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China Nature Energy Technology Holdings Limited

中國納泉能源科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1597)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

The Board of Directors (the “Directors” or “Board”) of China Nature Energy Technology Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2022.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022 — unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
	Note	2022 RMB'000	2021 RMB'000
Revenue	4	89,712	116,276
Cost of sales		<u>(79,601)</u>	<u>(94,453)</u>
Gross profit		10,111	21,823
Other revenue	5(a)	5,120	3,002
Other net loss	5(b)	(434)	(159)
Selling and distribution expenses		(2,074)	(1,971)
Administrative and other operating expenses		<u>(7,481)</u>	<u>(5,510)</u>
Profit from operations		5,242	17,185
Net finance costs	6(a)	(1,125)	(2,494)
Share of loss of joint ventures		<u>—</u>	<u>(521)</u>
Profit before taxation	6	4,117	14,170
Income tax	7	<u>(899)</u>	<u>(1,332)</u>
Profit for the period		<u>3,218</u>	<u>12,838</u>
Attributable to:			
Equity shareholders of the Company		3,218	12,624
Non-controlling interests		<u>—</u>	<u>214</u>
Profit for the period		<u>3,218</u>	<u>12,838</u>
Earnings per share	8		
Basic and diluted (RMB)		<u>0.013</u>	<u>0.050</u>

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

*For the six months ended 30 June 2022 – unaudited
(Expressed in Renminbi)*

	Six months ended 30 June	
	2022	2021
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	3,218	12,838
Other comprehensive income for the period (after tax adjustment):		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of entities with functional currencies other than Renminbi (“RMB”)	<u>(160)</u>	<u>(1,059)</u>
Other comprehensive income for the period	<u>(160)</u>	<u>(1,059)</u>
Total comprehensive income for the period	<u>3,058</u>	<u>11,779</u>
Attributable to:		
Equity shareholders of the Company	3,058	11,565
Non-controlling interests	<u>—</u>	<u>214</u>
Total comprehensive income for the period	<u>3,058</u>	<u>11,779</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022 — unaudited

(Expressed in Renminbi)

		At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		99,936	97,960
Contract assets		3,567	2,595
Deferred tax assets		244	201
		<u>103,747</u>	<u>100,756</u>
Current assets			
Assets held for sale		7,048	7,048
Inventories		22,893	18,650
Trade and other receivables	9	256,472	269,555
Loans to related parties and a third party		25,486	25,382
Cash and cash equivalents		28,727	40,572
Pledged deposits		28,185	42,448
		<u>368,811</u>	<u>403,655</u>
Current liabilities			
Bank loans and other borrowings		33,355	50,270
Trade and other payables	10	161,435	183,817
Lease liabilities		2,991	2,242
Contract liabilities		1,790	772
Current taxation		135	489
		<u>199,706</u>	<u>237,590</u>
Net current assets		<u>169,105</u>	<u>166,065</u>
Total assets less current liabilities		<u>272,852</u>	<u>266,821</u>

		At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
	<i>Note</i>		
Non-current liabilities			
Trade and other payables	10	2,579	1,906
Lease liabilities		7,654	5,354
		<u>10,233</u>	<u>7,260</u>
NET ASSETS		<u>262,619</u>	<u>259,561</u>
CAPITAL AND RESERVES			
Share capital		2,168	2,168
Reserves		260,451	257,393
Equity attributable to equity shareholders of the Company		<u>262,619</u>	<u>259,561</u>

NOTES

(Expressed in Renminbi unless otherwise indicated)

1 GENERAL INFORMATION

China Nature Energy Technology Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 28 November 2019 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company’s shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 20 October 2020. The Company and its subsidiaries (collectively as the “**Group**”) are principally engaged in the research and development, integration, manufacturing and sales of pitch control systems and related components, wind power generation, wind farm operation and maintenance business and provision of energy storage management solutions in the People’s Republic of China (the “**PRC**”).

2 BASIS OF PREPARATION

This interim financial report of the Group has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (IAS) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (IASB). It was authorised for issue on 26 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (IFRSs).

The interim financial report is unaudited.

The financial information relating to the financial year ended 31 December 2021 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendment to IFRS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IFRS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the integration, manufacturing and sales of pitch control systems and related components, sales of wind power, wind farm operation and maintenance business and provision of energy storage management solutions. Further details regarding the Group's principal activities are disclosed in Note 4(b).

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by business lines is as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Sales of pitch control systems and related components	68,574	90,929
Sales of wind power	9,420	12,242
Wind farm operation and maintenance business	11,661	13,105
Provision of energy storage management solutions	57	—
	<u>89,712</u>	<u>116,276</u>

The Group's revenue from contracts with customers were recognised at point in time for the six months ended 30 June 2022 and 2021. Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 4(b)(iii).

