24 to 83, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### *Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## Independent Auditor's Report

To the Shareholders of China New Energy Limited  
(incorporated in Jersey with limited liability)

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition for ethanol production system construction contract
- Impairment assessment of trade and bills receivables and contract assets

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Revenue recognition for ethanol production system construction contract</b></p> <p>Refer to notes 3(a) and 23 to the consolidated financial statements.</p> <p>For the year ended 31 December 2019, the Group's revenue of RMB 396,534,000 was derived from ethanol production system construction contract for which revenue is recognised over time.</p> <p>The Group recognises revenue from their ethanol production system construction contract on a progress towards complete satisfaction of the performance obligation basis which involves significant judgements and estimates. The progress is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each product in the contract.</p>	<p>Our procedures performed to address this key audit matter included:</p> <ul style="list-style-type: none"> <li>• Obtained an understanding of, evaluated and tested, on a sample basis, the key controls over management's review and approval of project budgets and estimates of revenue recognition from ethanol production system construction contract;</li> <li>• Discussed with management and the respective project teams to understand the progress of the projects and relevant contract terms;</li> <li>• Tested, on a sample basis, the project costs incurred during the year ended 31 December 2019 to supporting evidence including purchase agreements, materials receipt notes and labour cost records;</li> <li>• Evaluated the estimated cost to complete the project by considering the actual costs incurred subsequent to the year end, and the accuracy of management's historical estimation of the project costs;</li> </ul>



Key Audit Matter	How our audit addressed the Key Audit Matter
<p>We considered this is a key audit matter because management applied significant judgements in estimating the remaining cost to complete the projects in order to determine the percentage of completion and thus the revenue to be recognised for the reporting period.</p>	<ul style="list-style-type: none"> <li>• Checked, on a sample basis, the settlements from customers and third party evidence to evaluate progress towards complete satisfaction of the performance obligation, including final customer confirmation of acceptance when a project is completed; and</li> <li>• Checked management's calculation of percentage of actual costs incurred up to the year ended 31 December 2019 to total estimated costs, and recalculated the revenue recognised based on the percentage.</li> </ul> <p>We found the key assumptions used in revenue recognition from ethanol production system construction contract were supported by the available evidence.</p>
<p><b>Impairment assessment of trade and bills receivables and contract assets</b></p> <p>Refer to notes 3(c), 13, 23 and 35 to the consolidated financial statements.</p> <p>The gross trade and bills receivables and contract assets amounted to RMB 229,859,000 as at 31 December 2019, with a loss allowance of RMB 17,123,000 as at 31 December 2019.</p> <p>The Group assesses expected credit loss allowances of trade and bills receivables and contract assets using the risk parameters including historical default rates, forecast economic conditions and expected credit loss. When measuring expected credit loss, the Group considers the ageing of the balances, the nature and credit profile of different customer base, credit loss incurred for the customers in the past, and adjusts by considerations such as current conditions and forward looking factors. In assessing forward looking factors, the Group considers factors including economic policies, macroeconomic indicators, industry risks and changes in customers' conditions.</p>	<p>Our procedures performed to address this key audit matter included:</p> <ul style="list-style-type: none"> <li>• Obtained an understanding of, evaluated and tested, on a sample basis, the key controls over management's assessment of the impairment of trade and bills receivables and contract assets;</li> <li>• Assessed the historical default rates applied by management, considering the nature and credit profile of different customer base, the historical levels of defaults;</li> <li>• Assessed current conditions and the forward looking factors considered by management in the assessment by referencing to macroeconomic, industry and market information;</li> <li>• Tested, on a sample basis, the accuracy of the ageing of the trade and bills receivables and contract assets to invoices and other supporting evidence; and</li> <li>• Tested, on a sample basis, settlement made by the customers subsequent to year end.</li> </ul>

Key Audit Matter	How our audit addressed the Key Audit Matter
We considered this is a key audit matter because management applied significant judgements in the impairment assessment of trade and bill receivables and contract assets.	We found the key assumptions used in impairment assessment of trade and bills receivables and contract assets were supported by the available evidence.

### **Independent Auditor's Report**

To the Shareholders of China New Energy Limited  
(incorporated in Jersey with limited liability)

### **Other Information**

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### **Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements**

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the requirements of the Companies (Jersey) Law 1991, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Group's financial reporting process.



## **Independent Auditor's Report**

To the Shareholders of China New Energy Limited  
(incorporated in Jersey with limited liability)

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



***Independent Auditor's Report***

To the Shareholders of China New Energy Limited  
(incorporated in Jersey with limited liability)

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (cont'd)**

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Independent Auditor's Report**

To the Shareholders of China New Energy Limited  
(incorporated in Jersey with limited liability)

**Companies (Jersey) Law 1991 exception reporting**

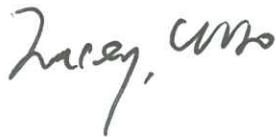
Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the consolidated financial statements are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility.

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The engagement partner on the audit resulting in this independent auditor's report is Weining Liao.

A handwritten signature in black ink, appearing to read 'Weining Liao'.

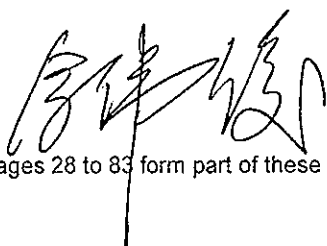
Weining Liao  
For and on behalf of PricewaterhouseCoopers  
Certified Public Accountants  
Hong Kong  
26 March 2020

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AT 31 DECEMBER 2019**

	Note	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets at fair value through other comprehensive income	4	5,015	-
Investment in an associate	5	-	-
Property, plant and equipment	6	11,589	6,457
Land use rights	7	-	2,608
Intangible assets	8	18,252	12,782
Right-of-use assets	9	6,281	-
Deferred tax assets	10	4,325	5,752
		<u>45,462</u>	<u>27,599</u>
<b>Current assets</b>			
Inventories	12	3,358	3,661
Contract assets	23	118,108	88,465
Trade and bills receivables	13	94,628	103,629
Other receivables and prepayments	14	110,688	17,980
Restricted cash	15	2,321	1,230
Cash and cash equivalents	15	26,466	6,358
		<u>355,569</u>	<u>221,323</u>
<b>Total assets</b>		<u>401,031</u>	<u>248,922</u>
<b>LIABILITIES</b>			
<b>Non-current liability</b>			
Lease liabilities	9	2,889	-
<b>Current liabilities</b>			
Contract liabilities	23	15,140	21,028
Bank and other borrowings	16	18,941	6,540
Convertible notes	17	11,847	-
Trade payables	18	114,755	69,250
Other payables	19	72,916	59,355
Lease liabilities	9	1,073	-
Current income tax liabilities		33,040	21,723
		<u>267,712</u>	<u>177,896</u>
<b>Total liabilities</b>		<u>270,601</u>	<u>177,896</u>
<b>Equity</b>			
<b>Equity attributable to Owners of the Company</b>			
Share capital	20	1,444	1,541
Reserves	21	128,986	69,485
		<u>130,430</u>	<u>71,026</u>
<b>Total equity and liabilities</b>		<u>401,031</u>	<u>248,922</u>
<b>Net current assets</b>		<u>87,857</u>	<u>43,427</u>

The consolidated financial statements on pages 24 to 83 were approved and authorised by the board and were signed on its behalf on 26 March 2020.

Yu Weijun  
Director



The notes on pages 28 to 83 form part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	Year ended 31 December	
		2019	2018
		RMB'000	RMB'000
Revenue	23	398,558	249,978
Cost of sales	28	(289,141)	(177,374)
<b>Gross profit</b>		<b>109,417</b>	<b>72,604</b>
Selling and marketing expenses	28	(8,617)	(5,801)
Administrative expenses	28	(27,700)	(20,218)
Net impairment losses on financial assets and contract assets	26	(3,555)	(362)
Other income	24	1,836	1,685
Other gains - net	25	2,409	263
<b>Operating profit</b>		<b>73,790</b>	<b>48,171</b>
Finance income	27	49	22
Finance costs	27	(1,384)	(1,094)
Finance costs – net	27	(1,335)	(1,072)
<b>Profit before income tax</b>		<b>72,455</b>	<b>47,099</b>
Income tax expenses	30	(13,287)	(1,278)
<b>Profit for the year attributable to Owners of the Company</b>		<b>59,168</b>	<b>45,821</b>
<b>Other comprehensive income</b>			
<i>Item that may not be reclassified to profit or loss</i>			
- Change in the fair value of financial assets at fair value through other comprehensive income, net of tax		13	-
<i>Item that may be reclassified to profit or loss</i>			
- Exchange differences on translation of foreign operations		(238)	(224)
<b>Other comprehensive income for the year, net of tax</b>		<b>(225)</b>	<b>(224)</b>
<b>Total comprehensive income for the year attributable to Owners of the Company</b>		<b>58,943</b>	<b>45,597</b>
<i>Earnings per share for profit attributable to Owners of the Company (expressed in RMB per share)</i>			
Basic earnings per share	31	0.133	0.102
Diluted earnings per share	31	0.128	0.102

The profit is all generated from continuing operations for both years presented.