(b) Segment reporting

The Group manages its businesses by division, which is organised by business lines (sales of pitch control systems and related components, sales of wind power, wind farm operation and maintenance business and provision of energy storage management solutions). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments. No individually mentioned operating segments have been aggregated to form the following reportable segments.

- Sales of pitch control systems and related components: it engages in the research and development, integration, manufacturing and sale of the pitch control systems and related components in wind turbines manufacturing;
- Sales of wind power: it engages in the sale of the wind power electricity generated from wind farms;
- Wind farm operation and maintenance business: it provides wind farm operation and maintenance, upgrade and modification services and engages in the sale of wind farm consumables; and
- Provision of energy storage management solutions: it engages in the provision of energy storage management services and sales of related products.

(i) Segment results and assets

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results and assets attributable to each reportable segment on the following bases:

Segment assets include trade and other receivables, inventories, contract assets, other current assets and property and plant and equipment, with the exception of deferred tax assets, assets held for sale, loans to related parties and a third party, cash and cash equivalents and pledged deposits.

The measure used for reporting segment profit is gross profit.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resources allocation and assessment of segment performance for the period is set out below:

Six months ended 30 June 2022					
	Sales of pitch control systems and related components <i>RMB'000</i>	Sales of wind power <i>RMB'000</i>	Wind farm operation and maintenance business <i>RMB'000</i>	Provision of energy storage management solutions <i>RMB'000</i>	Total <i>RMB'000</i>
Reportable segment revenue	68,574	9,420	11,661	57	89,712
Reportable segment profit	2,865	5,287	1,925	34	10,111
Six months ended 30 June 2021					
	Sales of pitch control systems and related components <i>RMB'000</i>	Sales of wind power <i>RMB'000</i>	Wind farm operation and maintenance business <i>RMB'000</i>	Provision of energy storage management solutions <i>RMB'000</i>	Total <i>RMB'000</i>
Reportable segment revenue	90,929	12,242	13,105	—	116,276
Reportable segment profit	9,973	7,712	4,138	—	21,823
As at 30 June 2022					
	Sales of pitch control systems and related components <i>RMB'000</i>	Sales of wind power <i>RMB'000</i>	Wind farm operation and maintenance business <i>RMB'000</i>	Provision of energy storage management solutions <i>RMB'000</i>	Total <i>RMB'000</i>
Reportable segment assets	228,577	127,227	24,979	2,085	382,868
As at 31 December 2021					
	Sales of pitch control systems and related components <i>RMB'000</i>	Sales of wind power <i>RMB'000</i>	Wind farm operation and maintenance business <i>RMB'000</i>	Provision of energy storage management solutions <i>RMB'000</i>	Total <i>RMB'000</i>
Reportable segment assets	239,790	124,749	22,309	1,912	388,760

(ii) *Reconciliations of reportable segment revenues and profit or loss*

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Reportable segment revenue	<u>89,712</u>	<u>116,276</u>
Consolidated revenue	<u><u>89,712</u></u>	<u><u>116,276</u></u>
Profit		
Reportable segment profit	10,111	21,823
Other revenue	5,120	3,002
Other net loss	(434)	(159)
Selling and distribution expenses	(2,074)	(1,971)
Administrative and other operating expenses	(7,481)	(5,510)
Net finance costs	(1,125)	(2,494)
Share of loss of joint ventures	<u>—</u>	<u>(521)</u>
Consolidated profit before taxation	<u><u>4,117</u></u>	<u><u>14,170</u></u>

(iii) *Geographic information*

IFRS 8, *Operating Segments*, requires identification and disclosure of information about an entity's geographical areas, regardless of the entity's organisation (i.e. even if the entity has a single reportable segment). The Group operates within one geographical location because all of its revenue was generated in the PRC and all of its non-current assets and capital expenditure were located/incurred in the PRC. Accordingly, no geographical information is presented.

5 OTHER REVENUE AND OTHER NET LOSS

(a) **Other revenue**

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
VAT refund (<i>Note i</i>)	805	1,152
Government subsidies (<i>Note ii</i>)	4,230	1,848
Others	<u>85</u>	<u>2</u>
	<u><u>5,120</u></u>	<u><u>3,002</u></u>

Notes:

- (i) Pursuant to Several Policies for Further Encouraging the Development of Software and Integrated Circuits Industries (Guofa [2011] No.4), enterprises engaged in the sales of self-developed software in the PRC are entitled to VAT refund to the extent that the effective VAT rate of the sales of the software products in the PRC exceeds 3% of the sales amounts. During the six months ended 30 June 2022 and 2021, the Group received such VAT refund of RMB225,000 and RMB236,000 respectively.