The notes on pages 28 to 83 form part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Share Capital	Other reserves	(Accumulated losses)/ retained earnings	Total
	RMB'000	RMB'000 (note 21)	RMB'000	RMB'000
<b>Balance at 1 January 2018</b>	<b>1,541</b>	<b>72,273</b>	<b>(44,164)</b>	<b>29,650</b>
<b>Comprehensive income</b>				
- Profit for the year	-	-	45,821	45,821
- Other comprehensive income	-	(224)	-	(224)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(224)</b>	<b>45,821</b>	<b>45,597</b>
<b>Transactions with owners, recognised directly in equity</b>				
Share-based payment expenses	-	460	-	460
Buy-back of shares	-	(4,681)	-	(4,681)
<b>Total transactions with owners</b>	<b>-</b>	<b>(4,221)</b>	<b>-</b>	<b>(4,221)</b>
<b>Balance at 31 December 2018</b>	<b>1,541</b>	<b>67,828</b>	<b>1,657</b>	<b>71,026</b>
<b>Balance at 1 January 2019</b>	<b>1,541</b>	<b>67,828</b>	<b>1,657</b>	<b>71,026</b>
<b>Comprehensive income</b>				
- Profit for the year	-	-	59,168	59,168
- Other comprehensive income	-	(225)	-	(225)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(225)</b>	<b>59,168</b>	<b>58,943</b>
Transfer to statutory reserves	-	7,498	(7,498)	-
Share-based payment expenses	-	461	-	461
Cancellation of treasury shares	(97)	97	-	-
<b>Total transactions with owners</b>	<b>(97)</b>	<b>8,056</b>	<b>(7,498)</b>	<b>461</b>
<b>Balance at 31 December 2019</b>	<b>1,444</b>	<b>75,659</b>	<b>53,327</b>	<b>130,430</b>

The notes on pages 28 to 83 form part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 RMB'000	2018 RMB'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	22	24,935	10,069
Income tax paid		(545)	(3,425)
Interest paid		(1,335)	(1,072)
<b>Net cash generated from operating activities</b>		<b>23,055</b>	<b>5,572</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(7,526)	(889)
Purchase of intangible assets		(6,192)	(5,954)
Proceeds from disposal of property, plant and equipment		-	3
Investment in financial assets at fair value through other comprehensive income		(5,000)	-
<b>Net cash used in investing activities</b>		<b>(18,718)</b>	<b>(6,840)</b>
<b>Cash flows from financing activities</b>			
Proceeds from bank and other borrowings		23,060	6,800
Proceeds from convertible notes		10,606	-
Repayments of bank and other borrowings		(10,659)	(10,367)
Principal elements of lease payments		(842)	-
Cash advance from related parties		-	15,404
Repayment to related parties		(1,949)	(11,165)
Payment for listing related expenses		(4,098)	-
Increase in guarantee deposits for borrowings		(1,091)	(1,230)
<b>Net cash generated from/(used in) financing activities</b>		<b>15,027</b>	<b>(558)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>19,364</b>	<b>(1,826)</b>
Cash and cash equivalents at beginning of year		6,358	8,180
Translation differences on cash and cash equivalents		744	4
<b>Cash and cash equivalents at end of year</b>		<b>26,466</b>	<b>6,358</b>

The notes on pages 28 to 83 form part of these consolidated financial statements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**1. General information**

The consolidated financial statements of China New Energy Limited (the "Company") and its subsidiaries (the "Group") 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 8 Floor, Zone B, Energy Saving and Environmental Protection Building of GIEC, No 2, Nengyuan Road, 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 ("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 have been prepared under the historical cost convention, except for certain financial assets and liabilities measured at fair value.

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 preparation of 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Save as disclosed below, all standards, amendments to standards and interpretations, which are effective during the year beginning on 1 January 2019 have been adopted by the Group.

**2.1.1 New and revised standards adopted**

**IFRS 16 Lease**

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated the 2018 reporting period, 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 statement of financial position on 1 January 2019.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**2. Summary of significant accounting policies (cont'd)**

**2.1.1 New and revised standards adopted (cont'd)**

**(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 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.53%.

	<b>RMB'000</b>
Operating lease commitments disclosed as at 31 December 2018	6,019
Less: short-term leases recognised on a straight-line basis as expense	(423)
	<u>5,596</u>
Discounted using the lessee's incremental borrowing rate of at the date of initial application	<u>4,804</u>
<b>Lease liability recognised as at 1 January 2019</b>	<u><b>4,804</b></u>
Of which are:	
Current lease liabilities	1,489
Non-current lease liabilities	<u>3,315</u>
	<u><b>4,804</b></u>

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 statement of financial position 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 statement of financial position on 1 January 2019:

- land use rights – decreased by RMB2,608,000
- right-of-use assets – increased by RMB7,412,000
- lease liabilities – increased by RMB4,804,000

**(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.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**2. Summary of significant accounting policies (cont'd)**

**2.1.1 New and revised standards adopted (cont'd)**

(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 55 months. 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.

**2.1.2 New and revised standards, amendments and interpretations to existing standards that have been issued but are not effective for the year beginning on 1 January 2019 and have not been early adopted**

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:

		<b>Effective for annual periods beginning on or after</b>
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 (Amendments)	Definition of material	1 January 2020
IFRS 7, IFRS 9 and IAS 39 (Amendments)	Interest rate benchmark reform	1 January 2020
IFRS 17	Insurance contracts	1 January 2021
IAS 1 (Amendment)	Classification of liabilities	1 January 2022
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

There are no new and revised standards, amendments and interpretations that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2. Summary of significant accounting policies (cont'd)**

**2.2. Principles of consolidation and equity accounting**

**(a) Subsidiaries**

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.

**(b) Associates**

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting (see (c) below), after initially being recognised at cost.

**(c) Equity method**

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.8.

**2.3. Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

Executive directors, who assess the financial performance and position of the Group and make strategic decisions, have been identified as being the chief operating decision maker.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2. Summary of significant accounting policies (cont'd)**

**2.4. Foreign currency translation**

**(a) Functional and presentation currency**

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company is Great Britain Pound ("GBP") and the functional currency of the two subsidiaries are RMB. The consolidated financial statements are presented in RMB, which is the Group's presentation currency.

**(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other gains - net.

**(c) Group companies**

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position ;
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2. Summary of significant accounting policies (cont'd)**

**2.5. Property, plant and equipment**

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Machinery	5 – 10 years
Motor vehicles	5 – 10 years
Office equipment	3 – 5 years
Buildings	20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains - net" in profit or loss.

**2.6. Land use rights**

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods of 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights. From 1 January 2019, land use rights are reclassified to right-of-use assets.

**2.7. Intangible assets**

**(a) Computer software and trademarks**

Separately acquired computer software and trademarks are shown at historical cost. Computer software and trademarks have a finite useful life and are carried at cost less accumulated amortisation.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2. Summary of significant accounting policies (cont'd)**

**2.7. Intangible assets (cont'd)**

**(b) Internally generated intangible assets – development costs and patents**

Costs associated with maintaining patents are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique patents controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the patent so that it will be available for use
- management intends to complete the patent and use or sell it
- there is an ability to use or sell the patent
- it can be demonstrated how the patent will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the patent are available, and
- the expenditure attributable to the patent during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the patents include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use, at the moment when the patents are registered.

The patents have a finite useful life and is carried at cost less accumulated amortisation.

**(c) Amortisation methods and periods**

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods: The useful life of computer software is best estimated based on the asset's conditions and management's past experience. The useful life of trademarks and self-developed patents is determined in accordance to relevant laws and regulations.

Computer software	10 years
Trademarks	10 years
Self-developed patents	10-20 years

**2.8. Impairment of non-financial assets**

Development cost not yet ready for use and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2. Summary of significant accounting policies (cont'd)**

**2.9. Current and deferred income tax**

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

**(a) Current income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company and its subsidiaries and associate operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**(b) Deferred income tax**

*Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available to utilise those temporary differences and losses.

*Outside basis differences*

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and an associate, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and an associate only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

**(c) Offsetting**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2. Summary of significant accounting policies (cont'd)**

**2.10. Financial assets**

**(a) Classification**

The Group classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI"). See note 11 for details about each type of financial assets.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

**(b) Recognition and derecognition**

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

**(c) Measurement**

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

*Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains - net together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of profit or loss.

*Equity instruments*

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2. Summary of significant accounting policies (cont'd)**

**2.11. Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the group company or the counterparty.

**2.12. Impairment of financial assets**

The Group assesses on a forward looking basis the expected credit losses ("ECL") associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

ECL are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For contract assets and all trade and bills receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the contract assets and trade and bills receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on other receivables is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition.

**2.13. Convertible notes**

The Group classifies its convertible notes as financial liability at fair value through profit or loss, which are measured at fair value. The convertible notes and embedded derivative are classified entirely as liabilities because they were issued in a currency other than the functional currency of the Company. As the instrument contains an embedded derivative, it has been designated at fair value through profit or loss on initial recognition and as such the embedded conversion feature is not separated. All transaction costs related to financial instruments designated at fair value through profit or loss are expenses as incurred.

**2.14. Inventories**

Inventories comprised of raw material, work-in-progress and right to returned goods and are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.



**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2. Summary of significant accounting policies (cont'd)**

**2.15. Trade and bills receivables**

Trade and bills receivables are amounts due from customers for products sold or services performed in the ordinary course of business. If collection of trade and bills receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and bills receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and bills receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 13 for further information about the Group's accounting for trade and bills receivables and note 35 for a description of the Group's impairment policies.

**2.16. Contract assets and contract liabilities**

The excess of cumulative revenue recognised in profit or loss over the cumulative billings is recognised as contract assets. Contract assets will be reclassified as receivables when the progress billings are issued as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. See note 35 for a description of the Group's impairment policies for contract assets.

The excess of cumulative billings over cumulative revenue recognised in profit or loss is recognised as contract liabilities.

**2.17. Restricted cash and cash and cash equivalents**

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks. Bank deposits which are restricted to use are included in "Restricted cash". Restricted cash are excluded from cash and cash equivalents included in the consolidated statement of cash flows.

**2.18. Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

**2.19. Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2. Summary of significant accounting policies (cont'd)**

**2.20. Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

**2.21. Borrowing costs**

General and specific borrowing costs that are directly attributable to the construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

**2.22. Employee benefits**

*Pension obligations*

The group companies incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefits plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefits obligations payable to all existing and future retired employees under these plans and the Group has no further obligations for post-retirement benefits beyond the contributions made.

Contributions to these defined contributions plans are expensed as incurred.

*Housing funds, medical insurances and other social insurances*

PRC employees of the Group are entitled to participate in various government-supervised housing funds, medical insurance and other social insurance plan. The Group contributes to these funds based on certain percentages of the salaries of these employees on a monthly basis. The Group's liability in respect of these funds is limited to the contribution payable in each period. Contributions to the housing funds, medical insurances and other social insurance are expensed as incurred.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2. Summary of significant accounting policies (cont'd)**

**2.22. Employee benefits (cont'd)**

*Bonus entitlements*

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

*Termination entitlements*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

*Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

**2.23. Share-based payments**

*Employee options*

The fair value of options granted under the Pre-IPO Share Option Scheme is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (e.g. the entity's share price)
- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period), and
- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or holdings shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2. Summary of significant accounting policies (cont'd)**

**2.24. Provisions**

Provisions for legal claims are recognised under other gains - net in the consolidated statement of profit or loss when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

**2.25. Earnings per share**

**(a) Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

**(b) Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

**2.26. Revenue recognition**

**Provision of ethanol production system technology integrated service**

The Group is engaged in the provision of ethanol production system technology integrated service in the ethanol fuel and alcoholic beverage industries. Revenue is recognised when control over the asset has been transferred to the customer. Control of the asset is transferred over time if the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. The equipment have generally no alternative use for the Group and the Group has an enforceable right to payment for performance completed to date due to contractual restrictions and the interpretation of the applicable laws that apply to the contract.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2. Summary of significant accounting policies (cont'd)**

**2.26. Revenue recognition (cont'd)**

*Provision of ethanol production system technology integrated service (cont'd)*

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, that is, the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each product in the contract.

The Group generally offers 12 months warranties for its product. The Group recognised retention money as contract assets as the Group's entitlement to the consideration was conditional on satisfactory completion of the warranty period. The retention money will be recognised as trade receivables at the end of warranty period.

The Group does not recognise the warranty service as a separate performance obligation in a single contract as the warranty service is assurance type, and the Group's obligation to repair or replace faulty products under the warranty terms is recognised as a provision.

**2.27. Interest income**

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the consolidated statement of profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

**2.28. Leases**

Before 1 January 2019, Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

*The Group is the lessee*

Payments made under operating leases (net of any incentives received from the lessor), are charged to the profit or loss on a straight-line basis over the period of the lease.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2. Summary of significant accounting policies (cont'd)**

**2.29. Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

**3. Critical accounting estimates and judgments**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

**(a) Revenue recognition**

The Group's revenue from provision of ethanol production system technology integrated service in the ethanol fuel and alcoholic beverage industries is recognised over time when the Group's performance do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. The Group cannot change or substitute the product or redirect the product for another use as the product is tailor made to each customer's needs and thus the product does not have an alternative use to the Group. However, whether there is an enforceable right to payment depends on the terms of contract and the interpretation of the applicable laws that apply to the contract. Such determination requires significant judgments. In assessing whether the Group has an enforceable right to payment for its contracts, the Group has performed an assessment on the contractual terms as well as any legislation that could supplement or override those contractual terms, and conducted an evaluation of any existence of circumstances that could restrict the Group to enforce its right to payment for specific performance. Management uses judgments to classify contracts into those with right to payment and those without the right. Management will reassess their judgments on a regular basis to identify and evaluate the existence of any circumstances that could affect the Group's enforceable right to payment and the implication on the accounting for contracts.

The Group recognises revenue over time by reference to the progress towards complete satisfaction of the performance obligation at the reporting date. The progress is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each product in the contract. Significant judgments and estimations are required in determining the completeness of the estimated total costs and the accuracy of progress towards complete satisfaction of the performance obligation at the reporting date. Changes in cost estimates in future periods can have effect on the Group's revenue recognised. In making the above estimations, the Group relies on past experience and work of contractors and, if appropriate, surveyors.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**3. Critical accounting estimates and judgments (cont'd)**

**(b) Capitalisation and amortisation of internal development costs**

The Group capitalises costs incurred on development projects as intangible assets when recognition criteria are met. Significant judgment is involved in assessing whether the criteria set out in the accounting standards required for capitalisation of such costs have been met, including the likelihood of the project delivering sufficient future economic benefits, and whether costs, including employment costs, were directly attributable to relevant projects. Notwithstanding that the Group has used all available information to make this estimation and judgment, inherent uncertainty exists and the capitalised costs may have to be expensed if there are significant changes from previous estimates.

Capitalised development costs are amortised from the point at which the asset is ready for use on a straight-line basis over their estimated useful lives. The Group reviews the estimated useful lives of the assets semi-annually. The amortisation expense for future periods is adjusted if there are significant changes on the useful lives from previous estimates.

Development cost not yet ready for use, which are capitalised as intangible assets are not subject to amortisation and are tested annually for impairment, or more frequently if event or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment assessment requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact both the carrying value of intangible assets and the impairment charge in the period in which such estimate has been changed.

**(c) Impairment of receivables and contract assets - Estimate**

The Group uses a provision matrix to calculate expected credit loss ("ECL") for trade and bills receivables and contract assets in addition to the specific provisions. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

Trade and bills receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade and bills receivables for the same types of contracts. The Group has therefore concluded that the ECL for trade and bills receivables are a reasonable approximation for the loss rates for contract assets.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. In assessing forward looking factors, the Group considers factors including economic policies, macroeconomic indicators, industry risks and changes in customers' conditions.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECL on the Group's trade and bills receivables and contract assets is disclosed in notes 13 and note 35 to the consolidated financial statements.

State owned enterprises ("SOEs") and non-state owned enterprises ("Non-SOEs") are deemed to have different credit risk based on experience of defaults and write offs. Expected credit loss for these customers is based on aging where there are no known disputes. Customers in liquidity issues relates to those who may be disputing invoices or in bankruptcy and so 100% provision is made against these debtors.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**3. Critical accounting estimates and judgments (cont'd)**

**(d) Recognition of income tax payable**

Tax computations are prepared and tax is paid on a basis where profit recognition follows actual invoicing rather than stage of completion revenue recognition accounting, and there are significant timing differences between when profits are recognised in the accounts versus the computations. Taxation is recognised within the financial statements on a basis consistent with how the accounting profit is recognised. The Group reassess judgments on a regular basis to identify and evaluate the appropriateness of the basis on which tax computations are prepared and therefore the risk that tax fines and interest may arise. Management also uses judgment to whether the tax arising based on accounting profits should be considered deferred taxation or current taxation.

**4. Financial assets at fair value through other comprehensive income**

During the year ended 31 December 2019, the Group invested in 2.08% equity interests in an unlisted company, Inner Mongolia Zhongneng Biotechnology Co., Ltd., which is not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. This is a strategic investment and the Group considers this classification to be more relevant.

Information about the methods and assumptions used in determining fair value is provided in note 34.

The financial assets at fair value through other comprehensive income are denominated in RMB.

**5. Investment in an associate**

	As at 31 December 2019	As at 31 December 2018
	RMB'000	RMB'000
Cost	1,700	1,700
Share of post-tax loss	(1,700)	(1,700)
Net book value	-	-

Nature of investment in an associate as at 31 December 2019 and 2018:

Name of entity	Place and date of establishment/ incorporation	Registered/ paid-in capital	Proportion of ownership interest	Measurement method
Jilin Tianshun Bio-chemical Technology Co Ltd 吉林省天顺生化科技有限公司	The PRC, 15 August 2013	Registered and paid-in capital of RMB 5,000,000	34%	Equity

There are no contingent liabilities relating to the Group's interest in an associate.



**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**6. Property, plant and equipment**

	<b>Buildings</b>	<b>Office</b>	<b>Machinery</b>	<b>Motor</b>	<b>Total</b>
	<b>RMB'000</b>	<b>equipment</b>	<b>RMB'000</b>	<b>vehicles</b>	<b>RMB'000</b>
		<b>RMB'000</b>		<b>RMB'000</b>	
<b>Cost</b>					
<b>At 1 January 2018</b>	6,247	903	8,543	8,004	23,697
Additions	-	71	818	-	889
Reclassification	(475)	-	475	-	-
Disposals	-	-	(29)	-	(29)
<b>At 31 December 2018 and 1 January 2019</b>	5,772	974	9,807	8,004	24,557
Additions	-	116	7,410	-	7,526
Disposals	-	(15)	(191)	-	(206)
<b>At 31 December 2019</b>	<u>5,772</u>	<u>1,075</u>	<u>17,026</u>	<u>8,004</u>	<u>31,877</u>
<b>Accumulated depreciation</b>					
<b>At 1 January 2018</b>	(3,914)	(662)	(4,255)	(6,979)	(15,810)
Charge for the year	(272)	(65)	(1,277)	(702)	(2,316)
Reclassification	(81)	-	81	-	-
Disposals	-	-	26	-	26
<b>At 31 December 2018 and 1 January 2019</b>	(4,267)	(727)	(5,425)	(7,681)	(18,100)
Charge for the year	(133)	(82)	(1,863)	(110)	(2,188)
<b>At 31 December 2019</b>	<u>(4,400)</u>	<u>(809)</u>	<u>(7,288)</u>	<u>(7,791)</u>	<u>(20,288)</u>
<b>Carrying value</b>					
<b>At 31 December 2019</b>	<u>1,372</u>	<u>266</u>	<u>9,738</u>	<u>213</u>	<u>11,589</u>
<b>At 31 December 2018</b>	<u>1,505</u>	<u>247</u>	<u>4,382</u>	<u>323</u>	<u>6,457</u>

Depreciation of property, plant and equipment has been charged to the consolidated statement of profit or loss as follows:

	<b>2019</b>	<b>2018</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Administrative expenses	67	809
Cost of sales	2,007	1,407
Selling and marketing expenses	114	100
	<u>2,188</u>	<u>2,316</u>

Buildings with a total carrying amount of RMB 1,372,000 as at 31 December 2019 (RMB1,505,000 as at 31 December 2018) were pledged as collateral for the Group's borrowings (note 16).

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**
**7. Land use rights**

	<b>RMB'000</b>
<b>At 1 January 2018</b>	
Cost	3,613
Accumulated amortisation	(922)
Net book amount	<u>2,691</u>
<b>Year ended 31 December 2018</b>	
Opening net book amount	2,691
Amortisation charge	(83)
Closing net book amount	<u>2,608</u>
<b>At 31 December 2018</b>	
Cost	3,613
Accumulated amortisation	(1,005)
Net book amount	<u>2,608</u>
<b>Year ended 31 December 2019</b>	
Opening net book amount at 1 January 2019	2,608
Reclassified to right-of-use assets upon adoption of IFRS 16 (note 9)	(2,608)
Closing net book amount	<u>-</u>
<b>At 31 December 2019</b>	
Cost	-
Accumulated amortisation	-
Net book amount	<u>-</u>

All land use rights of the Group are located in Boluo, mainland China and are held on leases of 50 years.

Amortisation of land use rights has been charged to cost of sales in the consolidated statement of profit or loss.

Land use rights with a total carrying amount of RMB2,608,000 as at 31 December 2018 were pledged as collateral for the Group's borrowings (note 16).