Pursuant to Notice on VAT Policy for Wind Power (Caishui [2015] No.74), enterprises engaged in the sales of wind power electricity in the PRC are entitled to VAT refund of 50% as payment. During the six months ended 30 June 2022 and 2021, the Group received such VAT refund of RMB580,000 and RMB916,000 respectively.

- (ii) During the six months ended 30 June 2022 and 2021, the Group received unconditional government subsidies of RMB4,230,000 and RMB1,848,000 respectively, as encouragement of their contribution in technology development and local economy.

(b) Other net loss

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Net exchange gain/(loss)	802	(58)
Idle cost on production suspension	(1,253)	—
Gain on disposal of property, plant and equipment	20	—
Others	(3)	(101)
	<u>(434)</u>	<u>(159)</u>

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Net finance costs

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on bank loans	169	1,113
Interest expenses on loans due to third parties	952	1,420
Interest expense on lease liabilities	274	157
	<u>1,395</u>	2,690
Interest income	(270)	(196)
Net finance costs	<u>1,125</u>	<u>2,494</u>

(b) Other items

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Cost of inventories recognised as expenses (<i>Note</i>)	73,063	91,794
Depreciation charges		
— owned property, plant and equipment	3,255	3,169
— right-of-use assets	2,103	1,044
Provision/(reversal) of loss allowance on contract assets and trade and other receivables	286	(493)
	<u>73,607</u>	<u>95,414</u>

Note:

Cost of inventories recognised as expenses includes amounts relating to staff costs, depreciation of property, plant and equipment and research and development expenses, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

7 INCOME TAX

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current tax — PRC Corporate Income Tax		
Provision for the year	942	1,258
Deferred tax		
Origination and reversal of temporary differences	(43)	74
	<u>899</u>	<u>1,332</u>

The provision for PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB3,218,000 (six months ended 30 June 2021: RMB12,624,000) and the weighted average of 250,000,000 ordinary shares (2021: 250,000,000 shares) in issue during the interim period.

(b) Diluted earnings per share

Diluted earnings per share for the period ended 30 June 2022 and 2021 is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

9 TRADE AND OTHER RECEIVABLES

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Trade and bills receivable, net of loss allowance	253,704	267,383
Prepayments	1,360	1,775
Other receivables	1,408	397
	<u>256,472</u>	<u>269,555</u>

All of trade and other receivables balances are expected to be recovered or recognised as expense within one year.

Trade and bills receivable

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Measured at amortised cost		
— Trade receivables	133,654	185,204
— Bills receivable	18,052	22,042
Measured at fair value through other comprehensive income (FVOCI)		
— Bills receivable (<i>Note</i>)	103,593	61,476
	<u>255,299</u>	<u>268,722</u>
Less: loss allowance	(1,595)	(1,339)
	<u>253,704</u>	<u>267,383</u>

Note:

Certain amounts of the Group's bills receivable measured at FVOCI were held for collection of contractual cash flows and for selling the financial asset, where cash flows of the bills receivable represented solely payments of principal and interest.

As of the end of the reporting period, the aging analysis of trade and bills receivable, based on the revenue recognition date and net of loss allowance, is as follows:

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Within 1 year	225,216	246,953
Over 1 year but within 2 years	13,696	9,047
Over 2 years but within 3 years	8,961	11,383
Over 3 years	5,831	—
	<u>253,704</u>	<u>267,383</u>

Generally, the Group's trade receivables are due within 30 to 90 days from the date of billing, except for the tariff premium. The collection of such tariff premium is subject to the allocation of funds by relevant government authorities to local grid company, which therefore takes a relatively long time for settlement. As at 30 June 2022, the tariff premium receivables included in the trade and other receivables amounted to RMB40,839,000 (31 December 2021: RMB34,566,000).

Pursuant to Caijian [2012] No.102 Notice on the Interim Measures for Administration of Subsidy Funds for Tariff Premium of Renewable Energy (可再生能源電價附加補助資金管理暫行辦法) jointly issued by the Ministry of Finance, the National Development and Reform Commission and the National Energy Administration in March 2012, a set of standardised procedures for the settlement of the tariff premium has come into force since 2012 and approvals on a project by project basis are required before the allocation of funds to local grid companies. The directors of the Company are of the opinion that the tariff premium receivables are fully recoverable considering that there are no loss experiences with the grid company in the past and the tariff premium is funded by the PRC government.

10 TRADE AND OTHER PAYABLES

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Current		
Trade payables (<i>Note (a) below</i>)	55,987	81,406
Bills payable	69,747	63,606
Other payables (<i>Note (b) below</i>)	35,701	38,805
	<u>161,435</u>	<u>183,817</u>
Non-current		
Trade payables	2,579	1,906
	<u>164,014</u>	<u>185,723</u>

(a) Trade payables

As of the end of the reporting period, the aging analysis of trade payables, based on the invoice date, is as follows:

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Within 3 months	49,972	69,367
3 to 6 months	5,808	11,934
6 to 12 months	207	105
	<u>55,987</u>	<u>81,406</u>

All of the trade payables are expected to be settled within one year or repayable on demand.

(b) Other payables

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Interest payable due to third parties	25,473	24,521
Payables for staff related costs	827	3,222
Advances from disposal of joint ventures	5,133	5,133
Others	4,268	5,929
	<u>35,701</u>	<u>38,805</u>

11 DIVIDENDS

No dividend was paid or declared by the Company for the six months ended 30 June 2022 and 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group focuses on the integrated services for the new energy power industry, is a leading wind power and pitch control system solution provider in the PRC and was successfully listed on the Main Board of the Hong Kong Stock Exchange on 20 October 2020 (stock code: 1597). Centered on the two core industries of wind power pitch control system and energy storage, the Group has established a mature business network in Northern China, Eastern China and Southern China, laying the foundations for the new energy business worldwide.

INDUSTRY OVERVIEW

In order to promote the sustainable and high-quality development of the renewable energy and wind power industry, China announced the “dual carbon control” targets, and has successively introduced a number of all-around action plans and industry polices to accelerate the construction of major projects such as large wind power bases and large offshore wind power, which established the direction and strategic goal of the transformation of wind power into a mainstream energy. Meanwhile, the reform of the electricity supply market was accelerated to ensure the consumption of renewable energy and provide supporting guarantee for the rapid development of new energy. According to the “Notice on the Action Plan for Carbon Peak Before 2030”, the proportion of non-fossil energy consumption will reach about 25%, and the total installed capacity of wind power and solar energy will reach more than 1.2 billion kilowatts by 2030. To achieve the goals of carbon peak by 2030 and carbon neutrality by 2060 as scheduled, the wind power industry will usher in long-term high-speed development opportunities.

In the process of realizing the “dual carbon control” goal, the energy supply structure will undergo great changes, evidenced by the fact that as one of the most important supporting technologies to improve the flexibility of new energy generation systems, energy storage has become the basis for the construction of new power systems. Energy storage have important demands in the power generation side, the grid side, and the user side and other scenarios. China’s energy storage market, especially electrochemical energy storage, is moving towards a stage of rapid development.

BUSINESS REVIEW

We are a wind power and pitch control system solution provider in the PRC. Based on expanding and strengthening our main business of wind power, we have further developed the industrial layout of the energy storage business. We are dedicated to the value creation with equipment, resources, technology, and innovation through synergistic business models such as provision of integrated energy solutions and equipment supply.

PITCH CONTROL SYSTEM RELATED INTEGRATION, MANUFACTURING AND SALES

We develop, manufacture and sell (1) customised pitch control systems and (2) customised core components of pitch control systems, such as pitch drive controllers and motors, according to the requirements of our customers, and generate revenue from product sales and integration charges. Our pitch control system products are integrated with the premium components that we source from KEB Group. We also offer customised integration services of major components of pitch control systems. Our customers mainly consist of leading wind turbine manufacturers in the PRC, including Envision Group, Sinovel, Sany Heavy Energy, Zhejiang Windey, and Shanghai Electric, and we have established stable relationships with our partners.

During the six months ended 30 June 2022, we further cooperated with high-quality customers to expand our share in the pitch control system market. The Group's pitch control system business covered five of the ten largest web hosting companies in the PRC. During the six months ended 30 June 2022, the Group delivered a total of 489 sets of pitch control system products, and the products delivered included different types of 2 MW to 6 MW models.

WIND POWER GENERATION

We commenced our wind power generation business in 2015 by operating our Duolun Wind Farm in Inner Mongolia. Our Duolun Wind Farm is integrated and installed with 13 wind turbines with a total installed capacity of 19.5MW, where we admit electricity generated to the local power grid and sell electricity generated to the local power grid company. We collect on-grid tariff from the local power grid company based on the meter readings at an agreed rate on a monthly basis.

During the six months ended 30 June 2022, the semi-annual utilisation hours of our Duolun Wind Farm were 1,485 hours, and the semi-annual total wind power generated and admitted to the power grid was 28.96 million kWh.

WIND FARM OPERATION AND MAINTENANCE

We also offer post market operation and maintenance services to our customers, which include (1) general operation and maintenance service for wind farms; (2) upgrade and modification works for pitch control systems; and (3) supply of consumables. We offer timely and high-quality operation and maintenance services to our customers, for which we charge service fees and cost of the sales of consumables.

During the six months ended 30 June 2022, the Group's operation and maintenance team had 57 staff, who were mainly responsible for the provision of operation and maintenance services to the wind farms of Envision Energy situated throughout China.