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**8. Intangible assets**

	Computer software RMB'000	Patents RMB'000	Trademarks RMB'000	Development costs RMB'000	Total RMB'000
<b>Cost</b>					
At 1 January 2018	60	6,936	-	595	7,591
Additions	-	-	1,374	5,954	7,328
Transfer to patents	-	456	-	(456)	-
<b>At 31 December 2018 and 1 January 2019</b>	<b>60</b>	<b>7,392</b>	<b>1,374</b>	<b>6,093</b>	<b>14,919</b>
Additions	-	-	-	6,192	6,192
Transfer to patents	-	1,001	-	(1,001)	-
<b>At 31 December 2019</b>	<b>60</b>	<b>8,393</b>	<b>1,374</b>	<b>11,284</b>	<b>21,111</b>
<b>Accumulated amortisation</b>					
At 1 January 2018	(60)	(1,542)	-	-	(1,602)
Charge for the year	-	(512)	(23)	-	(535)
<b>At 31 December 2018 and 1 January 2019</b>	<b>(60)</b>	<b>(2,054)</b>	<b>(23)</b>	<b>-</b>	<b>(2,137)</b>
Charge for the year	-	(585)	(137)	-	(722)
<b>At 31 December 2019</b>	<b>(60)</b>	<b>(2,639)</b>	<b>(160)</b>	<b>-</b>	<b>(2,859)</b>
<b>Carrying value</b>					
At 31 December 2019	-	<b>5,754</b>	<b>1,214</b>	<b>11,284</b>	<b>18,252</b>
At 31 December 2018	-	<b>5,338</b>	<b>1,351</b>	<b>6,093</b>	<b>12,782</b>

Amortisation of the intangible assets is included in cost of sales in the consolidated statement of profit or loss.

(a) Impairment tests for development costs not yet available for use

The following table sets out the key assumptions for impairment tests for development costs not yet available for use.

	2019	2018
Revenue annual growth rate (%)	20.08	29.28
Budgeted gross profit (%)	30	30
Annual capital expenditure (RMB'000)	8,087	1,763
Long term growth rate (%)	2.5	2.5
Pre-tax discount rate (%)	13	13

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**8. Intangible assets (cont'd)**

(a) Impairment tests for development costs not yet available for use (cont'd)

Management has determined the values assigned to each of the above key assumptions as follows:

- Revenue annual growth rate (%): Average annual growth rate over the five-year forecast period.
- Budgeted gross profit (%): Based on past performance and management's expectations for the future.
- Annual capital expenditure: Expected cash costs in the cash generating unit. This is based on the historical experience of management, and the planned refurbishment expenditure. No incremental revenue or cost savings are assumed in the value-in-use model as a result of this expenditure.
- Long term growth rate (%): This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The rates are consistent with forecasts included in industry reports.
- Pre-tax discount rate (%): Reflect specific risks relating to the relevant industries and the countries in which they operate.

(b) Impact of possible changes in key assumptions

As at 31 December 2019 and 2018, the headrooms of the cash generating unit of development costs calculated based on value-in-use are RMB443,000,000 and RMB347,000,000 respectively.

The directors and management of the Company considered if the revenue growth rate, budgeted gross margin, long term growth rate or estimated pre-tax discount rate used in the value-in-use calculation for the cash generating unit of development cost had been 10% lower, 10% lower, 10% lower or 10% higher than management's estimates at 31 December 2019 and 2018 respectively, with all other assumptions remaining unchanged, the Group would not have recognised an impairment of development costs.

The directors and management of the Company have considered and assessed reasonably possible changes for the key assumptions and have not identified any instances that could cause the carrying amount of development costs to exceed its recoverable amount.

**9. Leases**

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the consolidated statement of financial position

The statement of financial position shows the following amounts relating to leases:

	As at 31 December 2019 RMB'000	As at 1 January 2019 RMB'000
<b>Right-of-use assets</b>		
Land use rights	2,525	2,608
Buildings	3,756	4,804
	<u>6,281</u>	<u>7,412</u>
<b>Lease liabilities</b>		
Current	1,073	1,489
Non-current	2,889	3,315
	<u>3,962</u>	<u>4,804</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**9. Leases (cont'd)**

(i) Amounts recognised in the consolidated statement of financial position (cont'd)

Right-of-use assets with a total carrying amount of RMB2,525,000 as at 31 December 2019 were pledged as collateral for the Group's borrowings (Note 16).

(ii) Amounts recognised in the consolidated statement of profit or loss

The consolidated statement of profit or loss shows the following amounts relating to leases:

	<b>Year ended 31 December</b>
	<b>2019</b>
	<b>RMB'000</b>
<b>Depreciation charge of right-of-use assets</b>	
Land use rights	83
Buildings	1,048
	<u>1,131</u>
 Interest expense (included in finance cost)	 289
Expense relating to short-term leases (included in administrative expenses)	134

The total cash outflow for leases in 2019 was RMB1,252,000.

**10. Deferred income tax**

(i) Deferred tax assets

The analysis of deferred tax assets is as follows:

	<b>As at 31 December 2019</b>	<b>As at 31 December 2018</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Deferred tax assets:		
- to be recovered after more than 12 months	2,569	4,090
- to be recovered within 12 months	1,758	1,662
	<u>4,327</u>	<u>5,752</u>

The movements on the deferred tax assets are as follows:

	<b>As at 31 December 2019</b>	<b>As at 31 December 2018</b>
	<b>RMB'000</b>	<b>RMB'000</b>
At beginning of the year	5,752	-
(Charged)/credited to profit or loss	(1,425)	5,752
At end of the year	<u>4,327</u>	<u>5,752</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**10. Deferred income tax (cont'd)**

**(i) Deferred tax assets (cont'd)**

The movements in deferred tax assets for years ended 31 December 2019 and 2018, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets	Bad debt provision RMB'000	Accruals RMB'000	Inventory impairment RMB'000	Lease RMB'000	Total RMB'000
At 1 January 2018	-	-	-	-	-
Credited to profit or loss	2,862	1,662	1,228	-	5,752
At 31 December 2018	2,862	1,662	1,228	-	5,752
At 1 January 2019	2,862	1,662	1,228	-	5,752
(Charged)/credited to profit or loss	(293)	65	(1,228)	31	(1,425)
At 31 December 2019	2,569	1,727	-	31	4,327

**(ii) Deferred tax liabilities**

The movements in deferred tax liabilities for the year ended 31 December 2019, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax liability	Financial assets at FVOCI RMB'000
At 1 January 2019	-
Charged to other comprehensive income	2
At 31 December 2019	2

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**11. Financial instruments by category**

The Group holds the following financial instruments:

	<b>As at 31 December 2019 RMB'000</b>	<b>As at 31 December 2018 RMB'000</b>
<b>Financial assets</b>		
Financial assets at amortised cost		
Trade and bills receivables	94,628	103,629
Other receivables	79,328	6,517
Cash and cash equivalents	26,466	6,358
Restricted cash	2,321	1,230
Financial assets at fair value through other comprehensive income	5,015	-
	<u>207,758</u>	<u>117,734</u>
	<b>As at 31 December 2019 RMB'000</b>	<b>As at 31 December 2018 RMB'000</b>
<b>Financial liabilities</b>		
Financial liabilities at amortised cost		
Trade and other payables excluding non-financial liabilities	139,322	90,700
Lease liabilities	3,962	-
Bank and other borrowings	18,941	6,540
Financial liabilities at fair value through profit or loss		
Convertible notes	11,847	-
	<u>174,072</u>	<u>97,240</u>

The Group's exposure to various risks associated with the financial instruments is discussed in note 35. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

**12. Inventories**

	<b>As at 31 December 2019 RMB'000</b>	<b>As at 31 December 2018 RMB'000</b>
Raw materials	226	201
Work-in-progress for standard parts	3,132	2,267
Right to returned goods	-	9,379
	<u>3,358</u>	<u>11,847</u>
Less: impairment losses on right to returned goods	-	(8,186)
	<u>3,358</u>	<u>3,661</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**13. Trade and bills receivables**

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>
	RMB'000	RMB'000
Trade and bills receivables – third parties	105,752	121,788
Less: allowance for impairment of trade and bills receivables	<u>(11,124)</u>	<u>(18,159)</u>
Trade and bills receivables – net	<u>94,628</u>	<u>103,629</u>

An ageing analysis of trade and bills receivables based on invoice date (net of impairment losses) is as follows:

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>
	RMB'000	RMB'000
Within one year	80,880	78,482
One to two years	8,315	23,326
Two to three years	5,433	1,573
Over three years	<u>-</u>	<u>248</u>
	<u>94,628</u>	<u>103,629</u>

As at 31 December 2019 and 2018, the fair value of trade and bills receivables approximated their carrying amounts.

As at 31 December 2019 and 2018, trade and bills receivables are denominated in RMB.

Trade receivables of RMB15,000,000 as at 31 December 2018 was pledged as security for the Group's bank borrowings (Note 16).

**14. Other receivables and prepayments**

Details of other receivables and prepayments are as follows:

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>
	RMB'000	RMB'000
Other prepayments	22,650	9,897
Prepayments related to listing expenses	8,710	1,566
Advances to employees	447	5,684
Tendering deposits	460	258
Deposits receivables	78,000	-
Others	<u>421</u>	<u>575</u>
	<u>110,688</u>	<u>17,980</u>

Deposits receivables represent up-front payments to Inner Mongolia Zhongneng Biotechnology Co.,Ltd., for guaranteeing performance of the contract. The amounts will be refunded upon once the project completes.

Advances to employees are interest free, unsecured and repayable on demand.



**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**14. Other receivables and prepayments (cont'd)**

Other receivables and prepayments are denominated in:

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>
	RMB'000	RMB'000
RMB	104,410	17,980
GBP	47	-
USD	585	-
HKD	5,646	-
	<u>110,688</u>	<u>17,980</u>

**15. Restricted cash and cash and cash equivalents**

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>
	RMB'000	RMB'000
Cash at bank and on hand	28,787	7,588
Less: restricted cash	<u>(2,321)</u>	<u>(1,230)</u>
	<u>26,466</u>	<u>6,358</u>

Restricted cash of RMB2,321,000 and RMB1,230,000 as at 31 December 2019 and 2018 respectively was pledged as security for the Group's bank borrowings (Note 16).

Cash at banks and on hand were denominated in:

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>
	RMB'000	RMB'000
RMB	25,648	6,267
GBP	-	22
USD	379	65
Other currencies	439	4
	<u>26,466</u>	<u>6,358</u>

Restricted cash were denominated in:

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>
	RMB'000	RMB'000
RMB	<u>2,321</u>	<u>1,230</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**16. Bank and other borrowings**

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>
	RMB'000	RMB'000
Bank loans - secured	18,941	6,140
Other borrowings from employee - secured	-	400
	<u>18,941</u>	<u>6,540</u>

As at 31 December 2019, all of the Group's borrowings are denominated in RMB.