ENERGY STORAGE MANAGEMENT SYSTEM

Through Nature Smart Energy (Shenzhen) Co., Ltd. as a platform and based on Shenzhen as the research and development and business center, we established a research and development team, which are mainly engaged in energy storage business including products and solutions, energy storage equipment and system integration, energy management system (“EMS”), intelligent energy cloud platform and integrated energy simulation and calculation platform.

During the six months ended 30 June 2022, we completed the construction of the 4MW/4MWh wind power storage demonstration project in Duolun Wind Farm and is about to enter the commissioning stage. Energy storage equipment and EMS business reserves are enriched during the progressive close cooperation with our customers.

OUTLOOK OF THE GROUP

The Group will continue to focus on the two core businesses of wind power and energy storage. On the one hand, it deepens its domestic market share and consolidates its leading position in pitch control systems industry and continues to develop wind power generation and operation and maintenance businesses. On the other hand, it continues to strengthen the research and development of energy storage, sales team building, diversified research and development of energy storage products, and gradually improve the product system; actively develop user-side energy storage projects to provide overall solutions; improve enterprise cooperation in energy storage industry chains, so as to enable the Group to provide industrial chain solutions, and to achieve a breakthrough in profitability of energy storage as soon as possible.

Financial Position and Operating Results

In 2022, faced with the impacts of COVID-19 on industry chain, the Group actively responded to and overcame difficulties, by ensuring the delivery of customers’ orders, maintaining stable partnerships with customers, and ensuring the stable operation of the Company.

Revenue

During the six months ended 30 June 2022, the Group recorded a total revenue of approximately RMB90 million, representing a decrease of 22.4% from approximately RMB116 million in the first half of 2021, which was mainly due to the decrease in sales orders of the Group’s pitch control systems business during the reporting period.

The table below sets forth a breakdown of the Group's revenue during the reporting period:

	Six months ended 30 June 2022 RMB'000	Six months ended 30 June 2021 RMB'000
Pitch control system related integration, manufacturing and sales	68,574	90,929
Wind power generation	9,420	12,242
Wind farm operation and maintenance	11,661	13,105
Energy storage management system	57	—
Total	<u>89,712</u>	<u>116,276</u>

In the first half of 2022, revenue generated from the pitch control system business amounted to approximately RMB69 million, representing a decrease of approximately RMB22 million or approximately 24.2% from the first half of 2021. This was mainly due to the slowdown of wind farm investment construction caused by COVID-19 in the first half of 2022, which resulted in the decline in orders of the entire wind power industry chain, thus the sales number of sets of the Group's pitch control systems reduced, and there was a downward adjustment of product prices in the competitive market to ensure the market share.

In the first half of 2022, revenue generated from the wind power generation business amounted to approximately RMB9 million, representing a decrease of approximately RMB3 million or approximately 25% from the same period of 2021. It was mainly because that the wind resources were generally weaker than those of the same period of last year.

In the first half of 2022, revenue generated from wind farm operation and maintenance business amounted to approximately RMB12 million, representing a decrease of approximately RMB1 million from approximately RMB13 million in the first half of 2021, which was mainly due to the impacts of decline in the prices of operation and maintenance services.

In the first half of 2022, the revenue generated from energy storage management system business amounted to approximately RMB0.1 million (the energy storage business commenced operation since the first half of 2021). Affected by the pandemic, the development of energy storage and sales business in the first half of 2022 was limited.

Cost of Sales

For the six months ended 30 June 2022, the Group's cost of sales amounted to approximately RMB80 million, representing a decrease of approximately 14.9% from approximately RMB94 million in the first half of 2021, which was mainly due to the decrease in orders of pitch control system and the increase in the prices of the corresponding raw materials.

For the six months ended 30 June 2022, the cost of sales of the Group's business segments were as follows:

The cost of sales of pitch control system business mainly consists of raw material costs, staff costs and depreciation. The cost of sales of pitch control system business amounted to approximately RMB66 million, representing a decrease of approximately 18.5% from approximately RMB81 million in the first half of 2021, which was mainly due to the decrease in revenue.

The cost of sales of wind power generation business mainly includes depreciation and staff cost. The cost of sales of wind power generation business amounted to approximately RMB4.1 million, representing a decrease of approximately RMB0.4 million from approximately RMB4.5 million in the first half of 2021. The cost of sales remained generally consistent.

The cost of sales of wind farm operation and maintenance business mainly includes raw material costs and staff costs. The cost of sales of wind farm operation and maintenance business amounted to approximately RMB10 million, representing an increase of approximately RMB1 million from approximately RMB9 million in the first half of 2021. It was mainly due to the change in charging model of the operation and maintenance business of Envision Energy, a customer of the Group.

The cost of sales of energy storage management system business mainly included raw material costs, staff costs and depreciation, which in the first half of 2022 amounted to approximately RMB0.02 million.

Gross Profit and Gross Profit Margin

For the six months ended 30 June 2022, the Group's gross profit amounted to approximately RMB10 million, representing a decrease of 54.5% from approximately RMB22 million in the first half of 2021; the Group's overall gross profit margin was 11%, representing a decrease of approximately 8 percentage points from the first half of 2021, which was mainly due to the decrease of gross profit margin of pitch control system business.

For the six months ended 30 June 2022, the gross profit and gross profit margin of the Group's business segments were as follows:

The gross profit of pitch control system business amounted to approximately RMB3 million, representing a decrease of RMB7 million from approximately RMB10 million in the first half of 2021. The gross profit margin of pitch control system business decreased from 11% in the first half of 2021 to 4% in the first half of 2022, which was mainly due to the substantial increase in raw material prices and the Group's appropriate reduction in product prices to stabilize and capture market share.

The gross profit of wind power generation business amounted to approximately RMB5 million, representing a decrease of approximately RMB3 million from approximately RMB8 million in the first half of 2021. The gross profit margin of wind power generation business was 56%, representing a decrease of approximately 7% from approximately 63% in the first half of 2021, mainly because the wind resources were generally weaker than those of the same period of last year.

The gross profit of wind farm operation and maintenance business amounted to approximately RMB2 million, representing a decrease of RMB2 million from approximately RMB4 million in the first half of 2021. The gross profit margin of wind farm operation and maintenance business decreased from 31% in the first half of 2021 to 17% in the first half of 2022, which was mainly due to the decrease in service fees resulting from the changes in the charging mode of operation and maintenance business of Envision Energy, a customer of the Group.

The gross profit margin of energy storage management system business was approximately 60%.

OTHER REVENUE

For the six months ended 30 June 2022, the Group's other revenue amounted to approximately RMB5 million, representing an increase of approximately RMB2 million from approximately RMB3 million in the first half of 2021, which was mainly due to the receipt of government subsidy in the first half of 2022.

SELLING AND DISTRIBUTION EXPENSES

For the six months ended 30 June 2022, the Group's selling and distribution expenses amounted to approximately RMB2 million, which was basically the same as that in the first half of 2021.

ADMINISTRATIVE AND OTHER OPERATING EXPENSES

For the six months ended 30 June 2022, the Group's administrative and other operating expenses amounted to approximately RMB8 million, representing an increase of approximately RMB2 million from approximately RMB6 million in the first half of 2021, which was mainly due to the increase in administrative fees resulting from the improvement of the energy storage management team.

FINANCE COSTS

Finance costs mainly represent the interest expenses on bank loans and loans due to third parties. For the six months ended 30 June 2022, the Group's finance costs amounted to approximately RMB1 million, representing a decrease of RMB2 million from approximately RMB3 million in the first half of 2021, which was mainly due to the repayment of part of bank loans and loans due to third parties by the Group.

GEARING RATIO

Gearing ratio is calculated as the Group's total debts divided by total assets. For the six months ended 30 June 2022, the Group's gearing ratio was 44%, representing a decrease of approximately 5% from 49% as at 31 December 2021, which was mainly due to the repayment of bank loans and part of the loans due to third parties by the Group's subsidiaries.

INCOME TAX EXPENSE

For the six months ended 30 June 2022, the Group's income tax expense amounted to approximately RMB1 million, which was basically the same as that in the first half of 2021, and the effective tax rate was 22% and 9% for the first half of 2022 and the first half of 2021, respectively, which was mainly due to the effect of the deferred tax assets not recognised in respect of losses by the Group's certain domestic subsidiaries in 2022 and the increase in the income tax rate resulting from the expiry of preferential income tax treatment of certain domestic subsidiaries.

PROFIT FOR THE REPORTING PERIOD

For the six months ended 30 June 2022, the Group's profit for the period amounted to approximately RMB3 million, representing a decrease of approximately RMB10 million or 76.9% from approximately RMB13 million in the first half of 2021.

PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

For the six months ended 30 June 2022, profit attributable to equity shareholders of the Company amounted to approximately RMB3 million, representing a decrease of approximately RMB10 million from approximately RMB13 million in the first half of 2021.

LIQUIDITY AND SOURCE OF CAPITAL

The working capital of the Group is derived from the cash flows generated from our operating activities, the existing cash and cash equivalents of the Company, bank loans and net proceeds from listing. After prudent analysis, our Directors believe that the Group has sufficient working capital to satisfy its present operating needs and the needs for the year ended 31 December 2022.

As at 30 June 2022, the balance of the pledged bank deposits and cash and cash equivalents amounted to approximately RMB56.9 million, representing a decrease of approximately RMB26.1 million from approximately RMB83.0 million as at 31 December 2021. The bank loans and other borrowings of the Group as at 30 June 2022 were denominated in RMB and United States dollars, with an annual interest rate of 3.5%-7%. As at 30 June 2022, the interest-bearing bank and other borrowings of the Group amounted to RMB33.4 million, representing a decrease of approximately RMB16.9 million from approximately RMB50.3 million as at 31 December 2021.