The Group's bank borrowings as at 31 December 2019 of RMB18,941,000 (2018: RMB6,140,000) were secured by the following:

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>
	RMB'000	RMB'000
Property, plant and equipment	1,372	1,505
Land use rights	-	2,608
Right-of-use assets	2,525	-
Trade and bills receivables	-	15,000
Restricted cash	2,321	1,230
	<u>6,218</u>	<u>20,343</u>

In addition to pledge of assets, bank borrowings of RMB18,941,000 as at 31 December 2019 (2018: RMB6,140,000) were guaranteed by Mr. Yu Weijun, the Chairman of the Board and a shareholder of the Company.

The Group's borrowings were repayable within 1 year as at 31 December 2019 and 2018.

The weighted average effective interest rates as at 31 December 2019 and 2018 were as follows:

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>
Bank borrowings	6.36%	6.74%
Other borrowings from employees	N/A	10.00%
	<u>6.36%</u>	<u>6.94%</u>

The carrying amounts of the borrowings approximate their fair values as at 31 December 2019 and 2018 as the impact of discounting borrowings with fixed interest rates was not significant.

The Group entered into one-year loan agreements with fifty-eight employees from 17 February 2017 to 17 August 2017, which amounted to RMB2,810,000. The interest rate of these borrowings was 10% per annum. During the year ended 31 December 2019 and 2018, RMB400,000 and RMB2,260,000 has been repaid.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**17. Convertible notes**

	2019 RMB'000
Opening balance	-
Addition	10,606
Change in fair value and charged to profit or loss	1,241
Closing balance	<u>11,847</u>

The Company issued 12% convertible notes for HKD5,250,000 and HKD6,250,000 on 8 February 2019 and 15 February 2019 respectively. The notes are convertible into ordinary shares of the Company upon the Company obtaining the approval for listing in Hong Kong, or repayable at 12 months following the respective issue dates. The Company extended in December 2019 the termination date of the notes by 3 months with other terms unchanged. The conversion price is HK\$0.48067875 per conversion share subject to adjustments for consolidation or sub-division, in the event of which, the conversion price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount.

The convertible notes and embedded derivative are classified entirely as liabilities because they were issued in a currency other than the functional currency of the Company. As the instrument contains an embedded derivative, it has been designated at fair value through profit or loss on initial recognition and as such the embedded conversion feature is not separated. All transaction costs related to financial instruments designated at fair value through profit or loss are expenses as incurred.

**18. Trade payables**

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Trade payables	<u>114,755</u>	<u>69,250</u>

The fair value of trade payables approximated to their carrying amounts as at 31 December 2019 and 2018 due to their short maturities.

The Group's trade payables as at 31 December 2019 and 2018 were denominated in RMB.

As at 31 December 2019 and 2018, the ageing analysis of trade payables based on invoice date were as follows:

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
1-90 days	53,584	2,374
90-180 days	24,655	1,139
180-365 days	16,726	45,644
1-2 years	8,800	8,982
2-3 years	3,438	1,462
over 3 years	7,552	9,649
	<u>114,755</u>	<u>69,250</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**19. Other payables**

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>
	RMB'000	RMB'000
Wages payable	787	710
Other payables and accruals	24,141	18,028
Amounts due to directors (note 33(c))	426	2,922
Amounts due to related parties (note 33(c))	-	500
VAT payable	47,562	37,195
	<u>72,916</u>	<u>59,355</u>

The fair value of other payables approximated to their carrying amounts as at 31 December 2019 and 2018 due to their short maturities.

Other payables were denominated in:

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>
	RMB'000	RMB'000
RMB	67,947	55,969
GBP	1,798	3,386
USD	96	-
HKD	3,075	-
	<u>72,916</u>	<u>59,355</u>

**20. Share capital**

	<u>Number of ordinary shares</u>	<u>Share capital £'000</u>	<u>Share capital RMB'000</u>
<b>Authorised:</b>			
As at 1 January 2018, 31 December 2018 and 2019	40,000,000,000	10,000	N/A
<b>Issued and fully paid:</b>			
At 1 January 2018, 31 December 2018 and 1 January 2019	491,256,350	123	1,541
Cancellation of treasury shares	<u>(46,808,809)</u>	<u>(12)</u>	<u>(97)</u>
At 31 December 2019	<u>444,447,541</u>	<u>111</u>	<u>1,444</u>

On 18 January 2018, the Company repurchased its 46,808,809 ordinary shares each at a price of £0.012 per share, paying gross proceeds of £561,706 (approximately RMB4,681,000). On 23 October 2019, the Company cancelled the treasury shares it repurchased.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**21. Reserves**

	Share premium RMB'000 Note (a)	Combination reserves RMB'000 Note (b)	Statutory reserves RMB'000 Note (c)	Share-based payment reserves RMB'000 Note (d)	Foreign currency translation reserves RMB'000 Note (e)	Treasury shares reserves RMB'000 Note (f)	Financial assets at FVOCI reserves RMB'000 Note (g)	(Accumulated losses)/retained earnings RMB'000	Total RMB'000
<b>Balance at 1 January 2018</b>	68,830	(33,156)	12,328	96	24,175	-	-	(44,164)	28,109
Profit for the year	-	-	-	-	-	-	-	45,821	45,821
Other comprehensive income	-	-	-	-	(224)	-	-	-	(224)
Share-based payment expenses	-	-	-	460	-	-	-	-	460
Buy-back of shares	-	-	-	-	-	(4,681)	-	-	(4,681)
<b>Balance at 31 December 2018</b>	<b>68,830</b>	<b>(33,156)</b>	<b>12,328</b>	<b>556</b>	<b>23,951</b>	<b>(4,681)</b>	<b>-</b>	<b>1,657</b>	<b>69,485</b>
<b>Balance at 1 January 2019</b>	<b>68,830</b>	<b>(33,156)</b>	<b>12,328</b>	<b>556</b>	<b>23,951</b>	<b>(4,681)</b>	<b>-</b>	<b>1,657</b>	<b>69,485</b>
Profit for the year	-	-	-	-	-	-	-	59,168	59,168
Other comprehensive expense	-	-	-	-	(238)	-	13	-	(225)
Transfer to statutory reserves	-	-	7,498	-	-	-	-	(7,498)	-
Share-based payment expenses	-	-	-	461	-	-	-	-	461
Cancellation of treasury shares	(4,584)	-	-	-	-	4,681	-	-	97
<b>Balance at 31 December 2019</b>	<b>64,246</b>	<b>(33,156)</b>	<b>19,826</b>	<b>1,017</b>	<b>23,713</b>	<b>-</b>	<b>13</b>	<b>53,327</b>	<b>128,986</b>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**21. Reserves (cont'd)**

**(a) Share premium**

Share premium arising from the issue of shares can be utilised in increasing paid-in capital as approved by the directors.

**(b) Combination reserves**

Combination reserve represents the differences between the nominal amount of net assets of the combining entities under common control at the date on which they were acquired by the Group and the nominal amount of the consideration for the acquisition.

**(c) Statutory reserves**

According to the rules and regulations applicable to the Group's subsidiaries incorporated in the PRC, when distributing net profits of each year, these subsidiaries are required to transfer an amount of their net profits as reported in their statutory accounts to statutory reserves until the accumulated balance of such reserves reaches 50% of their registered capital. Depending on the nature, the statutory reserves can be used to set off accumulated losses of the subsidiaries or distribute to the owners in form of bonus issue.

**(d) Share-based payment reserves**

The share-based payments reserves is used to recognise the grant date fair value of options issued to employees but not exercised.

On 20 October 2017, the Group granted two share option schemes for the long-term incentive of directors and senior employees of the Group (the "Pre-IPO Share Option Scheme"). An aggregate of 39,300,508 options were granted to allow directors and senior employees to acquire ordinary shares at a price of 1.5 pence per share subject to vesting conditions under these schemes while there are 27,633,167 options being accepted. The 27,633,167 share options may be exercised after the third anniversary of the grant date on the condition that the participant remains an employee of the Group. The remaining 11,667,341 share options vest as to one third on the date of grant and an additional one third on each of the first and second anniversaries of the date of grant and are exercisable for a period of three years.

Set out below are summaries of options granted under the plan:

	2019 Number of options	2018 Number of options
As at 31 December	<u>39,300,508</u>	<u>39,300,508</u>

**Fair value of options granted**

The fair value of the options was RMB1,381,000, which was calculated using the Black Scholes option pricing mode, with this amount to be charged over the vesting period. The share-based payment charge included within expense in the consolidated statement of profit or loss and in the share-based payment reserves in equity are RMB461,000 and RMB460,000 for the years ended 31 December 2019 and 2018 .

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**21. Reserves (cont'd)**

(d) Share-based payment reserves (cont'd)

The model inputs for options granted included:

- a. Exercise price: GBP0.015
- b. Time to maturity: 3 years
- c. Grant date: 20 October 2017
- d. Expiry date: 17 October 2020
- e. Share price at grant date: GBP0.0145
- f. Expected price volatility of the Company's shares: 20%
- g. Risk-free interest rate: 0.76%

The expected volatility is based on the historic share prices to the management's best estimate.

(e) Foreign currency translation reserve

Exchange differences arising on translation of foreign operations are recognised in other comprehensive income as described in note 2.4 and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

(f) Treasury shares reserves

Treasury shares reserves is used to recognise the consideration paid when group companies purchase the Company's shares and the shares are not yet cancelled or reissued.

On 18 January 2018, the Company repurchased its 46,808,809 ordinary shares each at a price of £0.012 per share, paying gross proceeds of £561,706 (approximately RMB4,681,000). On 23 October 2019, the Company cancelled the treasury shares it repurchased.