CASH FLOWS

As at 30 June 2022, the Group's cash and cash equivalents amounted to approximately RMB29 million, representing a decrease of approximately RMB42 million from approximately RMB71 million as at 30 June 2021, which was mainly due to the planned use of the funds raised, the decrease in business volume and repayment of bank loans and loans due to third parties.

CAPITAL EXPENDITURES

In the first half of 2022, the Group's capital expenditures amounted to approximately RMB1.6 million (there were no capital expenditures in the first half of 2021), which was mainly due to the settlement of payment of assembly line construction and new plant decoration by the Group.

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any material contingent liabilities.

PLEDGE OF ASSETS BY THE GROUP

In 2021, the Group's subsidiaries pledged the intellectual property rights to secure bank loans with a balance of approximately RMB5 million. As at 30 June 2022, the Group's subsidiaries repaid the bank loans. As at 30 June 2022, there was no pledge of assets by the Group.

HUMAN RESOURCES

The Group had relocated its plant in June 2022, which resulted in staff departure due to the commuting inconvenience. The Group was in the process of recruiting new staff. As at 30 June 2022, the Group employed a total of 158 employees (31 December 2021: 169 employees), all of which entered into labour contracts with the Group. According to the PRC Labour Law and the relevant laws and regulations, the positions, responsibilities, remunerations, staff benefits, trainings, obligation of confidentiality and other related matters of the employees were specifically agreed upon in the contracts.

POTENTIAL RISK EXPOSURES

Political uncertainty risk

The wind power and energy storage industries are significantly policy driven. If there is any change in the supporting government policy of the country for the development of new energy, the whole new energy industry chain will be adversely affected, leading to a decrease in the demand and investment in sectors such as pitch control systems, investments in new energy and energy storage, which in turn may affect the Group's overall business and development strategies.

Financial risk

If the Group fails to generate sufficient cash flows from business operation, it may materially affect the normal operation of the Group. In addition, accounts receivable and bills receivable are affected by the uncertainty of the operation of customers, which may lead to the risk of delayed cash collection of the Company. The Group will enhance the management on accounts receivable and the analysis of credit policy, track the status of operation and payment progress and monitor the real-time cash status on an ongoing basis, so as to effectively control the financial risk.

Foreign exchange risk

The Group mainly operates in the PRC, and most of the transactions in the course of operation are denominated in Renminbi ("RMB"). As at 30 June 2022, the non-RMB assets are mainly cash and cash equivalents, which are denominated in Hong Kong dollars or U.S. dollars. The Group has not entered into any forward foreign exchange contracts to hedge foreign exchange risk, but the management will monitor the foreign exchange risk on an ongoing basis and adopt prudent measures to mitigate foreign exchange risk.

USE OF NET PROCEEDS FROM LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange on 20 October 2020, for which the Company issued 62.5 million new shares. After deducting related listing expenses, the Company received net proceeds from listing of approximately HK\$112.6 million (approximately RMB98.2 million). Such net proceeds are intended to be used in the same way and proportion as disclosed in the section headed “Future plans and use of proceeds” in the prospectus. Further details of the use of proceeds are set out in the section headed “Use of Proceeds” in the prospectus.

As at 30 June 2022, the Group has utilized part of the net proceeds from listing, and the unutilized net proceeds have been placed with licensed bank in Hong Kong. As at 30 June 2022, to the knowledge of the Directors, the intended use of proceeds as stated in the section headed “Use of Proceeds” in the prospectus had no material changes. In the second half of 2022, the Company will utilize the proceeds from listing according to its development strategies, market conditions and the intended use of such proceeds.

The following table stated the Group’s usage of the net proceeds during the period between the listing date and 30 June 2022 and the estimated utilization schedule:

Usage stated in the prospectus	Net proceeds from initial public offering (RMB million) (Note 1)	Net proceeds utilized as at 30 June 2022 (RMB million)	Remaining net proceeds available as at 30 June 2022 (RMB million)	Estimated schedule for full utilization of the remaining net proceeds
(1) Purchase core components and raw materials necessary for the production of customised high-voltage pitch control systems to fulfill the expected purchase volume for Jiangyin Envision pursuant to our binding ten-year framework agreement	17.9	17.9	—	N/A
(2) Diversify our customer base in the pitch control system market by increasing our marketing efforts (Note 2)	3.4	3.1	0.3	1 July 2022 to 31 December 2022
(3) Invest into the development of a new distributed wind farm by Lingqiu Fengyuan in Lingqiu, Datong, Shanxi	31.3	31.3	—	N/A
(4) Recruit 70 additional service personnel to expand our wind farm operation and maintenance services (Note 3)	3.6	0.36	3.24	1 July 2022 to 31 December 2022
(5) Further strengthen our R&D capabilities to enrich our pitch control systems and solutions offering (Note 4)	10.9	3.3	7.6	1 July 2022 to 31 December 2022
(6) Full repayment of a loan due to a third party by our Duolun Wind Farm	21.4	21.4	—	N/A
(7) General working capital	9.6	7.6	2.0	1 July 2022 to 31 December 2022