(g) Financial assets at FVOCI reserves

The Group has elected to recognise changes in the fair value of investments in equity securities in other comprehensive income. These changes are accumulated within the financial assets at FVOCI reserves within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**22. Cash flow information**

**(a) Cash generated from operations**

	<b>2019</b>	<b>2018</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Profit before income tax	72,455	47,099
Adjustments for:		
- Finance costs - net	1,335	1,072
- Depreciation of property, plant and equipment (Note 6)	2,188	2,316
- Amortisation of land use rights, intangible assets and right-of-use assets (Note 7, Note 8 and Note 9)	1,853	618
- Net impairment losses on financial assets and contract assets	3,555	362
- Share-based payment (Note 29)	461	460
- Fair value losses on convertible notes	1,241	-
- Exchange gains	(744)	(4)
	<u>82,344</u>	<u>51,923</u>
Changes in working capital:		
- Contract assets	(29,643)	(27,807)
- Inventories	303	10,081
- Restricted cash	-	11,188
- Trade and bills receivables and other receivables and prepayments	(83,402)	(49,185)
- Contract liabilities	(5,888)	(12,206)
- Trade and other payables	61,221	26,075
Cash generated from operations	<u>24,935</u>	<u>10,069</u>

**(b) Non-cash investing activities**

	<b>Year ended 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Receipt of intangible assets as settlement of receivables	-	1,374
Acquisition of right-of-use assets by means of leases	<u>4,804</u>	<u>-</u>



**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**22. Cash flow information (cont'd)**

**(c) Net debt reconciliation**

This section sets out an analysis of net debt and the movements in net debt for each of the year presented.

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Cash and cash equivalents	26,466	6,358
Borrowings and convertible notes and lease liabilities-current – repayable within one year	(31,861)	(6,540)
Lease liabilities-non-current	(2,889)	-
Net debt	<u>(8,284)</u>	<u>(182)</u>
Cash and cash equivalents	26,466	6,358
Gross debt – fixed interest rates	(34,750)	(6,540)
Net debt	<u>(8,284)</u>	<u>(182)</u>

	Cash and cash equivalents RMB'000	Borrowings due within 1 year RMB'000	Convertible notes due within 1 year RMB'000	Lease liabilities -current RMB'000	Lease liabilities -non- current RMB'000	Total RMB'000
Net debt at 1 January 2018	8,180	(10,107)	-	-	-	(1,927)
Cash flows	(1,826)	3,567	-	-	-	1,741
Translation differences	4	-	-	-	-	4
Net debt as at 31 December 2018	6,358	(6,540)	-	-	-	(182)
Impact of first adoption of IFRS 16	-	-	-	(1,489)	(3,315)	(4,804)
Net debt at 1 January 2019	6,358	(6,540)	-	(1,489)	(3,315)	(4,986)
Cash flows	19,364	(12,401)	(10,606)	842	-	(2,801)
Fair value losses	-	-	(1,241)	-	-	(1,241)
Translation differences	744	-	-	(426)	426	744
Net debt as at 31 December 2019	<u>26,466</u>	<u>(18,941)</u>	<u>(11,847)</u>	<u>(1,073)</u>	<u>(2,889)</u>	<u>(8,284)</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**23. Revenue/Contract assets and contract liabilities**

**(a) Revenue**

	<u>2019</u>	<u>2018</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Ethanol fuel production system technology integrated service	347,184	145,273
Alcoholic beverage production system construction services	45,080	88,697
Others	6,294	16,008
<b>Total</b>	<b><u>398,558</u></b>	<b><u>249,978</u></b>
- Recognised over time	396,534	249,978
- Recognised at a point in time	2,024	-
	<b><u>398,558</u></b>	<b><u>249,978</u></b>

"Others" mainly refers to revenue generated from projects relating to the industry of ethyl acetate and vital fibre oligosaccharide.

The amount of the Group's revenue from external customers broken down by location of the customers is shown in the table below.

	<u>2019</u>	<u>2018</u>
	<u>RMB'000</u>	<u>RMB'000</u>
PRC	379,852	233,945
Russia	187	16,008
Indonesia	14,601	-
Other countries	3,918	25
<b>Total</b>	<b><u>398,558</u></b>	<b><u>249,978</u></b>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**
**23. Revenue/Contract assets and contract liabilities (Cont'd)**
**(b) Assets and liabilities related to contracts with customers**

The Group has recognised the following assets and liabilities related to contracts with customers:

	As at 31 December 2019 <u>RMB'000</u>	As at 31 December 2018 <u>RMB'000</u>
Current contract assets relating to construction contracts	124,107	91,720
Loss allowance	<u>(5,999)</u>	<u>(3,255)</u>
Total contract assets	<u>118,108</u>	<u>88,465</u>
Contract liabilities relating to construction contracts	<u>15,140</u>	<u>21,028</u>

**(i) Significant changes in contract assets and contract liabilities**

Contract assets have increased as the Group has provided more services ahead of the agreed payment schedules for service contracts. The Group also recognised a loss allowance for contract assets following the adoption of IFRS 9, see note 35 for further information.

Contract liabilities have decreased due to significant increase in project progress for the year ended 31 December 2019 and 2018.

**(ii) Revenue recognised in relation to contract liabilities**

The following table shows how much of the revenue recognised in the year beginning on 1 January 2019 relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in the year beginning on 1 January 2019.

	<u>2019</u> <u>RMB'000</u>	<u>2018</u> <u>RMB'000</u>
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	<u>21,028</u>	<u>21,997</u>

**(iii) Unsatisfied long-term contracts**

The contracts entered into by the Group are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

**24. Other income**

	<u>2019</u> <u>RMB'000</u>	<u>2018</u> <u>RMB'000</u>
Subsidy income	<u>1,836</u>	<u>1,685</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**25. Other gains - net**

	<u>2019</u>	<u>2018</u>
	RMB'000	RMB'000
Losses on disposal of property, plant and equipment	(206)	-
Exchange gains	744	4
Fair value losses on convertible notes (note 17)	(1,241)	-
Gains on disposal of right to returned goods	3,099	-
Others	13	259
	<u>2,409</u>	<u>263</u>

**26. Net impairment losses on financial assets and contract assets**

	<u>2019</u>	<u>2018</u>
	RMB'000	RMB'000
Net impairment losses	<u>3,555</u>	<u>362</u>

**27. Finance income and costs**

	<u>2019</u>	<u>2018</u>
	RMB'000	RMB'000
<i>Finance income</i>		
Interest income from financial assets held for cash management purposes	<u>49</u>	<u>22</u>
<i>Finance costs</i>		
Bank borrowings interest	1,095	841
Other borrowings interest	-	253
Lease liabilities interest	<u>289</u>	<u>-</u>
	<u>1,384</u>	<u>1,094</u>
Finance costs – net	<u>1,335</u>	<u>1,072</u>

**28. Expenses by nature**

	<u>2019</u>	<u>2018</u>
	RMB'000	RMB'000
Subcontracting costs	52,256	28,247
Raw materials and consumables used	229,855	140,520
Employee benefit expenses (note 29)	12,681	11,094
Depreciation charges	2,188	2,316
Amortisation charges	1,853	618
Office utilities	3,455	2,631
Travel and transportation and business entertainment expenses	5,620	6,618
Rental expense	134	693
Impairment of inventories	-	435
Auditors' remuneration- audit services	1,584	913
Legal and professional fees	1,305	753
Other expenses	2,862	3,425
Listing expenses	<u>11,665</u>	<u>5,130</u>
<b>Total cost of sales, selling and marketing expenses and administrative expenses</b>	<u>325,458</u>	<u>203,393</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**29. Employee benefit expense**

	2019	2018
	RMB'000	RMB'000
Salaries, wages, bonuses and other benefits	13,062	11,827
Contribution to pension scheme	1,324	1,087
Share-based payments	461	460
	<u>14,847</u>	<u>13,374</u>
Less: capitalised in intangible assets	<u>(2,166)</u>	<u>(2,280)</u>
	<u>12,681</u>	<u>11,094</u>
Amounts included in:		
Cost of sales	1,685	2,031
Selling and marketing expenses	4,100	2,473
Administrative expenses	<u>6,896</u>	<u>6,590</u>

**30. Income tax expenses**

*Overseas income tax*

The Company was incorporated in Jersey as a public company with limited liability under the Companies (Jersey) Law 1991. The Company is regarded as resident for tax purposes in Jersey and on the basis that the Group is neither a financial services group nor a utility group for the purposes of the Income Tax (Jersey) Law 1961, as amended; The Company is subject to income tax in Jersey at a rate of zero per cent.

*PRC enterprise income tax*

The income tax provision of the Group in respect of the operations of its subsidiaries in mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the year based on the existing legislation, interpretations and practices in respect thereof.

The enterprise income tax rate applicable to the group entities located in mainland China is 25% according to the Enterprise Income Tax Law of the People's Republic of China (the "EIT Law") effective on 1 January 2008 except ZKTY, which was qualified as "High and New Technology Enterprise" in 2016 and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the year. On 19 February 2020, the filing of ZKTY's renewal of the High and New Technology Enterprise qualification for another 3 years starting from 2 December 2019 was completed.

The Group produces and files its annual local tax returns on a basis in line with generally accepted practices for companies in the same industry, especially those where accrued income can be recognised ahead of invoicing and there may be long settlement periods until invoices are paid. There can exist a difference between this basis and the basis on which profits are recognised in accordance with IFRS accounting principles, and further timing differences in when certain deductions are recognised within the accounts versus claimed for local tax purposes. Taxation is provided in these accounts on a basis that aligns to IFRS accounting principles and in line with local tax legislation, and therefore the taxation charges arising are generally recognised as current taxation due as opposed to deferred taxation, but as a result the taxation shown as paid within the consolidated statements of cash flows is generally lower than the current taxation charge within the consolidated financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**
**30. Income tax expenses (cont'd)**
*PRC corporate income tax (cont'd)*

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engaged in research and development activities are entitled to claim an additional tax deduction amounting to 50% of the qualified research and development expenses incurred in determining its assessable tax profits for that year. The additional tax deduction has been increased from 50% of the qualified research and development expenses to 75%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018 ("Super Deduction").

*PRC withholding income tax*

According to the EIT Law, starting from 1 January 2008, a withholding tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008.

	2019	2018
	RMB'000	RMB'000
<i>Current tax</i>		
Current tax on profits for the year	11,862	6,714
Withholding tax	-	316
<b>Total current tax expense</b>	<b>11,862</b>	<b>7,030</b>
<i>Deferred income tax</i>		
Recognition of temporary differences (note 10)	1,425	(5,752)
<b>Total deferred tax expense/(credit)</b>	<b>1,425</b>	<b>(5,752)</b>
<b>Income tax expenses</b>	<b>13,287</b>	<b>1,278</b>

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit of the Group as follows:

	2019	2018
	RMB'000	RMB'000
<b>Profit before tax</b>	72,455	47,099
Tax calculated at applicable enterprise income tax rate: 25%	18,114	11,775
Difference in tax rates	(5,017)	(4,110)
Utilisation of previously unrecognised tax losses and temporary differences	-	(470)
Recognition of previously unrecognised temporary differences	-	(6,215)
Effect of tax losses and temporary difference not recognised as deferred tax assets	320	-
Expenses not deductible for tax purposes	139	172
Super Deduction of research and development expenditure	(269)	(190)
<b>PRC enterprise income tax</b>	<b>13,287</b>	<b>962</b>
<b>PRC withholding income tax</b>	<b>-</b>	<b>316</b>
	<b>13,287</b>	<b>1,278</b>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**
**30. Income tax expenses (cont'd)****(a) Tax losses**

	<u>As at 31</u> <u>December 2019</u> RMB'000	<u>As at 31</u> <u>December 2018</u> RMB'000
Unused tax losses for which no deferred tax asset has been recognised	2,766	1,485
Temporary differences calculated at applicable enterprise income tax rate	692	372

The unused tax losses were incurred by a subsidiary located in the PRC that is not likely to generate taxable income in the foreseeable future. Their respective expiry dates are as follows. See note 10 for information about deferred tax assets.

	<u>As at 31</u> <u>December 2019</u> RMB'000	<u>As at 31</u> <u>December 2018</u> RMB'000
2019	-	-
2020	1,456	1,456
2022	29	29
2023	1,281	-
	<u>2,766</u>	<u>1,485</u>

**(b) Unrecognised temporary differences**

	<u>As at 31</u> <u>December 2019</u> RMB'000	<u>As at 31</u> <u>December 2018</u> RMB'000
Temporary difference relating to investments in a subsidiary for which deferred tax liabilities have not been recognised:		
- Undistributed earnings	<u>50,055</u>	<u>35,515</u>

Zhongke Tianyuan has undistributed earnings of RMB50,055,000 and RMB35,515,000 respectively as at 31 December 2019 and 2018, which, if paid out as dividends, would be subject to tax in the hands of the shareholder. An assessable temporary difference exists, but no deferred tax liability has been recognised as the parent entity is able to control the timing of distributions from the subsidiaries and is not expected to distribute these profits in the foreseeable future.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**
**31. Earnings per share****(a) Basic earnings per share**

	<u>2019</u>	<u>2018</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Profit attributable to Owners of the Company	59,168	45,821
Weighted average number of ordinary shares in issue (thousand shares)	<u>444,448</u>	<u>449,319</u>
Basic earnings per share	<u>0.133</u>	<u>0.102</u>

**(b) Diluted earnings per share**

	<u>2019</u>	<u>2018</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Profit attributable to Owners of the Company	60,409	45,821
Weighted average number of ordinary shares in issue (thousand shares)	<u>471,402</u>	<u>449,319</u>
Dilutive earnings per share	<u>0.128</u>	<u>0.102</u>

**(c) Reconciliations of earnings used in calculating earnings per share**

	<u>2019</u>	<u>2018</u>
	<u>RMB'000</u>	<u>RMB'000</u>
<i>Basic earnings per share</i>		
Profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:	<u>59,168</u>	<u>45,821</u>
<i>Diluted earnings per share</i>		
Profit from continuing operations attributable to the ordinary equity holders of the Company:		
Used in calculating basic earnings per share	59,168	45,821
Add: fair value loss on convertible notes	<u>1,241</u>	<u>-</u>
Used in calculating diluted earnings per share	<u>60,409</u>	<u>45,821</u>



**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**31. Earnings per share (cont'd)**

(d) Weighted average number of shares used as the denominator

	2019	2018
	RMB'000	RMB'000
Weighted average number of ordinary shares (thousand shares) used as the denominator in calculating basic earnings per share	444,448	449,319
Adjustments for calculation of diluted earnings per share:		
Share options granted under the Pre-IPO Share Option Scheme (thousand shares) (note i)	5,979	-
Convertible notes (thousand shares) (note ii)	20,975	-
Weighted average number of ordinary shares (thousand shares) and potential ordinary shares used as the denominator in calculating diluted earnings per share	471,402	449,319

**Note i**

On 20 October 2017, the Group granted 39,300,508 share options for the long-term incentive of directors and senior employees of the Group. For details, please refer to Note 21.

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) 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 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 years ended 31 December 2018.

**Note ii**

The Company issued 12% convertible notes for HKD5,250,000 and HKD6,250,000 on 8 February 2019 and 15 February 2019 respectively. For details, please refer to Note 17. Convertible notes are included in the determination of dilutive earnings per share from their date of issue.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**32. Commitments**

(a) Capital commitment

	<u>As at 31 December 2019</u> RMB'000	<u>As at 31 December 2018</u> RMB'000
Acquisition of financial assets	-	5,000

(b) Operating lease commitments

As at 31 December 2019 and 2018, the Group had the following non-cancellable operating lease commitments:

	<u>As at 31 December 2019</u> RMB'000	<u>As at 31 December 2018</u> RMB'000
No later than 1 year	129	1,409
Later than 1 year and no later than 5 years	-	4,610
	<u>129</u>	<u>6,019</u>

**33. Related party transactions**

(a) Name and relationship with related parties

Name	Relationship
Guangdong Zhongke Tianyuan Regeneration Energy Co., Ltd 广东中科天元再生资源工程有限公司	Controlled by the key management
Bengbu Boerte Biotechnology Co., Ltd 蚌埠博而特生物科技有限公司	Controlled by the key management
Mr. Jiang Xinchun	General Manager of the Group
Ms. Yu Huiya	A close family member of a director

(b) Transactions with related parties

	<u>2019</u> RMB'000	<u>2018</u> RMB'000
Receipt of intangible asset (i)	-	1,374

(i) The Group received certain trademarks with carrying amount of RMB1,374,000 from Guangdong Zhongke Tianyuan Regeneration Energy Co., Ltd during the year ended 31 December 2018 as settlement of receivables amounting to RMB1,374,000. There was no gains or losses from the transaction.

(ii) Bank borrowings of RMB18,941,000 as at 31 December 2019 (2018: RMB6,140,000) were guaranteed by Mr. Yu Weijun, the chairman of the board and a shareholder of the Company.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**
**33. Related party transactions (cont'd)**
**(c) Amounts due from/to related parties**

	<u>2019</u>	<u>2018</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Amounts due to Mr. Jiangxinchun		
Beginning of the year	-	100
Additions	-	400
Repayments	-	(500)
End of year	<u>-</u>	<u>-</u>
Amounts due to directors		
Beginning of the year	2,922	2,064
Additions	669	1,508
Repayments	(3,165)	(650)
End of year	<u>426</u>	<u>2,922</u>
Amounts due to Ms. Yu Huiya		
Beginning and end of the year	500	500
Repayments	(500)	-
	<u>-</u>	<u>500</u>
Amounts due from Guangdong Zhongke Tianyuan Regeneration Energy Co., Ltd and Bengbu Boerte Biotechnology Co., Ltd		
Beginning of the year	-	3,481
Cash advanced	-	10,015
Cash repayments received	-	(13,496)
End of year	<u>-</u>	<u>-</u>

Amounts due from/to related parties are non-trade in nature, interest free, unsecured and repayable on demand. They will be settled prior to the listing.

**(d) Key management compensation**

Key management is defined as the executive directors, the CFO, vice-president and secretary to the president.

	<u>2019</u>	<u>2018</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Salaries, wages, bonuses and other benefits	2,012	1,942
Fees	-	591
Share-based compensation	343	343
	<u>2,355</u>	<u>2,876</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**34. Fair value estimation**

**(i) Fair value hierarchy**

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the consolidated financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

***Recurring fair value measurements***  
***At 31 December 2019***

	<b>Level 3</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Financial assets</b>		
Financial assets at FVOCI	5,015	5,015
<b>Financial liabilities</b>		
Convertible notes	11,847	11,847

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year ended 31 December 2019.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

**(ii) Valuation techniques used to determine fair value**

Specific valuation techniques used to value financial instruments include:

- For financial assets at FVOCI, asset-based approach (Note (a))
- For convertible notes, weighted scenario approach (Note (b))

Note a: The Group's financial assets at FVOCI represent 2.08% equity interests in an unlisted company, Inner Mongolia Zhongneng Biotechnology Co., Ltd. The investee was established on 4 April 2019 and as at 31 December 2019, the investee has not launched any operation, the majority of the assets are one building and land use right. Therefore, the valuer used asset-based approach for financial assets at FVOCI.

Note b: The fair value of convertible notes was arrived at by calculating the weighted average fair value of the convertible notes under two scenarios: disapproval and approval of listing on the Hong Kong Stock Exchange. Under the disapproval and approval of listing on HKSE scenario, the fair value was arrived at using discount cash flow analysis and market approach respectively.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**34. Fair value estimation (cont'd)**

(iii) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements (see (ii) above for the valuation techniques adopted):

Description	Fair value as at 31 December 2019 RMB'000	Significant unobservable inputs	Range of inputs as at 31 December 2019	Relationship of unobservable inputs to fair value
Financial assets at FVOCI	5,015	Rate of newness – Property, plant and equipment	85%-90%	If the integrated depreciation rate had been 10% higher than management's estimates as at 31 December 2019, the fair value of financial assets at FVOCI would had been increased/decreased by RMB189,000.
		Market price (RMB/square metre)	128	If the market price had been 10% higher than management's estimates as at 31 December 2019, the fair value of financial assets at FVOCI would had been increased/decreased by RMB120,000.
Convertible notes	11,847	Discount rate	20.3%	If the discounted rate applied to the discounted cash flows had been 10% higher than management's estimates as at 31 December 2019, the fair value of convertible notes would had been increased/decreased by RMB40,000.
		Probability for approval of listing on HKSE	40%	If the probability for approval of listing on HKSE had been 10% lower than management's estimates as at 31 December 2019, the fair value of convertible notes would had been lowered by RMB79,000.

(iv) Valuation process

The financial assets at FVOCI and convertible notes of the Group was valued by independent and qualified valuers. Discussions of valuation processes and results were held between the Chief Financial Officer and the valuers.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**35. Financial risk management**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

**Market risk**

**Fair value interest rate risk**

The Group's main interest rate risk arises from short-term borrowings with fixed rates, which expose the Group to fair value interest rate risk. The Group closely monitors trend of interest rate and its impact on the Group's interest rate risk exposure.

The Group has not entered into any interest rate swaps to hedge its exposure to interest rate risks.

**Foreign exchange risk**

Foreign exchange risk arises from future commercial transactions or recognised assets or liabilities denominated in a currency that is not the functional currency of the relevant group entity.