Note 1: As disclosed in the prospectus, after deducting underwriting fees and relevant expenses paid by the Company and assuming the over-allotment option is not exercised, the estimated net proceeds from the initial public offering amounted to approximately RMB100.3 million. The actual net proceeds of the Company as at 31 December 2020 amounted to approximately RMB98.2 million. Save for the net proceeds from global offering intended for (1) the investment into the development of a new distributed wind farm in Lingqiu, Datong, Shanxi; and (2) the full repayment of a loan due to a third party by our Duolun Wind Farm, the Company intended to make adjustment for the difference of approximately RMB2.1 million according to the same method and proportion of use of proceeds as disclosed in the section headed “Future Plans and Use of Proceeds” in the prospectus.

Note 2: During the six months ended 30 June 2022, due to the COVID-19 pandemic, no business exhibitions of the industry was held, and the Company did not participate in any exhibitions during the period. As at 30 June 2022, the Company entered into prototype procurement agreements with customers such as Envision Energy, Sinovel, Sany Heavy Energy, CRRC Group and Zhejiang Windey, and has used the net proceeds of approximately RMB2.9 million to develop and manufacture 21 sets of prototypes. The Company expects to continue to use the net proceeds to develop and manufacture prototypes according to the prototype procurement orders from new customers and complete prototype delivery according to the requirements of new customers in the second half of 2022. As at 30 June 2022, the Group recruited 2 additional sales personnel and the net proceeds of approximately RMB0.2 million have been utilized.

Note 3: As at 30 June 2022, 8 operation and maintenance personnel were newly recruited, and the accumulated net proceeds of approximately RMB0.36 million have been used to pay salaries. The Group originally planned to hire additional O&M staff quickly, but due to the impact of the epidemic in the first half of the year, the recruitment progress was not made as expected. In the second half of 2022, the Group will use the net proceeds to continuously recruit appropriate operation and maintenance personnel, and continue to expand operation and maintenance services.

Note 4: As at 30 June 2022, the Group purchased a set of research and development equipment and a set of analog power supplies, acquired 2 additional test board, newly recruited 9 core technology personnel, and proceeds of approximately RMB3.3 million in total have been utilized. Currently, the Group’s technical team and procurement team are still negotiating with suppliers on the acquisition of additional R&D equipment and software. The Company expects to purchase additional R&D equipment and software in the second half of 2022 based on the final negotiation results with suppliers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities for the six months ended 30 June 2022.

CORPORATE GOVERNANCE

The Board is committed to achieving good corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of its shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). To the best knowledge of the Directors, the Company has complied with all applicable code provisions under the CG Code during the six months ended 30 June 2022.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors’ securities transactions.

Specific enquiry has been made to all the Directors and the Directors have confirmed that they have complied with the Model Code during the six months ended 30 June 2022.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Company established the audit committee with written terms of reference in compliance with the CG Code (the “Audit Committee”). As at the date of this announcement, the Audit Committee consists of three independent non-executive Directors, namely Mr. Yip Chun On (“Mr. Yip”), Mr. Kang Jian and Mr. Li Shusheng. The Audit Committee is chaired by Mr. Yip, who has appropriate professional qualifications and experience as required by Rule 3.10(2) of the Listing Rules.

The Audit Committee of the Company has discussed with the management the accounting principles and policies adopted by the Group and has reviewed the Group’s unaudited interim consolidated financial statements for the six months ended 30 June 2022.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2022.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's website at www.natureenergytech.com and the Stock Exchange's website at www.hkexnews.hk. The interim report for the six months ended 30 June 2022 will be dispatched to the shareholders of the Company and will be available on the websites of the Stock Exchange and the Company in due course.

By Order of the Board
China Nature Energy Technology Holdings Limited
Cheng Liquan Richard
Chairman

Hong Kong, 26 August 2022

As at the date of this announcement, the Board comprises two executive Directors, namely, Mr. Cheng Liquan Richard and Mr. Cheng Li Fu Cliff, two non-executive Directors, namely, Mr. Wang Lubin and Mr. Li Hao and three independent non-executive Directors, namely, Mr. Yip Chun On, Mr. Kang Jian and Mr. Li Shusheng.