The Company was incorporated in Jersey and the investment and financing activities were mainly carried out in GBP, United States Dollar ("USD") and Hong Kong Dollar ("HKD"). The Company was exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to RMB.

The group entities located in the PRC operate in the PRC with most of the transactions denominated and settled in RMB, which is the functional currency of the relevant group entities. Therefore, the PRC group entities are not exposed to material foreign exchange risk.

The Group has not hedged its foreign exchange rate risk exposure. However, management of the Group monitors foreign exchange risk exposure and will consider hedging significant foreign exchange risk exposure should the need arise.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**35. Financial risk management (cont'd)**

**Foreign exchange risk (cont'd)**

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective dates of consolidated statements of financial position are as follows:

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>
	RMB'000	RMB'000
GBP		
- Cash and cash equivalents	-	22
- Other payables	1,798	3,386
USD		
- Cash and cash equivalents	379	65
- Other payables	96	-
HKD		
- Cash and cash equivalents	433	-
- Convertible notes	11,847	-
- Other payables	3,075	-
- Other receivables	42	-

The following table shows the sensitivity analysis of a 5% change in RMB against the relevant foreign currencies. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the year-end for a 5% change in foreign currency rates. Should RMB strengthened/weakened by 5% against the relevant currencies, the effect on post-tax profit for the years would be as follows:

	<u>Change of post-tax profit increase/(decrease)</u>	
	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>
	RMB'000	RMB'000
RMB against GBP:		
Strengthened by 5%	77	143
Weakened by 5%	(77)	(143)
RMB against USD:		
Strengthened by 5%	(12)	(3)
Weakened by 5%	12	3
RMB against HKD:		
Strengthened by 5%	614	-
Weakened by 5%	(614)	-

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**35. Financial risk management (cont'd)**

**Foreign exchange risk (cont'd)**

The following table shows the sensitivity analysis of a 5% change in GBP against the relevant foreign currencies. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the year-end for a 5% change in foreign currency rates. Should GBP strengthened/weakened by 5% against the relevant currencies, the effect on post-tax profit for the years would be as follows:

	<b>Change of post-tax profit increase/(decrease)</b>	
	<b>As at 31 December 2019</b>	<b>As at 31 December 2018</b>
	<b>RMB'000</b>	<b>RMB'000</b>
GBP against RMB:		
Strengthened by 5%	(2,065)	-
Weakened by 5%	2,065	-
GBP against USD:		
Strengthened by 5%	(12)	-
Weakened by 5%	12	-
GBP against HKD:		
Strengthened by 5%	614	-
Weakened by 5%	(614)	-

**Credit risk**

The Group is exposed to credit risk in relation to its contract assets, trade and bills receivables, other receivables and cash at banks. The carrying amounts of trade and bills receivables, other receivables and cash deposits at banks represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In order to minimise the credit risk, management of the Group has delegated a team responsible for credit risk management. Management assessed the provision of impairment on the basis of ECL. ECL for contract assets and trade and bills receivables is based on management's estimate of the lifetime ECL to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue, customers' repayment history and financial position and an assessment of both the current and forecast general economic environment.



**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**35. Financial risk management (cont'd)**

**Credit risk (cont'd)**

*Contract assets and trade and bills receivables*

The Group applies the simplified approach to provide for ECL prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for contract assets and trade and bills receivables.

As at 31 December 2019 and 2018, to measure the ECL of contract assets and trade and bills receivables, contract assets and trade and bills receivables have been assessed for impairment.

Trade and bills receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments, in addition to the length of time the debtor has been overdue. However, before writing off a debtor, management considers balances on an individual basis as to whether there is any potential recovery based on their knowledge of the customer and circumstances relating to the failure to receive payment.

Customers are billed during the performance of a contract, based on the payment milestones. There is a requirement for customers to make an advanced payment with further payments then required on the delivery of the equipment and materials, installation of the equipment and it remaining in operation.

To measure the expected credit losses, trade and bills receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade and bills receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade and bills receivables are a reasonable approximation of the loss rates for contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 months prior to each statement of financial position date respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified that the GDP and the unemployment rate of the countries in which it sells its goods and services are the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Generally, trade and bills receivables are written off if past due for more than three years.

Trade and bills receivables and contract assets that were past due but not impaired with the Group. Based on past experience, the directors of the Company are of the opinion that no loss allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2019

35. Financial risk management (cont'd)

Credit risk (cont'd)

Trade and bills receivables and contract assets	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2019					
Gross carrying amount – trade and bills receivables and contracts assets – SOEs	39,175	4,607	4,695	-	48,477
Expected loss rate	2%	10%	20%	100%	
Loss allowance provision	(850)	(461)	(939)	-	(2,250)
Net carrying amount	38,325	4,146	3,756	-	46,227
Gross carrying amount – trade and bills receivables and contracts assets – Non-SOEs	165,959	6,571	1,475	7,377	181,382
Expected loss rate	3%	30%	50%	100%	
Loss allowance provision	(4,787)	(1,971)	(738)	(7,377)	(14,873)
Net carrying amount	161,172	4,600	737	-	166,509
Gross carrying amount – trade and bills receivables and contracts assets – Customers in liquidity issues	-	-	-	-	-
Expected loss rate	-	-	-	-	-
Loss allowance provision	-	-	-	-	-
Net carrying amount	-	-	-	-	-
Total gross carrying amount – trade and bills receivables and contracts assets	205,134	11,178	6,170	7,377	229,859
Loss allowance provision	(5,637)	(2,432)	(1,677)	(7,377)	(17,123)
Net carrying amount	199,497	8,746	4,493	-	212,736

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**35. Financial risk management (cont'd)**

**Credit risk (cont'd)**

Trade and bills receivables and contract assets	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2018					
Gross carrying amount – trade and bills receivables and contracts assets – SOEs	58,804	20,196	-	337	79,337
Expected loss rate	0%	10%	20%	100%	
Loss allowance provision	-	(2,020)	-	(337)	(2,357)
Net carrying amount	58,804	18,176	-	-	76,980
Gross carrying amount – trade and bills receivables and contracts assets – Non-SOEs	108,470	6,080	3,067	8,470	126,087
Expected loss rate	1%	4%	48%	96%	
Loss allowance provision	(1,098)	(267)	(1,475)	(8,133)	(10,973)
Net carrying amount	107,372	5,813	1,592	337	115,114
Gross carrying amount – trade and bills receivables and contracts assets – Customers in liquidity issues	22	904	7,158	-	8,084
Expected loss rate	100%	100%	100%	100%	
Loss allowance provision	(22)	(904)	(7,158)	-	(8,084)
Net carrying amount	-	-	-	-	-
Total gross carrying amount – trade and bills receivables and contracts assets	167,296	27,180	10,225	8,807	213,508
Loss allowance provision	(1,120)	(3,191)	(8,633)	(8,470)	(21,414)
Net carrying amount	166,176	23,989	1,592	337	192,094

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**
**35. Financial risk management (cont'd)**
**Credit risk (cont'd)**

As at 31 December 2019 and 2018, the loss allowance provision for contract assets and trade and bills receivables reconciles to the opening loss allowance for that provision as follows:

	Trade and bills receivables RMB'000	Contract assets RMB'000	Total RMB'000
At 1 January 2018	96,771	5,345	102,116
Provision for loss allowance recognised in profit or loss	3,109	1,078	4,187
Unused amounts reversed	(3,389)	(436)	(3,825)
Receivables written off during the year as uncollectible	(78,332)	(2,732)	(81,064)
At 31 December 2018	18,159	3,255	21,414
At 1 January 2019	18,159	3,255	21,414
Provision for loss allowance recognised in profit or loss	7,866	3,752	11,618
Unused amounts reversed	(7,065)	(998)	(8,063)
Receivables written off during the year as uncollectible	(7,836)	(10)	(7,846)
At 31 December 2019	11,124	5,999	17,123

*Other receivables*

As at 31 December 2019, the Group has assessed that other receivables from third parties were considered to have low credit risk, and thus the impairment provision recognised during the year beginning 1 January 2019 was limited to 12 months expected losses. Management considered other receivables from third parties to be low credit risk as they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

For the year ended 31 December 2019, the provision for loss allowance were recognised in profit or loss in net impairment losses on financial assets and contract assets.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through financial support of business partners and suppliers.

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserve of cash to meet its liquidity requirements in the short and long term. At present, the Group is financed by advance payments from customers and borrowings.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**35. Financial risk management (cont'd)**

**Liquidity risk (cont'd)**

The table below summarises the maturity profile of the Group's financial liabilities at the reporting date based on contractual undiscounted payments:

	Less than one year RMB'000	More than one year RMB'000	Total RMB'000
<b>31 December 2018</b>			
Bank and other borrowings	6,827	-	6,827
Trade and other payables	90,700	-	90,700
	<u>97,527</u>	<u>-</u>	<u>97,527</u>
<b>31 December 2019</b>			
Convertible notes	12,439	-	12,439
Bank borrowings	19,445	-	19,445
Trade and other payables	139,322	-	139,322
Lease liabilities	1,187	3,279	4,466
	<u>172,393</u>	<u>3,279</u>	<u>175,672</u>

**Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the following gearing ratio, which is calculated as net debt divided by total capital. Net debt is calculated as total borrowings plus convertible notes plus lease liabilities less cash and cash equivalents. Total capital is calculated as total equity as shown in the consolidated statements of financial position plus net debt.

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Lease liabilities	3,962	-
Total borrowings	18,941	6,540
Convertible notes	11,847	-
Less: cash and cash equivalents (excluding restricted cash)	<u>(26,466)</u>	<u>(6,358)</u>
Net debt	8,284	182
Total equity	130,430	71,026
Total capital	<u>138,714</u>	<u>71,208</u>
Gearing ratio	<u>0.06</u>	<u>0.00</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**36. Segment reporting**

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segment. The chief operating decision maker has been identified as the executive directors of the Company.

The Group is principally engaged in the provision of ethanol production system technology integrated service in the ethanol fuel and alcoholic beverage industries. Management reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the executive directors of the Company regards that there is only one segment which is used to make strategic decisions. Revenue and profit before income tax are the measure reported to the executive directors for the purpose of resources allocation and performance assessment.

The Group's revenue is mainly derived in the PRC during the year.

As at 31 December 2019 and 2018, all of the non-current assets were located in the PRC.

**37. Subsequent events**

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.